



Less Opportunities To Generate Income Requires Creative Solutions

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed Michael Ordonez, director of client portfolio management at Thornburg Investment Management. Read the Q & A below as Michael says that the biggest issue income investors face today is economic dynamics that are



leading to a 'very difficult sustained income demand landscape, with less and less opportunities to generate that income.' That situation led Thornburg to enter the closed-end fund space for the first time with the Thornburg Income Builder Opportunities Trust, a new fund that uses the new commonplace pricing structure, which Ordonez describes as 'Closed-End Fund 2.0' thanks to enhancements that should make the investing experience better for investors.

Michael Ordonez

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CHUCK JAFFE: Michael Ordonez, director of client portfolio management at Thornburg Investment Management is here, and we're talking about a new fund and a new fund structure 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, which is 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 it's pointing us in the direction of Michael Ordonez, director of client portfolio management at Thornburg Investment Management. Now Thornburg, a well-established mutual fund company, recently launched its first closed-end fund. That's the Thornburg Income Builder Opportunities Trust, it's ticker symbol TBLD. The fund launched with a little bit under \$600 million in assets, and today it's got about \$615 million in assets. But the launch, it's an interesting one for people in the closed-end fund industry because, one, you've got a new company coming into the industry, but it's also that they're using what's called the commonplace pricing structure to do their strategy. That's the new thing that we want to talk about, and if you want to learn more about what's involved and everything we're talking about here, you want to find out about TBLD, the Thornburg Income Builder Opportunities Trust, it's Thornburg.com. And if you want to learn more about closed-end funds, and business-development companies, and interval funds generally, go to AICAlliance.org, the website for the Active Investment Company Alliance. Michael Ordonez, thanks for joining me on The NAVigator.

MICHAEL ORDONEZ: Chuck, it's a pleasure to be here. Thank you for having me on.

CHUCK JAFFE: I think I know the chicken and egg thing here. I know which one came first for you guys. Which is the strategy, the commonplace pricing structure had to come first for Thornburg to say, "Hey, there's an opportunity here." Correct? And if so, explain a little bit. We don't want to get lost in the jargon but this is a difference and it's one that you guys felt was important, right?

MICHAEL ORDONEZ: Most certainly. Chuck, as you know we've been based in Santa Fe, New Mexico since our founding in 1982 by Garrett Thornburg. We really believe in taking a long-term view, and that long-term view we think produces the best client outcomes. We manage roughly \$50 billion for our clients with over 250 professionals globally, and we're really thoughtful about product development. We started looking at the new closed-end fund structure in 2019 and really liked the changes to the expenses that has been made to benefit the clients and the new term structure. So if you remember in the closed-end fund 1.0 structure, underwriting and offering fees were paid by the fund, financial advisor commissions were paid by the fund, and upfront fees caused an immediate NAV decline following the IPO. Now with the 2.0 structure, we believe that it's much better aligned with

our clients with underwriting and offering fees paid by the advisor, financial advisor commissions paid by the advisor, and NAV pricing with a term structure where it gives a mechanism for investors to exit at NAV, in our case at the end of the 12-year term. We just believed that was very much in line with what we're trying to do with our client base, which is to think about time arbitrage and recency bias and use that to our advantage the same way that we have done for the last 40 years.

CHUCK JAFFE: Let's make sure that folks understand some of what's packed into there. Because we're not used to hearing about income-builder strategies, which might be using dividend stocks, etcetera, and hearing about discounts, and then also hearing about a term and what that means. Basically this is a fund that at the end of 12 years if it's trading at a discount, the fund will open-end or dissolve at the NAV, the net asset value. The fund has a set lifecycle and you know when you reach the end of it that you're getting paid and things are wrapping up.

MICHAEL ORDONEZ: That's correct. The fund will have a 12-year term and the initial price of that was \$20 per share. The trust is going to pay monthly distributions and we're generating that income by investing in a mix of global dividend paying companies and diversified fixed-income opportunities. And as I mentioned, investors have not paid that sales load, Thornburg paid all up-front costs including the financial advisor sales load. Which is in line with that new 2.0 structure, that meant that the clients participating in that IPO invested at the initial NAV of the full \$20 per share.

CHUCK JAFFE: It also means that with a closed-end fund structure you don't have to worry about the distributions and some of the other things, that they're not necessarily an enormous problem but they're kind of more of an annoyance or a bit of a management handicap on a classic fund, correct?

MICHAEL ORDONEZ: That's right. The biggest issue that clients are facing right now is really the structural and economic dynamics that are contributing to what we believe will be a very difficult sustained income-demand landscape with less and less opportunities to generate that income. So we want to be focused on really developing that income for our clients.

CHUCK JAFFE: So let's turn the discussion to the fund and developing that income, because in your classic funds that's what Thornburg's been known for. These times have provided

challenges when it comes to generating income. Is the new fund a better way to deliver income to some extent than the classics?

MICHAEL ORDONEZ: We certainly think so. And what I would say is what worked decades ago, Chuck, owning bonds several hundred basis points above inflation has systematically been undone by a secular decline in bond yields. And with weakening global growth, with rising inflation, with central banks likely to maintain a low to negative interest rate environment for the foreseeable future, we think that global central banks are going to continue to compete with that private investor for that available supply of bonds. And with a global central bank policy rapidly assuming ever greater share of their government's debt, that's applying serious pressure on bond yields. I just read something today that 85% of all US high-yield is yielding less than US CPI currently, which is a staggering statistic to think about. Growing negative yielding debt globally is now at roughly \$12 trillion off of the highs of about \$18 in December. So with global markets increasingly interconnected, that rise of negative interest rate has substantial impact on risk assets globally. So we believe that having all available tools at your disposal is going to be very, very important to deliver that yield to clients over the course of the next decade. So combining a lack of available income opportunities with a portfolio that's designed to act as a protection to that inflation rising, a protection with a cyclical value-oriented strategy, we believe that TBLD really offers that to client with a mix of equities, fixed income, and yield enhancement strategy through options overwriting.

CHUCK JAFFE: And of course it benefits from the structure we've talked about, and makes it particularly interesting for folks who are looking for that kind of option in the closed-end space. Michael Ordonez, this has been really interesting. Thanks so much for joining me to talk about it.

MICHAEL ORDONEZ: Chuck, thanks for having me.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. That's me, and you can check out my hour-long weekday show on your favorite podcast app or at MoneyLifeShow.com. To learn more about interval funds, closed-end funds, and business-development companies go to AICAlliance.org. That's the website for the Active Investment Company Alliance, they're on Facebook and LinkedIn @AICAlliance. Thanks to my guest, Michael Ordonez, director of

client portfolio management at Thornburg Investment Management. Learn more about their first closed-end fund, TBLD, the Thornburg Income Builder Opportunities Trust at Thornburg.com. They're on Twitter @ThornburgFunds. The NAVigator podcast is new every Friday, ensure you don't miss anything by subscribing via your favorite podcast app. And if you like us, please leave a review, they really do help. Until we do this again next time, happy investing everybody.

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