



## Closed-End Fund Expert Fertig Says Values Now Are More 'Relative' Than Ever

Friday, February 19, 2021

Chuck Jaffe, in The NAVigator podcast interviewed Maury Fertig, chief investment officer at Relative Value Partners. Read the Q & A below as Maury says the market's rebound from a year ago has made it harder to find closed-end issues worth buying and holding now, but he says there



Maury Fertig

are selected opportunities still worth pursuing. He suggested that floating-rate funds and credit funds will continue to perform well, and that closed-end funds still offer value from a discount level, but with discounts narrowing, investors should look at cutting back. He also discusses closed-end funds as an alternative source of yield, why he never buys at a premium and more.

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

**CHUCK JAFFE:** Maury Fertig, chief investment officer at Relative Value Partners is here to talk about the wild ride closed-end funds have been on for the last year and where he thinks they go next. This is 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. Today it's pointing us in the direction of Maury Fertig of Relative Value Partners, a Chicago based money management firm that typically has about 40% of its client assets invested in closed-end funds. Maury agreed not only to speak to me on The NAVigator but to participate in a part of my show called the *Money Life Market Call*. That's a specialized interview on selecting and managing investments, and that interview will be out as a bonus episode of The NAVigator next week. Here and now however, we're going to get Maury's take on where closed-end fund investing stands after one of the most tumultuous years of market activity they've ever experienced. Maury Fertig, thanks for joining me on The NAVigator.

**MAURY FERTIG:** Good to be here.

**CHUCK JAFFE:** Of all the folks who run advisory firms that I know, you are one of the few who really puts a majority of your focus into closed-end funds. It's the space where you are particularly comfortable and so I know that your concentration in closed-end funds varies a lot based on what are the market conditions, what are the discount levels at, etcetera. Well we've been through a crazy year. I mean 12 months ago this week the market was about to enter this huge swoon that crushed closed-end funds.

**MAURY FERTIG:** Right.

**CHUCK JAFFE:** How much has that changed things for you? How much did that, as somebody who uses closed-end funds a lot, how much did that make you juggle, change, move portfolios and rethink strategies? And then where are you now in terms of your wading in closed-end funds?

**MAURY FERTIG:** Well if I think back to early 2020, we were in the process of selling closed-end funds because they were getting expensive based on historical measures. So we were in this trimming mode, and then when things got beaten up as bad as they did in March and April, we started to add more closed-end funds back. So we had a pronounced cheapening that took place over really a couple weeks in March, and it's been a slow and steady grind to together discounts since then. Although we started the year, closed-end funds going back to about 1990, they are richer than they are today about 70% of the time. So they still offer value from a macro level, from a discount level. As discounts get tighter, we'll continue to trim but we're still seeing selective opportunities to buy.

**CHUCK JAFFE:** It's Relative Value Partners, and of course 'relative' is a word that's in the eye of the beholder. But of course people turn to closed-end funds for fixed-income and right now I've had more people on my show warning about fixed-income going forward than I have in ages. Between lower for longer, the potential for inflation to be creeping back in, the inability of bonds to necessarily going forward deliver what folks have expected. Everybody's talking about maybe 60/40 doesn't work, maybe it should be more like 80/20, something along those lines. And where are they going to get that? They're going to be looking for alternative sources like closed-end funds. Is the structure something that is going to make it that people who might otherwise be doing bonds in traditional bond wrappers will now get their extra yield or their extra return by going to closed-end funds? Is that something that you've got to do because of what the bond market's not giving you right now?

**MAURY FERTIG:** I think that's very well said. If you take a look at the broader bond market, whether it's munis or Treasuries, you're talking about yield levels in the 1%. In intermediate investment grade corporates you're talking about 1% or less. So closed-end funds, one of the areas that's worked to its disadvantage back in March 2020, but right now it's working to its advantage. A lot of the funds employ leverage to get extra yield. And one thing is certain, the Fed has made it clear that they're going to keep short rates low. And right now if you look at futures, prices and rate increases in 2023. That can change. But the last thing they're going to do in this, the tenure note can cheapen up, yields can rise, the curve can steepen, but I'm pretty confident for the near-term Fed's going to keep rates at zero. That allows some of these closed-end funds to have really attractive funding. They're funding at well under 1% and they're using those borrowings to buy things like particularly in floating-3rate loan funds. So the thesis is the economy's recovering, rates might rise, that'll put a lid on credit. Credit will continue to perform well and there's a real opportunity in the floating-rate sector in particular, and closed-end funds are a great way to get exposure there.

**CHUCK JAFFE:** One of the things you have said before is that you would never buy closed-end funds trading at a premium. Obviously after what we saw happen last year when the market tanked and everything was being hit, premiums for most funds are still a good ways off. But help everybody understand why if you're looking at relative value, a premium is never going to be a good relative value.

**MAURY FERTIG:** Yes, so whether it's a bond fund or a stock fund, in most cases there's a net asset value published every day and that's the value of the stocks and the bonds in the portfolio. So our value proposition is at times if I can buy a dollar's worth of assets and pay 85 cents for them, there's a number of good things that can possibly happen along the way in that scenario. One is the discount can tighten up. Two is I have less dollars working on more assets. I've a little leverage just from the fact that I'm buying it at a discount. At a premium there has to be some unique factor that you're willing to pay more for those assets, and it's really proven to not be a good long-term idea to buy assets, pay a \$1.10 for a dollar's worth of assets. And that's essentially what you're doing at a premium. A lot of times that can happen if there's a fund that has a very high distribution rate so people might be kind of lulled into this high sense of high yield, but essentially they're getting a return of capital back so over time that's not going to work very well.

**CHUCK JAFFE:** One of the other things that we've seen in the closed-end fund space is an expansion, sort of more assets coming in under the closed-end fund umbrella, more types of funds being done. Do you look at some of the new entries, some of the places that you can maybe go a little easier now with closed-end funds that you could a couple of years ago and like the expansion? Or are Johnny-come-latelies not necessarily building the kind of products that you're that interested in?

**MAURY FERTIG:** Well I'm concerned about the newer funds that come, they may come right around net asset value. Our real concern is they're predominantly sold to retail investors initially, and if we do get a big interest rate shock like we had with the Taper Tantrum in 2013, those closed-end funds could have a really precipitous drop as they did. The new issues are most vulnerable because they're in, call it weaker hands for the most part. Because these funds that were bought by investors for their yield, and once the prices goes below what they paid for there does tend to be a tendency for that accelerate the losses in those funds. So we tend to avoid newer funds until they've had a seasoning process, it might be six months, it might be a few years. It depends on the fund but we tend to avoid new funds.

**CHUCK JAFFE:** Maury, thanks so much for joining me to talk about it.

**MAURY FERTIG:** Anytime. Glad to be here.

**CHUCK JAFFE:** The NAVigator is a joint product of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I am 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, Maury Fertig, chief investment officer at Relative Value Partners which is online at RVPLLC.com. Maury's interview for the *Money Life Market Call* will be published as a bonus edition of The NAVigator on Monday, February 22<sup>nd</sup>, please look for it. With the exception of special extra interviews, The NAVigator podcast is here for you 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.

*Recorded on February 18th, 2021*

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