



Prosek's Schaffer Says Communications Can Sway Shareholder-Activism Cases

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Chuck Jaffe, in The NAVigator podcast, interviewed Brian Schaffer, managing director at Prosek Partners – and head of special situations for the public-relations firm. Read the Q & A below as Brian and Chuck discuss the changing face of shareholder activism for closed-end funds, and the role that communications has in helping investors measure the relative merits of any deal that pits fund management against shareholders making a move to take control.



Brian Schaffer

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

CHUCK JAFFE: Brian Schaffer, managing director at Prosek Partners is here, and we're talking communications in activist investment situations now 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, 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 will point you in the right direction. Joining me today, it's Brian Schaffer. We talk about who's part of the AICA, Brian is managing director at Prosek Partners, which in my industry people would say that's

a PR firm, and they are, but they do a lot more other types of counsel as well. Brian, he oversees what would be called 'special situations' for the firm. And special situations, well when you work with the closed-end fund industry, that's where you're dealing with activist investors and what they are doing and how do you manage some of the communications that go on during activist campaigns. And it's not just what's going out to shareholders, it's how are you dealing with the activists? If you want to learn more about Brian and Prosek, go to Prosek.com. You can follow the firm @ProsekPR on Twitter, you can follow Brian on Twitter @BHSchaffer. You can learn more about investing in closed-end funds and business-development companies at AICAlliance.org, the website for the Active Investment Company Alliance. Brian Schaffer, welcome to The NAVigator.

BRIAN SCHAFFER: Thanks Chuck, I appreciate you having me on your show today.

CHUCK JAFFE: I'm really glad you're here, because on The NAVigator we have had a number of folks from all sides of the industry talking about activist investing. You're a bit in the middle, so let's start first with your perspective, because there's been a lot of talk about regulation and regulatory actions that have made it harder on activists. But for you, I know that some of the activist activity is changing, so explain first what you see happening, and then we'll get into your role and how communications is so key.

BRIAN SCHAFFER: Yeah, happy to do so. First I'd say that I don't necessarily know that I've seen all that much change. Certainly there's been a lot of talk since the spring when the SEC decided to withdraw the Boulder Letter, but in reality or as far as what's actually taking place on the ground, I think the impact so far has been largely muted. And I think that's born out when you look at the number of campaigns that have been launched this year, certainly in contrast to more recent years, we really haven't seen so much of a pullback to suggest that people are really taking heed of the impact of the Boulder Letter. Yes, we have seen some funds, particularly those in the M&M states, Massachusetts and Maryland, who have opted in to the Control Opposition Statute. But to your point, Phil Goldstein and all these other guys, Saba's and the Karpus' of the world, they're still out there. They're still launching campaigns one after the other, so I'm not seeing the slowdown just yet.

CHUCK JAFFE: Not everybody in the audience is going to necessarily go, "The Boulder Letter, oh I remember it well." Quickly give us the dime store tour on what that actually did and what it was supposed to change.

BRIAN SCHAFFER: Well, the Boulder Letter came out probably about 10 years or so ago, I think it was in 2010. And the intent at the time, which was certainly understandable, was to look at what was happening in the sector more broadly. There was a lot of encroachment at the time from ETFs, and we've certainly seen that. And we started to see a lot of the closed-end funds shutting up shop, they were no longer palatable shall we say, for certain investors, particularly in the retail. And there were other avenues for those types of investors, again, exposure to less liquid assets. And so I think as a preservation tactic for the industry as a whole, the Boulder Letter was put into place. Again, that was really for preventative purposes for the sector as a whole. Now things have certainly changed over the last 10 years, but one thing that hasn't changed is the number of closed-end funds has only gone down. Now the assets have relatively maintained some stability, but overall the number of funds has in fact declined, so there is some real reason for the Boulder Letter to have been implemented when it was.

CHUCK JAFFE: And as you said, there was an expectation that activism would decline, but in reality what seems to have happened more, is that the way activists were engaging has changed. Now you on the PR side of things, well, you're working with the fund company on what their messaging going to be and how they're going to deal with an activist campaign. So what's been changing about the way activists do their business, and how you strike a balance?

BRIAN SCHAFFER: So I think what's changed over the last several years than what we saw historically is that the size of the positions the activists are running up are much different. In the older days so to speak, you would see positions certainly over 5%, but really top out in the high single digits. When you see something hit 10, 11, 12%, everybody would take notice. Now nobody sort of blushes when you see a position in the high teens or low twenties and even higher. And of course when you factor in the impact of mirror voting, all of a sudden an activist is wielding a lot of strength that they necessarily didn't always have. Now if you take away the impact of the Boulder Letter and funds opting into the Control Share Acquisition Statute, they're still able to run those positions upwards of 10% depending on the state, which doesn't limit activism. But what it does do is it makes it a little bit more incumbent on the activist to work with other investors to have that influence, because obviously a 25% position is much different than an 8% position.

CHUCK JAFFE: So many individual investors get into closed-end funds going, "Hey, if the discount gets big enough, I want to see an activist investor come in." But when you're working with the fund companies, they don't necessarily want to see that happen. How do we strike a balance and how do you explain to somebody that activist investing is good but not all activist situations are great for you as an individual shareholder in a closed-end fund?

BRIAN SCHAFFER: I'd say two things there. One, it certainly does matter what the activist issues are. A lot of times they do have a shorter duration, a shorter timeframe. Not to say that all activists are coming into the stock and then launching a campaign weeks later. In many instances you see these funds in there for upwards of a year, in some instances if not longer. What you have to do is measure their time horizon against, let's say, other institutions or retail investors who have been in the fund for a longer period of time. The other thing I'd say which I think is a bit more important, especially from the retail perspective, is making sure that the fund has consistent engagement and communication with its shareholders. By that I mean making sure and going beyond just sending out the requisite filings and quarterly letters, but making sure that they understand and are constantly reminded of the funds of the investment objectives. Understanding if there are discount mitigation efforts in place, what those are and how those are working. Because if you're communicating effectively with your shareholders, they'll understand, "Hey, at certain periods of time I can expect the gap to potentially widen as a result of what's going on in the broader economy. However, I also expect that gap to narrow because of the fact the objective fits a certain timeframe a bit differently, or the management team is doing something to actually narrow that gap on a proactive basis." What that helps you do is when an activist does come along and says to not just the company but other shareholders, and they say, "Hey listen, these guys are underperforming, we need to open-end the fund or liquidate it, or whatever issue they're going to put forth. You can have your shareholders really be the ones who are defending you and saying, "Wait, we understand this is going to happen. We're comfortable with what's going on. Again, we know management has plans in place to narrow that discount. We understand the fund investment objective and we're not going to support the activist." That's the best defense. Rather than the company having to come out and doing so and saying, "Oh, but wait, we told you this was going to happen and that was going to happen." Having that third-party endorsement from your own shareholders is the best way to go.

CHUCK JAFFE: Brian, really interesting. Thanks so much for joining me, I know we'll talk about it again probably when we see interesting activist situations happening in the closed-end fund space.

BRIAN SCHAFFER: Appreciate you having me on the show, Chuck. Thank you.

CHUCK JAFFE: This has been The NAVigator, a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I am Chuck Jaffe and you can check out my podcast 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 Brian Schaffer, managing director at Prosek Partners. Follow him on Twitter @BHSchaffer, the firm is @ProsekPR and online at Prosek.com. The NAVigator podcast is available every Friday, we hope you'll subscribe on your favorite podcast app and join us again next week to learn more about closed-end fund investing. Until then, stay safe everybody.

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