



## Closed-End Funds Have Bounced Back, But Have Further To Go, Says Roseen

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Tom Roseen

Chuck Jaffe, in The NAVigator podcast, interviewed Tom Roseen, head of research services at Lipper Refinitiv. Read the Q & A below while Tom explains how closed-end fund discounts currently stand at an average of 8.7 percent, significantly wider than the 5.65 percent of the past but significantly improved from February and March as closed-end funds were hammered during the pre-pandemic market downturn. Roseen notes that convertible-securities funds have been exceptionally strong during the bounce back – up 25 percent over the last three months – but that energy MLP funds remain down more than 58 percent and that natural resources funds are down 34 percent as they struggle to regain footing; he expects those trends to continue as the economy and the closed-end space slowly recover.

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

**CHUCK JAFFE:** Tom Roseen, head of research services at Lipper Refinitiv is here and we're talking trends visible in closed-end funds now 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, a unique industry organization that represents all facets of the closed-end

fund industry, from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator's going to point you in the right direction. Now today we're talking with a data and research provider, Tom Roseen is head of research services Lipper Refinitiv. If you want to learn more, LipperAlpha.Refinitiv.com. Tom's on Twitter, he's @TomRoseen, Lipper Refinitiv's on Twitter @Lipper\_Alpha. And Tom Roseen publishes Lipper's monthly closed-end fund report, which, oh by the way, was out on August the 6th. Tom Roseen, thanks for joining me on The NAVigator.

**TOM ROSEEN:** Thanks Chuck for having me. Good to be here.

**CHUCK JAFFE:** It has been a very interesting time for closed-end funds dealing with the pandemic. We know that there was a period right when things were getting hairy before we went into pandemic mode, that discounts were widening and people were talking about what's going on. We know that they have narrowed, but since you just put out the latest report, how close to something that appears like normal are we?

**TOM ROSEEN:** So if we take a look, the average premium and discount that we have for all closed-end funds, and this is everything, fixed-income and equity together, is at 8.72%. Now if we took a 13 month back to 7/31/2019, I'm giving you July 31st data right now, if we look at the 2019 data, it was at 5.65%. So we're still significantly wider than we have been, but as you said, since March, April, and May which we saw them in the 9.5% area, we're finally down in the 8.71% category. So we're seeing a little bit of a decline in that, a little bit of narrowing rather than this continually widening that we saw for the last four months.

**CHUCK JAFFE:** Was the widening of those discounts changing the way things were happening? Because it's not like we've seen a lot of activist activity, and we still saw some people who were hesitant to buy closed-end funds even though they were visibly showing you what a good bargain they were.

**TOM ROSEEN:** Yeah, actually we've seen an incredible amount of return. Mind you, we did have, as all mutual funds and ETFs, they got crushed in March in April, but the returns have actually been quite spectacular. If we take a look at the last three months, and this is end of 7/31, basically we're seeing that equity funds on average were up about 9.55% in a three-month period. It's fantastic, but of course we were down significantly. Fixed-income funds

were up a whopping 10.54% for that three-month period. So really, closed-end funds have responded very well, and this is why we're starting to see some narrowing, although there is still some concerns out there for particular areas. Energy MLP funds, year-to-date they're still down 58.7%, and natural resources funds, predominantly oil, and gas, and the like is down 35.45%, so we're still down in some big negative areas. If we're taking a look at natural resources and energy in master limited partnership, but the other groups are doing much better and really are almost getting near parity if we look at year-to-date returns.

**CHUCK JAFFE:** When you talk about any market sector or niche, and you can use words like, "It's down 58.7%," how much has that panicked people out? Or has it gotten to a spot where that decline coupled with the discount has made it that people are now bottom fishing and we're starting to see money flow back into the most downtrodden sectors?

**TOM ROSEEN:** Well, we don't see it on the closed-end fund side as you know, because closed-end funds, really that's why they're closed-end funds. There's really no change in [inaudible 0:04:06], they have some sort of new offering out there or the like. But getting back to the flow section, we are seeing renewed flows into some of these areas, as you were saying, folks are bottom fishing. Although on the mutual fund side investors are still very timid, they're still going after fixed-income as far as flows go. But if we take a look at the ETF investors, and really these are authorized participants, these are the people that buy and sell ETF securities, then you and I buy them on the exchange. They have seen an increased flow into some of these other areas, whether it be gold, and obviously that's been a hot area. Or whether we get into energy master limited partnerships, we have seen some reversal in money flowing into some of these weaker areas, particularly natural resources and the like.

**CHUCK JAFFE:** Anytime we've seen this kind of market action in the past, we understand that this market is not the same as others, the causes and what has changed now are different. But the market itself has seen some really tough times, perhaps most recently 2008-2009 during the financial crisis. Have closed-end funds performed as you would have expected having been watching them that long?

**TOM ROSEEN:** They have, it's been a real quick turnaround though, and it's been interesting. Closed-end funds are really often sold on their yield, right? This is what the investor's doing,

they obviously want capital appreciation and they are getting it in spades in some cases, we've had some very handsome returns. Let me give you an example, convertible securities are not necessarily what you talk about at a dinner party, right? It's kind of a, I'll call it a ho-hum category. But for the three-month period I was just telling you, and by the way they're the top performer for the one-month period just then, but for the three-month period they're up 21.25%. And year-to-date, they got crushed in March, April, and May, but they are up 7.57% year-to-date. So here's this convertible security, people want fixed-income, they want yield. But now we have low, very stingy interest rates, but we have this upward spiraling market that is really making those options to actually convert to their equity portion of that security and it really has been a boon. And so convertible securities for the second month in a row have been really a popular area in the closed-end fund space. But again, remember we're looking at yield and capital appreciation, and this particular category had both in spades. They had a pretty good yield but now their yield has been outstripped by their growth in their equity portion of that particular convertible security, so it's been a really good market there. Now on the flip side, when we were taking a look at natural resources and energy master limited partnerships, the energy MLP funds, we have seen deeper discounts, we have seen people kind of walking away. And a last point, Chuck, that's been interesting, is even though we have let's say, China region funds and other emerging market areas that we've been focusing on, and people have been dodging because of this Sino-American back and forth that we've had with our trade agreements and the like, this has been kind of a problem. We have noted that in both the world equity funds and world fixed-income funds, they were the top producing macro groups for the last three months, so this has been a really big boon. So it hasn't been all U.S., and we've all been talking about the rapid growth in U.S. because of the FANG stocks doing so well, but we have actually seen people in the closed-end fund space focusing on out of favor issues and particularly overseas emerging market issues as well.

**CHUCK JAFFE:** As you look forward, is there an area both good and bad that if you and I were to repeat this say three months from now when we're looking that much further and we're getting close to the election etcetera. Is there an area that you would highlight as this is where the trends are most positive beyond convertibles, and this is where the trends are most

alarming, and it may not have to be in terms of the size of the loss but it might be just disappointment?

**TOM ROSEEN:** Yeah, and I think that might be that energy MLP space, the latter you were just discussing. People were really purchasing energy MLP funds for the very simple reason that they had a very nice yield. Passthrough entity, they're basically not talking about drilling or whatever the like. They're basically shipping oil across the different vehicles, as far as whether it be through pipelines and the like, that type of stuff. But I think there's been some legal changes that brought some concern in this area. So it wasn't just the pandemic, but it's also some of the legal changes that are out there, so that's where I have a little bit of concern. But if we're taking a look at the emerging market space again, I think there are still some opportunities for the year-to-date time period, they are still down a bit. When you take a look at emerging markets by themselves, they're still down about 6.94%, so I think there's some room. If we truly believe that the economy is on the mend and we are going to have better GDP growth than what we just reported, negative 32 points and some change for GDP. If we do things like China, and China and partners are going to actually start doing better, this might be an area where emerging markets might have a little bit more lift in the area. And of course, we are focused on income, and so the utility funds, which is not your mom and pop's utility funds anymore, they're down 11.14% so far year-to-date. But if we take a look at that, I think people are starting to migrate towards income and out of favor placement, and that might be an area to take a look at as well. Again, it's not your mom and pop's utility fund though, right?

**CHUCK JAFFE:** Absolutely. Tom, great stuff. Please come back and share more with us as we watch the numbers roll in down the line.

**TOM ROSEEN:** We'd love to come back and thanks for having me, Chuck.

**CHUCK JAFFE:** The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I am Chuck Jaffe, your host, check out my show on your favorite podcast app or at MoneyLifeShow.com. To learn more about closed-end funds, interval funds, business-development companies and more, go to AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn

@AICAlliance. Thanks to my guest, Tom Roseen, head of research services at Lipper Refinitiv. Find his report on closed-end funds and much more at [LipperAlpha.Refinitiv.com](http://LipperAlpha.Refinitiv.com). Tom's on Twitter @TomRoseen and Lipper's there too @Lipper\_Alpha. The NAVigator podcast is available every Friday, please subscribe on your favorite podcast app and join us again next week to learn more about closed-end funds. Until then, stay safe everybody.

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