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# CEF Discounts Compress Further in Q3, Propelling Tailwind Trend

Discounts for the universe of closed-end funds (CEF) compressed further in the third quarter of 2024, averaging close to -5% and yielding about 8%, said John Cole Scott, AICA Chairman and President of Closed-End Fund Advisors (CEF Advisors), during his firm's 51st consecutive quarterly research call covering the CEF and business development company (BDC) universe.

Referencing CEF Advisors' 15 Major CEF Sectors Index, Scott said the third quarter of the year saw discounts for the average fund-per-sector-basis finish at a -0.02% discount, compared to -1.4% at the end of 2Q. The index benchmarks the 100 most liquid funds by 90-day average trading-dollar liquidity in each of the 15 major groupings of funds.

And for the third straight quarter, almost all of CEF Advisors' sector indexes saw greater total returns on price than NAV. In addition, every sector had positive NAV total returns. For example, CEF Advisors' National Municipal Bond Index gained +3.4% on NAV and +6.4% on price, reflecting further discount compression.

"Most people would argue that duration risk is mostly gone, and that we should be in good shape with the leverage math," Scott said during CEF Advisors' Q3 2024 review and outlook call on October 23, 2024.

"There should be a good tailwind eventually as long as you're a patient investor, which is useful for being in closed-end funds because you never know what's going to happen — but you can stack the deck in your favor through various things as discounts, corporate actions, asset allocation, and manager selection," he added.

Having exposure to various types of funds in the CEF universe of funds can potentially help investors weather an expected "lower-performing next 15 years compared to the previous 15 years," Scott said. "It's going to be useful to be diversified and tactical."

CEFData.com tracks $870 billion in fund assets across 800 closed-ended management companies, which include traditional CEFs, BDCs, tender offer funds, and interval funds.

## Asset Levels

Traditional listed closed-end funds ended the third quarter of 2024 with about $314.5 billion in total gross assets across 411 funds with an average size of $765 million. Those results include:

- Equity funds, with about $146 billion across 171 funds.
- Taxable bond funds, coming in at about $83 billion across 129 funds.
- Tax-free municipal bond funds, with about $86 billion across 111 funds.
- BDCs, with about $378 billion across 159 funds.

Nuveen and BlackRock once again led the pack in total gross assets, ending the quarter with $54.2 billion (across 45 funds) and $48.3 billion (across 51 funds), respectively.

## Discounts

Scott said the average traditional CEF ended the quarter at about a -4.44% discount, compared to the 25-year average of -4.16%. "There are still generally wider discounts where there have generally been wider discounts," he noted.

Digging deeper into the data for Q3 2024, Scott found that:

- Equity CEFs ended the quarter at about a -7.14% discount vs a -5.6% median.
    - » Equity CEFs were month-end wider about 1/3 of the time.
        - Master limited partnerships averaged -6.9%, narrowing by about 3.2%.
        - REIT / real averaged -1.1%, narrowing by 4.1%.

- Taxable bond CEFs ended Q3 at a 0% discount vs a -3.4% 25-year median.
    - » Taxable bond CEFs were month-end wider about 77% of the time.
        - Preferreds averaged -0.9%, narrowing by 3.8%.

- Municipal bond funds ended Q3 at a -5.6% discount to NAV, narrowing by 2.7%.
    - » 90% of muni CEFs ended the quarter at a discount.

- BDCs (40%) ended Q2 at a premium to NAV, with an average -4.6% discount to NAV vs a 19-year median of -2.9% for the sector.

## BDCs

Listed and non-listed BDCs represent 43.3% of the universe of funds that CEF-Data.com tracks. BDCs in the third quarter of 2024 had total assets of $378 billion in gross assets across 159 funds, including:

- 52 listed BDCs with $156 billion in gross assets.

- 107 non-listed (private) BDCs with $221 billion in gross assets.

Blackstone and Blue Owl continue to be the top BDC sponsors in terms of total assets under management, managing $58.7 billion and $41 billion, respectively. Neuberger Berman, Central Park, and Morgan Stanley manage the most funds at 11, 10, and 9 respectively.

There have been just five BDC initial public offerings year to date, reflecting about $8.3 billion in managed assets. "BDCs continue to find new ways to come to market," Scott said. However, he said we are likely to remain in a "valley of IPOs" until syndicates and fund sponsors "find a way to be more thoughtful about making secondary markets trade better for IPO investors."

## Interval and Tender Offer Funds

Interval funds continue to grow in popularity, with most of the exposure in credit and real estate. There are 110 interval funds with $101 billion in total assets under management (compared to that of listed CEFs of $315 billion across 411 funds). Scott's prediction last quarter that the interval fund sector would likely reach 115 by the end of the year appears to be on point.

Tender Offer Funds, a type of non-listed CEF, continued to grow as a sector, totaling 120 in number at the end of the quarter, with $82 billion in managed assets. These funds have most of their exposure in private equity, hedge funds, and fund of funds.

"We expect interval funds to outpace tender offer funds simply because they can be bought by retail investors, they can often be bought through an RIA channel, and more and more on the wire house level," Scott said.

## Yield and Performance

Listed CEFs continued to provide a significant boost to market dollars in a portfolio. Taxable bonds and BDCs had some of the highest yields, with the latter averaging 10.5%. Scott likened BDC yield to "mostly real yield," with that of taxable bonds being more of a mix of real yield, total return, and activism defense.

Senior loan funds continued to trade well, Scott said. "They are the right type of math – kind of a more liquid, little bit lower yielding version of the BDC universe – very different funds, but very complimentary funds."

He also noted that master limited partnership (MLP) funds continued to perform well after some tough years and are still not considered very expensive.

Diving deeper into the numbers, Scott found that:

- Equity CEFs generated a 7.9% yield, with 12.5% leverage.
- Taxable bond CEFs generated a 10% yield, with 24.7% leverage.
- Municipal bond funds CEFs generated a 5.6% yield, with 30.1% leverage.
  - Average cost of leverage was 5.1%.
- Debt BDCs generated an 11% yield, with 50.3% leverage.

According to the 15 Major CEF Sectors Index, prices for the average CEF were up 7.96% during the quarter and up 19.94% year to date, with 90% of CEFs positive on their market price total return. This compares with the S&P 500 Equal Weight Index, which was up +9.5% in the third quarter and up 14.9% year to date. It's worth noting that 99% of municipal CEFs were positive on their market price total return and 100% positive on NAV total return.

Unsurprisingly, given falling rates, some of the more interest rate-driven sectors did quite well in Q3. Examples include global real estate/real asset, which gained +16.7% on a NAV basis and +22.3% on a price basis; and utilities, which gained +16.7% on NAV and +15.5% on price.

## Activism

Activism remained a big focus of the CEF universe in Q3, with the top five activists consisting of Saba Capital Management ($4.3 billion), Karpus Investment Management ($2.3 billion), SIT Investment Associates ($2.2 billion), RiverNorth Capital Management ($1.8 billion), and Allspring Global Investments ($1.3 billion). All total, activists had roughly $14.4 billion at work, representing 4.6% of the CEF universe on a market cap basis.

There were big differences between the last quarter and Q3 in terms of investment inflows and outflows among activists and their followers. In Q2, money* flowed into the following sectors then promptly flowed out in Q3 following positive sector performance:

| Sector | Q2 Net Flows | Q3 Net Flows |
|---|---|---|
| Hybrid/ Balanced | $531 million | -$280million |
| Municipal Bond Funds | $392 million | -$302 million |
| U.S. Stock | $518 million | -$827 million |

*Values based on net position changes in current quarter and most recent 13F and 13D/13G disclosures.

Similar to last quarter, MLP funds mostly saw outflows due to their positive performance. Such actions should remind investors not to be passive in closed-end funds, Scott said.

## Take Action

Register to hear a replay of CEF Advisors' Q3 2024 review and outlook and download the slide presentation. The next quarterly call is scheduled to take place sometime in January 2025.

## About CEF Advisors

Closed-End Fund Advisors is a SEC registered, fee-based registered investment advisory firm founded in 1989 with headquarters in Richmond, VA. If you're looking for specialists in closed-end funds, look no further than CEF Advisors. For over 35 years, we've lived at the crossroads of CEF investing, research, and advocacy. We're dedicated to making investment decisions based on the freshest, most accurate information, hand-compiled by our data team. Whether you're looking for a fee-based registered investment advisor, searching for CEFs, BDCs, and interval funds or seeking detailed information to make your own data-driven investment decisions, trust CEF Advisors to deliver outstanding results.

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## About AICA

The Active Investment Company Alliance is a trade association founded in 2019 committed to educating and engaging investment professionals and investors about closed-ended management companies: listed and non-listed closed-end funds, business development companies, interval funds, and tender offer funds. As the industry's balanced spokesperson, we advocate for our member firms' funds, institutional investors, and seek to educate investors, and the advisors that serve them, about fund structures and specific strategies. Our primary methods of advocacy are through our weekly NAVigator podcasts hosted by Chuck Jaffe, video interviews with Jane King, articles, and events we conduct throughout the year.