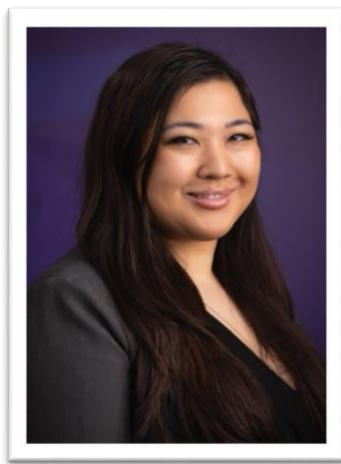




## VettaFi's Islam: Now 15, The 'S&P 500 Of Closed-End Funds' Has A Big Impact

Friday, March 14, 2025



Chuck Jaffe, in this episode of The NAVigator podcast interviews Roxanna Islam, Head of Sector and Industry Research at VettaFi, which runs the XAI Octagon Floating Rate & Alternative Income Trust. Roxanna and Chuck discuss PCEF, the Invesco Closed-End Fund Income Composite ETF, which Roxanna considers the bellwether measure of the closed-end fund industry, a parallel to the Standard & Poor's 500 but for a closed-end space that is rapidly changing. Islam talks about how the ETF – which recently celebrated its 15th anniversary and has \$800 million in assets – has changed over

the years, how its approach has changed and how it stacks up to newer players in the space, and why ETFs are particularly good at representing niche industries and investment areas.

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

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**CHUCK JAFFE:** Roxanna Islam is here, and we're talking about the S&P 500 of closed-end funds, this is The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization representing the full spectrum of the closed-end fund business, from investors and users to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. And today we're headed in a very specific direction, looking at an ETF that is focused on the closed-end fund space, and we're doing it with Roxanna Islam, the head of sector and industry research at VettaFi. And while we'll be focusing on one fund, you can dig into the firm's research on all of the ETFs you're interested in by going to VettaFi.com. And if you want to learn more about closed-end funds, interval funds, and business-development companies generally, visit AICAlliance.org, that's the website for the Active Investment Company Alliance. Roxanna Islam, it's great to have you back on The NAVigator.

**ROXANNA ISLAM:** It's great to be back, Chuck.

**CHUCK JAFFE:** Today we're discussing the PCEF, that's the Invesco Closed-End Fund Income Composite ETF, which recently celebrated its 15th anniversary and which you have described as a bellwether for the closed-end fund space, sort of the S&P 500 of the closed-end fund world. Let's start with why it's such a good example of why ETFs work well in a niche investment area like closed-end funds.

**ROXANNA ISLAM:** Yeah, so I think this is an excellent example, like you said. It recently had its 15-year anniversary a couple of weeks ago in February, which I think is pretty impressive because lately we've been seeing all sorts of these niche ETFs pop up and then liquidate a couple of years later, and I think it's particularly relevant now because we are seeing issuers packaging all sorts of investments into ETFs lately. Recently there was a private credit ETF that popped up and made a lot of news, and people wonder, will it work? Because you can put these things into an ETF wrapper, but will investors actually want it? And I think PCEF is an example of this working, because you package closed-end funds into this ETF wrapper, it's a niche category, it does have some higher fund of fund fees, yet it still has a decent following and it has around \$800 million in assets.

**CHUCK JAFFE:** It is the granddaddy of them all in the closed-end fund space for ETFs, but there are other entries out there, so what's new with ETFs looking at the closed-end fund world?

**ROXANNA ISLAM:** Yeah, so you know, I think what's really interesting about this is you touched on it earlier, I mentioned it's sort of the S&P 500 of closed-end funds, and I say that in a sort of tongue and cheek way, but it really represents what's going on in the industry, and it's the only one that takes a broad view of the taxable universe as opposed to focusing solely on income. It's interesting to see how it's changed over the past few years, and it tells a story about what's going on in the industry and what's trending. I'll give a few stats because I think these are interesting to think about. Historically this fund has had a higher allocation of fixed income, and we've seen that shift towards equities over the past few years. Since 2019 its fixed income allocation actually decreased from 75% to less than 50% now, and in 2019 also eight out of 10 of its top holdings were fixed income, and now only one out of its top 10 is a fixed income holding. So a lot higher equity allocation, it's actually driven a lot by the weight of several newer BlackRock funds that have been launched over the past few years; so some of these tickers are BMEZ, BTX, BSTZ, BUI, which are all mostly tech and growth oriented. Another interesting stat here is since 2019, PCEF saw allocation to BlackRock funds increase from 20% to 32%, so a lot of significant change over the past few years, a lot of opportunity to capture some of those growth investments in the closed-end fund world.

**CHUCK JAFFE:** But as I understand the PCEF, part of what is there is how it comes up with its weightings, in other words, how it decides what it's doing. And while we called it, as you point out, tongue and cheek, the S&P 500 of the closed-end fund world, the truth is anytime you're looking at anything that's even remotely based on an index, index construction matters. In an area like closed-end funds, which as you noted, is watching a lot of new entrants come in and some of those new entrants are skewing towards the equity side, et cetera, talk a little bit about the methodology here and why the methodology continues to work for the PCEF.

**ROXANNA ISLAM:** Yeah, so I think the weighting methodology is pretty interesting, I would call it sort of an active approach to passive, if that makes sense. It excludes funds with premiums or discounts greater than 20% of the fund average, and it also weighs funds with

higher discounts with a higher factor versus those at premiums which get a lower factor, so basically it's replicating buying at discounts, selling at premiums. I think this is pretty interesting, because when you look at a lot of its peers, it has an index peer YYY, then it has a few other active ETFs of closed-end funds, those are mostly income plays, and while PCEF does provide income obviously, I think its main focus is taking that broad view of the universe and getting income from that. So it sort of demonstrates just how well passive works and indexing works, and I think it takes out some of the emotion behind it as well.

**CHUCK JAFFE:** In terms of it being the bellwether for the closed-end fund space, why is it important that the closed-end fund space have one? Closed-end funds are such a unique kind of an investment area, where you can say, "Oh, I'm going to go buy this thing at a discount," or what have you, why is it an important fund for the rest of the closed-end fund world, even if you're not using ETFs to do it, to have this as a benchmark?

**ROXANNA ISLAM:** Yeah, so I talked about how it was important for ETFs, but it's also very important for closed-end funds. It's the first and only passive benchmark for closed-end funds, and the passive approach to the market often wins over active. So if you look at the distribution rate for PCEF, it stayed relatively high compared to its peers, right now it's in the high 8% range, and as a mentioned before, income is very important for these closed-end funds. Even without solely focusing on income as a selection or weighting methodology, PCEF still provides that higher income that you'd find with these closed-end funds just by taking this broad view of the universe. It's very important for some closed-end fund investors who use this as a core holding, they might have this core holding, kind of like the S&P 500 like I mentioned, and then pick and choose individual closed-end funds as a tactical approach. It's also good for the newer closed-end fund investor who may not be so comfortable picking individual ones but has a portfolio of ETFs, they might appreciate the diversified access that this ETF offers them into the closed-end fund world.

**CHUCK JAFFE:** It does have competitors out there. In fact, it's the PCEF, but the CCEF is a closed-end fund of funds from Calamos, and the FCEF is a closed-end fund of funds from First Trust, and you mentioned the YYY, so if somebody's going to look at any of those as a proxy for the closed-end fund space, how similar or different are they? And is this the one that you prefer because you like this methodology best or is it more because this is the oldest one so you have the longest benchmark on it?

**ROXANNA ISLAM:** Yeah, so I think you hit a couple of good points. It's the oldest one, it has the most holdings out of its peers, and if you look at YYY, for example, that's its only other indexed peer, and that's an Amplify ETF product by the way, it does have some overlap, and then if you look at its active peers, it has less overlap. So you could technically use multiple of these ETFs to get an even more comprehensive view of the closed-end fund space.

**CHUCK JAFFE:** It's the PCEF, the Invesco Closed-End Fund Income Composite ETF. Roxanna, thanks so much for joining me on The NAVigator to talk about it.

**ROXANNA ISLAM:** Thanks for having me, Chuck.

**CHUCK JAFFE:** The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe, and yeah, I'm Chuck Jaffe, please check out my show on your favorite podcast app or by going to MoneyLifeShow.com. To learn more about interval funds, closed-end funds, and business-development companies go to AICalliance.org, that's the website for the Active Investment Company Alliance. Thanks to my guest Roxanna Islam, she's head of sector and industry research at VettaFi, and you can dig into the firm's research at VettaFi.com. The NAVigator podcast is new every Friday, make sure you don't miss an episode by following along on your favorite podcast app. And if you liked this podcast, leave a review or tell your friends about it, because that stuff really does help. We'll be back with more closed-end fund fun next week, and until then, happy investing, everybody.

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