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Jerry Raio talks about closed-end funds and IPOs with Gregg Greenberg at the November 6, 2019 AICA Bootcamp and Round Table

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Financial reporter Gregg Greenberg interviewed Jerry Raio, Founder of Arbor Lane Advisors, Inc., at the AICA Boot Camp and Round Table held on November 6th in New York City. Read the transcript from the interview below.

Jerry Raio

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Gregg Greenberg: So Jerry, how can the Active Investment Company Alliance boost the closed-end fund industry?

Jerry Raio: I think predominately by educating retail investors about the benefits of closed-end funds. And I think there's a lot of benefits to the retail investor, especially when it comes to income. We've talked about this at today's conference, the fact that a lot of people now are entering their retirement years. They need to replace potentially income from their profession with income from securities. And a closed-end fund, that's the ideal design; is to take strategies and utilize modest amounts of leverage in them, to deliver to these individual’s monthly distributions, quarterly distributions, consistent, regular distributions. I think educating the investing public about the opportunity to do that through this vehicle, would be an objective of the firm.

Gregg Greenberg: And you're deeply involved in the IPO market, can you talk about what's going on with regard to IPOs?

Jerry Raio: So I ran closed-end fund origination for a major Wall Street firm for 13 years, and what I've seen is that today the structure of how a new closed-end fund IPO is brought out is a lot different. Where before, there was a sales concession that was paid to the advisor, and as a result the NAV of the fund, net asset value, versus the market price, it was below that. Today, the individual investor is now buying at the market price, at the NAV. So that's a very big change in the IPO market, and I think a very important change for retail investors. In addition, now they have what's called contingent conversions or terms to them. So two big objections of closed-end funds were that they perpetually trade at discounts. Well, these have terms that the end of 12 years you can get whatever the NAV is of the fund. So that takes that out. And the upfront cost, which is now there is no upfront cost, you're getting it at an NAV. So that's a big change in the IPO market.

Gregg Greenberg: Well the closed-end funds have always been a niche when it comes to investing, do you see more investors coming into the market, more retail investors? Because, you'll always have the institutional guys sniff out the discounts and the premiums, try and make a little bit of money in the margins. What about retail investors?

Jerry Raio: I think, certainly now, we're seeing a broader audience of financial advisors recommending these products to their clients. Whereby in the past, because of the difference in the NAV versus the market price, you had a lot of financial advisors and potentially retail investors that shied away from buying these in the IPO market. They might have bought them in the secondary market. But today, now that the NAV and the market price are one and the same, we're seeing a much broader audience of financial advisors looking at this. And again, it was a game-changer that put it on par with buying a mutual fund. And, you can argue that the closed-end fund vehicle from a portfolio management perspective, is a far superior vehicle for managing money, and that's evidenced by the returns. And, so now, I think we're starting to see a lot of people recognizing that, and we're seeing a broader audience participate.

Gregg Greenberg: And then finally, what are your expectations for new issues in 2020? Are we going to get it from the equity side or the fixed income side, where are we going to get them?

Jerry Raio: I think we're going to have a pretty robust calendar. It's already setting up to be that way. There's already a line of deals slated for the first couple of months of next year, and I think we're going to have a blend of different strategies. Part of it is looking at asset classes, and what asset classes in the environment that we're going into, makes sense for investors. We're in a declining interest rate environment, maybe that means recession, so maybe you want to stay away from high yield. I'm not sure what the asset class is going to be, but I think what we need to do in the closed-end fund space is be innovative. Come out with different strategies that meet a need of what clients are looking for. So, I think you're going to see a blend between, there's always demand for municipals within the closed-end funds space. You'll see some taxable bond funds, and then you'll see the equity funds, like BlackRock came out with the science and technology. I think that trend is going to continue and I'm hopeful that we're going to see a lot more innovation in the types of strategies that are brought out, that really take advantage of the closed-end fund vehicle attributes.

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

Jerry Raio: All right, 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/

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