



David Tepper: Closed-End Funds Remain An Investment Bargain

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Chuck Jaffe, in The NAVigator podcast, interviewed David Tepper of Tepper Capital Management in San Francisco. Read the Q & A below as David explains why he uses closed-end funds almost exclusively in his client portfolios, noting that in today's market conditions there are plenty of opportunities to build a well-diversified portfolio at a discount, and adding that even long-term



David Tepper

closed-end fund investors need to be prepared to take advantage of times when discounts narrow suddenly, creating short-term chances for bigger-than-expected gains.

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CHUCK JAFFE: David Tepper, president of Tepper Capital Management in San Francisco makes closed-end funds the center of his client portfolios and he's done that for more than three decades, we'll discuss why 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's 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. And today, well it's pointing us in the direction of a veteran investor in closed-end funds. David

Tepper is the president at Tepper Capital Management in San Francisco. I should point out he is not the David Tepper who owns the Carolina Panthers and runs Appaloosa Capital, but he is a very experienced money manager who makes closed-end funds the cornerstone of what he does. And if you want to learn more about closed-end funds, don't forget you can check out the website of the Active Investment Company Alliance, it's AICAlliance.org. David Tepper, thanks for joining me on The NAVigator.

DAVID TEPPER: My pleasure Chuck, thanks for inviting me.

CHUCK JAFFE: You make closed-end funds the cornerstone of what you do. Most investors who find out about closed-end funds think of them as a different way to own assets but kind of an adjunct to a portfolio. When you talk with clients and you say, "Hey, we're going to make this the center of what we do." Is their reaction, "What a great idea, I'm a bargain shopper." Or are they scratching their head going, "We're going to do huh?"

DAVID TEPPER: Sometimes it's a combination of both. We're talking about one of the least well-known areas in the investment universe, often overlooked and mildly difficult to comprehend, and not always a rational experience. But to me, and I tell people that this most of the time can very much work to their advantage because it's an area where there's not a tremendous amount of liquidity where most of the big time investment firms really have too much capital. These pools of capital are so shallow that the big boys who are investing billions of dollars at a throw really can't participate, so it creates opportunities for either individuals or small investment advisor firms like myself to really add some value and gain an advantage in the marketplace.

CHUCK JAFFE: From the standpoint of the experience of your clients but also from a strategy standpoint, you can build well-rounded diversified portfolios, and are you more active than you'd be compared to somebody who's just using mutual funds? Are you less active? How does that work in terms of the management of the portfolio using primarily closed-end funds to what somebody would experience if they're just using traditional funds and ETFs?

DAVID TEPPER: Again, it varies. We've got some holdings that we've owned for the 30 years that I've been an RIA, and then from time to time especially in accounts where we don't have to worry about capital gains taxes, tax sheltered accounts, retirement accounts, IRAs and the like. Occasionally if I get lucky and I buy an asset that maybe I'm hoping will return 10 or 12% over a 12-month period, and if for whatever reason the market moves in my favor and

I can make 5% in a week, I'm not hesitant to sell and take that quick profit and then perhaps have the opportunity to buy the same fund back a week or two or month or two down the line. So it's really hard to predict.

CHUCK JAFFE: What was also hard to predict this year was the way closed-end funds would react as we got into the pandemic. They suffered more than the average investment while the market was melting down in February and March, they have bounced back sharply but there are still bargains to be had. So how have you been investing? What has the experience been like for you and your clients throughout the pandemic from an investment perspective?

DAVID TEPPER: Certainly March was a tough month. When you get into a period where the babies are being thrown out with the bathwater so to speak, as I mentioned some of these funds don't have a lot of liquidity. We did see some big drops, we saw the discounts expand for some funds to maybe twice as large as they typically are, and I'd like to say I had the courage to lean into that wind as much as perhaps I should have, but I didn't. But slowly we've been nibbling away, looking for opportunities here and there. Some sectors of the market like leveraged loans, convertible securities, emerging market bonds I think are still pretty attractive, and some of these funds are still trading maybe not at discounts twice as large as their historic averages but maybe 50% as large. And at some point, I'm a great believer in reversion to the mean and if you can buy a fund that say has a historic average around 10%, if you can buy that fund at a 15 or 17% discount, based on my experience there'll be times in the not too distant future where that fund may be back to selling at a 10% discount or even lower.

CHUCK JAFFE: Conversely, that means you're never going to buy something at a premium, or are there times when the assets and the style push you towards it?

DAVID TEPPER: Well, my nature is not to buy anything at a premium. That certainly doesn't mean that some funds, for reasons that sometimes cannot rationally be explained, do sell at premiums for extended periods of time and do provide and have provided extremely good returns. But it's just not something I'm extremely comfortable with and something I rarely do. If I want to get exposure in a certain segment of the market where I can't find an appropriate closed-end fund selling at what I think is an attractive discount, from time to time I do use an exchange traded fund focusing on that area or perhaps a no-load mutual fund to fill out that portion of the portfolio allocation.

CHUCK JAFFE: Final question. You mentioned those couple of areas that you like, which one would you point people's attention to the most right now?

DAVID TEPPER: I'll give you an example, today on the Barrons.com website there was a positive article or encouraging article regarding emerging market debt. And the Templeton closed-end fund symbol TEI, unleveraged, so it's fairly conservatively managed from a risk point of view, is currently selling at a discount over 15% and historically has had an average discount over the last five years of 10 or 11%, and as recently as two or three years ago was selling at a discount closer to 5%. So maybe when things calm down, people are more comfortable with how the global economy's going to play out in the next few years, even if the underlying net asset value doesn't increase, and I think there's a chance it will, you're going to collect a 6% dividend. And then at some point that fund that you can buy currently at a 15-16% discount, you may have an opportunity to sell at a 7 or 8% discount. And that swing in the discount really enhances your return, particularly versus buying an ETF or a mutual fund.

CHUCK JAFFE: David, great stuff. Thank you so much for joining me to talk about it.

DAVID TEPPER: My pleasure, thank you.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I'm your host, Chuck Jaffe, and you can check out my show on your favorite podcast app or at MoneyLifeShow.com. To learn more about closed-end funds, interval funds, and business-development companies go to AICAlliance.org, the website for the active Investment Company Alliance. They're on Facebook and LinkedIn@AICAlliance. Thanks to my guest, David Tepper, president of Tepper Capital Management in San Francisco. The NAVigator podcast is available every Friday, please subscribe on your favorite podcast app and join us again next week to learn more about investing in closed-end funds. Until then, stay safe everybody.

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