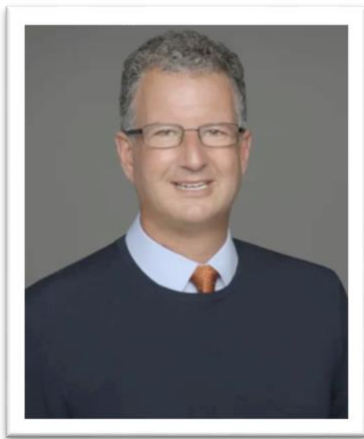




NAVigator Bonus: High Yield Trending Up, Tech Down And Cash Is An Alternative

Friday, December 9, 2024



Chuck Jaffe, in this bonus episode of The NAVigator podcast interviews Michael Lowenberg of White Mountain Capital, Portfolio Manager for the Modern Capital Tactical Income fund (ticker MCTOX). Michael discusses the factors he considers when picking closed-end funds for the portfolio. Lowenberg, whose fund buys both stocks and closed-end funds, likes the funds for their downside protection, and explains that he values the assets for the portfolio more than he values any discount, noting that he will actually buy funds trading at a premium if conditions are right.

He particularly likes high-yield funds right now, dislikes tech-heavy issues, and is a bit heavy in cash with discounts having narrowed in recent months.

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

CHUCK JAFFE: Hi, it's Chuck Jaffe, host of The NAVigator podcast from the Active Investment Company Alliance. Every weekday I also host an hour-long interview program called *Money Life*, and our show on December 9th features Michael Lowenberg, portfolio manager for the Modern Capital Tactical Income Fund. Because the conversation is all about the way Michael invests in closed-end funds, we wanted to make sure you got a chance to listen in, so here it is as a bonus episode of The NAVigator, enjoy! Michael Lowenberg, portfolio manager for the Modern Capital Tactical Income Fund is here, we're talking closed-end funds and it's Market Call time. Welcome to the *Money Life* Market Call, the part of the show where we talk with

Website: AICalliance.org ♦ **Phone:** (888) 400-9694

experienced money managers about how they do their job, what they look for that determines their buys and sells, what they see happening broadly on the market, and how they put it all together, and today we're turning to the Market Call but doing something different. Michael Lowenberg, he's portfolio manager for the Modern Capital Tactical Income Fund, MCTOX the ticker symbol. He's managing member at White Mountain Capital in Bay Harbor Islands, Florida, if you want to learn more about him, the fund, the firm, well, the fund and Modern Capital is ModernCap.com, White Mountain Capital is WhiteMountainCapital.com, and when I say he's back but not doing the same thing, that's because when he's been with us before he's talked stocks, but at the Modern Capital Tactical Income Fund they also buy closed-end funds. And since we have tons of quick and dirty closed-end fund requests, et cetera, and we don't talk about them as often, well, I asked if he would talk closed-end funds and he said, "Sure," so I'm particularly excited. Michael Lowenberg, it's great to have you back on Money Life.

MICHAEL LOWENBERG: Thanks for having me, Chuck. It's been a while but it's been a fun year.

CHUCK JAFFE: Yeah, well, any year where we're going to see this kind of gains, and especially have it be the second year in a row we're going to see this kind of gains, gonna be pretty fun. But let's dig in, and we always start with methodology, and so we need to know what's going to make closed-end funds stand out to you. What are the attributes you want to see? What are the things that make you go, "Yeah, no, I'm not going to that one"?

MICHAEL LOWENBERG: Well, where we always start from an investment perspective is our macroeconomic belief, where we think there's value in the market, because we're always a fundamental value investor. Once you have a thesis as to where you think there's fundamental value, then you've got to go and search the closed-end funds to find where you think there's a closed-end fund that fits that value that you've identified. And what's interesting about closed-end funds is now you have to factor in the liquidity of the underlying stock, the leverage of the closed-end fund, and either the discount or the premium for the underlying stock price versus the NAV.

CHUCK JAFFE: So from that perspective, when you're adding closed-end funds to the portfolio, how much different are the investment characteristics you're looking for there than when you say, "I want a stock"? Because of course obviously we've got premium and

discount, which is something you don't see in the stock world, but is it that you also want the diversification? Is it that you want full sector exposure? What would make you look at an area and say, "Here I want closed-end funds, but there I want individual securities"?

MICHAEL LOWENBERG: Well, ideally you want the closed-end funds because I think the most important aspect of the closed-end fund versus a mutual fund per se is that the closed-end fund during a volatile time period doesn't have to sell its underlying holdings due to liquidations. So I think their downside protection in volatile markets is really good because of that fact that they're just traded on the public markets and they're not forced to sell underlying assets at the worst possible time.

CHUCK JAFFE: And in terms of those characteristics, you talked about looking for discounts, there are a number of folks who when it comes to closed-end funds, they're never going to buy anything at a premium. They may buy at a narrow discount, but they're not going into the premium world. For you, are premiums a thing you're willing to pay or no?

MICHAEL LOWENBERG: I will pay a premium if the manager's history warrants it. When we look at some of the PIMCO funds, they traditionally trade at premiums. Also there's tech-heavy closed-end funds like CLM and CRF which pay off very large dividends which do trade at premiums. But I thought an interesting strategy for a closed-end fund trading at a premium is at the times you can take the cash as opposed to buying stock when the premium's very large, or if the premium shrinks and it's smaller, then you can then reinvest the dividend into buying more stock. So I think there's all sorts of strategies for handling closed-end funds that trade at a premium, and I wouldn't necessarily say you don't buy a closed-end fund at a premium. Some you would buy at a discount, and then the discount tightens and you would sell, but that's not always the case.

CHUCK JAFFE: In other words, what it really means is that you want the assets more than you want the, oh, let's narrow the discount?

MICHAEL LOWENBERG: Well, yes, I want the exposures to the assets. Also you need to study the underlying price movement of the stock and the price movement of the NAV, because oftentimes there's a disconnect. So the stock price could not be moving as much as the NAV, right? Or conversely, the NAV could be moving a lot and the stock price is not.

CHUCK JAFFE: So let's put it together with current conditions, what's a name or two that stand out to you right now?

MICHAEL LOWENBERG: Right now I like high yield, I've been surprised by the bond market. We thought when the government cut rates in the US that the bond market yields would drop more than they have, and clearly they're not, so I think the beauty of today's world is you're getting rewarded for fixed income. I think by and large some of the higher yielders give you some great protection, particularly in a market where equities have run up significantly.

CHUCK JAFFE: You talked about the bond market giving you some protection, in so many cases with closed-end funds you're also looking at leverage, with rates coming down, leverage burdens have come down. Is that going to make it that closed-end funds, particularly those that use leverage, are a little bit more attractive because you're kind of getting a discount on the leverage?

MICHAEL LOWENBERG: What I see is my overall feeling on what the market trend is towards, so in a market which I think is going to appreciate like it has the last couple years, I'm going to want to have a highly levered closed-end fund so I can increase the movements because they have a more levered portfolio because the market is accelerating. But in a market where there's a lot of downside risk, I want to do the opposite, so I'd want to have an unlevered closed-end fund to protect me on the downside.

CHUCK JAFFE: Interesting. Are there areas of the market that you just can't get into? Or maybe there are parts of the closed-end fund world that you can't get into because it's the combination of market conditions and, oh, by the way, there's no good discounts there too to make them more attractive?

MICHAEL LOWENBERG: Well, I think in general discounts have tightened, and we're not tech traders, so in a market like this where technology stocks represent I think 40% of the indexes, I'd be very concerned about investing in some of the tech closed-end funds because tech has run up significantly and the discounts have tightened.

CHUCK JAFFE: And what makes you sell? Once you've got 'em, what's going to be the conditions that make you say, "Okay, time to go"? How much of it is about the fund itself, how much of it is about the ability to find a better place for your money or a faster horse if you will?

MICHAEL LOWENBERG: For us, we look at each individual investment and we have a goal for it, and once we've achieved the goal we sell out, so it's not really whether we find more opportunities or not because one of the things that we prioritize is we're not afraid to hold

cash. I think a lot of times an ETF is fully invested and doesn't hold cash, so we're not afraid, if we don't like anything in the market, it's telling us it's okay to hold the cash. But per your question, it's really a function of we have a price target, once we've achieved our return we sell the position.

CHUCK JAFFE: Out of curiosity, what percentage of cash are you in now and how does that relate to your historical norms?

MICHAEL LOWENBERG: It ranges. We can range anywhere from zero to 30% cash. I would say our cash level is a little bit higher than usual at this point in time.

CHUCK JAFFE: And so above the top end of that range, you're above 30%? Or you're towards the top of that range and normally you're somewhere towards the middle or bottom of that range?

MICHAEL LOWENBERG: I would say we're closer to the top than the bottom.

CHUCK JAFFE: Interesting, and what kind of conditions will make you change that? Is it just about where we're going to find better opportunities? It's we've got a market that's overbought and we're going to wait till it's a little better valued?

MICHAEL LOWENBERG: I think it's more we need a clear indication of the policy changes in the United States and the geopolitical risk. We're at a very interesting time but we have one party that's now going to control the government, so we just have to see what policies they implement and then we'll invest accordingly as they implement the policies.

CHUCK JAFFE: Is there a poster child, a closed-end fund or two that stand out to you really as the exemplar for what you want to be in?

MICHAEL LOWENBERG: I don't think any particular closed-end fund because we're not married to any investment or any asset, so I would never say which fund, I would talk about some of the interesting characteristics of a closed-end fund. I think GUT is a very interesting fund because they pay a large dividend, the stock traded at 100% premium to the NAV, and I kept saying to myself, "How are they going to continue to pay a large dividend if they don't have cash? It's going to wipe out the NAV," and what they were able to do is actually do a rights offering at a lower premium to the NAV. So that's something that's kind of interesting to me because now you have a lot of new money that's come in at an entry price which is a premium to the NAV and yet at discount to its traditional premium to the NAV, and pays a large dividend.

CHUCK JAFFE: And GUT for my audience--

MICHAEL LOWENBERG: And it's by Gabelli.

CHUCK JAFFE: Yeah, Gabelli Utility Trust is GUT. Now we're going to get your quick and dirty take on some closed-end funds that my audience is particularly interested in. You should have a good feeling about what you are hearing from my guest Michael Lowenberg, he is portfolio manager at the Modern Capital Tactical Income Fund, it is ticker symbol MCTOX, ModernCap.com if you're looking for more information. You know how Quick & Dirty works, send us your requests, we're going to start with a request we got from Javier in Wilmington, North Carolina. He wants to know about one of those PIMCO funds, it's PDO, the PIMCO Dynamic Income Opportunities Fund.

MICHAEL LOWENBERG: I would rate that a strong sell. It's just not performed well. It's a fairly new fund and it's underperformed since inception, so it's time to sell.

CHUCK JAFFE: Out of curiosity, when you have a company like PIMCO, a big player in closed-end funds that has performed fairly consistently, if you wind up seeing a fund that's not performing the way you expect in the family, let alone within the asset class, is that much more of a warning sign to you?

MICHAEL LOWENBERG: Yes. If it's just because it's a great family, and PIMCO's a great manager, they have PHK and a bunch of other funds that do trade at a premium but offer excellence performance, this fund in particular just hasn't performed that well in our opinion, right? So we would sell it.

CHUCK JAFFE: That's a sell on PDO, the PIMCO Dynamic Income Opportunities Fund. Andrew in Cary, North Carolina, and Andrew, I haven't heard from you in a while because Cary's right where my kids live and I was traveling there, so I thought I'd hear from you again, but he wants to hear about CII, that's the BlackRock Enhanced Capital and Income Fund.

MICHAEL LOWENBERG: We rate it a buy. I think it's a technology fund that holds a lot of technology stocks that actually has a decent discount relative to some of the other closed-end funds with technology that I think of, such as CRF or CLM, so we would rate that a buy.

CHUCK JAFFE: Well, last one was sell it outright, this one buy it outright. CII, BlackRock Enhanced Capital and Income, that's a buy. Our next two requests come from Dave in Jacksonville, Florida. The first, well, you mentioned you like high yield, this is the NHS, the Neuberger Berman High Yield Strategies Fund.

MICHAEL LOWENBERG: We like NHS and we like high yield. We think what's nice about the bond market, unlike the prior 15 years, is the yields are properly priced, you're getting the reward that you deserve for taking on the risk, so we would buy NHS.

CHUCK JAFFE: That's a buy on NHS, the Neuberger Berman High Yield Strategies Fund. Dave's other request, ASGI, the abrdn Global Infrastructure Global Income Fund, whose manager Josh Duitz was recently on the show and on The NAVigator when we talked to him at the Active Investment Company Alliance's Fall Roundtable in New York about a month ago.

MICHAEL LOWENBERG: That we would sell, and that's a function of the discount has tightened significantly. We like global infrastructure as a play, but the discount tightening means that he's done a great job, but for our perspective it's time to sell. It's met its expectations.

CHUCK JAFFE: Exactly. You've done well, that was a sell, but a profit taking sell for good reasons on ASGI, the abrdn Global Infrastructure Income Fund. And our last request today comes from Kim in Sharon, Massachusetts, and Kim, I know you have been waiting ages, I hope you still listen to the show because this request has been on here for a long time, but it's for the Korea Fund, ticker symbol KF.

MICHAEL LOWENBERG: I like Korea Fund. I look at an exogenous event such as martial law being declared for a day in South Korea and the market's tumbling to me creates a buying opportunity because it's nice to get this opportunity where you take the other side. This is not going to go on forever and things will calm down in the South Korea markets and then it'll return to its normal valuation, so I consider that a strong buy right now, and it's at a nice discount to its NAV.

CHUCK JAFFE: So there you go, despite all of the turmoil and all of the headline risk and everything else, Korea Fund, ticker KF was a buy. And speaking of good buys, well, we've got one more goodbye to talk about, it's the one where I say our goodbyes to Michael Lowenberg, but Michael, this was great, thank you so much for joining me.

MICHAEL LOWENBERG: Thank you, Chuck. Have a Happy New Year, happy, healthy holiday season.

CHUCK JAFFE: And you too. Michael Lowenberg is portfolio manager at the Modern Capital Tactical Income Fund, ModernCap.com. He is partner at White Mountain Capital which is

WhiteMountainCapital.com to learn more about the firm, and again it is ModernCap.com to learn about MCTOX.

Recorded on December 9th, 2024

To request a particular topic for The NAVigator podcast please send an email to:

TheNAVigator@AICalliance.org

Click the link below to go to the home page of Active Investment Company Alliance to learn more:

<https://AICalliance.org/>

Disclosure: *Views and opinions expressed are for informational and educational purposes only as of the date of production/writing/speaking and may change without notice at any time based on a multitude of factors. Speaker's/presenter's/author's opinions are their own and may not necessarily represent the opinions of AICA, its Board, or its staff. Materials may contain "forward-looking" information that is not purely historical in nature, such as projections, forecasts, market return estimates, proposed or expected portfolio composition, and other items. Listed closed-end funds and business development companies trade on exchanges at prices that may be above or below their NAVs. There is no guarantee that an investor will be able to sell shares at a price greater than or equal to the purchase price or that a closed-end fund's discount will narrow. Non-listed closed-end funds and business development companies do not offer investors daily liquidity but rather offer liquidity on a monthly, quarterly or semi-annual basis, often on a small percentage of shares. Closed-end funds often use leverage, which can increase the fund's volatility (i.e., risk). Actual distribution amounts may vary with fund performance and other conditions. Past performance is no guarantee of future results. This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. Shares of closed-end funds are subject to investment risks, including the possible loss of principal invested. Closed-end funds frequently trade at a discount to their net asset value (NAV).*