



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

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Financial reporter Gregg Greenberg interviewed Eric Boughton, Portfolio Manager and Chief Analyst at Matisse Capital, at the AICA Boot Camp and Round Table held on November 6th in New York City. Read the transcript from the interview below.



Eric Boughton

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

Eric Boughton: I'm excited to see that the Active Investment Company Alliance is coming in to really be a place where investors in closed-end funds, and sponsors of closed-end funds, and retail investors actually, can get together. Can learn from each other, can be a clearing house for information, communication. And really provide a way that we can get more interest in the space, because it's vitally important that investors understand and participate in this marketplace.

Gregg Greenberg What have been some of your biggest takeaways from the conference so far?

Eric Boughton: Let's see. So we heard from some of the exchange operators about some of the new closed-end funds that have come out recently, and that's been interesting. We've seen a new type of issue that's come out, a more contingent fund, which terminates on maybe twelve years or so. And that's been an interesting place where investors are more interested in investing in those than perhaps they would be interested in investing in a traditional closed-end fund. Especially because the initial commission on the fund has been eliminated. It's taken over by the sponsor instead of by the investors, so I think that's been a key benefit and change recently.

Gregg Greenberg Let's talk a little bit about what you're doing over at Matisse Capital. What's helped you over the past year? Because on a performance basis, closed-end funds have done very well over the past twelve months, so what's been good for you?

Eric Boughton: So closed-end funds are very interesting space. Most of the return and the movement in closed-end funds comes from the movement in their discounts. So at Matisse, we focus on discounts. We try to purchase closed-end funds at attractive discounts to their net asset value, and sell them when those discounts narrow. The quicker that change happens, the quicker the discounts move, the more money that we can make for clients. So that alpha proposition is something that needs to be brought to bear in the closed-end space. So closed-end funds are income producers, and over a long period of time, they're going to return what the underlying asset class returns, minus their fees. So it's critical in closed-end funds that you have an alpha source. So at Matisse, our laser focus is on alpha. Producing alpha from closed-end fund discounts and how they move.

Gregg Greenberg: And you also have a lot of activist investors out there who are looking to close those discounts much more rapidly if they think they're getting out of hand. Can you talk about activism, especially as we're heading into a brand-new year?

Eric Boughton: Absolutely. As you point out, activism is one of the key reasons that closed-end fund discounts can narrow, can move around. And one of the key things that we do, is attempt to predict where activists are going to become more active, and what funds they'll be successful at getting those discounts to narrow; either through tender offers, increases in distribution, conversions to open-end, or liquidation, things like that. So we've seen the entrance of more activists recently, and the activists that are participating have become more active. We also have filed more shareholder proposals for the closed-end funds that we own, to try to get the boards to become responsive to the wide discounts at which many of their funds trade. So it's been interesting to see that there have been several funds that have traded at perpetually large discounts. And in our view that is a grave disservice to the end investor, the retail investor, who is effectively captive in the fund and can't get out, except at big discount to what the fund's actually worth. Many boards have been unresponsive to that, and in fact just answerable to their managers who are collecting the fees. And so our proposals have been aimed at getting the boards to pay attention to shareholders. So, so far we've had only a few successes at that, and we expect to accelerate that activity in the upcoming year, and perhaps cooperate with some other activists in getting some fund boards to do things that are positive for shareholders.

Gregg Greenberg All right, we're going to watch that. We're going to watch you and those fund boards. Thanks a lot for coming on and talking about it.

Eric Boughton: Appreciate it. Thank you.

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 below 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 liquidity: often on a small percentage of share on a quarterly or semi-annual basis. CEFs often use leverage, which can increase 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.*