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Bonus NAVigator: Bulldog Investors' Goldstein On The State Of Activism

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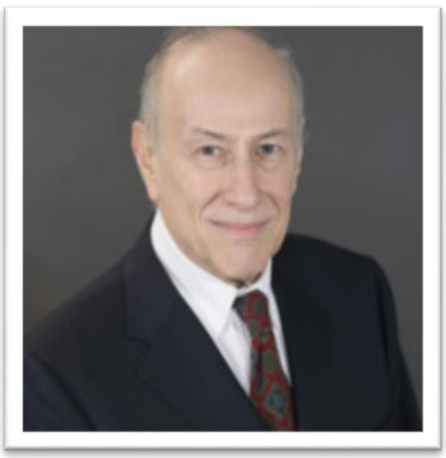

Long-time activist investor Phil Goldstein of Bulldog Investors sat down with NAVigator host Chuck Jaffe at the Active Investment Company Alliance Fall Roundtable in New York City on Nov. 19th to discuss the current state of shareholder activism and why there seems to be so much less of it than there was just a few years back. While there have been moves and regulations that have made it harder for activist moves to succeed, Goldstein also says that there has been better fund management, resulting in less opportunity/need for activists to get involved.

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. In my role I get to participate at AICA's events, and I went to New York City on November 19th for the group's fall roundtable, here's a conversation I had there with long-time activist investor Phil Goldstein of Bulldog Investors. Since we know you're interested in closed-end funds, we didn't want you to miss it. Here it is as a bonus episode of The NAVigator, enjoy!

Welcome to the Active Investment Company Alliance Fall Round Table, I'm in New York City at The View at the Battery, which is where the event is being held, and I'm joined right now by Phil Goldstein. Phil is founding partner at Bulldog Investors, and if you want to learn more about Bulldog Investors, they are activist investors, you can go to BulldogInvestors.com. Phil, thanks so much for taking the time out.

PHIL GOLDSTEIN: Thanks, Chuck.

CHUCK JAFFE: The last time I talked with you it was the summer of 2021, we were talking after one of these events, and at the time you said that narrowing discounts and regulatory and legal changes had made it tougher for shareholders to find targets where they could mount a viable campaign as an activist shareholder. And at the time by the way, we were dealing with a law that was proposed in Congress that would have made activism even harder. You felt at the time that activists would adjust and continue to bring action in cases that required activism, but it does feel to me as an observer like activism has changed in some way. So what is the state of the activist shareholder right now, and has it gone from what was a bleaker outlook in 2021 to a better outlook or is it just a different outlook because activism has maybe changed?

PHIL GOLDSTEIN: I think the latter. Obviously the biggest change has been the emergence of Saba, which has a lot of capital to be able to employ activist techniques that take very large positions and challenge even major investment managers like BlackRock. The average activist can't emulate that because they've been involved in a significant number of lawsuits and they have the firepower to handle that, and they've been fairly successful at that but that's a big risk that you might have to spend a lot of money, because the funds are spending your money to sue you, or vice versa, to defend themselves. But Saba's dominance of the activist market has pretty much put everybody to the side, we are probably the only other firm that's still activist, and we haven't been that active in closed-end funds. A little bit, we did run a proxy fight last year which we won against a BNY Mellon municipal bond fund, which turned out successfully, they merged the fund into an open-end fund. And we have a couple of other irons in the fire, but the other reason why activism is a bit subdued is that there's not a lot of funds that are trading at sizeable discounts, and after all, the goal of the activists in closed-end funds is to try and find funds that are trading well below their net asset value, maybe poor performing funds, and hopefully push management to address the discount or eliminate it. So without a lot of funds trading at very wide discounts, there's just not a lot of targets out there.

CHUCK JAFFE: There have been funds trading at wide discounts, but they haven't been consistent. Do you need that fund to be at a wide discount for a fairly long stretch of time for it to be worthwhile?

PHIL GOLDSTEIN: The answer is that certainly helps. The reason is almost, well, to me it's almost obvious, is that first of all, it takes time to accumulate in order to make the effort to close the discount worthwhile, so if the discount is going to be very volatile, you might sit on something, an investment, it's dead money. So the answer is yes, certainly the easiest targets are, well, to point to the four things, a wide discount, a persistently wide discount, poor performance, and a shareholder base that would like to see the discount narrowed. So if you have all those, you're probably looking at something that's a good target for an activist, the fewer of those qualities that you see, the tougher it's going to be.

CHUCK JAFFE: Is that lack of targets something that's cyclical? I'm not calling you old, Phil, but you've been doing this for a while, so have you been through periods where you said, "Yeah, there's nothing here," and then they always come back? Or is this something about the new and changed closed-end fund industry that has just made it that you really have to be an outlier to be a target?

PHIL GOLDSTEIN: You know, sometimes there's a sector, and it's unpredictable, where it just becomes out of favor. Like a few years ago, the energy sector, there were about 20 funds that invested in oil and gas, when that sector became out of favor, when I think we had a democratic administration and everybody was talking about global warming, many of those funds went to 20% discounts and higher, and you just had an excess supply so they became prime targets for closed-end funds. I would say there's probably only a handful, maybe three or four or five of them, there were probably over 20, so either through activism or the fund management itself taking action, they've sort of gone by the wayside. Is there going to be another sector that falls into that category? Well, I'm not going to make any predictions, but it wouldn't surprise me if we had this interview five or 10 years from now and you had a whole slew of artificial intelligence-oriented funds and all of a sudden they went to a big discount, maybe there's a bubble. I don't know, I'm just throwing out a hypothetical, but that's just too hard to predict. I have a saying that your success in life depends more on your perception of reality than what you would like it to be. Would I like to see a lot of targets? Yeah, but there's nothing I can do to create that. We have been active in other areas outside of closed-end funds. One area, by the way, which I think has picked up a little in activism, and I could see it picking up more, which are closed-end funds, are the BDCs, they've had a real bad run, you've seen discounts blow out in some cases to 50%. I think when you have a BDC or a closed-end fund that trades at a discount of 40-50%, it's almost inevitable that it's going to attract an activist, so we'll see, you know? We'll see if those persist.

CHUCK JAFFE: You know, I asked if activism had changed, and you mentioned Saba Capital, I know you're not going to say too much about another activist investor, but there have been some criticisms by folks who have been watching the industry for a while, that in the older days an activist investor, yes, they wanted to improve the discount but they wanted to improve management as well. At least that was the "raison d'etre", the reason to exist for an activist, was not just about the discount, it was make this thing function better; look, it's inefficient, or whatever, and now most activism seems to be just, get me the discount, clear it out and be done with it. At least that seems to be, as an outsider, Saba's methodology. Are we losing that kind of methodology or that kind of activism, where the activist cared about management?

PHIL GOLDSTEIN: No, I don't think we are. Look, we can look at Saba, I think what you're really seeing is a lack of activists, there's not that many of them. Really if you ask the folks at this conference, who are the activist firms in closed-end funds? They'd say Saba and Bulldog. So it's hard to extrapolate from that to form the conclusion that you just suggested, there's just not enough data out there, but certainly there's nothing wrong, you want to improve management, you want to address the discount. One thing that I didn't mention before that has changed over years in my experience, has been the willingness of managements and boards to engage in negotiations with the activists. We personally have seen it, I'm sure Saba has, well, we know they have because you can see certain settlement agreements, and I think that's a good thing, it saves everybody money if you can come to a meeting of the minds. So I expect that, I'll go out on a limb and say I expect negotiations and settlements to be a permanent fixture of the closed-end fund space.

CHUCK JAFFE: Well, that would be a kinder, gentler form of activism. Last question, because you mentioned, since you brought up the prospect of if we're doing this in five or 10 years that we might see the AI fund. Closed-end funds have been expanding into more areas, et cetera, as an observer of the industry, does that trend continue? Will we wind up seeing the AI pure play closed-end fund?

PHIL GOLDSTEIN: You keep asking me to make predictions, Chuck. You know, Yogi Berra said, "It's very hard to make predictions, especially about the future," but I'll go out on a limb and say, yeah, I think so. And the reason I say that is because one of the other areas that Bulldog invests in is SPACs, and we have seen, when SPACs come out, which I'm not going to go into a long-winded description of SPACs, but when SPACs are coming out they're often coming out into whatever area is hot. So the SPACs that have come out, and there's been a lot of them this year, what are they focused on? AI, crypto, rare earth, everything you read about in the newspapers because that's what attracts people's attention. A few years ago it was things like fintech or healthcare or certain drugs, restaurants, oh, a hot one was sports teams, so a number of SPACs with sports teams. So I think closed-end funds, while they don't move as quickly as the SPACs, I can see them certainly going into areas that are getting the publicity. I mean, we heard some talk today about AI, so yeah, it wouldn't surprise me if you had an AI-focused fund. If I was launching a fund, that's what I would do.

CHUCK JAFFE: Well, unfortunate for those of us who like watching fun stuff in the industry that you're not launching a fund, but it will be fun to watch how you respond if and when that happens. Phil, thanks so much for taking the time to join me.

PHIL GOLDSTEIN: Thank you, Chuck.

CHUCK JAFFE: That's Phil Goldstein from Bulldog Investors, BulldogInvestors.com if you're looking for more information.

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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/

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