



How and Why Some Closed-End Trades Require a Matchmaker

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Chuck Jaffe, in The NAVigator podcast, interviewed Russell Robinson of Capital Institutional Services. Read the Q & A below as Chuck discusses with Russell how some issues are thinly traded and require an intermediary like his firm to step in and maintain an orderly market, the



importance of having that liquidity, and the lengths his firm sometimes must go to make it work when institutional investors want to make big moves in funds that don't trade much.

Russell Robinson

The podcast can be found on AICA's website by clicking here: <https://aicalliance.org/alliance-content/pod-cast/>

CHUCK JAFFE: Russell Robinson, part of the Institutional Sales team at Capital Institutional Services; CAPIS, is here and we're talking about closed-end fund trading today on The NAVigator. This is 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 that represents all facets of the closed-end fund industry, from users and investors, to fund sponsors and creators, to in today's case, institutional brokerage firms. Because Russell Robinson is here from institutional sales at CAPIS; Capital Institutional Services, where they specialize in trading closed-end funds. Now it's not a place that you're going to go to, it's institutional sales. But you hear all the time as we talk on The NAVigator about closed-end funds

trading at discounts, trading at premiums, and you want to try to make sure the execution is done properly, because if it's not, there's a lot of money that can be lost in that process. If you want to learn what they're doing at Capital Institutional Services, it's CAPIS.com online. Russell Robinson, welcome to The NAVigator.

RUSSELL ROBINSON: Hi Chuck, thanks for having me.

CHUCK JAFFE: So Russell, the audience here at The NAVigator is learning a lot about closed-end funds, but trading happens behind the scenes, it's not something that happens in plain sight. Yet there are a lot of changes going on in the trading community these days, so help us understand what's happening and what has to be done so that ultimately as consumers or as people who are involved in closed-end funds, we understand that trading is functioning smoothly and properly.

RUSSELL ROBINSON: I think looking at it from the institutional eye, there are around five hundred different closed-end funds out there in the universe. And within those, there are about two hundred and fifty of them that are very liquid. So where CAPIS comes into play, and is a huge advantage for our buy side counterparties, is being a liquidity provider. Now it's a lot different for a retail investor if they were to go out and purchase shares of closed-end funds because I don't think they're going to be hitting the tipping point of moving the needle. A lot of these closed-end funds are trading under a hundred thousand shares for their average daily volume. Having a liquidity provider such as CAPIS is essential to trade in and out of these closed-end funds efficiently and not move markets, and like you said, to not lose money in terms of how these are traded.

CHUCK JAFFE: So what we're talking about here is a structure that I think some folks who are familiar with the markets might consider a bit more old fashioned. Where functionally we have what amounts to market makers who are saying, "Hey, we'll make sure there's always liquidity." Correct?

RUSSELL ROBINSON: Yes, that's essentially what we're providing, an avenue for a buyer and a seller to meet us in the middle and to transact to enact that buy or sell.

CHUCK JAFFE: How much more difficult is that in a closed-end fund market, secondary fund market, where you've got a lot of things that it might be, say, with stocks? Because the stock

market, people don't necessarily recognize that market makers are there because everything flows easily. But in closed-end funds where the trading amounts can often be very small, how do you do that efficiently without having big swings at a time when somebody wants to place a big order in something that's not trading big?

RUSSELL ROBINSON: Well CAPIS' approach is a very unconflicted model. Being an agency-based broker-dealer, we have lived and died by the relationships we've made over the past forty-two years. So doing our due diligence and getting in front of the different counterparties that are trading in these names, having those relationships that a buyer can come to us saying that they are looking for X, Y, Z, and knowing that certain characteristics of the other side of the trade, we can go out and reach out to that relationship in order to facilitate this trade. It's very similar to small cap stocks; stocks that trading very thinly throughout the day. If that buyer were to go out with, let's just say it's a large order, they were going to throw it out there in the market. Like you said earlier in the show, they can move that closed-end fund and it would be detrimental to the price of the closed-end fund. So having CAPIS as an intermediary to go out and find the buyers or the sellers quietly, is a means to effectively transact within the space.

CHUCK JAFFE: Effectively transact is an interesting phrase because we are talking about an illiquid market. One of the things that I find fascinating, that I bet many audience members have never heard of in the securities business, is what's called a cross-sell. And it happens in closed-end funds where you're helping to match not so much buyers and sellers, but basically folks who are looking to make a trade. You're trying to put together, "Hey, you want to trade this and I want to trade that. Can we make a deal?" At least that's how I understand it. Explain how a cross-sell works.

RUSSELL ROBINSON: Well, one of our clients will approach us with, I would say a larger than average size order, and they're looking to find the other side. Knowing that we have significant traction in the closed-end fund trading realm, they know that they can approach us with this request. Now finding the other side and getting them to open up in order to potentially transact, there's a lot of give and take sometimes. Sometimes you're having to negotiate price in order to make this trade happen or this cross, and so sometimes it takes some time. We did a million share cross a month or two ago, and it took us a week to get the other side to come in a little bit so that they would be able to open up and say, "Hey. Yes, I will buy if your seller gives

up at this certain price." So a lot of negotiating, a lot of back and forth. When you're looking at one of these closed-end funds that are trading at fifteen thousand ADV; average daily volume, and then you see a million shares hit the tape, that's what's happening behind the scenes.

CHUCK JAFFE: When that's happening behind the scenes, how much swing can it enter into the price? I mean, obviously when you have two sides and they're not necessarily agreeing, price can move. We always say disagreement makes a market, but it only makes a market when you can actually ultimately come to an agreement. So are there times when we see a significant narrowing or widening of the discount as a result of what it takes to get two sides together to complete a trade?

RUSSELL ROBINSON: Sure, in an imperfect world, yes. But we've cultivated relationships throughout the years to be entrusted and to entrust with the information that we are giving out. I'm not saying everybody's perfect, but when we approach somebody with a certain interest, we feel that that is typically respected by our counterparties and who we work with on the buy side. So I wouldn't necessarily say it's a market mover in terms of when we approach one of our counterparties saying, "Hey, we have a buyer that wants you to sell," or "We have a seller that we think you might be interested in buying." It's more so the fact that, "Hey, we have this liquidity, are you interested? We know that you've been a buyer over the past couple quarters, what do you say?"

CHUCK JAFFE: As an individual, if I'm ever looking at a closed-end fund or I own something and I see the discount suddenly take a significant move one way or another, should I be thinking, "Hey, there was some action someplace?" Or is that just ordinary market stuff?

RUSSELL ROBINSON: That might just be ordinary market stuff, and that might be the underlying security basket.

CHUCK JAFFE: Ultimately when somebody hears this, should they be worried at all if they are buying something as an individual investor that has low trading volume? Or no, it's really the big guys that have to make sure that they get the details right on these trades, and as an individual investor, liquidity is less of a concern?

RUSSELL ROBINSON: I wouldn't say that at all. If you look at every single stock, closed-end fund that's trading in the secondary market, you're able to see the characteristics of that

individual closed-end fund or stock. So being conscious of how much you're willing to put to work in terms of money and what you're looking to take down, the average daily volume is something that should be taken into consideration by any buyer or seller. You don't want to move the markets if you don't need to, and if you can piece that out throughout time, you can quietly move in and out of names, and that's what CAPIS does on a daily basis.

CHUCK JAFFE: Russell, great stuff. Thanks so much for joining me to talk about it.

RUSSELL ROBINSON: Thanks for having me, Chuck.

CHUCK JAFFE: Russell Robinson works at Institutional Sales at CAPIS; Capital Institutional Services. You can learn more about what they do at CAPIS.com. The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I am Chuck Jaffe, your host, please go to MoneyLifeShow.com to learn more about my show and what I do. To learn more about closed-end funds and business-development companies, go to AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. The NAVigator podcast is available every Friday. Thanks for joining us, we hope you'll do it again next week.

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