



## Taggart: Closed-End Funds Struggled And Discounts Widened During 1Q

Friday, April 22, 2022

Chuck Jaffe, in this episode of The NAVigator podcast interviewed Mike Taggart of Taggart Fund Intelligence – executive director of the Active Investment Company Alliance. Read the Q & A below as Mike reviews the first-quarter results for closed-end funds, noting that discounts widened out during a rough period for the market, reaching a crossroads where investors are trying to decide now if the discount has hit a level low enough to represent a good risk premium and a buying opportunity. Taggart also discusses interval funds, the focus of an upcoming AICA



Mike Taggart

educational event, and how the growth in the space is giving investors interesting opportunities in alternatives.

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

**CHUCK JAFFE:** Mike Taggart, founder of Taggart Fund Intelligence, the executive director of the Active Investment Company Alliance is here. We’re talking about how closed-end funds performed during the first quarter of the year 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's going to point you in the right direction. And today, while we're heading in the direction of how did the closed-end fund space do during the first quarter, but we're going to do more than that. And we're doing it all with Mike Taggart, the founder of Taggart Fund Intelligence, and the executive director of the Active Investment Company Alliance. To learn more about the Alliance and closed-end fund, and interval funds, and BDCs, you go to [AICAlliance.org](http://AICAlliance.org). To learn more about Taggart Fund Intelligence, it's [TaggartFundIntelligence.Substack.com](http://TaggartFundIntelligence.Substack.com). Mike Taggart, it's great to have you back on The NAVigator.

**MIKE TAGGART:** Hey, thanks for having me, Chuck.

**CHUCK JAFFE:** Mike, first quarter, plenty of stuff going on, even before the war in Ukraine broke out. We had plenty of things going on in the first quarter, and that was even before we saw war break out in Ukraine. Heightened inflation, the highest levels we've seen in years, decades. Rising interest rates and the first moves up that we'd seen in quite some time. And then we had war and more. How did closed-end funds, interval funds, business-development companies weather that storm, not only just in general, but also relative to the rest of the investment world?

**MIKE TAGGART:** What we saw with closed-end funds in the first quarter was pretty much what you just described for everything else, but especially on a NAV basis with the underlying securities performing right along as you would expect with the underlying markets. But what we saw was discounts widen, which means the prices on most closed-end funds performed even worse than the markets in general. Really the only segment that we saw that was positive were energy-related MLP funds and some real asset firms as well. The worst segment performance came from municipals. I think the average municipal fund on NAV was down about 10%, and on a price basis was down about 15%. So we've seen, especially on December 31st, we saw a lot of closed-end funds trading at very tight discounts or even premiums to their NAV. Right now we're seeing about a third of the universe is trading with discounts that are double-digit discounts.

**CHUCK JAFFE:** That doesn't really feel like a buying opportunity even though it might be. It doesn't feel like a buying opportunity at a time when you've got the economic conditions we're talking about. I mean, muni funds and bond funds in general are going to suffer when

rates are rising, which we expect them to keep doing. They're going to suffer during high inflationary times, which we expect to keep having. So this may be a case where although the discounts have widened, they could get worse from here, right?

**MIKE TAGGART:** Yeah, I mean, that's always a potential. What you're seeing a lot with the prices and why the discounts have widened out, is that the prices I think are reflecting just exactly what you said, investors are trying to get ahead of the NAV. And you're not getting a lot of buyers coming in to support the price because of expectations that things are going to get worse. And so we're at kind of a, I don't know, maybe a crossroads right now. At some point discounts, historically how it works is you're in a cycle and everybody kind of overshoots and it narrows discounts or even premiums, and then everything reverses. But at the bottom, or near the bottom, people are like, "Okay, well the discounts now represent a good enough risk premium for me, margin of safety, to get in. I feel comfortable getting in at a 10% discount," or a 15%, whatever it is for the individual investors. Also the income typically, because the price is falling, then that distribution rate on price tends to go up, and so there's some security that gets offered there as well.

**CHUCK JAFFE:** One of the other changes that we've seen is that these conditions have people more than ever turning for alternatives, and interval funds have really become much more of an active part of the conversation. Now they're always part of our conversation on The NAVigator, they're always something that you guys are talking about at the Active Investment Company Alliance, but it certainly seems, at least empirically, that we've had a lot more stuff going on with interval funds. Now you have stuff going on with interval funds, in fact, I'll be involved in it, in that next week AICA is sponsoring an interval fund event. So let's talk a little bit about the action in the interval fund space, and then give everybody a little bit of a preview of what you have planned.

**MIKE TAGGART:** Certainly. So interval funds invest in alternative assets, and historically alternative assets have offered lower correlation, so better diversification, but lower correlation to traditional securities, so to stocks and bonds, right? And you've had many guests on, even just in the past few months, talking about interval funds. So on the private equity side, they're investing in mid-market sized companies that aren't publicly listed, that investors, typical retail investors generally don't have access to. And I think a lot more people have gotten comfortable with interval fund structures, they understand the strategies that

are being run in them. And like over the last five years, the industry as a whole has increased total managed assets on a 32% compound annual growth rate to the point where we now have 75 funds managing about \$60 billion in total managed assets. So that just kind of shows, I think, the willingness of an increasing number of investors and their advisors to consider and put money into these types of funds.

**CHUCK JAFFE:** In terms of the Active Investment Company Alliance event that's coming this week, which I will be moderating one of the panels, what have you got planned and are there particular subjects that you think people are going to be more attuned to right now?

**MIKE TAGGART:** So we have a two-day event, it's on Tuesday and Wednesday, the 26th and 27th, afternoon from 1 to 4 Eastern time each day. All of our events, Chuck, aren't about pulling out the pompoms for individual funds. They're fund managers, they're experts in what they do, they talk about the structures themselves and what that offers to investors. So the first day we're going to hear from private equity firms, the second day we have a private credit panel. So people that are concerned about duration risk and that sort of thing, they can hear about that is less correlated in the private space by tuning in on those panels.

**CHUCK JAFFE:** Because interval funds are something that more people are taking, they're still kind of learning how to use them the right way. They're still trying to learn what role interval funds can and should play in a portfolio and how much diversification they need. And I know that that's not really the focus of the event, but for you, having been in the closed-end fund industry for so long as an observer, when you're looking at interval funds do you like the way most people are using them as that alternative? Are certain things exciting you? Because we're seeing a lot of growth in that space, but growth sometimes is growth because, hey, I think I can make some money, now growth because I think this is good for the end user and how people are using the funds.

**MIKE TAGGART:** The growth though in total managed assets just shows that more investors are getting more comfortable with that. And my big thing is that investors need to understand always whether they're investing in a mutual fund, an interval fund, closed-end fund, BDC, whatever. They need to understand first and foremost the structure of the fund, and then what exactly that fund invests in. Education's always paramount. So I do think that's one of the benefits of our event, is explaining to investors and advisors how these funds can properly be used in a portfolio, and the benefits that could be derived from them. The big,

potentially spooky word, is alternative assets, right? Until you realize what they actually are. They're not so alternative after all. Private real estate, venture capital, that sort of thing. And what we're seeing actually, it's interesting because there have been some publicly traded closed-end funds that have come public over the last, say 18 months, where their portfolios are allowed to invest maybe a quarter in private equity. Whereas in interval funds, you can get an interval fund that's 100% private equity.

**CHUCK JAFFE:** Last question, let's bring this back to talking about the quarterly performance and now what we've got coming. Here we are early into the second quarter, if the market continues to struggle to make headway, do we wind up seeing in your opinion the discounts get wider? Or do the discounts start to plateau, and then obviously we're waiting for the rally for the point where discounts might narrow?

**MIKE TAGGART:** What's interesting is it's kind of become a bit of a differentiated market in closed-end funds. So I mentioned municipal funds earlier, their discounts now are 8-12% for most of them, most municipal funds. That's generally the level where investors start to get interested, and a lot of the duration risk is priced in and people get more comfortable. When you look historically at what happens to distributions during rate hike periods, they do tend to get cut, but we're talking like 5-6% cuts, we're not talking 25% distribution cuts. And I think that that's what investors expect, they expect that the world's going to blow up and it doesn't blow up. So I think that for municipal funds, the discounts might get wider, but there's reason to think that now might be a good time to consider them. Most equity funds right now, I mean there's a lot of equity funds that are still trading at premiums. And that just goes along with how the general equity markets held up better in the first quarter, how the stock market has held up better than, say, bond markets.

**CHUCK JAFFE:** Mike, always great to chat with you. Look forward to the event next week and we'll talk again soon.

**MIKE TAGGART:** Hey, thanks for having me, Chuck. Appreciate it.

**CHUCK JAFFE:** The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. And yes, that's me, you can learn all about my hour-long weekday show, which will soon be celebrating its 10th anniversary, by going to your favorite podcast app or by checking online at [MoneyLifeShow.com](http://MoneyLifeShow.com). To learn more about closed-end funds, business-development companies, and interval funds, and especially to

learn about the interval funds event that is coming next week, go to AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. Thanks to my guest Mike Taggart, the executive director of the Active Investment Company Alliance, he's also founder and chief executive at Taggart Fund Intelligence, and you can check out his research on Substack at TaggartFundIntelligence.Substack.com. The NAVigator podcast is new every Friday, we hope you will subscribe so you won't miss a thing. Do it on your favorite podcast app, and if you like us, please leave a review because they really do help. Until we're doing this again next week, happy investing everybody.

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