Four Classic Closed-End Funds That Remain Relevant And Vibrant Today

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed veteran money manager David Tepper, president of Tepper Capital Management. Read the Q&A below as David looks at four of the oldest closed-end funds – Adams Diversified Equity, Central Securities, General American Investors, and Tri-Continental – that he has owned for decades but which remain relevant and effective today, and which are trading at attractive discounts now.

David Tepper

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

CHUCK JAFFE: David Tepper, president of Tepper Capital Management is here, and we're going old school, talking about some classic closed-end funds 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 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 we're looking in the direction of some long in the tooth classic funds, we're doing it with David Tepper, he's president of Tepper Capital Management, which is a registered investment advisor that serves individuals and family trusts and that focuses on closed-end funds for both income and capital gains. If you want to learn more about closed-end funds, interval funds, and business-development companies generally, go to AICAlliance.org, the website for the Active Investment Company Alliance. David Tepper, it's great to have you back on The NAVigator.

DAVID TEPPER: A pleasure to be here, thank you.

CHUCK JAFFE: We're going old school, because not just here on The NAVigator but in my role as a journalist, when people talk to me about closed-end funds they're looking at the new closed-end funds, the ones that are maybe doing some tricks with leverage or they have super high income streams. But the closed-end fund space is almost a hundred years old, like mutual funds themselves, and there are some names that they've just been out there chugging along, whether it's things like ADX, Adams Diversified Equity, or General American Investors, et cetera. But for you, do the classics still play a role? Or the modern stuff is somehow built better, built differently, and the classics are like a restaurant that it's a little past its time?

DAVID TEPPER: Particularly at this stage, I think these funds, Adams Diversified, General American, Central Securities, Tri-Continental, which have all been in business for close to a hundred years now, and actually pre-date the creation of the mutual fund business which was started by the Investment Act of 1940, these funds were formed in the 1920s and have a long record of pretty darn good performance. And an interesting characteristic, at least of the first three funds, is that the managers of the fund are direct employees of the fund. These funds are self-contained, they are not managed by an outside entity that has an interest in generating fees, the people running these funds actually have an interest in keeping the expenses of running the fund down, and in some cases the principals of these funds are significant shareholders, so they're really on the side of the average shareholder. And what's particularly attractive right now is these funds are selling at discounts in the mid to high teens, so you're getting a tremendous value for your money, and for every dollar in dividends and capital gains distributions you receive you're paying anywhere from 80-85 cents for that dollar, and I find that pretty attractive.

CHUCK JAFFE: In my long career, while you're right, the Investment Act of 1940 is what started mutual funds, the first mutual fund came out in 1924 and it was the Massachusetts

Investors Trust, but the third mutual fund, I believe, was the Pioneer Fund, and it was run by a guy named Phil Carret.

DAVID TEPPER: Yes.

CHUCK JAFFE: I got a chance to interview Phil Carret when he was just about to turn a hundred, and one of the things that he talked about at that point, because he was still actively going into the office was that the modern world was a different place. That when he started the fund you didn't have to worry about Morningstar evaluating you, you didn't have to worry about peer groups, you didn't have to worry about all these other sorts of things. Now obviously, these funds that are over a hundred years old, they've had multiple managers over that time, the people have changed, but have the processes changed? Like part of the thing that happens now is that you get a fund and you say, "This is a muni bond fund," and there's your sleeve, there's your constraint on management. Phil Carret and the guys who were there, the people who created Adams Diversified, they weren't really constrained the way today you're kind of constrained by naming rules, what happens with the regulators, what happens with the evaluators and all the rest. So how do you fit these into a portfolio when they're not quite as buttoned up to one little area or what have you?

DAVID TEPPER: You do want to look at each of these funds, there has been over the years turnover in management, but generally I think there has been continuity in terms of what the investment focus of the various funds are. I always, any fund I look at, I take a look at the portfolio over the assets they're holding, and you get a feel for what sort of ponds they do their fishing in, whether it's big cap growth or small cap value or what have you. And I don't think, at least in regards to the funds that we've mentioned, I don't think they worry about what style box they're in, in terms of being evaluated by a service like Morningstar, since they can be significant shareholders they're interested in growing the value of the assets in the fund.

CHUCK JAFFE: I wasn't suggesting that they're worried about what the evaluators think of them. As Phil Carret said, if you didn't like what he was doing, don't buy the fund, right?

DAVID TEPPER: Right.

CHUCK JAFFE: That's the classic old school. The modern thing is, "Hey, I came to you expecting you to do X," and so whether the manager wants to, the assets kind of pigeonhole the manager. Any fund that can go anywhere, well, you're saying, "Hey, I'll take on the manager risk," but you're not saying, "Oh, I'm limited to one little asset class," and so that's the side there. For these funds, can they go on forever, as you look at funds that are nearly a hundred years old and still thriving and still useful tools?

DAVID TEPPER: Well, you look at what Adams Diversified has done, they caught the big cap wave very well, they've actually outperformed the S&P this year, over the last three, five, and 10 years, both in terms of the NAV performance and the shareholder performance, they've produced double-digit returns in all three of those fairly lengthy periods, so they're doing what any shareholder could ask for. I would say the same regarding General American and Central Securities, Tri-Continental is a little bit different in terms of it's more of a balanced fund, they typical have anywhere from 20-40% of the assets in various fixed income or convertible securities, so it's a more conservatively run fund, a little less volatile. But even there, their performance over those three periods, three, five, and 10 years has been pretty close to double digits.

CHUCK JAFFE: It's interesting to me, you can look at these funds, it's always, "Well, take a look at what a fund has done in any market conditions," or what have you. And so many times today people say, "Well, you can't really compare this fund with the last time we had high inflation." But these funds, you most assuredly can, and they are interesting comparisons, aren't they?

DAVID TEPPER: Well, I think it's a very impressive record of performance, with fairly minimal portfolio turnover, and there's quite a bit of continuity in terms of the philosophy, in terms of how the funds approach their investing.

CHUCK JAFFE: So I have to ask, David, in your career with these funds, how many times have you bought and sold them versus, "Hey, I can just keep riding them out"? Because obviously there are a lot of things that go into when you might want to be with a fund and when you might not, how much of you made because the discounts narrowed, things along those lines. Out of curiosity?

DAVID TEPPER: Well, I regard these funds as core holdings. Over the years I've sold, perhaps in retrospect it's easy to say, "Well, you should have taken a bigger profit here or maybe loaded up there." Generally, I've been an RIA for 33 years now and my clients and I have owned these funds for almost the entire time. I've actually had meetings, personal meetings with some of the managers, and these funds tend to be ignored and sometimes the portfolio managers are very happy to talk. They don't get a lot of inquiries and they're often very happy to find out that somebody out there is interested in what they're doing, and they're happy to talk about their portfolios and what their process is. These are core holdings. And the other thing is, with funds, even though we don't do a lot of buying and selling, like any fund they have to distribute out the net realized capital gains at the end of every year whether it's a closed-end fund or mutual fund. And very often, or every few years, particularly if the market's had a period of strong performance, they may make a capital gain distribution that could be anywhere from 5-10% of the net asset value. So if you get that back in cash, in essence you are doing some selling, you're trimming your position a little bit, unless if you choose to take the distribution in cash, most of the funds give you an option of taking the distribution in cash or reinvesting it to purchase additional shares. So if you take it in cash, that's a de facto method of doing some profit taking, taking some money off the table so to speak.

CHUCK JAFFE: David, really interesting. Love the fact that these funds have been around so long, but they're still vital and they still can be vital, and that maybe sometimes we don't want to be caught up in everything new. Thanks so much for joining me on The NAVigator to discuss it.

DAVID TEPPER: My pleasure, thank you.

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