



## Bulldog Investors' Goldstein Sees Trouble Ahead for Activist Investors

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Chuck Jaffe, in the NAVigator podcast, interviewed Phillip Goldstein, co-founder of the Bulldog Investors hedge fund and a legendary activist in the closed-end fund space. Read the Q & A below as Chuck discusses with Phillip about why he fears for the future of shareholder activism in closed-end funds. The podcast can be found on AICA's website by clicking here: <https://aicalliance.org/alliance-content/pod-cast/>



Phillip Goldstein

**CHUCK JAFFE:** At the Active Investment Company Alliance Boot Camp and Conference this week in New York, I got a chance to chat with Phillip Goldstein, the legendary manager of Bulldog Investors, known for its value-driven investment strategy and its activist investment campaigns in closed-end funds. You'll hear that talk today on 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, which is a unique industry organization representing all facets of the closed-end fund industry, from users and investors to fund sponsors and creators. And this week they all were together for the AICA Boot Camp and Conference held in New York City on November the 6<sup>th</sup>. I was lucky enough to attend, and I got to both be part of a presentation and moderate another, and one of the people who I got to moderate was Phillip Goldstein. Phillip Goldstein runs Bulldog Investors, a hedge fund that is known for being an activist investor in closed-end funds, one of the most active activist investors. And we not only talked about activism, but we discussed a future that he said he's concerned about. Here's my chat with Phil. Phillip Goldstein, great to chat with you.

**PHILLIP GOLDSTEIN:** Thank you.

**CHUCK JAFFE:** You made a point in the panel that we did here at the AICA Investment Conference in New York, that you are worried for the future of activist investing. Explain why.

**PHILLIP GOLDSTEIN:** Well, I think in this year it seems that there's been a reaction from a number of managements, boards and directors of closed-end funds. They've been lobbying the SEC to put a damper on activism, and some of them have implemented very onerous anti-takeover provisions that if they are upheld legally, would make it much more difficult or impossible for an activist to have any effect. And look, unless you have the kind of resources like a Carl Icahn has, the activists in closed-end funds don't have unlimited resources, so I think that would have a negative effect on the discounts. Meaning if there were no activists, there's very little to hold management accountable for controlling the discount. So that concerns me.

**CHUCK JAFFE:** Let's explain the role of the activist investor, because it's not just, "Oh, we can make profits here." It is about holding management's feet to the fire. So define what you believe the role of the activist investor is in the closed-end fund world.

**PHILLIP GOLDSTEIN:** Well, generally an activist in closed-end funds is focused on a discount. If there's a persistently wide discount, then you can determine what the criteria is. But I think everybody would agree that, let's say fifteen percent discount, and it's persistent. I mean, discounts can move around, so if it's something that's short-term, it's not a big deal. But if there's a persistently wide discount, what it means is that shareholders that want to sell are getting significantly less than the intrinsic value of the underlying portfolio. So what an activist would try to do, would be to try to persuade or use other means to try to get the board of directors to implement measures to address the discount. And those measures, there's several of them. They can convert the fund to an open-end fund. They can liquidate the fund. They can, as a no-brainer, buy-in their own shares at a big discount, which is accretive to NAV, and may have a good effect on the discount because it increases the demand for the shares. Or they can make modifications in the distribution rate, people like to see steady dividends, high dividends. And another thing is a self-tender offer. So that pretty much runs the gamut. Sometimes managements will be open to one or more of those things, but oftentimes they resist any of them because all of those measures reduce the size of the fund. For example, share repurchases reduces the size of the fund, and since the manager gets generally paid a percent of assets, let's say one percent of the NAV of the fund,

if the fund buys in it's own shares, that's reducing the NAV and consequently the fee. Now they're never going to say, "Yeah, we really don't want to reduce our fees." They're never going to admit to that, but that's got to be in the back of their mind.

**CHUCK JAFFE:** And in your mind, the SEC is basically complicit with these fund managers, the folks who are running the closed-end funds who want to get out from activist pressure?

**PHILLIP GOLDSTEIN:** Well, that's an open question. They more often than not will side with management. Not always, sometimes things are so egregious. After all, if you read the 40 Act, the whole purpose of the 1940 Investment Company Act, which closed-end funds operate under, as do open ends, is that the funds are supposed to be run for the benefit of the stockholders. The reality is not always the same. And the SEC at some points may step in and say, "No, you can't do that to the funds," but the SEC has been very reluctant to take action. One of the reasons may be they don't want to get involved in disputes between shareholders and fund managements. But if you think about activism in general and what it really means, and this applies to operating companies as well. I mean, any company, any publicly traded company, but especially with the closed-end fund. If you're a shareholder in a company and you don't like what management is doing, or you think they should be doing something that they're not doing, or you think they're doing something wrong, whether it's unethical or just stupid, you have three choices. You can sell, they call that the "Wall Street Walk". You can sue, which means you have to spend your own money and management is spending shareholder money to defend itself. Or you can try to throw the bums out, basically run a proxy fight. You could also do a tender offer, but that's usually with a threat of proxy fight, so if the tender offer goes through, it's game, set, and match. So there's really very limited tools. But if you make it so that winning a proxy fight, you can't get rid of management, you essentially have what would be the equivalent to some of these third world countries, president for life. You have boards of directors that are really unaccountable to anybody, and in a closed-end fund, shareholders theoretically have better protections than for operating companies. But in reality, it requires the SEC to act, and the SEC has not been very aggressive in protecting shareholder rights. That's just the reality.

**CHUCK JAFFE:** Well, I know that you're going to continue to fight that fight, meanwhile thanks so much for taking time out to talk to us about it.

**PHILLIP GOLDSTEIN:** Thank you, Chuck.

**CHUCK JAFFE:** That was my conversation with Phillip Goldstein, principal co-founder and portfolio manager at Bulldog Investors. If you want to learn more about him, the firm, and the fund, go to [BulldogInvestors.com](http://BulldogInvestors.com). We apologize for the sound quality, but the conference was a very busy place and it was hard to find any sort of quiet place that was not going to be particularly noisy and difficult to record. I did several other interviews at the conference, and they will all be available as bonus NAVigator podcasts, make sure you check them out too. The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I am Chuck Jaffe, your host, you can learn more about my show at [MoneLifeShow.com](http://MoneLifeShow.com). To learn more about closed-end funds and business development companies, go to [AICAlliance.org](http://AICAlliance.org), the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. The NAVigator podcast is available every Friday, of course we've got those bonus issues this week. Thanks so much for joining us, please come back and do it again next week.

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