Dan Silver talks about Closed-end funds with Gregg Greenberg at the November 6, 2019 AICA Bootcamp and Round Table

Wednesday, November 6, 2019

Financial reporter Gregg Greenberg interviewed Dan Silver, CEF/BDC Analyst at AICA, at the AICA Boot Camp and Round Table held on November 6th in New York City. Read the transcript from the interview below.

To view the rest of the conference events and panels go to: https://aicalliance.org/NYC2019Event/

Gregg Greenberg: How can the Active Investment Company Alliance boost the closed-end fund industry?

Dan Silver: I think you can do a lot. I think it's a very important effort, because the education is extremely important relative to the ownership base. Closed-end funds tend to be retail owned, and retail needs not just some basic facts and information about how you use closed-end funds, they also need continuing education. They need to know about new topics as things become more relevant, and also to understand the data. To be able to look at what's in the marketplace and assess one thing versus the other. And that's been underserved thus far. There are a couple websites, limited amount of content, but it's not enough for the average investor to say, "Here's what I already own. Do I own the right things? If I don't own enough, what do I want to buy? What I already own, what are the risk here given what I see going on in the market, or my personal assessment, my induvial assessment needs? How am I going to respond to that?" And what the AICA can do is really put a lot more information out there in the public realm to help sponsors, the fund managers. They've got tons of information, but the retail public needs to be able to absorb it. A place that they can go to collect it, to engage with it. I think there's a tremendous opportunity there.

Gregg Greenberg So why would an investor want an equity closed-end fund right now? I know every investor has their own risks and their own risk profiles, but why would someone want to be in an equity CEF right now?

Dan Silver: Everyone has their own reasons, and one of the interesting things about the closed-end fund space is, given funds can trade at a premium and they can trade at a discount, at any given point in time, it may or may not make sense to own equities, but a given fund may or may not be attractive. So if someone is buying equities right now, it's either because they really like the discount and they think they're getting some attractive discounts. And I would say on average, they're not really there right now. The discounts are not that attractive, somewhere in the mid-single digit range. Or they think that equities are due to perform very well. I will leave it to the investor in terms of their individual outlook for the equity market over the next six, twelve months, but it has to be handled on an individual basis in terms of their portfolio needs and how a closed-end fund is going to play into the overall role in their portfolio.

Gregg Greenberg: And they can also get a lot of yield when you talk about REIT funds, or UIT funds, which have performed very well of late.

Dan Silver: Sure. So there are plenty of closed-end funds that offer high distribution rates, which sometimes people confuse with yield, but a good amount of income. And that can come from any number of different areas. It can come from the equity space, sometimes funds will use option overriding strategies that generates income. But then also in the fixed-income space. And then there are areas in between, whether it's REITs, preferrds, etcetera. But in the fixed-income space there are a lot of funds that because of the leverage that closed-end funds use, that can generate very attractive fixed-income streams that investors absolutely need in uncertain times like these.

Gregg Greenberg What other trends are you seeing in the closed-end fund space, the BDC space, with regard to structure and new issues? Because we've been hearing a lot about that here at the conference.

Dan Silver: Sure. So obviously the rise of the interval fund is a big deal, tender funds are a big deal. These are established in the marketplace; people know that they're interesting. And the real question is, why is it? And the reason why is because there are certain things, certain areas of investment, asset classes that investors had not been able to access efficiently unless they were large institutions, things that are more liquid. Whether it's direct lending in the private credit space, or infrastructure assets. Things that are more illiquid, where sometimes the timing of gains might be a large windfall, or it could be more infrequent income streams that they are well housed in the structure of an interval fund. So it makes sense and it's exciting to see that the industry is innovating. It's not that closed-end funds have limited uses, it's that we are coming up with new ways to use them effectively to the benefit of investors. Because investors haven't been able to access these things and this creates a wonderful opportunity for people to do better thanks to the innovations on the fund side.

Gregg Greenberg All right. Well, thanks a lot for coming and talking about it.

Dan Silver: My pleasure.

Recorded on November 6, 2019

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

https://AICalliance.org/

Disclosure: *Listed closed-end funds and business development companies trade on exchanges at prices that may be above or bellow their NAVs. There is no guarantee that an investor can sell shares at a price greater than or equal to the purchase price, or that a CEF's discount will narrow or be eliminated. Nonlisted closed-end funds and business development companies do not offer investors daily lliqudity: often on a small percentage of share on a quarterly or semi-annual basis. CEFs often use leverage, which can increases a fund's risk or volatility. The actual amount of distributions may vary with fund performance and other conditions. Past performance is no guarantee for future results.*