November 2023 Live Event-AICA Fall Roundtable Industry Track Panel #7; "Institutional Investor Perspective for Closed-End Funds"

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Sara Levine, Director with WallachBeth, moderates the seventh panel of the AICA November 15th, 2023 live event; "Institutional Investor Perspective for Closed-End Funds". Read the transcript below to hear the discussion among Ms. Levine and panelists Derek Pines, Senior Managing Director and Portfolio Manager with Bramshill Investments, Carolyn Murphy-Lepore, Portfolio Manager with City of London Investment Management, Douglas Bond, Executive Vice-President with Cohen & Steers, and Rob Shaker, Portfolio Manager and Chief CEF Strategist with Shaker Financial.

Sara Levine

Derek Pines

Carolyn Murphy

Douglas Bond

Rob Shaker

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Sara Levine: Thank you all so much for being here. I'm Sara Levine, I'm with WallachBeth, I work on our cross-assets solution team, so I work with our closed-end fund team, ETFs, derivatives. For those of you familiar with WallachBeth, you probably know Marc Loughlin, unfortunately he couldn't be here today so I'm filling in for him. I'm a poor man's substitute for Mark, so bear with me, but I think this is going to be a great panel.

This is really something that we're very excited to present today because this is talking about institutional perspective around closed-end funds, and we have some fantastic industry veterans here who are going to be bringing a couple different points of view for all of us in the room.

Even if you're not an institutional investor, I think there's going to be a lot of lessons or things that you can take back to your team and potentially implement in the year ahead. Derek, do you want to kick it off with the introductions?

Derek Pines: I've been in the business a little over 25 years, or right around 25 years, I've been on the buy side basically my whole career. Currently I'm a portfolio manager, for the last 12 years I've been a portfolio manager at Bramshill Investments. We manage a little under $5 billion, I manage our flagship income performance strategy. We're an alternative investment manager though, so we go across several different asset classes within fixed income. As far as this panel goes or closed-end funds go, we look at them as a security type or a security structure that we can invest in within our five asset classes. We're definitely not a dedicated closed-end fund manager, but we will at times be very active in closed-end funds and at times we're pretty dormant.

Carolyn Murphy: Hi, I'm Carolyn Murphy, I'm a portfolio manager at City of London Investment Management, and we are a closed-end fund shop, that's pretty much all we do. I'm part of the emerging markets team, we also have developed frontier, opportunistic value, and REIT teams. I've been at City of London on this for about 17 years.

Douglas Bond: I'm Doug Bond, I am a portfolio manager at Cohen & Steers and I manage the Cohen and Steers Closed-End Opportunity Fund, which has to be 80% in closed-end funds at all times, as well as a couple institutional separate accounts that are focused on the income and total return opportunity in closed-end funds. I've been at Cohen & Steers since 2004, and before that was at Merrill Lynch for a bunch of years.

Rob Shaker: Hi, my name's Rob Shaker, I'm the portfolio manager at Shaker Financial. We're an investment advisory firm that manages separately managed accounts, almost exclusively in closed-end funds. Our main trading strategy is what we call discount capture, in which where we're buying closed-end funds at a wide level, holding them until they narrow so we can get an additive by selling them and replacing them. We stay fully invested in all our client accounts, but through that additive we're able to create better returns than you would with a buy and hold in an open-end fund or ETF.

Sara Levine: Great, thank you all. It's our hope that we'll keep this a casual conversation, so feel free to jump in as you hear things. Derek, let's kick things off with you. As an alts investment shop, how is your team evaluating some of these strategies? What are you looking at? What are your signals, loan values, rich versus cheap, et cetera?

Derek Pines: Sure. Well, I guess I would start off by saying as an alternative investment management we go across five different asset classes at least within fixed-income. Our first step is, I would say top-down we're looking at relative value at the asset class level, so we're looking at, okay, we run several quantitative models, what asset class is screened cheap and where do we want to be? Once we decide we want to be in one of those asset classes, say for example, preferreds, corporates, IG or high-yield munis, once we make that decision we want to be in that asset class or we don't want to be in that asset class, then closed-end funds would be a security

type along with just traditional cash bonds or ETFs that we would choose from. That would be the first step from a top-down perspective.

The second way that we would be in closed-end funds would be looking at them just from bottom's up, as just an individual rel val, so just an individual security, almost like we would look at a company and say, "Well, those credit spreads are too wide and we like where that business is going." That's a bond we want to invest in, we like a lot of things about that bond. We do that same thing through screens and some quant models on the closed-end fund universe and we'll look for opportunities there where we might hate an asset class. So for example, we don't like munis, we haven't for about two years, but we're very active in muni closed-end funds as of a couple weeks ago. That's a rel-val opportunity that we saw, that even though we didn't love the asset class we liked the individual security type.

Sara Levine: Sure. Okay, and so to go one step further, you didn't love munis but now the tide has changed. How often are you refining those signals and what goes into that decision in your internal processes?

Derek Pines: Sure. And just to clarify, we didn't like munis, we still don't really like munis, but the closed-end funds within the muni universe screen cheap for us.

Sara Levine: Sure, so you love to hate them.

Derek Pines: Yeah, that's a daily thing. I would say we run quant models at the asset class level daily, but really weekly we're really looking at them as an investment team. Our closed-end fund model is run pretty much weekly as well, so we're constantly looking at things. I would say daily we're making those decisions and discussions. We're a 16-person investment team and then we outsource some of our research, but the reality of it is we're small enough and nimble enough that we're meeting every day about our portfolio and we're making decisions real time every day.

Sara Levine: That makes perfect sense. Okay, so Carolyn, we're going to turn things over to you. I know historically, City of London I think has been grouped in with the activist investor community, but that doesn't really feel like the correct description for your group and your strategies. So do you want to talk a little bit about how you're viewing the space, what your team utilizes, and if there's anything around wider corporate governance that the audience could potentially borrow from?

Carolyn Murphy: I think some of my colleagues, and Barry Olliff, who was our founder, is, I shouldn't say was, Phil name dropped in the last panel. He would really bristle at the activist label, he was not a fan of that. It doesn't bother me as much. Mostly because I think if we're there, if we're talking to a board, if we're engaging, there's a good reason for that. Being a firm that started in the UK and came over, here the standards for corporate governance in the UK are quite a bit stricter and at an elevated level than what we have here in the US. It's been more of a journey of bringing over that kind of sensibility to the boards that we engage with here in the US.

In terms of sometimes just basic things in terms of shareholder outreach and saying, “Talk to your shareholders.” I think when City of London came over to the US initially and they would try to get in touch with the boards, the boards wouldn’t even speak to them. It was like “Don’t ever talk to shareholders” seemed to be a rule, and obviously that has changed quite a bit, which is great. Yeah, I think what we do is we just try to educate, we have a statement on corporate governance we’ve been producing for about 15 years, it’s up on our website if anybody wants to look.

It spells out our principles. We are a long-term investor. I was just talking to someone out in the other room about that label of long term versus short term, nobody ever seems to be able to put a year on what a long-term investor is versus short term. I’ve been at the firm for 17 years, there are positions we hold, we have held since I joined, and we still hold them, so we’re definitely long term. If we’re talking to a board, if we’re trying to work with them and saying, “Do something about the discount,” or “Do something about the poor NAV performance,” that’s in the interest of a long-term shareholder. We’re trying to make these funds perform as well as they can and have good governance and good discount control.

Sara Levine: I love that approach. Do you guys have any thoughts on that? Do you guys work with any of your other clients or try to partner with them in that way? Rather than pushing them, but make it more of a conversation or a partnership?

Derek Pines: Yeah, easy for us, no. We’re not an activist, it’s just not our core competency. We stay out of that.

Rob Shaker: I’d say from our point of view, we’re almost the opposite in that we want to be as short term as possible. Like Phil, we want to get paid right away.

Sara Levine: I was going to say. I love that line, I’m going to have to use that.

Rob Shaker: We like to buy a fund, and if we can get our discount capture in a week or two, that’s the best world for us.

Sara Levine: Perfect. Okay, so Doug, we’re going to turn it over to you.

Douglas Bond: We’re not an activist.

Sara Levine: Oh, no, no, no. We’re moving onto the next question.

Douglas Bond: We had to agree to that [inaudible].

Sara Levine: Yes, perfect. Great disclosure. We’re going to talk a little bit about interest rates now and the current regime. How is that impacting your team’s strategy? And how do you think that that’s differing from other time periods like 2004, 2007, and other times of tightening?

Douglas Bond: Yeah, we’ll go when Phil launched his first activist campaign in the 1990s, that was when I first bought a close-end fund. That was my experience of the first time after-leverage

closed-end funds came into being really in a big way in the early 1990s. In ‘94 there was a gigantic bear market in bonds, and ‘94 came after record issuance in ‘91, ‘92, and ‘93 of leveraged closed-end municipal bond funds. And so short rates went up a tremendous amount, the long end of the curve backed up a tremendous amount, discounts blew out on these newly issued levered closed-end muni funds, they were selling at 20%+ discounts.

And so when I think about interest rate environments that are comparable to what we've seen in ‘22 and here in ‘23, I mostly think about my maiden voyage experience of seeing these new issues that people couldn't get enough of with these juicy yields. And then the juicy yields disappeared because the cost of borrowing rose by 200 to 300 basis points, and that's sort of what has happened recently. And the historical playbook on the muni funds has panned out a little bit, like they've cut their distributions between 35 and 50% since the end of ‘21 on average.

But to me the biggest difference today that we didn't deal with in ‘94, ‘95, we didn't deal with in the ‘04, ‘07 period or other rate backup periods is inflation. And so to me that's the biggest challenging of handicapping where you want to be as an investor in, say the last 12 months or the next 12 months, and I think where we've come out on that question is that we're not necessarily believers that we are at the beginning of a 40-year bear market in bonds, but we're probably more along the lines of inflation's going to run higher than it has in the last 10 to 20 years. And the rate market on average, the 10-year Treasury is going to be higher than it's been more recently. And if we have relatively a warmer inflation climate, then probably at the margin from an asset allocation standpoint, that's going to maybe mean you want to own more equity in your portfolio, because at least if there's more inflation, companies are able to raise prices and earn great nominal profit.

Obviously that changes, so we're sensitive to the notion of the fact that, say to Derek's point earlier, he hates muni bonds but he likes muni closed-end funds. I can understand that dichotomy, we haven't really liked or munis or muni closed-end funds, but we can't necessarily argue with the history on valuation. Which is basically that they're, at least as of two weeks ago, they were as cheap as they've been historically, other than five days in 2020 and the fourth quarter of 2008 in the bottom 1% or half of 1% of all evaluation observations over the last 27 years.

So there's a case to be made for those, but on balance I think we're in a little bit higher inflation world, a little bit higher rate world. And unless you are a big believer that there's a recession around the corner, you can poll your favorite Wall Street economist, or a handful of them, and you'll find some with those recession forecasts. Unless you're a big believer in that, I think at least in the intermediate term, equities is sort of the asset class of preference.

Sara Levine: Absolutely. I'd be remiss as someone who works on a cross-asset desk if I didn't ask, outside of your closed-end fund allocations, what other investment vehicles, ETFs or what have you, are you utilizing to augment those performances?

Douglas Bond: We have to be 80% in closed-end funds all the time, we use ETFs when we think the ETF can deliver a superior investment experience for shareholders, or the closed-end fund market itself just doesn't offer the market exposure that the ETF gives us. In certain

instances, to a degree, so we own a couple S&P 500 index funds and for us that's a liquidity valve for us to use when and if closed-end fund discounts blow out. And we can get NAV for our S&P 500 shares and get involved in closed-end funds that have blown out to a 1.5 standard deviations or two standard deviations cheap to where they've traded historically.

Derek Pines: I was just going to say, Doug, they have to be 80% in closed-end funds, so whereas we can be zero. For the last two years it really hasn't been a place where we've been too involved. As everyone in this room obviously knows, when you have the Fed moving frontend rates higher and nominal yields going higher, it's just not a great place to be, in a fixed-income levered fund.

We've been fortunately able to avoid those, but now I think we're getting at a point where, well, one, I'd say where are we seeing other opportunities? I think we've loved fixed to floating-rate preferreds, we think that's a great place to supplement a portfolio, investment grade corporates in the last maybe month have really started to screen cheap, although notwithstanding the last week, they've really rallied so I don't know how much I'd be chasing there.

But closed-end funds, I think in an environment where if you believe that the Fed has gotten to peak rates and you believe that if the 10-year's going to be range bound, to Doug's point, we're going to run a little hotter inflation. But okay, maybe the 10-year, could it go to 5% or a little north of 5%? Yeah, but I'm with him, I don't think we're in a 40-year bear market and it's just going to all reverse what's happened for the past 40 years, even though if we run a little hotter, but if you believe that, the Fed's you know, kind of here, and you believe that rates are going to be range bound, then I think this is probably starting to be a decent entry point for closed-end funds if you have those extreme discounts. There's a lot of variables we look for in closed-end funds, not just the discounts to NAV, but one of them is certainly you got to see at least double-digit discounts for us to really start to think of them as an attractive discount.

Sara Levine: Sure. Did you have anything you wanted to add, Carolyn, Rob?

Rob Shaker: No, just in terms of rates, everyone on this panel and probably everyone out there is smarter than me when it comes to these kind of things, which type of bond should you get into? What we do and we know is discounts, right? And that's what we totally focus on, we try and stay balanced across our accounts. We're not making sector calls but we're working with discounts. Which I think then leads to the really interesting thing of this recent timeframe, which is what do rates going up and down, rates doing this, the Fed's saying this, have to do with discounts?

And it brings us back to a fundamental thing that everyone should know about closed-end funds, and especially discounts, that they're irrational. So just know that now, okay? You're going to be reacting a lot of the time when you're dealing with things because you can't really predict, because they're irrational. And you start seeing patterns though, and this pattern has been very clear over the last year or so. When rates go up a little bit more than people are thinking, there's a little bit of a panic in closed-end funds, and you'll see the bond funds widening their discounts dramatically.

To see how rational that is, closed-end funds are the ones that are widening when they're the ones that have the fixed capital structure that don't have to worry about duration. They can hold to duration. But that's what happens, so you see this widening. And we can even just go back to the last month and a half, what happened in October? Rates were going up, people were kind of worried about rates, that all you heard about, it's all you heard about. Bonds went all the way down, from the way we measure them, from about a 6% discount to about a 9% discount on average. Some of these things that have traded in premiums for years and years, they went down to 4 or 5% discounts. Steve O'Neill bought a whole bunch of them I'm sure, when they did, because that was one of the signs.

And then what happened? The light switch flicked, November turned, whether or not it was because of mutual funds ending their tax-loss selling, whatever. Boom! Three days, they got it all back. All that whining turned back in three days. So you can't really figure out why or wherefore on that, but that's the kind of things that we're tracking all the time, that's the thing that I think we're most aware of. Is that these days that type of thing not only has the effect on the smart things, which is what you should be worried about too, your asset allocations, but also just this broader sense of where closed-end funds are going and their discounts are moving.

Sara Levine: I love that. Let's follow up on that, so you're talking about your discount capture and how your team's evaluating that. Is that a single space approach similar to Derek's team? Or how do you guys and then how often are you refining that process?

Rob Shaker: We track it minute by minute. And so an example, you can just take the most basic example, ADX is a great thing. If you're ever talking with people about closed-end funds, you can talk about ADX because it moves with the S&P 500, this and the other, you can hedge it if you wanted to. It's a perfect thing, like he was saying, when you sell it and you need something to replace it, then from there I'll by SPY, and then when it's ready to go you sell your SPY and you buy your ADX.

If you're looking at it like we would, okay, here we are, we're going to buy it at a 15.5%. We have real-time models saying what ADX is doing versus the price. If we can get it at the 15.5% we're going to buy it, and then hopefully like I said, a week later if it's at a 13.5% we're going to sell it and then buy something else. We have a saying, KISS, keep it stupid simple. The beauty of what we do is it's just that's all we're worried about. I'm not going to worry about did the manager have a good week last week or this or the other? Or sometimes Phil's doing something with them, but generally I try to avoid worrying about what Phil's doing with it. Just keep it stupid simple, that's what we're going to do.

Sara Levine: I love it. Okay, great. So this next question I'm going to pose to all the panelists, and this is something that's top of mind for me every single day, and that's around liquidity, particularly as it applies to the closed-end fund ecosystem. So I'd love to hear how, and we can kick it off with you, Derek, how your team is evaluating liquidity, how your strategy to tap into liquidity has evolved over the years, and if there's anything the audience could potentially borrow from your team.

Derek Pines: Yeah, I don't know if I'm going to have any great insight for anybody. I think liquidity has just gotten worse in financial markets from 25 years ago to 10 years ago to even five years ago, we just have these conversations and it's constantly top of mind. We've actually created a liquidity team internally just literally to have a meeting once a month and discuss all of our positions and discuss our strategies on how we're adding, how we're subtracting, how we plan on ever getting out of them if we want to. It's very top of mind with us.

The sell side just started with Dodd-Frank in '08, '09, and they've just continued to really pull back it seems where they just don't want to take that risk anymore. The good thing about that is I think it's made really a competitive advantage for firms like ours. I don't want to speak for the other members of the panel, but I think firms like ours who are there to fill that liquidity void. And I think things have gotten more volatile because of that, but I think it also provides just ample opportunities if you can be patient, if you get to high ground at certain periods and then move quickly.

Within closed-end funds specifically, we've really honed in on two different types of liquidity, and what we do what we do for all of our exchange-traded products, not just closed-end funds, but we've built some custom algos and then we've worked with our exchange-traded counterparties who we can implement a lot of these things with. And just to be efficient as possible, looking at many different metrics. When we're involved in closed-end funds we're typically trading more than the average daily volume, so we really need to be careful about pushing things around.

The second way would be finding counterparties that trade them OTC essentially. I'm sure we're trading with or against each other at times, as people on this panel or in this room, where we're all together providers liquidity of and hopefully our brokers can bring us together and find right levels. It's not always that we may be doing something, we may be moving out of position for something that has nothing to do with why someone else is buying it. So it's not always that I think we're in competition so much, is we just have different agendas at that time.

Sara Levine: Right, it's not always moving in the same directional pattern that can offset, great. Carolyn, do you have anything you wanted to add?

Carolyn Murphy: I was just thinking, I agree with Derek. Liquidity has gotten worse over my tenure, and I was thinking how odd it is that we have more ways than ever to trade and more places to source volume, and yet it actually has gotten worse somehow. But that said, you just keep plugging away, and we haven't found that we really have difficulty at the end of the day achieving our goals despite that.

Sara Levine: That's great. Doug?

Douglas Bond: I love the illiquidity of the closed-end fund market. I think to me you need to think about closed-end funds as micro-cap stocks, because rarely do you find one that trades more than, say four million dollars' worth or five million dollars' worth in a day. Fortunately I have a dedicated trader who works on the execution of our orders, and I would say as a general

matter, we don’t want to be more than five to 10% of the average daily volume, otherwise we think we’re going to be leaving a footprint.

One thing that I do love about the closed-end fund market is that it does periodically give you a shot to be a liquidity provider. So when Rob is talking about those panic instances where the 10-year’s backing up 60 basis points in seven trading days and everybody thinks that the 10-year’s now going to go to 7.5%; and closed-end funds that usually trade at five to 10% premium to NAV go to a 5% discount and trade six million shares in a day, you can step in and be a liquidity provider. As long as you know that that’s what you’re doing and know why you own it, and what’s going to be the signal for you to reduce that position, I’d say it’s a strategy to be prepared for. It’s not core to what we do, but the market does periodically give you those opportunities so we look for them.

Rob Shaker: I agree 100%. But even at a smaller level, and just in case, I feel like I need to say this every time I’m on a panel, there’s no reason ever to enter a market order on a closed-end fund. No matter how small, do not ever order a market order. But yeah, at that level, even on certain days it’s a little bit, but it’s illiquid, it’s part of the irrationality. And I love what he said, people have different reasons for doing things, so sometimes somebody will be selling something, maybe they’re being lazy and they push it down a percent or something like that. They’re not worried about the discount, that’s what we’re worried about, it’s a nice mix.

Sara Levine: Great. Okay, so moving onto our next question. I know the holidays are coming up but I know at WallachBeth that actually means tax-loss harvesting season, not sure if you guys celebrate. That was a bad attempt at a joke. But Doug, let’s talk about tax-loss harvesting. Is that something that you are applying on a seasonal basis or is that a strategy that you think could be implemented year round?

Douglas Bond: I guess what I would say, this whole tax-loss selling, it usually comes up October, November, December. People talk about it, they usually talk about it after the capital markets have been horrendous and there’s blood in the water, people have lost a ton of money. I would say the closed-end fund market today, lots of parts of it have been in distress for the better part of 20 months, so I’d say 2023’s probably a time where there’s a fair amount of tax-loss harvesting that occurred in 2022, there’s a fair amount that’s occurred here in 2023. Maybe the recent rally that we’ve had in the capital market means that people that are doing it now between year-end have less of it to do.

And there’s certain parts of the closed-end fund market that are the offsets for the losses suffered in bond funds and other parts of the market, but there aren’t that many. So I think there’s plenty to be done, but I think probably most of it’s already been done. It’s not really core to what we do but, hey, at this time of year, if you think muni discounts are going to compress further from how they’ve already come in, there’s plenty of funds that you could sell at a 12% discount and find another one that’s trading at a 13% today with a different name, and that’s a legit tax loss.

Sara Levine: Sure. Rob, did you have anything you wanted to add on tax-loss harvesting?

Rob Shaker: Most years you do see it. I'm not sure how your holiday season works where you work, but I've always had the sneaking suspicion that it works this way. So you can tell me if I'm wrong, but I always feel like you're told you can go home for Thanksgiving as soon as you finish your tax-loss harvesting. Because I find that Monday, Tuesday, Wednesday of Thanksgiving week, you just see a whole bunch of dumps of people and I'm like, "Oh, they're going home. They just had to get that done."

So you sort of see that and then it builds down. But I guess contrary to that, implied in this whole tax-loss selling in closed-end funds is the January Effect that occurs afterwards. Which is it's kind of simple once again, if there's more sellers than buyers things widen. So if you have this added benefit of tax-loss selling, you have more sellers than buyers than a normal equilibrium would be, so you get widening. Then January 2nd happens and you no longer have more sellers than buyers, and you have things that are a little bit more attractive than where they should be valuation-wise, and so then things push back up.

That's the January Effect. There's another January Effect they talk about on CNBC that's dealing with the NAVs, but this is just the discounts. And at one point I read something about some guy doing his senior thesis, there had been 150 theses about closed-end fund discounts and no one could prove anything except the January Effect. That actually does happen.

Sara Levine: Yeah, so for my colleagues in the crowd, Rob said I could take the rest of the year off after Thanksgiving. I just want to make sure all of you made a quick note of that. Doug, okay, I want to pivot back to you. I'd love to hear if you could talk a little bit about how your team is leveraging closed-end fund distribution policies amongst managers, and if there's anything we could pull from that?

Douglas Bond: I guess I would say that one of the tools that investment managers have to manage the discount is changes in the distribution policy. The biggest observation that I'd make about the last couple years is that while there have been widespread distribution decreases in municipal funds, and I think that's been driven primarily because the managers of those funds are not really comfortable having return of capital be a big characteristic of the year-end 1099. In most cases the equity and the taxable fixed-income portions of the closed-end fund market have not really taken a hatchet to their distribution policies, which if they were reflecting the ongoing earnings power of their funds, then the distributions of those funds would probably be down somewhere in the order of 15-20% from where they finished 2021.

I think one risk to think about is whether or not those managers are going to change those distribution policies to be more reflective of where leverage costs have moved to. I wouldn't expect that to happen overnight, and I think one of the principle reasons why you're not going to see that happen on a wholesale basis is because the boards who are really effectively working for the shareholders and set the distribution policy are also very, very sensitive to the discount to NAV at which the funds trade.

And so Phil mentioned this earlier, they cut the distribution by 20% and the discount goes out 300 basis points, shareholders are generally not going to be that happy. And then those unhappy shareholders who sell, their shares may end up in somebody else's hand who has a direct

message to the board about other things that they need to do in terms of managing that discount to a narrower place. I think it's something to be alert to, wouldn't expect it to change overnight.

Derek Pines: I was just going to tack onto Doug's point. One of the things that we like to do, that's why we think of every closed-end fund as an individual security or company, as I think I alluded to earlier, in that just like a company reports quarterly earnings, most of these closed-end funds, whether they're quarterly or semi-annually, you can think of it just like a company that has a cash flow. What is their free cash flow? What are their expenses? What are their costs? And where's that stuff going over the next quarter or two quarters? If we can somewhat predict that in a reasonable fashion, then I think you can make pretty good investment decisions on which closed-end funds are going to have to cut their distributions, which ones are going to increase their distributions. And how the security's going to react based on those actions, as Doug mentioned, it can drastically affect where the pricing goes.

Sara Levine: Great, thank you. Okay, so Carolyn, I know City of London has recently put out some interesting content around the age old debate of closed-end funds and mean reversion. So what are your thoughts, is it dead or just taking its sweet time?

Carolyn Murphy: It's taking its sweet time. This is what, 155 year old industry? We feel pretty confident and pretty optimistic that mean reversion's not dead. Nobody's going to call the bottom but it does feel like we're getting to an inflection point. As was discussed in the last panel, activism is helping that. It's bringing attention to the sector, which is a very sleepy corner of the market.

But as we talked about Saba earlier today, they're certainly getting a lot of headlines, that's not all negative. It could be for the funds they're targeting, but for the rest of the space, I think this is a situation where nature's going to take its course. There might be some pruning, there might be some tears, but this is all going to help to decrease the supply and that can only be beneficially. Ultimately we hope to see mean reversion, hope to see discount turn into funds trading at NAV, premiums, and rights issuances because we like those too at the right levels.

Sara Levine: Other panelists, thoughts? Mean reversion, dead, sweet time?

Rob Shaker: I don't think it's dead. Like I said, it depends on what you're looking at, right? In a month we had a mean reversion. I do like the concept of going back even to par or better on the bond funds, and I think it all depends on if you look at something, we look at these long-term graphs, where do you put your left hand? How much do you cover up? And if you cover up everything but the last four or five years, it's one thing, but this has been a weird decade or more of zero interest rates. And so now that we're here, what are we reverting back to? Because if we're reverting back to pre-2008 and everything like that, bond funds were above par, that's where the average bond fund traded. And they were clipping coupons at 6-7% as opposed to one or 2%, they have been for the past decade. I love the way she frames it in terms of it's a long thing we're looking over, and at the same time, if you look over a week you can also find a reversion.

Derek Pines: I was just going to say it's almost like Powell and transitory, what's your timeframe?

Sara Levine: What's your timeframe, yep. Doug, did you have anything you wanted to add?

Douglas Bond: I think the capital markets are about mean reversion and closed-end funds are just sort of a subset of the capital markets. Mean reversion, I think it's actually always in play, it's just the magnitude.

Sara Levine: Great point. Okay, so I'm going to open it to audience questions in a moment, but is there anything else the four of you wanted to mention or any closing thoughts before we do? No? Okay, great. Do we have any audience questions? Yes?

Audience Question: [inaudible]. Do you guys find the 19(a) reports useful at all in terms of insights into dividend changes [inaudible]?

Douglas Bond: So the question was, do we find closed-end fund 19(a) reports useful in terms of, I guess potential changes in distribution policy or insights? Look, I think it's a piece of information that's available for shareholders, we look at them. The only thing I would say is for the monthly funds they're out on a monthly basis, and the fact is that for most closed-end funds the tax characteristic of the distribution is really not a settled issue until the end of the year, so there can be some changes.

My feeling is, one of the things that's great about the closed-end fund market, it was great when it started with Foreign & Colonial in 1868 and what's great about it today is there's not a lot of people that follow it. There aren't a lot of people that do the work of reading the annual reports or looking at the 19(a)s, or going to the advisor websites and downloading the fact sheets or knowing what the 10 largest positions are. So if you do the work, you can create an advantage for yourself as a shareholder in this still pretty inefficient part of the capital markets. I think 19(a) is part of that.

Derek Pines: I would just say, I agree with all the said. I would just add that I'd say we don't find them as helpful, we'd rather trust all the day that we're taking in and putting into our models, and almost hope that we could be predictive of what those are going to say.

Audience Question: [inaudible].

Sara Levine: We have about five minutes left, are there any other audience questions we could address?

Audience Question: I'll take one.

Sara Levine: Okay, great.

Audience Question: Maybe more so for Derek, but also Carolyn on the mean reversion thing. Derek had mentioned being more, at least at some level, top-down in terms of your asset

allocation. A lot of the prognosticators out there are just looking for [inaudible]. There's a whole host of components of the economy, corporate sector, that aren't going to be able to get [inaudible] when they go to re-fi corporate debt, et cetera, bank loans. And so there could be the potential for pretty significant economic weakness as a result of that, so does that set up the table for the lack of mean reversion in closed-end fund discounts or maybe it taking significant longer? Because by the time they're ready to revert, let's say, not that anyone could predict it, but now we could be dealing with some pretty significant economic [inaudible].

Derek Pines: Great question. I think that would be bigger picture and part of our investment process certainly takes into account macro factors. Just on your point, someone on our team was at a private equity dinner last night and they stated that, I believe it was 45% of the current companies in this fund, in one of these funds, wouldn't be able to cover their interest expense at SOFR+ 500 if it lasted another year. I definitely think just on a bigger picture, yeah, there's a lot of future problems out there that these higher rates haven't moved through the economy.

As far as closed-end funds specifically goes, I would probably argue that it might be beneficial to them. Because if we have a massive slowdown, now of course you don't want to be in riskier parts of the market. So I think at the beginning of this whole topic I talked about asset class rel val, in that scenario you wouldn't want to be in high yields, you wouldn't want to be in loans, but munis or some parts of corporate credit. Or even if there's some sort of Treasury funds where you wanted to be in safer asset classes, I think those will do really well in the scenarios you're talking about. I think you could even see discounts close because there would be such a reach for yield.

Obviously a lot of that has to do with where do rates go, so if rates came down significantly in a traditional recession then, yeah, that would play out. Now if you got a recession that wasn't so traditional, and this whole fear of we just have too much spending and we have a huge debt problem from a fiscal scenario, then do rates stay high in a recession? Just kind of your real toxic question then. Yeah, I don't know how well closed-end funds would do, but I think generically if we go into this massive slowdown, there are parts of closed-end funds that I think would do pretty well. Because I think you would get a reach for bonds, and I think you'd get a reach for duration and yield.

Sara Levine: Great. I think we're almost at time, but I thank all the panelists so much for your time. We'll all be available during the break, so if there's any additional questions please feel free to reach out to any of them because they're a wealth of knowledge. Thank you, all.
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