

CEFA President John Cole Scott on the Current State of Closed-End Fund Activism

On January 17, 2024, Closed-End Fund Advisors President John Cole Scott gave a presentation on the current state of activism in closed-end funds (CEF) at an event held by CFA Society Virginia. During his presentation, Scott explained:

- The difference between activists and activist followers.
- The sectors of the closed-end fund universe that activists are most involved in.
- The different ways activists can influence or even “kill” a fund.
- What often drives activist proxy fights.

Who are Activists?

Activist investors are typically hedge funds or institutional investors that buy large stakes in CEFs and try to influence how they are run.

During his presentation, Scott said there are two types of activists: activists and their followers. Activists engage in public proxy campaigns and open letters, whereas their followers typically engage in “pro-structure, long-term ways for everyone to win.”

Activists engage in different sectors of the CEF universe, with leading activist firm Saba Capital Management heavily targeting CEFs that invest in U.S. stock, master limited partnerships, and international and municipal bonds. Saba has \$4.2 billion invested in CEFs.

What Drives Activism?

Scott explained activist investors’ motivation this way: “Activism in closed-end funds isn’t: ‘I don’t like the way they’re building airplanes or their strategy for this new product,’” he said. “It’s: ‘There’s a wide discount, we want to make extra money, so let’s do something about it.’”

“If we didn’t have any activism ... the discounts would be worse,” Scott said. His comments followed shortly after CEF Advisors released 4Q 2023 data showing that discounts at year-end were around -7% for [CEFA’s 15 Major CEF Sectors Index](#). The index benchmarks the seven most liquid funds by 90-day average trading-dollar liquidity in each of the 15 major groupings of funds.

Another driver for activists is the relative indifference of retail investors in the CEFs they invest in, especially when it comes time to vote, Scott said. He noted that roughly 80% of CEFs are owned by retail investors. “I would also include [as a retail investor] any advisor who buys into an IPO and holds a fund more than five years,” Scott said.

How Does Activism Influence CEFs?

“While activism does narrow discounts, the activists are often doing what’s best for their clients — that’s their job,” Scott said. Activist tactics can often “kill” funds, too, he noted, meaning either the fund’s fundamental structure changes from close-ended to open-ended, or the fund is, in fact, liquidated via cash disbursements to shareholders. While this closes the discounts, liquidation leaves no fund left for investors and firms like CEF Advisors who enjoy trading CEFs.

The most likely outcomes of activist challenges are tender offers, or a public bid for shareholders to sell their shares, Scott said. “It does not fix discounts, but it does tend to at least give you a standstill agreement, if you work hard,” he added. A standstill agreement is a kind of anti-takeover deal that allows funds to fight another day.

Furthermore, Scott said: “You can turn a perpetual fund into a termed [fund] but we find that it takes a long time to narrow the discount.”

Access the video of [Scott’s presentation](#) and the [presentation slide deck \(PDF\)](#). Learn more about [CEF Advisors](#) and [CFA Society Virginia](#).

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