



Finally, ESG Investing Gains A Foothold In Closed-End Funds

Friday, April 23, 2021

Chuck Jaffe, in this episode of The NAVigator podcast interviewed Michael Spatacco, director at Bancroft Capital. Read the Q & A below Michael discusses how ESG investing – for environmental, social, and governmental factors taken into consideration – is starting to gain a foothold in the closed-end funds with the opening of a new issue from Nuveen that he has been an adviser to. He expects the trend to continue as the closed-end fund space more fully reflects the



rest of the world, which has seen tremendous movement of monies into 'social investments.'

Michael Spatacco

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

CHUCK JAFFE: Today we're talking ESG investing, social investing, or investing with a bigger agenda, but in closed-end funds. And we're doing it with Michael Spatacco, director at Bancroft Capital, welcome to 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'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 Michael Spatacco, whose role in all of this is a little bit different. He's both part investor but also works for companies that get involved in doing some of the underwriting on funds. He's director at Bancroft Capital, if you want to learn more it's Bancroft4Vets.com. And by the way, if you want to learn more about investing in closed-end funds, interval funds, business-development companies and the rest, go to AICAlliance.org, the website for the Active Investment Company Alliance. Michael Spatacco, welcome back to The NAVigator.

MICHAEL SPATACCO: Thanks for having me back, Chuck. Glad to be here.

CHUCK JAFFE: ESG investing, social investing, and I hesitate to call it that because it somehow makes it seem like the rest of investing is anti-social. But ESG investing where you use environmental, social, or governance screens to try to do well while doing good or do good while doing well, however you want to phrase it, has been hugely popular, growing in all realms of the investment world. But in closed-end funds it's really been lagging behind. It's like if you want to invest in closed-end funds, it's just been hard to be a social investor. That's starting to change with a fund that you've had some involvement in, so let's talk about the need and what's going on.

MICHAEL SPATACCO: Yeah, so obviously the need is there. I think the clients have spoken and there's a true momentum behind ESG, and it's a great thing. But like you said, in closed-end funds it had been something that hadn't drawn a similar level of focus. Other sectors, municipal bonds specifically had been a leader there because of green bond initiatives and so many communities wanting to drive that needle. But in closed-end funds we just recently have seen a dedication to it. Nuveen's bringing a fund this month, the Nuveen Core Plus Impact Fund that we are a co-manager to, and it is the first ever fixed-income closed-end fund dedicated exclusively to ESG and impact-driven investments.

CHUCK JAFFE: In terms of ESG in a closed-end fund structure, it shouldn't be that difficult to achieve because it's not like closed-end funds are necessarily trading and doing a lot of that sort of stuff. It's basically, before we start to consider what are the assets that we're putting in, we're going to add some screens to say, does this fit with the things that we're looking at,

correct? Is there anything else that goes in as you're trying to do this? Is there any specific difficulty bringing this to closed-end funds?

MICHAEL SPATACCO: You're exactly right. There are a bunch of specific screens and the idea is you just have to do them first. If you're composing a portfolio, if you've already put it together and you've invested in all sorts of things, say weapons, tobacco, ammunition, whatever it is that might not fall into these screens, it would probably be difficult to unwind a portfolio and then reinstall things in a secondary capacity that would meet these metrics. But if you go out with the idea of having ESG in the portfolio from the outset, you can create a portfolio pretty easily. And having just spoken to some of the portfolio management team, they're an industry leader with \$16 billion in fixed-income, ESG in other vehicles already. So they have an understanding of how to deploy this kind of capital and it will be very interesting to see how it does in the marketplace because I believe there's a strong demand.

CHUCK JAFFE: Well, it's interesting that you talk about the strong demand. And we go back, when I gave your website it's Bancroft4Vets.com, because you have a huge focus at Bancroft Capital in your work that you're doing for and with veterans. I bring this up because when it comes to the social investing space, one person's social is another person's anti-social. You talked about well, gee, is it weapons, is it this, is it that? In the early days of social investing everybody had to decide what was their thing, right? Because you'd have some funds, and this is open-end funds that were the first of the social investment funds, or what was called socially responsible funds back in those days, that would be we invest in the government because the government funds the arts. And others would say, we don't invest in the government because the government funds the war machine. So as somebody who is looking with a group of veterans, where veterans can be very diverse in what they want, what do you do when okay we've got this new fund from Nuveen but we still don't have a lot of choice? Is this something that you expect we're going to wind up seeing a lot more ESG in the closed-end fund space? Or do you have to tell your investment clients, "You know what, if you really want ESG and this new thing doesn't fit you, you maybe have to decide I want ESG or I want closed-end, because at least for the time being I can't get them together."

MICHAEL SPATACCO: I would be very surprised if this were the first and last. I have seen organically in my position here, growth of ESG in already talked about munis, but money market funds. That's been the underpinning of what I do for a very long time here as director

of cash management, and we're starting to see specifically dedicated money market funds, government funds, and others that have more of an ESG slant. And then we're starting to see some that are exclusively ESG, and that's new. So we're starting to see it penetrate new components of the market and CMBS as well, but really it's going to hang its hat on the affordable housing, it's going to hang its hat on green projects and projects that have a direct benefit back into the communities that are underwriting them, and those types of projects are not shrinking. I think the potential for growth in those sleeves is huge, which means you're going to see more issuance and so more bonds will fall into the categories of ESG and make it theoretically easier in the future.

CHUCK JAFFE: There's always been this argument, can you be a little bit social? Can you say, "Hey, I've got a social investment here but all my other ones, they don't care." Like I care about the environment when I'm buying a growth fund but I don't care about it when I'm buying emerging markets, or something along those lines. Like you can't really be a little bit pregnant, you can't necessarily be a little bit social. So will we see an evolution where you're telling people, "Look, you can be social, go put your money here." Or are you going to be telling people, "You know, you've been in other funds, I know you have this interest, we want to move." Because moving is not easy. Moving can be taxable events, moving can be what's happening with your discounts in closed-end funds, all that other sort of stuff. So where somebody might move in other parts of the world, will they do it in closed-end funds?

MICHAEL SPATACCO: I believe so. I think what we've seen is you don't have to sacrifice return for an ESG investment philosophy. And so if you're getting something that is in line with, from a return perspective, the alternative, and it also makes you feel better, whether it's from a future return standpoint or prospect of dividends standpoint, or just the I feel good about what I'm investing in. Sometimes if you buy a stock of a company that you really like doing business with and you view them as an underdog, it may give you a little bit of extra good feeling. And so if that's one of the things that people would like to accomplish with their investments, this gives them a nice opportunity to do so.

CHUCK JAFFE: Michael, really interesting. Thanks so much for joining me to talk about it.

MICHAEL SPATACCO: Thank you very much, 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 and you can learn more about my

weekday hour-long podcast on your favorite podcast app or by going to MoneyLifeShow.com. To learn more about interval funds, closed-end funds, and business-development companies go to AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. And we're wishing a speedy recovery to John Cole Scott, the Active Investment Company Alliance's founder and executive chairman who's recovering from surgery. Thanks to my guest, Michael Spatacco, he's director of cash reserves at Bancroft Capital which is online at Bancroft4Vets.com and on Twitter @Bancroft4Vets. The NAVigator podcast is new every Friday, follow us on your favorite podcast app and join us again next week to learn more about closed-end funds. Until then, stay safe everybody.

Recorded on April 22rd, 2021

To request a particular topic for The NAVigator podcast please send an email to: TheNAVigator@AICAlliance.org

Click the link below to go to the home page of Active Investment Company Alliance to learn more: <https://AICAlliance.org/>

Disclosure: *Listed closed-end funds and business development companies trade on exchanges at prices that may be above or bellow their NAVs. There is no guarantee that an investor can sell shares at a price greater than or equal to the purchase price, or that a CEF's discount will narrow or be eliminated. Nonlisted closed-end funds and business development companies do not offer investors daily lliquidity: often on a small percentage of share on a quarterly or semi-annual basis. CEFs often use leverage, which can increases a fund's risk or volatility. The actual amount of distributions may vary with fund performance and other conditions. Past performance is no guarantee for future results.*