



Nuveen's Dave Lamb On How Fund Firms Are Reacting To Increased Activism

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed Dave Lamb, Head of Closed-End Funds at Nuveen. Read the Q&A below as Dave says there is a "much more aggressive form of activism today than what we saw years ago," and notes that it's driven entirely by discount-arbitrage opportunities rather than whether a fund is underperforming due to management decision-making. With discounts at wide levels, particularly for fixed-income funds, sponsors like Nuveen are taking more steps to cut the gap and reduce their funds' attractiveness to activists. Lamb discusses Nuveen's strategies, which he says are largely focused on enhanced distribution tactics, trying to drive demand, and narrow the discount. Nuveen recently announced plans to increase distributions on more than two dozen funds.

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

CHUCK JAFFE: We're talking about the past, present, and future of closed-end fund discounts with Dave Lamb, the head of closed-end funds at Nuveen, welcome to The NAVigator. This is 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 representing the entire closed-end fund business, from users and investors to fund sponsors and creators. If you're

looking for excellence beyond indexing, well, The NAVigator's going to point you in the right direction. And today our journey includes Dave Lamb, he's head of closed-end funds at Nuveen, which really needs no introduction to closed-end fund investors, but which you can learn more about at Nuveen.com. To learn more about closed-end funds, interval funds, and business-development companies generally visit AICAlliance.org, that's the website for the Active Investment Company Alliance. Dave Lamb, welcome to The NAVigator.

DAVE LAMB: Thanks Chuck, and pleasure to be here.

CHUCK JAFFE: So we are talking about every closed-end fund investor's favorite subject, which is not necessarily the favorite subject of people who run closed-end funds, because for years I would talk to a fund manager in a closed-end fund and they'd say, "You can talk to me about anything but the discount." But discounts have been attracting more and more attention, both from activist investors and your side of the business from what fund companies are doing to try to guard against them, et cetera. So we've got wider discount levels, why are wider discount levels happening, and then what do you see fund sponsors doing to maybe support market prices and minimize or narrow discounts?

DAVE LAMB: Well, Chuck, first let me say I've been involved in the Nuveen closed-end fund business for almost 33 years, and discounts have been around since the beginning of time, but more recently we've seen discounts widen in particularly because of the rate environment we started experiencing in Q2 of 2022. It hasn't been isolated just to fixed-income funds, discounts have been fairly wide across the board. I would say on the equity side we're hitting record highs in almost every equity index there is, but really we started seeing discounts widen for equity funds in 2022 because of the whole, are we going to have a soft landing, a hard landing, a no landing? So there was a lot of investor sentiment and apprehension embedded into pricing of equity funds. I would say though the biggest area of challenge in terms of discounts with closed-end funds is in our fixed-income lineup across the marketplace. And really it's kind of two-fold, it's the absolute level of rates, 2022 performance for fixed-income funds, not just closed-end funds were very challenged, many fixed-income funds in the closed-end fund space employ leverage, so that added to challenging return environments in 2022 that really carried into 2023. Discounts reached their widest levels I would say in mid-October of 2023, that was when we saw the 10-year Treasury for example, crest 5%, since then we've seen discounts narrow a bit since that

period of time, but we're still at wide levels. Again, I think it's really a rate environment that's driving the discounts, not only on the long end but on the short end. Those funds I just mentioned that employ leverage, their borrowing costs have increased, and really that spread trade built into the levered funds has narrowed dramatically. So at the end of the day it comes down to investor sentiment, and investor sentiment has been particularly negative on fixed income and longer duration fixed income.

CHUCK JAFFE: Have we also seen a change in sentiment among activist investors? Because I know, and I've been covering the fund industry for about, well, 30 years, that in the early days when I was covering closed-end funds you needed to see pretty wide discounts to see activists get involved. Are activists a lot more interested these days at lower levels of discount? I mean, is that part of the issue for you as well, is that you're narrowing discounts that before you wouldn't have, because if you don't the activists will?

DAVE LAMB: As I just mentioned, my long tenure in the closed-end fund space at Nuveen, we've seen activism since the beginning of time, but clearly activism has been on the uptake over the last couple years. I would say activism is still the same, it's about trying to drive a short-term profit. Well, let me first say, activism in and of itself is not necessarily a bad thing. Are there certain closed-end funds that quite frankly could benefit from some activism? Managers that have had consistently poor performance over time and have essentially done nothing to correct that, yeah, activism is probably merited in those situations. But I would say activism today has become much more aggressive and it doesn't discriminate against good performing funds versus poor performing funds, it's really about that discount arbitrage opportunity. What activists are doing when they see discounts widening, now I would still say activists again it's about a profit to them, so they want to work on funds that have the largest opportunity for a short-term profit, so they are focusing on wider discount funds. Now the playing field and the opportunity set for them to get involved is much broader with the amount of funds trading at discounts, and I would say the amount of funds trading at discounts 10% or wider. So what activists are doing, they're buying shares and buying substantial amounts of shares, and then they'll agitate for some sort of liquidity event from the fund sponsor. What they want is to ultimately have some sort of either tender liquidation merger into an open-end fund in order to achieve something that's at or near NAV, again profiting from that discount arbitrage, they then take their proceeds and move onto the next

target. So we are seeing a much more aggressive form of activism today than what we saw many years ago.

CHUCK JAFFE: What is Nuveen doing to respond to that activism and to narrow the discounts?

DAVE LAMB: Nuveen, and really the industry, have looked to several areas that they can try to impact discount levels. Let me first say though, discounts by and large are being driven by larger macro market factors. As I just mentioned, the rate environment we've been in since early 2022 has been driving most of the discounts, but Nuveen and other fund sponsors have been doing things, trying to increase demand in closed-end funds. That includes increased marketing in investor education initiatives, trying to highlight the merits of investing in closed-end funds, and even highlighting investing in closed-end funds at discounts can deliver enhanced incomes in terms of enhanced distributions, potentially enhanced return opportunities over time. In particular, if an investor likes a certain asset class and is positive on that asset class, if that investor can buy those assets at 90 cents on the dollar, 85 cents on the dollar, they have an opportunity for incremental returns if we see mean reversion and discounts narrowing, so clearly enhanced marketing efforts is one area. Many sponsors, including Nuveen, have implemented enhanced distribution programs where a fund may be earning 4%, but they've increased the distribution to 5%, 6%, even 7%, where they are actively distributing a return of capital which allows shareholders to get enhanced cash flow during this challenging rate environment. Also we've seen positive correlations between enhanced higher distributions and how funds trade in the secondaries, so many fund sponsors including Nuveen are trying to provide shareholders that enhanced cash flow but with an eye on trying to narrow discounts as we drive more demand towards those funds. Other fund sponsors, including Nuveen, have share repurchase programs where they have the ability to repurchase share up to, say 10% of the fund over an annual period. Nuveen has that in place, so when you're seeing a supply-demand imbalance, they'll step in and repurchase shares when discounts tend to get to wider levels. Other fund sponsors and Nuveen have contemplated tender offers and conditional tender offers, tender offers are kind of what they are, a one-time [inaudible 0:09:13] tender. Typically you'll see the discount narrow into that tender, but unfortunately oftentimes, a month later, two months later, at some point you tend to see the fund trade at its normal level. What others have done is something called conditional tender offers, now they've been around for a while, Chuck, but

what's happened more recently, instead of saying we'll have an annual tender of 10% of outstanding shares if we see the discount at X%, many of those were at the 10% level, and there's some sort of measurement period, call it a three-month period leading into an annual tender offer. What's happened more recently in these conditional tender offers is that some sponsors have, instead of doing at 10%, they're doing smaller tenders, call it 2.5-5%, and they're doing it more frequently, maybe quarterly or semi-annually, with the idea if you do it more frequently, it may help drive that tender discount trigger level, which more recently has been in that 7.5% range. So those are some of the things that sponsors have been doing, Nuveen really has been focused on an enhanced distribution program, we implemented that really in October of 2023, where for a subset of our funds really more focused on our fixed-income funds and in particular our levered fixed-income funds, we upped our distributions by, call it 10-25%, again designed to deliver a higher cash flow to shareholders, trying to drive demand and narrow the discount in the secondary. For many of those same funds, and in March we had a second bump in those distributions, and just recently this Monday we stepped up, and for 26 of our funds we stepped up our distributions even more. Many of those are in that 7% range, which for most of our funds would mean that we have, call it 2.5-4% return of capital on an annualized basis. So what we're trying to do there is during this challenging rate environment, again we're trying to deliver enhanced cash flow to shareholders, allow them some access to their capital when the funds are trading at discounts, but really with an eye towards driving secondary market price demand and narrowing discounts over time. So that's really been our preferred approach, we've seen other sponsors do tenders, we don't like the sporadic nature of tenders. With a distribution it goes to all shareholders, for one, just not shareholders that are tendering, and it's out there in the marketplace every day, it doesn't happen on an annual basis or semi-annual or a quarterly basis, it's out there every day. So that's been our preferred approach to try to drive discounts narrower.

CHUCK JAFFE: Dave, this has been great. I have more questions, I don't have more time, but let's have you back on The NAVigator down the line as we watch how these latest moves play out and we'll pick this up from there. Thanks for joining me.

DAVE LAMB: Great. Thank you, Chuck, and thanks for having me.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. And yeah, I'm Chuck Jaffe, I'd love it if you'd check out my hour-long weekday show on your favorite podcast app or by going directly to MoneyLifeShow.com. To learn more about closed-end funds, interval funds, and business-development companies check out AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. Thanks to my guest, Dave Lamb, the head of closed-end funds at Nuveen. Get more information on the firm and its funds at Nuveen.com, on X formerly known as Twitter @NuveenInv. The NAVigator podcast is new every Friday, make sure you don't miss an episode by subscribing or following along on your favorite podcast app. And if you like this podcast, we'd love a review and we'd love for you to tell your friends because those things really do help. We'll be back next week, and until then, happy investing everybody.

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