AICA Panel: Activism is Evolving as it Attracts More Capital

Activist tactics in the closed-end fund (CEF) industry are evolving as activism attracts more capital, a leadership panel at AICA's 2023 Fall Roundtable said. Experts from Bulldog, EQ Fund Solutions, and other firms discussed the current state of activism and its potential future at the November 15, 2023, event in New York City.

Those comments came during the panel discussion, Current State of Activism in CEFs, which added context to the current-day movements of Bulldog, Saba, and others.

Activist investors are typically hedge funds or institutional investors that buy large stakes in CEFs and try to influence how they are run. Such efforts sometimes include proxy contests and obtaining board seats.

Activism Strategies

When activists push for changes within a CEF, it should be shareholders that ultimately decide whether to liquidate or convert the fund, Phillip Goldstein, Co-Founder of Bulldog Investors, said. "It's their money at risk," he added.

Tom DeCapo, CEF industry veteran and former partner at the law firm Skadden Arps, instead emphasized that the day-to-day oversight of the fund falls to the board of directors. "In my experience most boards of directors take that obligation conscientiously and do consider whether changes should be made structurally, and sometimes usually as a result of a failure of the underlying investment premise, whether to liquidate a fund," DeCapo said.

But he noted that because CEFs allow retail investors to invest in private asset classes for long-term returns, it's important policy-wise for activists to consider the utility of liquidating a fund, DeCapo said, emphasizing that liquidation effectively takes important investment options off the table for investors.

Understanding the shareholder base is fundamental to any activist campaign, Michael He of mutual fund proxy solicitation firm EQ Fund Solutions, said. In an uncontested proxy campaign, the goal is to make sure that there are enough shares participating at the meeting to pass the proposals, he added.

Contested elections are different story, especially when trying to reach a shareholder quorum using mailed proxy cards and digital voting tools, He continued. "When there's less convenience for shareholders to vote, the more difficult it is to get people to participate … [and] the activist will use that as a tool to prevent the fund from their normal operating initiative," he said. "So, in the event of a merger, in the event of a reorganization or some sort of change-of-control process, they can deny the fund from achieving its initiative by making it much harder for the proposals to pass", he added.

Goldstein noted there must be enough shares accumulated to make it worthwhile to launch an activist campaign, which can take time. But more fundamentally, he said, the fund has to be trading at a discount, "otherwise there's no point in being active."

"If it wasn't for activists, discounts would probably be a lot wider, so activism in and of itself keeps discounts under control," said Goldstein. "Activism … keeps management on its toes and hopefully proactive in controlling it," he added.

Activism's Future

Panelists agreed there's enough capital in play today to target most any fund, and that will help diversify the strategies that activists use.

"We've seen the strategy of open-ending or liquidating now move on to include taking over funds and continuing to manage them, presumably because there's better value long term in the value of those management contracts than a quick liquidation," DeCapo said, adding:

"I think the time will come when we see activism move into interval funds and potentially even — and I know this sounds really crazy — open-end funds. Not because we're closing the discount but because we're looking to take over management contracts. And so, if the capital is there and needs to be deployed to make a return, at some point buying to liquidate isn't going to cover it, at least for all the capital that there is, and that capital's going to have to find another way to make returns," DeCapo said.

To hear more valuable insights from this panel, register to access a replay and review the full agenda of AICA's 2023 Fall Roundtable. The cost of the replay is $30 for access to all nine panels.

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