



Calamos' Kaufman On Launching A New ETF Of Closed-End Funds Now

Friday, March 1, 2024

Chuck Jaffe, in this episode of The NAVigator podcast interviewed Matt Kaufman, head of ETFs at Calamos Investments. Read the Q&A below as Matt says that years of experience running separately managed accounts of closed-end funds, plus the firm's experience running closed-end funds, as well as an investment environment where a fund that focuses on discounts had lots of investment prospects were part of the firm's thinking behind its new Calamos Closed-End Fund Income and Arbitrage ETF which launched in January. While the fund is shopping for discounts



Matt Kaufman

in closed-end funds that are outside of the Calamos family, Kaufman said it will not be an activist investor in trying to narrow those discounts.

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CHUCK JAFFE: We're getting the lay of the closed-end fund landscape with Matt Kaufman, head of ETFs at Calamos Investments, this is 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 will point you in the right direction. And today,

we are looking at closed-end funds through the lens of someone overseeing a brand new exchange-traded fund that invests in them. Matt Kaufman is the head of ETFs at Calamos Investments, which in January launched the Calamos Closed-End Fund Income and Arbitrage ETF. It's ticker symbol CCEF, and you can learn more about the firm and the fund at Calamos.com. And if you want to size up closed-end funds and interval funds and business-development companies more generally, go to AICAlliance.org, the website for the Active Investment Company Alliance. Matt Kaufman, welcome to The NAVigator.

MATT KAUFMAN: Thanks Chuck, appreciate you having me.

CHUCK JAFFE: The new fund for a closed-end fund investor, we're going to light 'em up and go, "Okay, wait, I need to know." So let's talk about first some of the business reasons, like Calamos has a full lineup, does closed-end funds itself, why this ETF and the closed-end fund space specifically now?

MATT KAUFMAN: Yeah, I think we can start by saying why the ETF space? We've seen a tremendous growth in active management inside the ETF marketplace, and so for Calamos, a 45-year-old active manager, it's a space that we need to be in, it's a space that we want to be in, so we see potentially trillions of dollars moving from the actively managed mutual fund structure into the ETF structure over the next several years. If we just follow the flows, around 30% of new ETF dollars are going to active ETFs, but it really only makes up around five or 6% of the entire active ETF space, so we see a really big potential for ETFs going into the future. And specifically as it relates to closed-end funds, Calamos has been an issuer of closed-end funds for quite a while, and so we have the ability to understand closed-end funds really deeply, we're in the space. We also had an SMA that we've been running for about three years, that was an actively managed SMA of closed-end funds, and so I came over a little over a year ago to help build out the ETF line, that was a strategy that we identified right out of the gate as something that we're very good at, we understand in a really deep way. So I said, "This product here, this SMA needs to be an ETF wrapper," and so we brought that to market in January and the adoption's been pretty good.

CHUCK JAFFE: As I always used to ask folks, where traditional fund managers running fund of funds, well, here we are, an ETF of closed-end funds, are there benefits or advantages to saying, "Hey, rather than owning a couple of closed-end funds myself in my portfolio, I'll have an ETF do it." Because closed-end funds is one of those spaces where because you're buying

a diversified vehicle you don't necessarily feel, oh, I need to have a massive portfolio of them. So what are the benefits that somebody gets from going with the ETF structure and you guys, as opposed to just owning whatever portfolio they're building of closed-end funds?

MATT KAUFMAN: I'm used to talking to ETF investors, and so we have to educate them on the value of a closed-end fund, and so here it feels like we're in reverse, we're educating closed-end fund investors on the value of doing it inside an ETF, which is fun. So you know, one of the big features of investing in closed-end funds is the ability to purchase those at a discount to net asset value. So you compare a closed-end fund structure, which has a closed block of shares to other structures like a mutual fund or an ETF, where those shares are typically purchased at or close to NAV, and then with a closed-end fund those shares can trade either at a premium or at a discount. So I'm sure a lot of your listeners are very familiar, a lot of advisors are looking to buy those closed-end funds at good discounts to their net asset values. What we hear from advisors is it's difficult, it's difficult to find those closed-end funds whose discounts may actually close and that will narrow over time. It's a time-tested process, it's very time consuming, and so to have an active manager like Calamos screening that closed-end fund universe, finding the ones that we think have the best potential to close those discounts that are also paying high monthly income along the way, is something that's really resonated with a lot of advisors.

CHUCK JAFFE: So it is income and arbitrage, explain the arbitrage portion. What is the active arbitrage that Calamos is planning to do with this fund.

MATT KAUFMAN: Yeah, so a lot of people may think of the definition of arbitrage as something that's more instantaneous, taking a long and short position in the same asset or two assets. Whereas here we're using arbitrage in this relative value type approach, where we're buying closed-end funds at a discount that we think that that discount will narrow over time, so that's the arbitrage that we're speaking of in terms of CCEF.

CHUCK JAFFE: One of the benefits of the ETF structure for consumers is portfolios are disclosed on a regular basis, those sorts of things. When you're looking at a portfolio of closed-end funds, will we as potential investors be able to look at CCEF and understand what your average discount is, what your average income is at any given point? Is that kind of transparency available in an actively managed ETF with ETF disclosure requirements?

MATT KAUFMAN: Yeah, for sure. That's a good point, Chuck. We are able to disclose all of that, the holdings of CCEF are published on the website every single day. You're able to dive into those holdings, see what they are, see the names of the closed-end funds. You can see the yield that each of those closed-end funds is kicking off. If you take an allocation model of each of those closed-end funds, you can see all of the asset allocation behind CCEF. So you can see that we're diversified across covered calls, municipal bonds, US allocations, there's global stocks, high yields, and all of that is extremely transparent, you're able to see that across the board on CCEF.

CHUCK JAFFE: One of the things we discuss on The NAVigator frequently is some of the closed-end fund structures. So here you are talking about an ETF, highly liquid, regular disclosures, et cetera, can CCEF get involved in interval funds and things that don't price every day, all that kind of stuff? Or things where they don't have daily liquidity, how does that get impacted when you put a closed-end fund inside of an ETF wrapper?

MATT KAUFMAN: The closed-end funds themselves, because they trade on an exchange, they have liquidity, they have intraday prices, and so we're able to enter into those closed-end funds because we can access that liquidity and that pricing. We tend to avoid interval funds that have less liquid pricing, but closed-end funds themselves are able to hold some small illiquid sleeves inside those closed-end funds. So to that extent, there is probably some exposure to some less liquid things, but all that said, is it flows through this closed-end fund wrapper that is exchanged-traded, and then we are able to access that pricing through the ETF wrapper.

CHUCK JAFFE: Obviously Calamos, big issuer of closed-end funds, but this is not a Calamos fund of funds, this is not Calamos investing in Calamos funds. Is it excluding completely Calamos funds?

MATT KAUFMAN: We do, we exclude our own funds. We look at the entire universe of non-Calamos issued closed-end funds. We thought that just made the most sense from a, I'm trying to think of the right word here, from a conflict of interest perspective. We thought it made sense to only look at closed-end funds outside of Calamos. Some of our closed-end funds also trade at premiums, so they would be excluded anyway here, we're looking at purely closed-end funds that trade at a discount.

CHUCK JAFFE: When you get this fund going so it's got more of a track record, because obviously it's been out for only a matter of weeks at this point, do you wind up expecting that you will be opening sisters where you're saying, "Here's the muni income closed-end fund, here's the--," et cetera, and be specific to sleeves? Or closed-end funds, an asset class that you guys view as one asset class, we can do it in this part of the investment world with this one ETF.

MATT KAUFMAN: I think at this stage of the game our goal here is to have one ETF out in the marketplace, it's actively managed, it's a strategy we've been doing for over three years now. And the goal here, and I think what we're good at is looking at which spaces are trading at significant discounts to their historic averages, and so you look across the space today and we're seeing pretty significant dislocation across municipal bond spaces, the covered-call closed-end fund space. And so the ability not just to say closed-end funds are trading at a discount, it's a fairly generic statement, but say which closed-end fund categories are trading at a discount? Which specific closed-end funds do we think are poised for that discount to narrow over time? And so we think that idea and that strategy fits really well within one single ticker.

CHUCK JAFFE: I am familiar with Calamos on a lot of different levels, traditional funds, et cetera. One of the things that I would note is that you guys run some very successful ESG funds, but if we talk to your ESG managers they'll tell you, "Well, we're not investing with values, we're investing in ESG." As I think about that and I bring it over to closed-end funds, well, are you guys going to be activist investors? Here you are saying that your universe of funds is only going to include funds that trade at a discount. You have a wide enough discount, are you expecting for Calamos in this case to be an activist investor to try to push them to close the discount? Or you're going to leave that job to somebody else, you're buying the big discounts and worrying more about cash?

MATT KAUFMAN: The simple answer is no, we are not an activist in any sense of the word here. Calamos is not in that game, we don't plan on being in that game. To the extent that others may play that position and those discounts narrow, our funds that we're owning inside the ETF may benefit from that, but we're not in that game whatsoever.

CHUCK JAFFE: And as you started this fund, what was the area of closed-end funds that you most liked? What was the spot where you're saying, "Yeah, managers want to tilt in this

direction”? Because you have the flexibility to go any place, but certain areas, we gotta know, what look best to you?

MATT KAUFMAN: To back up a little bit, a lot of it was the broad dislocation we’ve seen just from the rise in interest rates, and so you look over the past couple years, we’ve seen the central bank raise the fed funds rate by more than 5%. That’s not a new story to your listeners, but what it was was a big contributing factor to this widening discount across the closed-end fund marketplace. We were seeing discount on average of around 11% relative to like a five-year average of around 7%, and so when we launched CCEF, we thought the timing was really great in terms of seeing that big historic discount. So if we look today across the board, the allocation of CCEF, we’re seeing pretty significant dislocations across global allocation, across muni bonds, in the covered-call space we’re seeing that as well. We’ve got a good model that we’ve put together where you can see the premium and discount allocation, and where that current discount sits across the distribution curve, and so we’re looking at the covered-call space and the discount is in about the 15th percentile of that curve. And then going into the muni space as well, we’re seeing the muni closed-end fund space, even in the significant, call it left tail space, where it’s around the three or 4% distribution of historic discounts, so we’re seeing discounts on the muni side that we haven’t seen in almost 20 years or so.

CHUCK JAFFE: Matt, really interesting. Good luck with the new fund, thanks for joining us on The NAVigator.

MATT KAUFMAN: Thanks so much.

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a review, because that stuff really does help. We'll be back next week, and until then, happy investing everybody.

Recorded on February 29, 2024

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