



AICA's Scott Reviews 3Q's Stellar Results For Closed-End Funds

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed John Cole Scott, President of Closed-End Fund Advisors and Chairman of the Active Investment Company Alliance. Read the Q&A below as John digs into his firm's data to break down a great three-month stretch for closed-end funds and business-development companies. He says it was a period in which discounts narrowed dramatically and changed the opportunity set without it becoming overvalued or unattractive.

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

Dig into current investment strategies, the latest trends, and new developments in the closed-end fund industry at the Active Investment Company Alliance's Annual Roundtable. The event now in its sixth year is Wednesday, November 13th in New York City, and will combine informative panels, engaging speakers, and valuable networking opportunities with leaders in closed-end funds, interval funds, and business-development companies. AICA events are known for their high-quality advisor-centric content and for enabling meaningful discussion and interaction with the top minds in closed-end funds. Advisors can get seven CE credits for attending. Go to AICAlliance.org/events to get complete details and to see the full schedule, and through Halloween night use the code NAVIGATOR30 for a 30% discount on registration costs.

CHUCK JAFFE: John Cole Scott from Closed-End Fund Advisors is here, we're looking at third quarter results for closed-end funds 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 representing 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. Joining me today, John Cole Scott, the president at Closed-End Fund Advisors in Richmond, Virginia which is online at CEFAdvisors.com, and we're about to dig into funds using the firm's research, which you can do for yourself at CEFData.com. John's also the chairman of the Active Investment Company Alliance, which you can learn about at AICAlliance.org. John Cole Scott, great to chat with you again.

JOHN COLE SCOTT: Always great to be here, Chuck.

CHUCK JAFFE: We of course have gotten through the third quarter, and that is when you kind of take a look at all of the data and size things up. Third quarter generally speaking, you know, if we had to put a label on it, it certainly would be things were pretty good.

JOHN COLE SCOTT: It was an amazing third quarter for the markets as well as closed-end funds. As we've been doing since the launch of our data business in 2012, we had a broad based deep and thorough quarterly session, and listeners can go and find that whole presentation at CEFAdvisors.com/quarterly. But it's really useful noting that the universe of funds at CEF Data, which covers closed-end funds, interval funds, BDCs, and tender offer funds is up to \$870 billion in manager assets and 800 structures, a net new 11 funds from the previous quarter. We've focused on the largest sector and the oldest sector we have, traditional closed-end funds, \$315 billion in assets with 411 funds, a reduction of five funds, the average fund trading just under \$770 million in assets, and the three main groups, there are 171 equity funds, a loss of three, there's 129 taxable bond funds, a loss of four, and 111 muni funds, stable from last quarter.

CHUCK JAFFE: We've seen all of that action, but the biggest players are still the biggest players, correct?

JOHN COLE SCOTT: Absolutely, no change in leadership. Nuveen, \$54 billion across 44 funds and 18 sectors, and Blackrock with \$48 billion in 51 closed-end funds across 22 sectors. The real change was in BDCs.

CHUCK JAFFE: And that change was?

JOHN COLE SCOTT: BDC assets have grown to \$378 billion in gross assets, 159 funds, a net new five funds, and nicely, two of them were listed BDCs this quarter, \$156 billion in total assets and three new private or non-traded BDCs now at \$221 billion in manager assets. This is a really cool time to be looking at BDCs, we have earnings season just started this week with Capital Southwest, but we're about to go into the heavy season from between November 4th and November 13th, 35 of 52 BDCs, or two thirds, will give us financial updates in a quick 10-day period.

CHUCK JAFFE: It's not just BDCs that have been growing, interval funds have been growing too.

JOHN COLE SCOTT: It is. So we look at interval funds up to 110 total funds, six new this quarter, \$101 billion in manager assets, and for perspective we talk about this regularly, 10 years ago there were only 22 funds in this space, the heavy growth in the past seven years, and tender-offer funds, there's 120 of a non-BDC focus, up to \$82 billion in assets.

CHUCK JAFFE: Now let's get into the stuff that people really want to get into, which is discounts, because that's where you're at least thinking you're making the money here.

JOHN COLE SCOTT: It is. Discounts are still attractive, but nothing like we've talked about previous in the few quarters prior to this, an average 4.4% discount for the listed funds, and that's versus a 25-year median of 4.16%, so very marginally wider than the historical average, and on a month-end basis the universe has been wider 47% of the time. We then drill into equity closed-end funds, they ended at 7.1% discounts versus the 5.6% discount median, at month-end they've been wider around a third of the time. And the big movers in this sector were the REIT real assets, traded to a 1% discount, a 4% narrowing in the quarter, and MLP funds going to almost a 6.9% discount, just over a 3% narrowing, and if you may remember last quarter they narrowed dramatically as well.

CHUCK JAFFE: Yeah. I mean, it sounds bad to say, "Wow, discounts have gotten smaller, it's not so good for you," but of course if you've owned 'em it's been great for you.

JOHN COLE SCOTT: Yes, we've been long-term overweight in that sector since the terrible pullback during Covid times.

CHUCK JAFFE: Muni funds have been killing it. They of course had the widest discounts for a while, where are they right now?

JOHN COLE SCOTT: Yeah, so munis are at a 5.6% discount, that's a 2.7% narrowing on the quarter, and 90% of the muni market still trades at a discount and only 26% of the time was month-wider. And then going to the other side of fixed-income funds, taxable funds traded right at par, about a 0% discount versus a 3.4% 25-year median and month-wider 77% of the time, that's the area on a broad basis there's been the most success for investors.

CHUCK JAFFE: Let's flip it around and move to the other important factor of course, yields.

JOHN COLE SCOTT: Yields for closed-end funds, for our 15-sector index the current indicated yield is 9.7%, and that index trades around par with 23% leverage you can control \$1.23 with your market. The one-year dividend growth is up to a higher number than last year of 20.6%, which has continued to be an overpayment by many sectors and many fund sponsors in our universe, and leverage costs for most taxable sectors was between about 5.6% and 7.4%, and there's about \$71 billion in total closed-end fund leverage. Equity funds are 7.9% indicated yield with 12.5% leverage, taxable bond closed-end funds, a 10% yield with 25% leverage, and muni bond funds, 5.6% yield with 30% leverage. Going to the muni leverage, the average leverage cost is 5.1%, SOFR at the end of the quarter was 4.96%, which is just lower than the average cost supported by the funds, and there's a slight lag in that data. What's important about munis is that there's a 7.5% tax equivalent yield for high-income investors, that's an estimate because we're modeling 20% return on capital for the universe, and so you can't use a full dividend for a TUI calculation for investors, but still a high number, and durations are stable at 11% and BDCs are yielding 11% at about 50% leverage.

CHUCK JAFFE: So we've dug in on most of the statistics, we didn't cover BDCs in there, but I want to point out to everybody, look, if we don't cover every group, you know that all this information is available for you at CEFData.com. So let's head to performance, because performance, as we've said, really good.

JOHN COLE SCOTT: Yes, the index was up about 8% quarter to date market price, 6% on NAV, that's a 2% broad narrowing in a diversified portfolio, and for the year, 20% market price total return and 12.8% NAV performance, and that compares as we use RSP, the equal weight

S&P was up 9.5% on the quarter and up just under 15% year to date. You can look, 90% of closed-end funds were positive on market price for the quarter, BDCs were only 44% positive, it is noteworthy that 99% of muni funds were positive and 100% on NAV versus market price, and the 100% for both NAV and market were high-yield, hybrid balanced, preferred, international bond, investment grade, and REIT real assets.

CHUCK JAFFE: Now often you and I talk about IPOs, but there really hasn't been much IPO activity to speak of, and it all came in the BDC space, which we mentioned earlier that there was that growth in BDCs. So let's turn to just the activism update for the third quarter, because lord knows there was some interesting stuff going on in the activist space.

JOHN COLE SCOTT: Yeah, so we got through the proxy season and there's still some cases pending but there's Saba Capital, so [inaudible 0:09:12] \$4.3 billion, Karpus \$2.3 billion, Sit Investments \$2.2, RiverNorth \$1.8, Allspring \$1.3 billion, City of London is \$900 million, 1607 Capital \$825 million, and a bunch of others that add up to about \$14.5 [inaudible 0:09:31] were 4.5% of the CEF universe, which is down about 1% on a relative basis for last quarter. And other big notes, we talked about this last quarter, the [inaudible 0:09:42] closed-end fund failed, we covered that previously but it did not structure itself well. There's a proposed rule at the stock exchange to remove annual meetings, there's been no update yet, we're looking for guidance towards the end of the quarter hopefully. And the big thing, tax-loss selling, is it going to happen this year, Chuck? It really, really depends on the next 30 to 40 days of the market whether there's actual cost-based losses for people to rotate, and just like everyone else, we won't know till we get through everything and see how the year wraps up.

CHUCK JAFFE: Finally, John, as we have turned the calendar to November, you've got an event with AICA coming up on November the 13th. I know I will be there, but who else should be there?

JOHN COLE SCOTT: Well, we're really looking forward to institutional investors, products of closed-end funds, financial advisors looking for CE credits to be community, service providers, and many, many of the fund sponsors themselves. We've got NASDAQ speaking and Morgan Stanley and Blackrock, we've got people from Nuveen and abrdn, all the regulars but lots of new people, and really excited for the diversity of our nine panels and the invite-to-speak model we offer.

CHUCK JAFFE: And again, I'll be excited to be there, we're going to be recording some NAVigator segments there, probably some extra stuff as well. That's great, I'm looking forward to that, but John, I always look forward to chatting with you, let's do this again soon.

JOHN COLE SCOTT: Sounds great, Chuck.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. And yes, I'm Chuck Jaffe and you can learn more about my work and my show at MoneyLifeShow.com or by going to your favorite podcast app. To learn more about closed-end funds, interval funds, and business-development companies go to AICAlliance.org, that's the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. Thanks to my guest John Cole Scott, he's president of Closed-End Fund Advisors in Richmond, Virginia, the chairman of the Active Investment Company Alliance. You can find his firm online at CEFAdvisors.com, and you can dig into their research by going to CEFData.com, and John is on X or Twitter @JohnColeScott. The NAVigator podcast is available every Friday, make sure you don't miss an episode by following or subscribing on your favorite podcast app. We'll be back next week, and until then, happy investing, everybody.

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