November 2023 Live Event-AICA Fall Roundtable Industry Track Panel #8; "The Future of Listed & Non-Listed Closed-End Funds"

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Mike Taggart, Closed-End Fund Specialist with abrdn, moderates the eighth panel of the AICA November 15th, 2023 live event; "The Future of Listed & Non-Listed Closed-End Funds". Read the transcript below to hear the discussion among Mr. Taggart and panelists Amy Charles, Managing Director with Raymond James, Kevin Hardy, Investment Management with Skadden, and Steve O'Neill, CFA, Portfolio Manager with RiverNorth.

Mike Taggart | Amy Charles | Kevin Hardy | Steve O'Neill

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Mike Taggart: Thank you all for coming back into the room. So panel eight is "The Future of Listed & Non-Listed Closed-End Funds", as opposed to our prior panel. I'm Mike Taggart, your moderator. I'm the US closed-end fund specialist at abrdn. Despite the microphone issues we might be having, we do have an esteemed panel of experts here. I'll let you introduce yourselves, start with Amy.

Amy Charles: Amy Charles, I'm the director of closed-end fund research with Raymond James. I said earlier, today's my 28th anniversary at Raymond James but I've been in closed-ends now since 1998, so about 25 years in closed-ends. So when I talk to my advisors I say, "I've seen the good, the bad, and the ugly of closed-ends." I think we all have in this room.

Kevin Hardy: Hi everybody, Kevin Hardy, I'm a partner in the investment management group at Skadden Arps. Similarly, I've been doing closed-end funds for a long time. One of the first projects I did as a first year associate was launching a closed-end fund, and that was over 20 years ago.

Steve O'Neill: Hi, my name's Steve O'Neill, I'm a portfolio manager at RiverNorth. We are an institutional investor in closed-end funds, we are an active trader in the market, and we're also a sponsor of closed-end funds. If I didn't say it, I've been there since 2007.

Mike Taggart: All right. Great, thanks. So are there any questions from the audience? We need questions from the audience, because I only have three prepared questions for the whole entire panel, which is why we weren't arguing too much when we didn't start right on time. Let's start piggybacking off the topics, one topic they talked about on the previous panel. Amy, addressing the closed-end fund secondary market right now, given the discounts, given the higher for longer interest rates, given the various corporate actions, what's the future that you see for listed closed-end funds?

Amy Charles: I hope great, considering it's my job, but I think in our system I look at discounts. They were talking earlier about tax-loss selling, or tax-loss harvesting I guess is the PC way of saying it, and typically I think we see it more in October to now, to mid-November. And so I've been helping our advisors go through, do some swap ideas. I love the fact that there's no switch letters for closed-end funds. And so we definitely go through, we give them some tax-loss harvesting swap ideas, and so we look at that.

Also I think discounts can be good and bad, I think right now it depends. As long as you didn't buy stuff on the IPO, there's some really good discounts out there. I think the January Effect is great but I suggest to my advisors that they should be buying in December. Let's start looking, let's start repositioning. My models have been updated, my idea list is ready to go, so we're really encouraging people to look now rather than just waiting for January 2nd.

Mike Taggart: So front-run the January Effect essentially?

Amy Charles: I don't think we're allowed to say front-run. You know, compliance issues.

John Cole Scott: We're recording this.

Amy Charles: Oh, you are? Oh, so he said it, not me. Yeah, so get ahead of the market, be smart. Think smarter, not harder. And so we're very, I don't want to say aggressive in our system, but I have three other analysts, I think I do have the largest research department on the street, so we're looking at all closed-end funds from bottom's up to top down. I talk to strictly my financial advisors, if they call in, they're looking for something, we try to point them in the right direction.

I think that the future of closed-ends are great, especially when you look at the income we can provide, the total return we can provide. I always tell them, there's nowhere else. I'm on panels with my open-end colleagues and my ETF colleagues and my muni colleagues and everyone,

I'm like, "Okay, who can give me 5% tax-free and a nice sized portfolio and everything is on sale?" They can't. I always like to say, "You want bigger discounts and bigger yields? Come to closed-ends. You want smaller income? Go to open-ends."

Mike Taggart: What about you? Would you agree, the future of secondaries?

Steve O'Neill: Yeah, I think the future, it's all about leverage. Amy was talking about higher distribution rates, that's really the only reason why closed-end funds exist in my opinion. If you like Dan Ivascyn's 6% PIMCO income, you're going to love it at a 12% distribution rate. I think all the talk about discounts and whether it's structural or fundamental, I think it just comes down to the shape of the yield curve and this will pass. And at some point people will say, "You know what, I can only get 4% on my open-end fund and I can get 6% on my closed-end fund."

Once that's solved, I think the future comes back. I think it's a matter of time, but again to highlight Amy's point, we need to people to get greedy again. I think that cycle is pretty predictable and that will be ultimately what the future looks like, which is people coming back for the yield, sponsors able to issue more closed-end funds because they have that advantage.

Mike Taggart: Right, it's just part of the cycle that we're in, that we're at these wide level discounts.

Amy Charles: I think too the education, education to financial advisors. Closed-end funds are sold, not bought. I spend a good majority of my time educating our financial advisors to the benefits of closed-ends, why closed-ends. I couldn't take notes this morning on my panel, but when you're looking at the loan funds, and the loans themselves or the bonds themselves are discounted, and then you can get a 10% discount, that's a very compelling idea. But advisors aren't going to sell their clients if the advisors aren't aware of what's happening, and so I think that education is huge and it needs to happen more than just at Raymond James, it needs to happen everywhere. I don't know if John can get on CNBC and start talking about the closed-end fund market?

John Cole Scott: I'm up for it.

Kevin Hardy: Yeah, I see that too. Talking to sophisticated people across the industry who don't know the first thing about closed-end funds. And when you start talking to them about it, how they're structured and how they operate and what advantages they have, they're like, "Wow, that's really interesting. Why does nobody ever talk about these things?" Obviously there are people that are out there talking about it and building a career off of it, but it certainly leads to opportunities.

Look, there's no way around the fact that it's a challenged time right now, and I agree it's cyclical. But I think coming out of cycle, I think somebody said earlier on one the panels, there's a process of pruning going on. And certainly you're seeing a number of funds in the market dwindle and not be replaced by new IPOs, and so we're going to come out of this cycle with fewer options out there certainly in the listed fund market.

Mike Taggart: Excellent, okay. Next question is for Steve. RiverNorth brought out the first so-called 2.0 closed-end fund structure, with the term structures and the advisor paying the IPO fees, et cetera. Structure kind of revolutionized, at least momentarily, the closed-end fund IPO market. But now, years after their IPOs they trade like any other closed-end fund, and so what happened? And any thoughts on a 2.1 or a 3.0 structure?

Steve O'Neill: Sure. Well, I guess I think Josh was talking about it from abrdn earlier about the inefficiencies of terms trading about the same as perpetual. I think that's just the market speaking and that people don't care about terms. People really do not care about something 10 years in advance. You can even see funds liquidating in a year trading at a 6% discount. It waits till the fund announces a press release that it's in the three months that the discount narrows from four to two.

And so kind of jumping the gun, the 2.0 is not necessarily about the term, that was kind of an underwriting requirement. They said, "If you're going to launch a closed-end fund, it has to be a term at this point," So we said, "Okay." The original idea was just paying the advisor load, because the sin of launching a closed-end fund is it's going to draw 5% eventually just to get back to NAV. And so we're not one of the big names and so it was easy for us to raise our hand and say, "What if we paid? Could we get a slot on the calendar?"

Mike Taggart: "We'll get you right in."

Steve O'Neill: That was the genesis of the 2.0, and I think it was really shareholder friendly. Without a doubt it was a good thing for investors, but there's no lasting halo effect, it's not like secondary market buyers benefit from the 5% that I'm still paying off at the partner level for the funds we launched, it doesn't exist. And so it's a good idea for primary investors but it doesn't really do anything for the secondary market.

And so, well, what can you do in the secondary market? Well, I certainly think if you aren't getting any value for the term, you should just give it up. Obviously there's economic incentive for the manager to run a perpetual fund, and if that incentive is given then maybe they'd be more willing to return capital points along the way. And so I think a future looks something like take off the terms because they don't matter, but then I'm not an expert like the previous panel talking about interval versus tender funds. But in my head, just simply providing liquidity at periodic time periods, it's kind of a tender fund. It's a commitment ahead of time that if we trade at a 10% discount, you can expect periodic tenders of X%.

I think that doesn't necessarily solve every supply imbalance. What we're going on right now is just like everybody got out of jail and they can't wait to sell their closed-end. There's on stopping that charge. But I think sophisticated investors, institutional investors, quant traders, if you can see a liquidity mechanism within the fund, then you're going to trade around that, you're going to front-run it too, to take that word. And so I think the next iteration of a closed-end fund should be really more focused on providing periodic liquidity.

But in the absence of that, I was just throwing this out and asking multiple panelists earlier, I think in the absence of that, that's a bigger step to take, I do think funds should be distributing

capital. I think return of capital is one of the only things that you can really do to narrow the discount. And so I think a fake it till you make it approach is really required in today's market to get more people interested in the 1.0 and the 2.0. But I think we've got some ideas on how to try to reactive the primary market but I do think tenders are part of that.

Mike Taggart: What do you think, Amy? How would advisors and retail clients react to the return of capital component?

Amy Charles: I've suggested it on the last 10 new funds that came out, that there be locked up to maybe three years, but at three years, six years, nine years, if it's a 12-year fund, to say, "Okay, if the discount is greater than," I threw out 7.5% because it's under the double digit but still a little bit higher than the average, "7.5% or 5% or whatever number you want, we'll offer NAV for 10%." Like he's saying, a buyback. And I do think that that would definitely help if you know.

But I think with the term funds, one of the problems I've seen sitting on my side is that people don't know they're a term fund unless it has defined "term" in its name. I have advisors all the time, "You know this is a term fund." "Well, I forgot." Yeah, so there's things coming up. I think you mentioned, there's HIE, it's coming up, a year from now it's going to liquidate at NAV, and it doesn't have the caveat to where there's a shareholder vote or what have you, and it's at a 6% discount. But no one knows it's a defined-term fund, so I think that we need to make our names longer in closed-end funds, but to somehow let people know. But I definitely think things written into the prospectus, that where you have an opportunity for an NAV at some point during the life of the fund, it will help.

Mike Taggart: Kevin, you help people, right? [inaudible].

Kevin Hardy: Yeah, you could certainly make that more apparent. I think sometimes there was the desire to hide the ball a little bit, thinking it'd be counterproductive. I thought it was really interesting that you mentioned return of capital, because we've talked to a number of fund sponsors who have thought about committing to tender offers, committing to open-market buybacks, various things like that. But some of them have evolved that thinking and said, "Well, look, those things are lumpy, they have limited impact on trading over the long term. If we're going to be putting out money, returning capital through these mechanisms, maybe we do just increase our distribution and be pretty blatant about it. Not treat return of capital as a dirty word and just say, 'This is the mechanism through which we're going to give people some money back every year, and do it consistently through their distributions.'

Amy Charles: I definitely think you'll have to reeducate advisors. Because they hear return of capital, and I'm constantly telling them, "It's not horrible, it's not horrible. It's better for your client for tax purposes," but there needs to be reeducation if we're going to. I think it's a great idea, however advisors and their clients, they hear return of capital and it means that the fund is just horrible and they don't know how to manage the money. That's what they hear. It's definitely going to be reeducation, or maybe we could call it something new to where it's not bad.

Mike Taggart: You make more, I make less.

Amy Charles: That's what Wall Street does, right? We just recreate it.

Mike Taggart: Return of investment, and they'll confuse it with return on investment, maybe? We wouldn't do that obviously.

Kevin Hardy: I'd be curious to get your thoughts, we've also seen a few funds go the other way and be more willing to keep some long-term gains in the fund and pay the excise tax on it. Saying, "We like our investment thesis, and we're going to reinvest these gains and not pay them out." What's your reaction to that?

Amy Charles: Theoretically it's great, however that's not why someone buys a closed-end fund. So I think that it would be counterproductive to how we sell closed-end funds and why it's better than an open-end fund. I think retail would have a really hard time getting their arms around that.

Steve O'Neill: Yeah, I would agree. It may be taken a different way. When we talk about returning capital and periodic tenders, which is different than just a lump sum tender. I feel like a random 25% tender benefits disproportionately a handful of people in this room, including RiverNorth. We're going to participate, we're going to get more than what we're supposed to through proration, but I think a periodic tender would be a good idea for the next iteration of closed-end funds.

But on the other side of that, I think fund sponsors need to treat these like companies. I think you need to replenish the capital when the cycle turns. And so I feel like funds, I think it's shocking how many funds don't have at-the-market offerings, because it's an opportunity to replenish, grow the fund, rights offerings. I'm not sure who mentioned it, rights offerings at narrower discounts, I think that's part of the life cycle of a closed-end fund.

And maybe the point here is there are ways for the board and the manager to get more active, to try to manage the discount, and I guess on the other side, the premium of a closed-end fund, and I think there's things that can work. Maybe right now it doesn't matter because things are so bleak, but over the cycle I think that the manager and the board can make decisions that impact the discount. And so for us as we think about the future of closed-end funds, we certainly want managers to really view it as we care about the discount and the NAV. I don't like it when I hear, "Well, we can only control the NAV of the fund," because I certainly don't believe that. But I think you have to work it both ways, provide liquidity when there's discount and then issue more shares when it's trading well.

Mike Taggart: Right. I think that that's something that the fund sponsors might be receptive to. It's not just you're telling them to hand out assets but you're also saying, "Hey, raise assets too when the market avails itself."

Kevin Hardy: Yeah, I completely agree with that sort of philosophy. And it's interesting, because as we work with some sponsors, and in particular some fund boards and the board

members, there is this sense of, “No, no, I don’t want to do anything. I finally got this premium, I don't want to do anything that’s going to potentially get rid of or reduce this premium. We have to hold onto this premium.” Whereas my view is much more use that premium because it’s going to be fleeting, the market comes and goes, take advantage of that premium while you have it to do a trade that is going to grow the fund, that is potentially going to reduce expenses, that’s going to potentially be accretive to your existing investors and help them over the long term.

Mike Taggart: Like John said earlier, we are in New York City. They’re coming to get you, John.

Amy Charles: You said bleak, I look at it as opportunistic when I’m talking to my advisors. I’m not saying, “Well, closed-ends are bleak right now,” it’s opportunistic. There’s a lot of good opportunities out there to invest new money. And again it goes back to I would say, what, of the investors out there, 20% are invested in closed-end funds?

Mike Taggart: Of all investors?

Amy Charles: Yeah. Probably only about 40% of my advisors are using closed-ends, and I think that’s a high number for most people, and then maybe they have 10% of their clients invested in closed-ends.

Mike Taggart: Right. I think that that’s kind of the thing that makes closed-end funds an inefficient market.

Amy Charles: Right.

Mike Taggart: And of those 20% of investors who actually are investing in closed-end funds, what percentage actually understands them, right? And so what I’ve said throughout my career, well, the closed-end fund portion of my career, since it is an inefficient market, a little education goes a long way for investors. Everybody here in the room is either affiliated with the fund or is a professional investor in closed-end funds, so your advantage is more what you know about the closed-end funds as our previous panel was saying. I think Doug was saying it, or maybe it was Derek. Read the fact sheets, the annual reports, just having access to the data, that’s a part, tremendously.

Amy Charles: And I do think since 1998 when I started, things have gotten so much better, information flows better. I remember I literally had to input information from, I think FAX was one that I had done, and it was like pulling teeth to get any kind of information. Now we have monthly fact sheets, it’s fabulous, it’s a lot easier. And so I think that we have come a long way, but still there’s such a small amount of investable dollars out there that go to closed-ends. We could probably narrow the gap with just talking about it more.

Steve O’Neill: Just to be clear, I would agree, bleak is the bloodless verdict of the market as discounts are super wide. But I guess if you would have asked us two years ago, what would be the best thing that could possibly happen? I would say I think muni funds are the best representation of closed-end funds. You can borrow in the tax exempt market and lever up a

high-quality asset. Of all the closed-end funds that exist, they have the greatest reason for being. And if you said, “They’re down 30% and trading at 15% discounts,” I would say, “That’s the gift that I want.”

You can just sprinkle duration in the portfolio, you could take a little bit, you could hedge it, but this opportunity, it is a really interesting opportunity. I think it does come back to the yield advantage, which is why you’re seeing BlackRock and Nuveen and other fund sponsors raising distribution rates for now saying, “We have to have a yield that makes sense to people buying levered closed-end funds.” I do think for sure it’s a really compelling opportunity, but I’d say sentiment is certainly bleak and that’s what’s reflected in the market.

Mike Taggart: On that note, that’s a perfect segue. Kevin, the outlook’s bleak, the feeling’s bleak, investor sentiment’s down. So that’s the listed closed-end fund market, meanwhile we hear about the non-listed closed-end fund market and they’re just raking in assets, they can’t fill the dump trucks fast enough with cash. So is the future of closed-end funds just solely non-listed closed-end funds?

Kevin Hardy: I hope it’s not, I do love listed closed-end funds. But yeah, at this point you can’t talk about the future of closed-end funds without talking about non-listed funds and whether that’s tender-offer funds or interval funds or non-traded BDCs or private BDCs. I know there have been a couple panels on non-listed funds already, so I’m not going to rehash all the nuts and bolts of each of those.

But I think the key really comes down to thinking about your investment strategy, your structure, and your target investor and your distribution strategy, and making sure those three things fit together. Because if you don’t have that really good alignment between all three of those, it’s not going to work. And yes, there have been a lot of new entrants into the non-listed fund space, and some of them have raised a lot of money, but it’s certainly not as easy as throw an interval fund on file and the money spigot turns on.

Mike Taggart: It seems that way.

Kevin Hardy: It seems that way but those funds take work, right? They’re a continuous offering that you have to market. The different structures have different profiles in terms of time to market and expense to market to actually launch them. You’ve got to put in the work. And it’s also a space that you’re losing any sort of first move or advantage, it’s becoming more crowded. You’re seeing more and more people flood into that market, both from traditional mutual fund managers who are now managing products across the spectrum, all those different types of non-listed funds that I mentioned. And again, I think that’s people that are doing that work to figure out how does a particular strategy fit in a structure and ending with all the different structures for different types of strategies and different distribution approaches.

Flip side to that, you also have alternative asset managers who have maybe never run a 40 Act fund and are now doing that, or trying to do that in a non-listed vehicle. I think that’s a trend that regulatory considerations are going to continue to push, on the mutual fund side that the extend

that the proposed liquidity rule gets adopted. That might push some strategies into closed-end funds, which those are probably going to flow into interval and tender-offer funds.

On the other side of it, obviously the private fund regulations are being challenged, but if those do go into effect, maybe that makes it a little easier for more alternative asset managers to cross the Rubicon into the registered fund space by running non-listed funds. All those things, you've really got to be careful and think about the product you're putting together and how it's going to be sold and who's going to buy it. Otherwise like I said, the money doesn't just fall out the trees.

Mike Taggart: It doesn't just show up.

Kevin Hardy: Yeah.

Mike Taggart: All right, any comments, Amy or Steve?

Amy Charles: I don't cover them. I might need to though if the future of closed-end funds is bleak.

Kevin Hardy: In terms of the future of listed closed-end funds, we talked a lot about the secondary market funds once they're in place. Obviously the other place where there potentially needs to be some innovation is the IPO market. If I had the answer to that, I wouldn't give it away here, but I don't have the answer to that.

Mike Taggart: Hire Hardy LLC, right?

Kevin Hardy: Exactly, exactly. But look, you have to provide the product for the market that exists when you're trying to launch it, so what worked a generation ago, two generations ago, might not work today. Unfortunately we're in a time where we have to deal with an SEC that's maybe a little bit less friendly to innovation and going and asking to do something new. There's certainly people thinking about how to evolve the IPO market, whether that's conversion to private funds, whether that's direct listings, things like that. I think we've got to throw everything against the wall and see what sticks to get some funds launched.

Mike Taggart: Kind of start from scratch?

Kevin Hardy: Yeah.

Mike Taggart: Is that what you're saying?

Kevin Hardy: No.

Steve O'Neill: You're not saying that.

Kevin Hardy: Not start from scratch, but don't dismiss. Maybe it's something you thought about doing in an IPO 15 years ago and decided against it, maybe it's worth revisiting. Consider every possible innovation that's out there.

Steve O'Neill: I guess some concluding thoughts.

Mike Taggart: Wait, we have 10 minutes.

Steve O'Neill: I'm assuming we're going to get a lot of questions.

Kevin Hardy: We want to leave time for questions.

Steve O'Neill: We're talking about what boards can do to control the discount, and what they should do when the funds are trading well, I think that's part of the responsibility. I think another thing that should change in the industry is just more focus on again this being its own company and the company has a balance sheet, and what should we be doing about that? Maybe we should be issuing a preferred, maybe we should be swapping the leverage. I look at Phil, Phil issued a convertible preferred at 2.75%, that's a great asset for the fund. We run a fund that we've locked in two perpetual 4.5s, that is a decision that I think it's a capital market's activity, and you take that seriously when you're thinking about the income statement and the balance sheet of these closed-end funds.

And so I think there's ways to make them more interesting. There is a preferred fund out there right now, they merged the funds and so that's great. It's a large fund size now, they've swapped the leverage at less than 3%. These are really great steps and that fund should trade well, and eventually I think that gets rewarded, we talk about the research. But when you're talking about closed-end funds, sometimes it's just, "This bag of bonds is trading at a 15% discount, this equity benchmark-hugging fund's at 10%."

But if you can differentiate and say, "This board is focused on shareholder value and here's the steps they've done in the past, they're focused on the balance sheet," I think those things matter. And I think that's just the next level above what we're all focused on as a closed-end fund sponsor, which is doing a good job and beating our benchmark. That's just first base. I think we have to do more in the industry to make these more compelling. You look at the BDCs, they're registered investment companies too, and they do a phenomenal job.

Kevin Hardy: That's exactly what I was going to say. BDCs, obviously they have more regulatory flexibility, but they do manage them like a business in terms of the way they manage their capital structure and they're just much more proactive about the types of leverage they're getting and ability to issue new shares. Yeah, I was just about to make that point, I totally agree.

Amy Charles: I got nothing.

Mike Taggart: All right, questions from the audience?

Audience Question: I'll throw one in.

Mike Taggart: Yeah, please.

Audience Question: Amy this is probably for you. What is the profile of a financial advisor who's buying closed-end funds? Are these advisors for managing larger practices? Who are they?

Amy Charles: Yes, I think that we have a couple of different. So I have the advisor that has the clients that need income. Income, income, income. And so we have that advisor, and then I have advisors who have clients that are maybe the income, income, income people, their kids. So we can bring them into closed-ends because they're going to get that income, but they can reinvest that income. So their total return is higher and they like having something that's more equity-like, so they don't want to be in just a mutual fund, but they don't want to pick just equities. And they've heard so much about ETFs, but we can sell them with the hook of the discount.

And so we have it really across the board, it used to be just income-oriented people, that's all we had. But we have really tried, and I have tried at Raymond James, to really bring in that new generation of closed-end fund person because it is different, it is more exciting. I like to say that we're the sexy younger sister of the open-end fund. And so we try to use the hooks as much as we can, but when you can buy something on sale and then you have the bonds inside of them on sale, it just makes more sense.

To me it made more sense especially when bonds were at premiums, and why would you buy an open-end bond fund when the bonds are at premiums? You could buy a closed-end, the bonds may still be at premiums but the closed-ends at a discount and you're getting a higher yield. So I try to educate them as far as that and how that works.

Audience Question: Is that a growing population of advisors?

Amy Charles: I think so, yes. Yeah. In my system, yes.

Audience Question: I have a question about discounts on term funds that are going to terminate in a fairly short period of time. I wonder if this exists because you've got to have an opinion about where the fund's going to be when it terminates. You can buy it at a discount, but pricing-wise, you're still losing money. One of the things that you mentioned about closed-end funds is there's not a lot of research. So how are you going to form an opinion about where the fund's going to go if people aren't gobbling it up with a [inaudible] discount? Maybe it's because they don't have enough information about where they expect the price [inaudible] when it terminates.

Mike Taggart: What do they expect the NAV to be when it terminates, correct?

Audience Question: No, no, the price.

Mike Taggart: The price, okay.

Audience Question: If you're expecting the discount to disappear, [inaudible].

Amy Charles: So what I tell when someone calls me I'm like, look, I think the Miller/Howard fund is great because one year from, I think this week, it's going to liquidate. However, if you

think the market is going to be lower a year from now, don't buy that fund. Because you're absolutely correct, the price is going to go down, so it really depends where the market's at. If the market's higher one year from now, which one year from now we could be in pretty rocky--we don't know what's happening, right? But I think that that's what [inaudible]. Now if you think, okay, are we going to be the same or higher? That's a screaming buy in my opinion, but it just really depends, and none of us know where the market's going to be a year from now.

Steve O'Neill: Yeah, exactly. Nobody knows, but you're seven points ahead. And so at first it's, do I like the asset class? If there is, then a term trust makes a lot of sense. But to your point, not a lot of people follow it. And maybe to challenge Amy's point, I think if it was called Free No Management Fee Fund, it still would trade at the same discount because nobody's really paying attention to it. So I think that is a true free lunch; 101 closed-end fund trading would just be to put all the term trusts on a spreadsheet, take the termination date, divide it by the discount, and then you've got your annualized alpha and just sort it.

Right now there is more opportunity than usual because 10% of the space is now term trusts, and so all the closed-end fund 2.0s are termed. And so before it was maybe 10 funds, and now you've got so m any of the funds that there's few people that are buying it, hedging it, levering it and getting the return that would be hedge fund worthy. And so it tends to be investors that say, "I like preferreds and I'll stick around for a year for another six points. I'll probably do better than my neighbor. Well, I'll definitely do better than my neighbor." And so I think it makes a lot of sense but it's really underfollowed.

Audience Question: Assuming everything is the same, right? Aren't there costs associated with this position in portfolio that will reduce the [inaudible] payout.

Amy Charles: So there's two different types of term trusts, right? There's the target term trust, which those funds will typically go to cash 12 to 24 months. My Nuveen friends can probably tell you better than that, but they'll start to go to cash. But for the actual just term funds, they can manage it up until pretty close to the end, and then they start to liquidate and start to sell off and they go to cash probably in the last month or so.

What I tell my advisors is that if, so we'll use HIE as an example, if November 1st it's at par or at a premium, sell it. Just sell it. Get your last distribution and sell it before the actual liquidation, in my opinion, because you're only going to get NAV. Especially if it starts to go, I have seen some of the go to a premium. You're not getting anything higher than NAV, so sell it.

Steve O'Neill: You're worried about transaction costs, aren't you?

Audience Question: No, not transaction costs. HIE, they're liquid assets.

Steve O'Neill: Yeah, you could sell in an hour.

Audience Question: They're liquid assets.

Steve O'Neill: But even if it was a Level 2 high-yield bond fund--

Audience Question: [inaudible] liquid assets, right? And you're going to be selling it into a market [inaudible].

Amy Charles: The non-liquid assets they're selling way ahead of time. They're starting to sell those probably six to 12 months in advance.

Audience Question: Right, which means you don't get, there's a year's worth of income [inaudible].

Amy Charles: But they could be investing in liquid assets though, they're still going to give them that. And a lot of the funds, especially the equity funds that are doing this, have the option overlay so they can still get some of the premiums. There's things they can do to be fully invested. But yes, the non-liquids, they're selling first for sure.

Steve O'Neill: Yeah, I'd call the fund sponsor. I would agree with what Amy's saying, but I don't know, we look at it and we're like, "What was the slippage they had to unwind in this portfolio?" It's really not there, it's not something we worry about at all. There's some funds that, there's a fund that's liquidating I think next month or something like that was in CMBS and some other more esoteric securities, that one you might question.

But Nuveen just had a high-yield bond fund, and you could tell when they started to liquidate it based on just the NAV volatility, but you didn't really see any, surprise, down five cents because we had to cross the spread to sell the bonds. So I'd say it's a good question but it wouldn't be one of our top worries, so long as the asset class is a Level 1 or Level 2 portfolio.

Mike Taggart: With that, I know there's a couple other questions, oddly.

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