Panelists discuss the future of the closed-end fund structure: from creation to how they trade in the secondary market during AICA Summer Summit.

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Bill Meyers from Nuveen, Andy Hall from NASDAQ, Neil Sullivan from Vision 4 Fund Distributors, and Marc Loughlin from WallachBeth were panelists at the AICA Summer Summit held on August 13. The moderator of the panel was Kimberley Flynn, of XA Investments. Read the transcript from the discussion below to hear the insight from the panelists.


Kimberley Flynn


Bill Meyers


Andy Hall


Neil Sullivan


Marc Loughlin

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Kimberley Flynn: Great, I think it's the top of the hour. We are so excited to have the closed-end fund panel talking about the present and future state of the closed-end fund IPO, and we'll also talk about secondary market trading. So thank you to the AICA for inviting us all to join the panel.

Let me start by introducing the panelists today, hopefully many of you are familiar with the faces that you see, but this is a great panel, many of us have known each other for a long time. My name's Kimberley Flynn, I'm with XA Investments. I'm a former Nuveen person, so it's fun to be on this panel with Bill Meyers. Bill's the head of Nuveen closed-end fund business-development. We're also joined by Andy Hall from the NASDAQ. I just had the pleasure of meeting Andy virtually last week actually, so Andy, nice to meet you and great to have you on the panel. We're also joined by Neil Sullivan, he's a managing director and partner with Vision 4 Fund Distributors. In addition, we have Marc Loughlin from WallachBeth and he focuses on ETF and closed-end fund trading solutions. So thank you everyone for joining the panel.

We're going to kick off today's session, Neil I'm coming to you first. So what do you think advisors are looking for in terms of new closed-end funds? What have we seen in 2020 that you think resonates with financial advisors?

Neil Sullivan: Good afternoon Kim, and good afternoon to everyone in the audience. I think it's a very timely question because the closed-end business has accelerated over the course of 2020, and there seems to be a lot of desire to bring new issuance to the market and it's being well received. Obviously the first thing you need to look at is why the closed-end structure? I think the number one reason for that is you're able to put less liquid vehicles in because you don't have the redemption phenomena.

That being said, what I have seen in our capacity as a third-party distributor working with a lot of managers with different ideas is more of a move of foot towards getting income producing equity vehicles and putting some private equity or non-liquid positions in there as a way to differentiate it from it's open-ended counterparts. I'm also seeing a bit of a flight to safety, so there are certain people who are a bit leery of leverage so they are utilizing other mechanisms in order to generate the appropriate amount of yield. Such as covered call writing, level or manage distributions.

I think as we go forward it would be healthy for the industry to see more equity offerings with less focus on the traditional fixed-income. On the fixed-income side we have seen a lot of filings right now that are using more esoteric fixed-income vehicles including a lot of synthetic products in the forms of CLOs and CDOs in order to generate the 6-6.5% yields that the market is seeming to strive for in a very low-interest rate environment.

Kimberley Flynn: It's interesting that you're talking about some of these alternatives or less liquid investments, maybe they're a smaller allocation or sidecar. I guess I would have thought post-COVID that advisors and investors were returning to basics. I know some of the IPOs that are slated to come in 2020 and maybe even in 2021. Do you think that advisors and investors are concerned coming back into the closed-end fund market, Neil? And Bill, maybe this is a question for you in terms of post-COVID. Do you see any sort of difference in the marketplace now in this return since we've seen now several IPOs post-COVID?

William Meyers: Yeah, maybe I'll let Neil respond and then I can hop on about post-COVID and return to basics potentially.

Neil Sullivan: So we worked with Aberdeen Standard on an infrastructure offering last month and it was very well received. It was a non-levered offering that was equity focused on infrastructure assets globally, but it did have a 25% sleeve in privates where there was a reason why there needed to be a bit of a lockup on those assets, and that resonated very well with advisors.

It just happened to be that we put no leverage on that offering, so we were talking about a very conservative vehicle with high barriers to entry in the infrastructure space being spoken about at the political level across the globe with a minimal amount of leverage and having the added alpha kicker of having some privates in there. And we felt that that was a fairly conservative approach in working into the equity space and having a yield. But I would say, and I'd be interested in Bill's perspective, that there is some cautious optimism from many existing producers that buy closed-end funds because of some of the discount phenomena that we're facing right now in the secondary markets.

William Meyers: I think with respect to where we are now, it's interesting this closed-end market. Nuveen's been involved in it since 1987 and there's been trends and phases that have gone back and forth over time, and I think there's generally a tug of war within the closed-end market where people look to buy closed-end funds for income and the cashflow that they generate. But the product is much, much more than that as Neil mentioned, and it can be used for a lot more than just fixed-income investing, whether it be munis, whether it be taxable.

We've seen over time the closed-end structure starting to embrace other income related non-bond-like investments, so REITs, preferred stock, and then we moved to more equity based approaches with things like utility stocks or maybe an equity with a covered call type approach. All of those I think are great for closed-end funds, but what is common across all of the various strategies is the fact that they pay out a decent level of cashflow.

Now the tug of war that I always see in the closed-end market is how far is that retail market willing to go? And what capital will it be willing to provide strategies that may not be pure income? And there's some continuum there where there's a desire to have income being earned and real cashflow, but at the same time I think the closed-end fund structure looks to be utilized for more than just that. So this tension has occurred for years and years.

I think right now in the post-COVID time, it'll be interesting to see how that evolves, because the Aberdeen fund had a significant sleeve of privates. We've seen that for funds recently as well, other types of products. But what's happened is I guess last year we saw towards the latter part of last year people were actually thinking interest rates may move higher, and people were thinking about, okay, their cashflow might move higher. But now obviously after March, that's all changed and rates are expected to be low for an extended period of time, so people are scrambling again to find their cashflow.

But what also can't be underestimated is the new approach that the issuers and people selling the products have to take to get to advisors to explain the strategies to them. So I think it again highlights this tug of war between the ability to embrace and utilize maybe more esoteric concepts with the willingness of the audience to listen to it with conference calls, with webinars, with a different selling approach then the approach the market has been using for 30 years.

Kimberley Flynn: Understood. So in the last 18 months we've seen what some call the 2.0 closed-end fund structure, which means these funds often have terms, maybe a 12-year term, and the upfront cost of launching closed-end funds are no longer born by shareholders, they're paid by the fund sponsors. So I think that the IPO market during this past year and a half has been pretty robust as sponsors seek to come to market.

Maybe Andy, you could just talk to us about the facts and figures in terms of the number of closed-end funds that have IPOd recently. Closed-end funds are exchange traded, they're frequently listed on the NASDAQ and the New York Stock Exchange, so if you could just give us some of those facts and figures that'd be great.

Andrew Hall: Yeah, thanks Kim. Yeah, I work on the new listings team so not only am I working with closed-end funds and BDCs, but primarily common stock. And just to kind of see how it correlates with the overall IPO market and then I'll drill into the closed-end funds, year-to-date NASDAQ's had 118 IPOs with a total proceeds raised of $29.8 billion. As compared to last year where we have eight moths, all of last year was 188 IPOs with the total proceeds raised of $34.4 billion. The NYSE so far year-to-date has had 47 IPOs with $26.1 billion proceeds raised, as compared to last year with 53 all of last year and $25 billion raised.

If you watch it casually there's been an increase in the SPAC market. Last year NASDAQ had 43 SPACs versus 31 this year and the NYSE had 16 SPACs last year and 32 this year, and so they're starting to chase us in the SPAC market. And if you look at the four top companies in terms of proceeds raised, two of them are SPACs and the other two are operating companies. Now how that correlates to this year with the closed-end funds, it seems like in past years we hit around 10 or a little bit less than that. We've already had four for 2020, Aberdeen Standard being the last. But '19 was nine, '18 was three, '12 was 10 and on downward. The real fluid years was 2013 with 21 and 2012 with 24.

And Kim alluded to it, you can list on NASDAQ or the NYSE, the difference between the two is pretty much non-existent. From a symbol standpoint it used to be one, two or three was NYSE and four was NASDAQ, but that changed in 2007 where you could do a one, two, three or four character symbol regardless as an equity. Even Aberdeen did SGI, which some people might think, "Oh, that's NASDAQ listed." From an investor standpoint, we don't see it from an institutional standpoint or for a retail standpoint if the company's NYSE or NASDAQ listed. I don't think there's an investor out there that looks to see where the closed-end fund or the common stock is listed before they make their buying and selling decisions. We're a service provider, just like you need a transfer agent, you need an exchange.

Why we're kind of below the level of numbers in closed-end funds, there's about 490 out there that are trading, only a small percentage are NASDAQ listed. And why that is, I think we were kind of late to the game, we're the new exchange, they've been around since the guys with the colonial hats, so we probably didn't have the doors opened to the closed-end funds. And then also there's a sense, well if there's a family and they already have a couple closed-end funds traded, we'll just add the new one to that other exchange, so there's a familiarity there. But from a value standpoint, it's the same, from trading and investing. But also when you look at the differences, we do have a lower fee model, so that can help if you're being very cost conscious.

Now my competitor will say, well there's the DMM there, the buyer and seller of last resort to help absorb volatility for the benefit of the issuer, and in times of selling pressure, they're going to be the buying support. Now that sounds great, but from our standpoint we're thinking, how could that be reality? Because if the issuer isn't paying that specialist or DMM and the NYSE isn't, why would they put their capital at risk for the benefit of that issuer? If they don't have an investment banking business, the four firms left are high frequency traders, they handle a lot of flow, they're big market makers in NASDAQ stock. So it doesn't matter from that standpoint, and if there truly was a better mousetrap there, then we would build it as well. There's really no need for that individual there, and they trade NASDAQ closed-end funds just as they do the NYSE.

So take a broad approach when you're looking to list your next closed-end fund. Look at the pricing. The trading is the same and the investor standpoint is the same.

Kimberley Flynn: Okay, before we leave IPOs to talk more about trading in the secondary market, I am curious the panelists thoughts on secondary market trading in March and now. But before we do that, one of the things I was hoping Neil could talk about was the forward calendar in terms of interesting funds that are slated to come. In terms of filings you've observed or what you think the trend's going to be in 2021, what do you think will be different next year as compared to some of the closed-end fund IPOs we've observed this year?

Neil Sullivan: That's a good question. As you look at the forward calendar, it's chalk full, we're going right through the end of the year right now. It seems like there will be at least one offering for at least every given month through December. I think we'll take a look at November when the elections come and see whether that has any calculus in people's decision on a go or no go.

There is a lot of fixed-income that has been filed. There has been a lot of high-yield, a lot of CLOs, a lot of CDOs. Interestingly, Eaton Vance filed an ESG high-yield municipal bond fund offering, which we'll see whether that resonates with the market, they're still yield driven products. On the other side of the ramp we're seeing a couple of preferred offerings that are looking to come out. We see a couple of potential equity offerings that are going to inorganically look to enhance yield by utilizing some option writing strategies. And we're also seeing a couple of offerings where they are putting a sleeve of privates in, which has so far proven to be very popular. BlackRock has been a big innovator in that space and they've raised a substantial amount of money.

But as you look at the forward calendar, I think anybody that wants to come in right now is looking at the first quarter '21 before they can even get a slot.

Kimberley Flynn: Understood. Do you think that with the new closed-end fund structure it's broadened the audience in terms of financial advisors participating? And Andy, have you noticed any trading differences in some of these term closed-end funds? I think the sentiment is that more advisors are participating, but are you seeing that in terms of IPOs, Neil? And are you seeing it in the trading, Andy?

Andrew Hall: In terms of the trading, broadly I don't know on those particular issues. But when you look at closed-end funds in general, it's a small microcap market. You're looking at a couple hundred million in market cap, average daily volume could be 100,000 shares or less, it's obviously a retail product. Even if you look at the institutional percentage, it may be 20% or less. So it is a light volume stock, but I don't know if Neil wants to speak in particular to that typical type of issue that you referred to, Kim.

Neil Sullivan: From our perspective, we have seen an expansion in the number of FAs that are willing to take a closer look at the product. Prior to what we'll call NAV pricing or 2.0, we had a substantial spread of about four and a half points which was paid by the advisors, so the NAV was effectively $19.06 on a $20.00 offering price. A lot of advisors shied away from that. Now that all of those fees are being incurred by the advisor and the NAV is coming out at 20, people are taking a renewed interest in the overall value proposition.

I will say that until we're able to get closed-end funds, if and when we're able to get them to be put directly into fee-based accounts, we're still going to only have a subset of the advisor population that's working on a transactional basis that's going to be interested. And there are some legalities as to if and when that is going to happen, but it's certainly aspirational if we want to use closed-end funds in the capital raising process across the country.

William Meyers: Yeah, and if I could add to what Neil said about the investor base. We see, as Neil noted, the wrap business expanding, and we're seeing a lot of assets float a wrap. And it's tricky for closed-ends in the primary market because again, for complicated reasons, they can't be sold into wrap accounts. But that said, with this transaction-based cohort out in the field, we are seeing an expanded group of advisors considering closed-end funds.

Going back even before the 4.5 point deals, what we saw for years and years is pricing on closed-end funds tended to be pretty sticky in the primary market. So prior to the 4.5 point deals, I think it was around 7% for many years and then we went to 4.5 points, I believe it was in 1999. And the 4.5 points, before we got to closed-end funds 2.0, they actually had closed-end funds 1.5, I'd say. And we came out at Nuveen with deals that had a very reduced load, so it went from 4.5 points to 1.5 points, and that was a big move that started opening up the market.

So back in 2015, the market really pivoted, so we saw a reduction in the sales spread in the front-end load, which diminished the spread between the offering price and the initial NAV, so that immediate 4.5 premium was something less. We also saw the introduction of the imposition for all funds of a term that was attached to the deal. So up until then, with some exceptions, the entire market was largely a perpetual market and it was great for the issuers, it was permanent capital. But at the same time, investors that might have concerns about never being able to realize the NAV for the fund in the event that the fund always traded at a discount. By putting a term on the fund and a termination date, it created certainty about the ability to capture the NAV at some point. So I think the combination of the lower spread plus a known end date has broadened the market.

Now as Neil noted, the spread is now zero, so the offering price and the NAV are on top of each other and you don't have any premium built into it. Those costs are born by the issuers of the product, so now investors have not only an NAV product but they have a known end date. So I think the combination of those two has served to expand the number of advisors willing to sell closed-end funds and the investors willing to purchase that.

I know in the calls that I do all the time with advisors, you talk to a lot of advisors, and I'm sure Neil could mention this too. Even though the market is a very different market then it was when it was a 4.5 perpetual deal, you run into a lot of people who don't even know that, and they don't know that the spread is now zero, and they don't know that there's an end point to the fund. So not only are you telling people about this new and interesting strategy that's embedded from within the portfolio, you're re-telling them the structure, which is part of the process.

Kimberley Flynn: And I wonder Bill, it sounds like there's a lot of education that you have to do on the road when you're selling a new fund. And so I'm just wondering Mark, if you've noticed in terms of secondary market trading, any bifurcation in terms of closed-end fund trading with the older funds, say issued five, 10 years ago, and these newer 2.0 funds or even the 1.5 target term type fund that Bill Meyers mentioned?

Marc Loughlin: I think what we tend to see is the sort of version 1.5 and version 2 as we've discussed, they tend to trade less. Not because they're not liked by the secondary market, but you're buying and holding it for a reason at issue, and as long as the fund manager is fulfilling the yield and you have a term on it anyway, outside of extenuating circumstances you're unlikely to sell it. Whereas the sort of CEF version one, it could be for multiple reasons, asset, diversification, etcetera, so they tend not to trade as richly. I mean, they're still decent but it's not the same. I see them more as kind of buy and hold, almost retirement vehicles.

Kimberley Flynn: Any thoughts in terms of are there any sponsors out there trying to broaden the buyer base in the secondary market for their funds? Do you think it requires a more proactive fund sponsor to try to potentially create volume and generate some of that new demand, Mark?

Marc Loughlin: If Nuveen put out a target term and it doesn't trade, that means they're doing their job because nobody's selling. And that probably means that they can do subsequent issue on the back of that. I think some of the issuers, Aberdeen, [inaudible], Nuveen do it very well, a lot of education. And that goes to a more holistic picture of getting people involved in the space by showing that, yes, they are more liquid vehicles than you might anticipate, and there are ways to access liquidity that you might not sort of anticipate. But that's more sort of a general education in the space. I think the pushback sometimes in the space is leverage and liquidity. But the new funds, there is demand there, so if there are sellers, most of the times it can be filled in.

Kimberley Flynn: Neil, you mentioned that the recent deal was non-levered. Do you anticipate other fund sponsors coming to market with non-levered closed-end funds? Do you think that will be appealing in the secondary market?

Neil Sullivan: If we get a rise in interest rates or anybody believes that we're going to have a rise in interest rates, then levered offerings are typically going to trade more poorly than their brethren that are not levered. That being said, if you're coming out with fixed-income right now, unless you're really going off on the curb, you're pretty hard pressed to get to the yield you need unless you can put some type of leverage into the overall portfolio.

I think it's more likely that you'll have non fixed-income or equity offerings that don't have leverage. I think the fixed-income space needs to continue to have some prudent amount. What that number is, is it 15%, is it 33%? I'm seeing it across the board and it's really a backwards calculation in order to get to the yield.

William Meyers: Yeah, I'd add about leverage, Kim. There are reservations that people have had about leverage for years. People, I think as a general, don't like leverage but they love the income that it generates and the incremental income that it supports. So it's a tool that managers use for fixed-income given the low rates, but also given the possibility that short rates may be low for an extended period of time, an argument could be made that maybe leverage makes sense for the near-term. But again it creates volatility with the asset classes and it makes the share smore volatile than a non-levered fun would be. But the benefit of leverage is obviously you generate higher levels of income and more potential return, but the price you pay is the volatility.

Kimberley Flynn: Let's talk a little bit about volatility and what we saw in March of this year. I observed that the dislocation was actually fairly short, meaning we saw closed-end fund discounts across the market gap out to anywhere from 15-20% in the middle of March. But by the end of March, it did seem like buyers had come in closing some of those discounts to the levels that we see now.

So since about April, we've seen the closed-end fund discount rate hover at about 8%. If you look more focused at specific sectors, there are certain categories like the preferred category, certain fixed-income categories that are trading at par or they're trading at slight premiums. How do you think that closed-end fund dislocation in March compares to maybe what you observed in the equity markets or in the BDC or REIT markets? So I guess this is a question for Mark or Andy.

Marc Loughlin: I think primarily when you see dislocations like that, where no matter what the asset class is the price is going down, it's often the product or the wrapper that gets the blame for that. If we take the example of March, fixed-income ETFs were on CBNC as, "Is the tail wagging the dog or vice versa?" But the ETF is a price discovery mechanism with an arbitrage band, so the ETF is telling you what the fair value of the underlyings are, and the underlyings might not be trading in the bond market.

Now I always refer to closed-end funds as the exact same price discovery as ETFs, but just in a more liquid wrapper without the arbitrage mechanism and with leverage. So in those scenarios you would expect it to go down more, but what we see in every dislocation trend is the people who are patient or the people who are opportunistic, discounts do revert to mean. They do systematically.

But in terms of I think CEF, BDC, and REIT, they kind of in their two week period all traded the same way. There were a lot of sellers, institutional and retail, but we saw a lot of pockets of people with cash waiting to buy, and we also saw the strange scenario of say a fund trades at average 10 discount and it's suddenly 15, institutions selling at 15 because they knew they could buy other things at 25. So the liquidity profile of closed-end funds is often quite dynamic, and increased liquidity and increased volume creates opportunities for others, volume begets volume in a certain way. But yeah sure, if you see a 4% drop in the market in a day, you'd expect the CEFs to be 5-7% just by the way that they're structured.

William Meyers: Kim, I think this conversation highlights the different ways that closed-end funds can be used. I always look at closed-end funds because I sell them generally on the primary market as a longer term play, so part of an overall asset allocation. But I think what's evident here and what we've all witnessed in the closed-end fund market and definitely in March is these funds given the fact as Andy noted, they're microcaps, they tend to act with a fair amount of volatility and you have really good buying opportunities if you're watching them. Where maybe they sell off more dramatically than the underlying market and they widen to an extraordinary discount like we saw in March.

But ultimately they tighten up and ultimately they revert to the mean, and ultimately there's value within the portfolio because these are daily marks within the portfolio, and does it make sense for something to be at a discount as wide as it was in March? I'd say not, and I think the current market prices you see across the closed-end funds reflect that opinion, that things got a little bit oversold.

Kimberley Flynn: Yeah, I agree. I think that certain categories seem to be snapping back a little bit more quickly or maybe they're back to where they were pre-March. We're still seeing dislocations I think, across special equity, global equity. Which is a little surprising I guess just given the recovery and the strength that we've seen in the S&P 500 and in the NASDAQ, that can happen from time to time, retail sentiment can be negative. And Bill, as you were talking about with the thought that rates are going to remain low, it seems like the senior loan category also remains at pretty big discounts.

I know both Vision 4 and Nuveen are believers in helping seasoning closed-end funds in the secondary market. But maybe Neil, you could give an example of what you all do. I know that we've worked with you and you have not only close relationships with advisors who are buyers in the secondary market, but you're also willing to do team calls, group calls. What do you find most effective in helping season a closed-end fund in the secondary market?

Neil Sullivan: So you're right, we do provide secondary market support services. And I think if you look back 10 years ago, there was a substantial number of buy-side analysts that were doing work on closed-end funds in particular and there were a lot of research reports that were coming out. And unfortunately, a lot of those positions have disappeared over the past five or 10 years, so there's probably only less than a half of dozen analysts out there right now that are following the space.

We do work with a number of independent firms, one of the most successful ways that we get [inaudible] is to have periodic national meetings geographically around the country where we bring in portfolio managers from a number of non-affiliated firms to collectively speak in one central location about the secondary trading of their offering. So we may be working with

DoubleLine Capital and bring people into L.A. We may go to Chicago with RiverNorth. We may be in New York where there's a lot of the analysts. A full analysts day where we can pull everybody together.

Larger organizations like Nuveen I'm sure do that because they have a larger number of closed-end funds, but there is a small group of analysts that have a lot of sway in the industry. You need to know who those people are and be very reactive to their needs and proactive in pushing information out to them.

Kimberley Flynn: Understood. Bill, any thoughts in terms of other things that you can do to help season a fund and improve the trading?

William Meyers: I think what Neil said is really on point. What we try to do, and we do it through our website, we do it through the sales people, we do it through the staff within the closed-end group, is we try to get the word out, we try to educate people, we try to let the market know about the benefits and the virtues of closed-end funds.

They've been around since, I believe, the 1890's and closed-end funds still aren't as well understood as they should be, so it's really a constant effort to educate people when you're not in the market. An issuer might, if it's lucky, be in the market twice a year. That's 10 months that you can be telling the story about the benefits of closed-end funds. So there's a lot of education t hat's done about the different products, the different structures, the different techniques. We try to put it on the website.

This is one reason I think organizations like AICA are so valuable, because they're an independent group that helps provide information, and education, and forums for closed-end funds so people can hear about the benefits of the structure without maybe coming solely from an issuer of a product that might be viewed with some more skepticism than through an independent lens like AICA.

Kimberley Flynn: We have a couple of related questions from the audience, so I'm going to pivot and see if we can answer those questions. First question is I think a good question for Neil and Bill. It says, how have IPOs and fund sponsors adapted to selling and marketing in this virtual world when you're not able to do physical roadshows? What's working?

William Meyers: Neil, I'll let you take that first.

Neil Sullivan: So we were involved in a transaction in February and we were also involved in a transaction in March, we saw both sides of it. We had DoubleLine Capital when there was no COVID and things were going swimmingly, and the last three days of the deal the world changed and everything shut down. Then we walked right into that with RiverNorth Capital and MacKay Municipal managers, and we had to pivot almost instantaneously and make a determination of how we were going to get to advisors in this new world order.

We sponsored daily conference calls for a couple of reasons. Even though we recognized that we weren't going to get a large number of advisors on a daily basis, the markets were moving so rapidly and we had in the case of MacKay, one of the preeminent municipal managers in the country, people wanted to hear what their fixed-income outlook was, and what their outlook on the general market was. So we would have 20 to 30 people participating in a call, but they were all people that were putting 45 minutes of their time aside that we were able to follow up with, and that was a critical differentiator.

Now we had to have the portfolio management teams buy into that, however we typically put four or five roadshow teams out for 30 days, and since they weren't travelling, they were more than willing to utilize the new technology. Was it perfect? No. Could everybody use it? No. But it was certainly one way that we had to pivot. The other thing we had to pivot on was you have to hire and know that your sales people know in advance who the right closed-end fund producers are, and are doing the data mining to understand who they are, the relationships that you have with them, and how best to communicate with he or she.

We did a number of golf outings. We went to locations where people had summer homes. We went out to the Hamptons. We went down to the Jersey Shore. We put together outings where we could get people in a safe environment on a one-on-one basis, buying them lunches, having them swing by to get a lunch, doing Zoom calls, being as creative as possible. We sponsored last month a call with the general manager of the Yankees and with the head of *Baseball Tonight* from ESPN, just to say, "This is a general sponsorship fellows and ladies, but just get your mind off of something else other than closed-end funds, and COVID, and everything else," and people appreciate it. And I'm hearing a lot of fund providers doing things similar to that.

But to get back to your actual question, you jut need to know who those advisors are, they are still doing busines, unfortunately the days of walking into a branch with 50 or 100 individuals and doing a branch lunch are over for the foreseeable future.

William Meyers: Yeah, I hope at some point Neil, we return to that.

Neil Sullivan: I do too.

William Meyers: Because I always love getting in front of advisors in person rather than just on the phone, but getting in front of them in person and being able to have that back and forth with them because I always took a lot of value from those conversations as we thought about a product. But to your point, you really need to be creative in reaching advisors, and you have to use really all the time you have to communicate and meet them wherever they're willing to meet you.

So at Nuveen, we are doing conference calls constantly. And in past offerings, we might have done one or two conference calls a week in the course of the offering, and then everything else was individualized conference calls but more in-person meetings. Now given the fact that very few offices are open and there's no real broad in-person meetings, I am doing conference calls constantly, and we have to devote considerable resources of my time, of the portfolio manager's time to conference calls. And while maybe it's a more efficient use of time because I'm not spending time in airports or in cabs or in rental cars, and the portfolio managers aren't, just sitting in this office all day long doing conference calls, it gets kind of old pretty quickly.

Kimberley Flynn: Only if you have power, right Bill?

William Meyers: That's true. That's true, as everyone heard. And I do have power.

Neil Sullivan: And the other thing I would mention here, and I'll give a little plug for the power of distribution, everyone knows Nuveen extremely well, they're a closed-end fund powerhouse. Their wholesalers know who the individuals are in the offices that do closed-end business. And depending who you speak to, probably 20-30% of advisors in a given office will do closed-end IPO. Much towards that end, when somebody comes and hires Vision 4 to be their distribution partner, they're hiring us to know who those individuals are and to go out and speak to them directly. And you only have 30 days to get this accomplished, so beyond being nimble, it is super critical that you have a rolodex of the right individuals to target market during a very short period.

Kimberley Flynn: Understood. We've got another great question, this is about secondary market trading for Mark. If these closed-end funds have lower average daily trading volumes, how does your firm, how do you help people get liquidity? How do you help people work into a position if they want to establish one in a closed-end fund?

Marc Loughlin: So that's kind of multi-faceted. We invested a lot in data and data tracking, so I think we'll start from the IPO viewpoint. So recently we helped an issuer who's doing an IPO, they had a customer that was looking to put in $20-40 million, he was worried about if they ever change their mind in the secondary market. So what we can do then is most sort of pre-trades for closed-end funds work off the fact they're an equity but they trade differently to how equities trade, so we created a system that looks at the trades we've done, other trades in the market, and correlated names.

So while we couldn't say to that issuer, "For your particular name, this is what the impact will be." We can say, "These are the funds that are similar to what you're IPOing, and this is what the impact would be on those." So it gives the potential investor a level of comfort into, "If I go in, can I get out? And I know roughly what the impact costs of getting out will be." We do a lot of work with people looking to re-balance on, again, the costs in and out, because the more they can quantify their costs, the more comfortable they are in their own position.

We have various tools of actually once the trade hits our blotter, of executing. I would say I was buy-side for a long time in closed-ends and a lot of the business was OTC. It's far less OTC now and it's moved away from the New York Stock Exchange specialist model and become fragmented across lots of venues. And that's primarily, not to pick on them but the Robin Hood model and the zero commission model is reliant on them being paid for order flow by the higher frequency firms. Which is great if you're trading SBY or if you're trading Apple, because you're getting great liquidity, and you're getting instant liquidity, and you're getting insider spread.

But the higher frequency firms aren't paying those checks to get the closed-end funds [inaudible] paying it to get the more liquid flow. So that fragments the market because different firms have these pools in their blotter, which they want to get off their blotter but at the same time they don't want to go out and pay exchange fees and they don't want to access each other's systems. So if we have to access the market non-OTC, we build a system where we can link into these dark pools. It acts almost like a high-frequency algo but for the client, in that it circles through the systems, sees if there's liquidity there. If there's not, it comes out and goes to the next one, so it can't be tracked.

And primarily the goal now since we've had the system, is trading inside the spread as much as we can because the retail order is going to an aggregator and the aggregator wants to trade inside the spread. So if we can do the same, then our client order will be filled efficiently as well.

Kimberley Flynn: Thanks Mark. We have another good question. So if the costs have been shifted away from shareholders to the fund sponsors, the question is, do we think that the fund sponsors can be even more effective in driving down the costs of launching an IPO?

I think that if we reflect on the fact that some of the largest costs are legal costs and organizational costs, in addition to the load that's paid, I think that my reflection is that there's actually a lot of efficiency already. But do you think that fund sponsors are going to be more motivated now to try to drive down costs in terms of launching an IPO? I think maybe, but I'd be interested in what you guys think in terms of those expenses.

William Meyers: Yeah, I would say from Nuveen's perspective we've always tried to be efficient with the expenses we occur on IPOs. Certainly with the new post-COVID model, we're all learning how do to business differently and it's obviously a lot cheaper to reach people on a phone call then it is to visit the office, but the trade-off is it is effective. So I think it's driving some efficiencies now and I think it's helpful for issuers to have this model, but again we'll see what happens once it opens up, and is there going to be a more hybrid approach to doing these IPOs once the world reopens?

Kimberley Flynn: Okay, we've got a great question I think I'll try to end on this one. The question is about the new 2.0 structure. And if we define the 2.0 closed-end fund structure to be a closed-end fund with a term feature and also a closed-end fund with the upfront cost and load paid by sponsors not shareholders, I think the judgement is still out in terms of performance because some of these newer closed-end funds have only been in the marketplace for 12 to 18 months, some less.

So the question is, is this going to really drive performance in the secondary market? Some of them, a handful of the new 2.0 structures have not performed very well. So let's go back to fundamentals in terms of what ultimately drives price and NAV performance for closed-end funds? Obviously these features are helpful but they're not going to be a cure-all for poor performance. Any thoughts on that question about the 2.0 structure and performance in the secondary?

William Meyers: I think the NAV is going to go where it needs to go because it's going to follow the underlying asset classes. I think to the extent that issuers put together a product, that that product performs well on a NAV basis, and maybe that the shareholders recognize the value of the structure, the value of the cashflow, the value of income.

The hope we always have at Nuveen is that through the efforts of the portfolio team but also on the secondary market side, we get out the word and we continue to sell a product even after the primary market. The hope we always have is that that will tighten up the trading spread. Because ultimately we'd love to be in the market again, but if products don't perform well or if they perform poorly consistently over the secondary market and don't deliver, it makes it challenging for all of us to come back to the primary market again.

So I look at this even though we compete at Nuveen with a lot of different sponsors, I think we're all in the same market together. So it's important to all of us that the secondary market does well because it does lead to the ability to raise additional capital with other offerings that could be pretty interesting in the future.

Kimberley Flynn: Mark or Andy, any thoughts on what you guys see driving successful trading of closed-end funds? Is it the higher level of distributions? Is it total return? What do you think over time? I mean, once we have more than 12 to 18 months of observations, what do you think's going to drive performance here?

Marc Loughlin: I think it depends on sort of the asset class because there's different types of investors. I think institutional investors are still driven by discount, but if we go outside of that, generally it's yield, total return, and the lowest sort of risk point on that X curve that you can get that yield. So people in the space do gravitate toward yield, and generally they're quite asset ambivalent.

We're seeing int he last month or two, MLP funds are not recovering along with the rest of the market, and there's a structural reason for that and people are being sensible and aware of it. But I would say if I go outside of the institutional realm into the more retail realm, most of those conversations are about yield and the sustainability of that yield. So if the PMs are running their strategies correctly and performance is coming, then the secondary market comes behind that and can do so efficiently.

Kimberley Flynn: Great, thank you Mark, and thanks Andy, Neil, and Bill, we're so pleased to have you on this panel. I do believe a replay will be available, so thank you so much to everybody for the time today.

Recorded on August 13, 2020.

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