



Abrdn's Taggart Says Discounts Are 'Overplayed'

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed Mike Taggart, closed-end fund specialist at abrdn. Read the Q&A below as Mike says that the overwhelming majority of closed-end funds were created to generate income, and built with that in mind, but that the sector gets a lot of its attention as the result of discounts, and he feels the discount angle is "overplayed", because the investor who focuses on the income gets the discount as a bit of extra yield but the person who wants to capture the discount needs to ride out the market's bumps and bruises to hang on hoping to see the market change and narrow the bargains. Taggart, formerly



executive director of the Active Investment Company Alliance, talks deals, discounts and more, and how current market conditions are impacting closed-end fund investors.

Mike Taggart

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

CHUCK JAFFE: Mike Taggart, closed-end fund specialist at abrdn is here, we're talking about deals and discounts in the closed-end fund space 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 visiting with Mike Taggart, who should be pretty

familiar to you because among his past roles, well, he was executive director of the Active Investment Company Alliance, these days however, Mike is with abrdn, which has a great closed-end fund investor center that you can check out at abrdn.com. If you want to check out more information generally about closed-end funds, interval funds, and business-development companies go to AICAlliance.org, the website for the Active Investment Company Alliance. Mike Taggart, great to have you back on The NAVigator.

MIKE TAGGART: Thanks for having me, Chuck. Great to be back.

CHUCK JAFFE: Let's start with just a brief update, because you're at abrdn now and the last time you were with AICA, so things have changed. What exactly are you doing? Because you've got a long, kind of storied, if you're at least somebody like me who knows the story, history in closed-end funds.

MIKE TAGGART: Hopefully it's a good story, Chuck. Yeah, once you're in the closed-end fund industry, I find it's hard to leave. I really have always enjoyed closed-end funds since I started looking at them in 2010. I started at abrdn on September 1st as, the title is closed-end fund specialist, but really I'm part of the broader team, helping shareholders better understand our products, answering questions and that sort of thing.

CHUCK JAFFE: Abrdn this year, been really active, they've done a lot of different stuff, acquiring funds. Let's talk about that, because that has impacts not just for you of course in your job, but for shareholders, investors, and the rest.

MIKE TAGGART: Yeah, so it's one of the stories in the industry right now, that earlier in the year prior to me joining they had acquired some assets from Macquarie Funds, and pretty much consolidated them into existing funds. We did take the Delaware Investments National Municipal Income Fund, which is now the Abrdn National Municipal Income Fund. And then in October we finished the acquisition of the healthcare investments team from Tekla, so we brought over the four formerly Tekla healthcare funds, and currently it was announced that we are looking to acquire four funds from the First Trust line, including one that we sub-advise. So that's kind of on the acquisitions side, but just bigger picture, really it's consolidation within the industry. Historically the closed-end fund industry has consolidated funds during periods when the IPO market has been shut, as it currently is, so you would see funds on the same platform with the same sponsor merging into each other. You've still seen

that quite a bit over the last couple of years as well. How I look at it is we're just simply taking other sponsor's funds and consolidating them into our own.

CHUCK JAFFE: Let's talk about consolidation benefits consumers, and why consolidation is kind of important in those periods where you're seeing maybe less of the closed-end fund IPOs?

MIKE TAGGART: Yeah, so I think just huge picture, 10,000-foot, they call it rationalization of product lineups. One of the things that that benefits is it kind of clears up a little bit of confusion that's sometimes out there. As you can imagine, if there's 50 different choice, how do I choose, how do I choose? You consolidate that, eliminate some of the confusion or whatever. And then specifically for shareholders what this does is because a fund then has larger economic scale, it tends to lower the expense ratios for the funds, and then it also because it's a bigger fund, it improves liquidity when shareholders are buying and selling in the market. So with the bid-ask spreads and that sort of thing, you generally see larger volume because it's now a larger fund. So those are the two most direct impacts for shareholders.

CHUCK JAFFE: In terms of what does consolidation do for discounts, the closed-end fund industry is normally a hotbed of activity when you get to things like, oh, you get wide discounts, you get activist shareholders and the rest. But if you are having funds that are merging and consolidation that way, what tends to happen with discounts and does that benefit or not benefit shareholders?

MIKE TAGGART: Insofar as the larger fund does improve liquidity, you might get some effect there. Just in general, Chuck, discounts, and I've said this since I was at Morningstar, discounts, they make the closed-end fund space attractive, they're a fundamental part of closed-end funds. They're so overplayed in terms of the air time they get, I feel. Typically the thing about discounts is that they're cyclical in nature, they're driven by investor sentiment, and the most successful closed-end fund investors I know are the ones that buy closed-end funds when they're trading at wide discounts and they're willing to hold onto them until the cycle goes back up, the discounts narrow. Discounts have been getting a knock, "Oh, this one trades at a discount," "This one trades at a discount," generally people like discounts in other products. We're in the holiday shopping season and I don't know about you but at least in my family discounts are a good thing. The most important thing I think about closed-end

funds for all investors is that most of them, the overwhelming majority of closed-end funds were created to provide distributions, to provide quote/unquote “income” for their investors. Most of them have leverage to help with this, which it generally does, because they’re closed capital they can be invested in more illiquid securities, so you should also be getting a illiquidity premium for investing in these securities. There are a lot of people who invest in closed-end funds, who invest in them for the income, they don’t invest in them to see the discount narrow, they invest in them because they like to receive their monthly distribution, their quarterly distribution. And those distributions are typically higher than what you could get in a similarly invested ETF or a mutual fund because of the leverage, because of like I just said, the closed nature of the funds. So if you want to play the discounts, you gotta be a little contrarian and you gotta hold onto them until the cycle turns. If you’re investing in them for income, the discounts do increase the portfolio yield on the security.

CHUCK JAFFE: I would imagine that that for a lot of people is really important right now. You can do 5% in a bank deposit these days, which for a long time people were going to closed-end funds even if they weren’t fully understanding them or fully aware of how they worked because, “I had to turn any place for yield.” Now an average investor can turn to a lot of places for yield that they understand better than closed-end funds.

MIKE TAGGART: Yeah, absolutely. For years when people were seeking yield, the discounts on these things tended to be narrower, on closed-end funds in general. Just two years ago a lot of closed-end funds were trading at premiums. I think the average municipal fund two year ago was trading at or very near a premium valuation above its NAV. Now we’re at a point in the cycle, again cyclical, where that’s not the case, because as you mentioned, you can get 5% on a Treasury, on a risk-free rate. So what happens next year? What happens in two years? That’s what I mean when you say you need to be a little bit contrarian if sure you’re going to quote/unquote “play the discount game” here and take a longer term view.

CHUCK JAFFE: Since we’re in that mode, last question as you’re looking ahead. This has been an interesting year with closed-end funds because we haven’t seen much in the IPO front, et cetera, but as you look ahead for 2024, is there any development you’re expecting? Something you see on the horizon that you’ll be watching out for particularly?

MIKE TAGGART: End of year, always get this question. Nothing in particular. I guess I would say it really depends on the underlying economy, what rates are going to do. So you see

anything, prognostications from, oh, first rate Fed cut is going to be first quarter to the fourth quarter. Are we going to have a recession? Are we not going to have a recession? That sort of thing. There's so many variables that go into it, I don't have a crystal ball. I do expect closed-end funds to continue attractive distributions for shareholders. And hopefully I talk to you at the end of the year next year, if not sooner, and we'll look back on a good 2024 for discounts as well, but there's no telling what could happen in the coming months.

CHUCK JAFFE: Mike, I look forward to that next conversation already. Happy holidays, thanks for joining me on The NAVigator.

MIKE TAGGART: Thanks for having me, Chuck. Great to be here.

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