



Lessons From The Birthplace of Closed-End Funds

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Chuck Jaffe, in the NAVigator podcast, interviewed Piers Currie of Warhorse Partners. Read the



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Q & A below as Piers discusses the long history of closed-end funds and unit investment trusts in England, as well as why closed-end funds are ideal for making international investments. The podcast can be found on AICA's website by clicking here: <https://aicalliance.org/alliance-content/pod-cast/>

CHUCK JAFFE: Piers Currie, partner at Warhorse Partners joins us from across the pond today, and unit investment trusts and closed-end funds started in England, and we're going to bring a modern global perspective to you today in the NAVigator. Welcome to the NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization that represents all facets of the closed-end fund industry, from users and investors to fund sponsors and creators. And that's also important today because my guest is Piers Currie, partner at Warhorse Partners, which is online at WarhorsePartners.com. He was involved in the formation of what amounts to the Active Investment Company Alliance in the United Kingdom, so I'm happy to welcome him to the show. And before we even get to the other stuff, I've got a question for him. So Piers Currie, thank you so much for joining me on the NAVigator.

PIERS CURRIE: Thank you for inviting me.

CHUCK JAFFE: I have to ask, because the AICA, and again, Active Investment Company Alliance is online at AICAlliance.org, it is a new organization here that is designed to change

the way the closed-end fund industry interacts with each other. Before it ever came here, there was one in the United Kingdom. So how did the AICA in Great Britain affect the closed-end fund industry there, that gives us reason to believe we can get the same impacts here?

PIERS CURRIE: In the UK the trade body, they all sound like acronyms, it's AIC, the Association of Investment Companies. Which is a different entity, but the principals behind it are pretty much the same of what John Cole Scott and the AICA are trying to do stateside. Which is to gather together best practice, good corporate governance, shackle the communication standards to try to raise the bar, so that everybody's operating from a similar end sheet about what is the best way in which to engage with our shareholders. The AIC in the UK started back in the 1930's. Closed-end funds are the oldest form of collected investment that enables their longer form mutual funds, so it tends to get overshadowed because mutual funds are indeed now the passive industry. It's been so noisy, so large. It's a neglected area of the market, but actually one which has a lot of excitement for people who are trying to run diversified portfolios. So what the UK model is more accountancy driven than legal, and it's mainly to do with the history of how the sector has emerged. But actually these clever accountants found ways of getting good practices, which are useful to share for everybody. And now AICA is trying to do the similar thing, taking best practice from around the world, including the AIC in London.

CHUCK JAFFE: When you look at where the US is in closed-end funds, which have been growing in popularity and expanding here, as opposed to where the UK is, what can domestic investors learn and maybe expect that you've already been through in the UK?

PIERS CURRIE: I think a lot of it is changes around improving the governance transparency, and also negotiating and talking to regulators, and to be able to have a single voice to explain the industry's issues. And I think that's important to be able to get the changes sometimes have to be able to be made in the regulatory legal construct, and also for the legitimacy industry to sound like it's sounding coherent as opposed to lots of desperate groups all trying to make small noises to make things to change. So it's really about trying to get best practice as a shareable entity, which should reduce the frictions that happen. We have an industry which has important activists who are looking for good sound governance, so they're

important shareholders. The more one's able to try to engage on the various different stakeholder groups, the better it's going to be for shareholders and also for sponsors and managers alike.

CHUCK JAFFE: In terms of closed-end fund investing itself, when you look at the structure and you look at international market, is there a reason why an investor should think, "I particularly want to use a closed-end structure when I'm adding international exposure to my portfolio?"

PIERS CURRIE: Oh, absolutely. And I think the model here is that it's very hard to out-compete in active management against the S&P 500, because it's a rational market in many forms. As soon as you go international or into alternatives or into things where indexation begins to falter, particularly for income. Or if you've bought an index fund that was exclusively market capped into bonds for example, you may end up investing if it was market cap weighted, in the most indebted companies in the universe. Not the best ones, but the ones that have a shedload of debt. And that may not be an efficient way, or a risk-adverse way for you to get exposure. So active with excellence beyond passive investing is a good idea, because most markets don't operate in an efficient way. It needs to have active added value, and that's a great way that closed-end funds can offer. And also that they're liquid, so you may not always get the price you want, but at least they're daily liquidity. So property assets or real estate assets are illiquid underlying investments. The liquidity one gets through a closed-end structure has certain advantages for people trying to run a managed portfolio, particularly across international areas.

CHUCK JAFFE: I've got to ask you because you are located in the United Kingdom, I would be remiss if I didn't say, how do you expect Brexit to impact global money management? I mean it's one thing to say, "Oh, it's going to do this to the country. It's going to do that to politics over there," and all the things that get the headlines. But from an investment standpoint, is Brexit good, bad, or otherwise?

PIERS CURRIE: The UK's always been a trading nation. It's stock market was founded for going back to the times when they were building other nations, colonies, and the like. And so there's always been an access point to international markets through the London market

which it's not likely to disappear. London and New York are always competing on who's going to be the big and the dominant partner in all of this. If you come to the UK market, it's an access point to many international markets beyond. So in closed-end funds in the UK, Asia-Pacific Equities are one of the largest single constituent part, far more bigger than the domestic market. So you go to the domestic market, or you go to the Morningstar conference in Chicago, ninety percent of the people having displays are selling variants of US market exposure, and then there'll be the bit in the corner called the foreign guys. Well, these foreign guys, now they're huge. You've got China. You've got Europe. You've got all sorts of other zones of the world that it's important to get exposure to, and London's very good for that. And I think in many ways, that structural bit, despite our crazy politics, is not going to be something which is easily adjusted. Some might think that Frankfurt might become an exciting securities market. It's fundamentally we're operating on a slightly different model. There's a lot of history, a lot of talent, and all the banks, everyone's here, so I think despite our arrangements, we're going to see what happens next. And it could be that more trading, more opportunity will open up. And then if Britain leaves the EU as a result of that, more deals might come out of areas which we can't even begin to think about yet. So it's boring because we've had three years of politics hating each other, and everyone's fed up with it. And now even if you wanted to remain, and I was originally in that camp, I mean I live in Spain some of the time. Can't people just get on with it? So I think politics and economics and capital markets aren't all the same thing. It's just not very gracious at the moment for our international exposure as a country. So I'm going to have to wait and see if Boris pulls it off. If he does, then at least the country can move on. Yeah, I'm sorry about that. It's a difficult time.

CHUCK JAFFE: Piers Currie, really interesting to chat with you. Thanks so much for joining me.

PIERS CURRIE: Thanks for having me.

CHUCK JAFFE: Piers Currie is partner at Warhorse Partners, and you can learn more at WarhorsePartners.com. To learn more about closed-end funds and business development companies, go to AICAlliance.org, the website for the Active Investment Company Alliance.

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Click the link below to go to the home page of Active Investment Company Alliance to learn more:

<https://AICAlliance.org/>

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