Read the transcript from the AICA Bootcamp and Round Table Presentation Titled: "The ABC's of BDCs & Closed-End Funds"

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John Cole Scott, CIO at CEF Advisors and Executive Chairman at AICA, talked about various aspects of CEFs and BDCs at the AICA Boot Camp and Round Table held on November 6th in New York City. The moderator of the discussion was Dan Silver, CEF/BDC Analyst at AICA and PM at Zoso Capital. Read the transcript below.

John Cole Scott

To view the rest of the conference events and panels go to: https://aicalliance.org/NYC2019Event/

John Cole Scott: Dan Silver has been a Data client since we basically launched our Data business in 2012. Lots of great conversations. Helps us with some data checks. Does some consulting work for individual investors, for fund sponsors, for institutional investors on behalf of Closed-End Fund Advisors. Also runs his own book of money with a more long/short strategy. I'll let him bleed through his personality from that capacity. He and I were also in a presentation about a year ago at TheStreet.com covering closed-end funds, and basically I proved he was good on camera and knew his stuff live and not just with notes. This is a consolidated version of slides that we used. Many come from our quarterly, very long, robust deck. And I tried to boil it down. I want to make sure everyone in this room, before the

content got deeper, had some working knowledge about the stuff I think you should know. So this is kind of the bootcamp part of the day, and so it's a fair amount but let's go ahead and get started.

So I hope everyone knows that a closed-end fund, a BDC, or an interval fund are under the 1940 Act in the U.S. It's a tax passing structure. They've been trading on the New York Stock Exchange since 1893. If you've never heard me talk before this might be new for you, but they've been trading a hundred years before the first ETF, and have obviously a long history in the U.S. and also in other countries. The tax-advantaged nature of them making them very powerful for income investors because the investment company itself doesn't have to pay corporate tax. They can leverage themselves, and while leverage got more complex in the last ten years, the leverage they initially employed was the ability to have preferred stock and things of that nature, which wasn't allowed under the 40 Act for traditional funds.

BDCs, they came out in 1980, became tractioned post-recession because banks weren't lending as much to the general markets, especially the middle market and the lower market. And they can leverage a little bit more because of the regulation. Their fee structures can be a little bit more of a hedge fund; usually a hedge fund style fee structure. Often in our favorite versions, with a Highwater and a Lookback. And then they have SBIC licenses which can be very permanent, cheap leverage they have to apply for through the SBA.

Some people ask me, "So what's your favorite closed-end fund?" And that's like saying, "What's your favorite -," I don't know, I can't think of another analogy. It's a wrapper. It's not one thing, it's many things. There's tax-free bond funds, there's emerging market debt funds, there's private equity, there's U.S. growth, there's BDC loans. And here's the BDC piece;1980. And really, it's interesting, congress occasionally does useful things, and they did the modification to the BDC reg and we have a deeper panel on BDCs later. But basically to allow retail investors access to the stuff they weren't getting in regular funds or the regular market. They tend to loan money to small growing companies, give them capital.

Interval and tender offer funds actually were created in 1989 for a similar reason, to give opportunity for alternative investments in the market. But they didn't gain a lot of traction until I'd say really 2014-15, where we started to see it just got harder to IPO a regular listed closed-end fund using the old ways. You heard in the last panel, a lot of the changes to the IPO market for closed-end funds. But they offer a really unique way to get illiquid guts in the interval fund space, a daily net asset value. And offer investors ongoing redemptions, generally normal is five percent a quarter. And we'll hear from some actual interval fund managers today. There's two other panels on this topic, but I just want you to know they are a closed-end fund. But they are because the SEC rules that if you can't redeem your shares daily, you're a closed-end fund versus an open-end fund. But it's more of a hybrid fund structure like the BDC, which shares characteristics with the open-end fund daily inflow, but that typically five percent quarterly outflow. And it's been growing quite much in our database; 149 strategies, 75 billion dollars. Still not as big as the whole universe of listed funds, but that was a very small number only a few years ago. I'm going to cover this slide, and then Dan will do the next. Okay, buddy?

Dan Silver: Whatever you want.

John Cole Scott: So BDCs are mostly first lien loans. It's mostly loan focused, there's only 16% equity across the average. They tend to turn their portfolio over through just the natural cycle of loans, but also just companies refinance, companies get sold, companies occasionally go bankrupt. LIBOR floors are a component to any floating rate investment structure. It's useful in both the listed loan closed-end fund market, as in the BDC market. Right now the floors are still pretty low.

When I talk to investors about why they should consider BDCs in their portfolio, the average loan size is nine million dollars. And if you look at your portfolio of other investments, you're not seeing corporate loans at that size in other structures very commonly, and that's the average; 74% under 25 million. So if you want to exposure to the small U.S. market, and you want it through lending not equity ownership only, then the BDC structures have evolved. There's 100 billion dollars in assets, and there's 100 ticker symbols. That's roughly half listed ticker symbols and half non-listed ticker symbols. About 182 loans on

average, and 130 companies, so they are diversified. All right, Dan, do you want to chime in here? I'll give you the bullet points.

Dan Silver: Sure. Let me just take a look at what they actually are. Okay, so we're talking about discounts here. It sounds like most of the people in this room know about discounts. Wow, people have been looking at discounts for a long, long, long time. It used to be kind of a maxim, that if you were getting your PhD in something finance, in some cases economics related, and you couldn't think of a thesis, someone would say, "Just do it on the closed-end fund discount." There have been so many studies over the past hundred years as to why exactly it exists. And I think it's something that we're still struggling with. If everyone thinks about what the average commission was per share in let's say 2000, '99, and compares it to where we're at now where you're paying a cent. Well, so maybe it's not commissions, right?

So in certain cases, there are issues with the actual holdings, that maybe the underlying is less liquid. Well, we have a lot better information, a heck of a lot more transparency. There are many, many more funds that have daily NAV reporting, than weekly. I think we're running out of reasons why big, big discounts exist. And certainly the rise of activists and activism contributes to some of the efficiency that we're seeing in the market relative too. You don't see that many funds that have 20% of more discounts anymore. Five, ten, twenty years ago, they certainly used to exist in greater frequency. Sometimes there are sectors. There are reasons why things trade at premium. Sometimes there are sponsor or manager related reasons. That the market just tends to think that certain managers will always be able to out preform and they trade at premiums, but those are pretty few and far between. I'm assuming the people in this room would know that that's an unlikely proposition at best. So there you go.

John Cole Scott: All right, so I'm not going to talk about this much, but this is the actual universe and some data. This stuff is available off slide decks we do all the time. But if you aren't familiar, if you're more of a new investor advisor in closed-end funds, we get some of them registered today. This is the assets, the number of funds. We produce this slide quarterly in our deep quarterly deck. It's available on

our website CEFAdvisors.com But basically a lot of mix of equity, taxable bond, BDC, and tax-free bond funds in the neighborhood.

Dan Silver: John, can you go back on second?

John Cole Scott: Yes, sir.

Dan Silver: One of the things that I think everyone in this room would certainly be able to understand and appreciate. Personally, I think that there's a trend that's ongoing and it'll continue. If you look at the fourth color, green row, U.S. stock. And then almost all the way towards the right, what John calls the non-levered expense ratio. So meaning backing out the cost of debt that a firm incurs if it levered. You see that U.S. stock funds, the average expense ratio is 1.38%. And I think that most people in this room know that that's a pretty high base expense ratio, right? So when we think about how investors are going to put up decent returns, why they would conceivably hold closed-end funds without churning through them as the discounts change constantly. The viability is a longer term structure, longer term holding. I think that number needs to come down. You're in a world were ETFs, the fees are extremely low. So the prospect of putting up alpha, it can be dicey certainly on the equity side. So I would assume that that number continues to come down.

John Cole Scott: It has over time, yes. And it helps with mergers and other things that make funds bigger, that reduce fixed-cost. This is a chart that we update on our website in our quarterly deck. Just like to give people net asset value or manager group average perspective. We found it useful when we launched our BDC UIT with Smart Trust, is talk about the 14 different sectors that we majorly focus on. Most people have seen a quilt chart, this just reminds you of the sectors that often consistent, those that tend to win or lose regularly. I think that it just is a useful ongoing way to understand, as you think about building portfolios and sleeves as portfolios with closed-end funds, and BDCs, and interval funds, it gives you a sense of the currents at the manager level that are driving the results.

But again, where closed-end funds, most of the fund are listed, this is the average discount per year. So all the trading days every year, we add up all the funds and do the average. And then we did the ten year simple average of that to have a sense of what sectors tend to trade tight. And the short simple answer is, if you're doing something that's tax driven or uncommon in other wrappers, you tend to trade better. So think muni's, historically MLP funds, senior loan funds, well-managed high-yield bond funds can perform very well. Multi sector funds can perform very well. I'm missing one. Preferred funds are trading very well because they have relatively cheap leverage, active management. They can buy which preferred's they want if they're actively managed, versus an index approach. Right now they average preferred equities about a zero premium, so it's a very useful market. That's where see a lot of the most successful, and the tightest trading.

And again, I'd say that REIT funds are up 34% year to date as a group, but they generally trade a little wider. Because in many cases for most of the holdings, you can buy the underlying somewhere else. And so the challenge with the listed closed-end fund market in my personal experience and behaviors, just these three sectors here, you need to have something else besides just a good manager to trade better. Because it's easier to recreate the holdings. They're liquid, you can basically opine daily net asset value if you're good at tracking inter-day NAV movements in the portfolios. It's going to be hard for the average U.S. REIT or world stock, for me, to be above a five discount unless something changes. And hopefully there's some smart people in the room that can help figure out how to make those things change. We didn't have this chart until last year in the fourth quarter, does anybody know why? We kept getting the question, "Is this normal?" Why don't I take the equity one, and then you take the next chart, Dan?

Dan Silver: Sure.

John Cole Scott: So we just basically put this in line to say, "Yes, things were cheap. They were only cheaper twice more previously in the last 20 years." We also did some running, where we said, "If we take the worst entry point on a one year basis, what happens five years later, from '08?" And while it wasn't fun on the way down, it was a very good returns if you did not sell. So as we talk to advisors that

work with retail shareholders, we say, "Talk about the volatility. It's the benefit and the challenge of closed-end funds. But remember, if you put them in the portfolio, make sure they understand that when volatility goes down, if you're in a good sector and a good fund, that bounce can be far more exciting than the fall down." And I just think right now we're trading about average, so we're not really rich, we're not really light. And then this is just a BDC discount chart. We don't have the 20-year because there weren't enough back then, but just to give you another reason that BDCs themselves are kind of average price-to-book. You want to do taxable bond?

Dan Silver: Sure. So obviously as everyone can see, there is some volatility there. The idea that you can get something for 85 cents on the dollar at one point, and then people are paying 103, 105 cents on the dollar is a little bit odd when we're talking about fixed-income. That's how we price fixed-income, not necessarily the wrapper. A closed-end fund is just a structure. If you're buying an ETF or an open-end fund, you'd be applying the actual NAV. In this case, we see examples where people are paying over one hundred cents on the dollar. So some of the interesting things that we can point out though, are when were discounts wider? What was going on? In the late 90's there were obviously a bunch of things, the Asian debt contagion and some default issues that were going on, and obviously U.S. equity markets crashed. And you better believe that the debt funds do actually follow the equity funds.

We saw a ton of issues during the credit crisis. It's not surprising that the discounts really blew out. That doesn't mean that the NAV -- sure, many of the saw declines, but in many cases there were great opportunities buying even at large discounts and with the clients and the NAV. And then obviously into '13, you can see the tapered tantrum. So that had a very meaningful impact on the fixed-income market. And what's going on now? Where do we stand now? If you know what's going to happen in the interest rates, I'd love to know. Obviously we've got some issues between what's going on in the short end of the curve and the long end of the curve. And I think most people could probably make an argument for and against both ends changing. Who knows if it'll end up steepening, if it'll stay flat. Your guess is as good as mine, but certainly that does factor in. And not only does it factor in to what's going on with discounts,

but it factors in big time in the fixed-income world in terms of the actual earnings and the performance of the NAV of the fund.

John Cole Scott: So this is the muni bond chart. People say, "Muni bonds are safe." And while underlying guts are rather safe, I need to remind you that there are movements at NAV and market prices, but then they often have recovered well. So a third of the listed market, just a chance to be reminded of the total return chart for 20 years of that sector. And their discount chart looks similar, but different to taxable funds. I'm not going to cover it too deeply.

In the work that we did when discounts weren't so cheap, up gravity was easy, and we were trying to think of ways to help our clients get more diversification, we developed a lot of work with correlation. First from the indices in our space, and peer groups. We then developed the ability to do client-level holding and sector correlation work, trying to decide when to put things in the right tax bucket in the portfolio for the right reason. And generally speaking, correlation is not the most important thing in any portfolio, but blues mean less scientific connection to the other stuff. We tell people we try diversify their stuff with more blue. This will tell you the sectors that have blue, which are traditionally the muni bond funds, preferred equity, REITs, and investment-grade type stuff offer -- and MLPs, a lot of diversification. When you pick the right manager at a reasonable price, that's the other factor you have to consider.

A lot of people see the yields on closed-end funds and go, "Oh, my gosh, they must be risky because they yield so much." Seven to eight percent common for taxable funds. And this is a chart we actually stole from a BDC at a conference. They're good friends, they steal our stuff too. To look at the leverage adjusted NAV yield. Which is if you back out the impact of leverage and discounts at the fund, what does the management and its team have to perform to meet the policy of the board of directors? It's a quick and dirty analysis, and that's the green line. The blue line is what the market price yield is. And so in sectors with discounts and leverage like the MLP and the BDC, you see a wide, wide difference. And that's where I think you can argue that sometimes what seems like a very high-yield with a lot of leverage and a lot of discount, isn't a high-yield for the manager to hit. And that's a data point that we've been using since 2012

because it makes so much sense to normalize fund comparisons. And I use this slide constantly to educate people about what that means to have leverage in a discount if your product has either or both.

This is where yield is right now. A lot of yieldy things; 17% yield under four percent. A lot of muni bond funds, a couple years ago that number was tiny because muni bond funds were yielding six, not four and less. Why muni bond funds? If you live in the city in a taxable account and make a lot of money, the tax equivalent yield is powerful in the closed-end fund strategy. Got the input from this slide back in the day from Nuveen, but a seven and change tax equivalent yield is hard to argue if your income is high enough. It's why I think either with concerns about duration interest rates, we think for most investors that are retired, for their taxable portfolios, muni's make a piece of it in some sense. You want to talk a little bit about dividend cuts?

Dan Silver: Sure, I'd be happy to. And it's an interesting topic and an interesting category. There are two separate things going on here with this topic. On the one hand, we've got what's going on with actual investments out there? Are the yields going down on the underlying investments, so that the portfolio income is lower and they need to lower the distribution rate on the funds to match what the underlying is earning? And then on the other hand, we have what sponsors and investment managers are actually doing. And these are two very different things.

If you look at the marketplace right now, you're going to see that there are actually a lot of very questionable distribution rates. The number of funds where perhaps they were bowing to activists pressure, they said, "We're going to pay out a 10% distribution rate. We're going to pay out 10% of our NAV." Does anyone here think that's sustainable? Are there any asset classes that continuously earn 10% on the underlying, such that they can pay out 10% and expect that it's not going to be paying you back your money, a return of capital? I think it's pretty clear that some of these funds are paying out a heck of a lot more than they earn. And if you try to imagine how many investors there are out there that are dividend growth investors, who would want to own a stock where the dividend is bigger than the earnings? That's not a sustainable dividend.

And in this case, we see a lot of distributions that aren't sustainable. And the cuts are happening in many cases because the yields are lower. But on the flip side, and in many cases the managers make decisions, that it unsustainable to pay out the rates that they have been. We've seen that in the covered call space, which is very widely followed and there's a lot of retail participation. But on the fixed-income side, how many limited duration loan funds are there that have these distribution rates 8.5-10%? That's not sustainable, so I think that's a conversation people need to have. Are the sponsors doing it because they have to or because they want to? And is it even right either way?

John Cole Scott: The counter point is that an over yielding fund is a slow tender, and that you're getting your dividend at a net asset value. Good or bad, if you slap a 20 yield on almost anything, you'll go to almost a premium every day. There's some funds in the sector we could call out if we wanted to, but everyone in the room probably knows who they are.

It's almost tax-loss selling season, and I know that some of the folks later will talk on it, so I'm just going to basically show you this chart. Because most the presentations, we don't have charts

because we wanted to keep them conversational and have input from you guys. But this is a six year study in our database. I think it's November 21st, we looked at everything with a one year price return less than negative five percent. Not total return, price return. Where there's possibly losses in investors' portfolios, and ran the data for that whole universe of funds until before February 15th. A chance to really visualize that movement, and we saw a very big movement last year, but usually you get about three percent move in a very big amount of portfolios. And if you did a little deeper homework for the names with more of the movement, I find people can usually double the average.

Dan Silver: And if I can just follow-up on that. Right now is when people need to be doing their homework. Right now is when people are going to be looking at what's performed very well this year, 2019 or historically. So you're looking at what is done well and what hasn't? Because you can get a feel for, "Okay, what are people going to be looking to book gains in? Where are they going to be looking to

book losses?" And if you're not starting to do the homework now and maybe get ahead on some of the actual legwork, the actual trading, when tax-loss selling season starts to really occur, are you going to be ready? So use last year as an example. I don't know if any of you remember December, but it was pretty messy. If you had started in November thinking about what you wanted to do, what you wanted to buy, what you wanted to trim, you were in a much better position to actually deploy capital and get good entry points on things you want one month later. So right now is definitely a really good time to start taking a look at your book and talking to clients to reassess what changes they might want to make.

John Cole Scott: Absolutely. It's a great time of year to connect with your clients and talk about a strategy you can employ for them, that can help them historically make extra money without taking extra risk. And so if you're going to be a financial advisor, or advisor in institutional working for your clients or in a different structure, it's a value add. Even if you only do the small part of your portfolio for an LP or an RAA, it is a value add because it doesn't exist in the other fund markets and you just need to be educated on it. Volatility, this is basically a visualization. These things are not involatile. They're listed. They're retail driven. If you want the managers and don't want to have the volatility, it's a great opportunity to learn a little later about the non-listed structures where you can have a standard deviation of two to five for many of the credit funds. Versus even the muni bond funds have a volatility of 10 right now. So if volatility is the bane, then it's hard to own most listed products. Which is another reason why we have such growth in the non-listed funds coming out.

I gave this presentation for the New York Stock Exchange in 2011, just how old the slide is. But basically there were some funds that traded at a huge premium, and it was manufactured in many people's opinions, and they cut the dividend policy. And I just wanted people to see, this was before the cuts were prevalent or baked into some of the funds. It was not a very good experience, and I just think it's very important to think about large cuts and how it does impact people. Some people say, "We don't want to cut because it'll hurt investors." Well, the longer you wait to cut if you should be cutting, it'll probably hurt them more later."

All right, we're kind of short on time, but this is our base case. We kind of focus on discount direction, dividend direction, and manager analysis direction at our firm. But we have friends that you'll hear later, they're pure QuantZ or have different versions of that selection. This is the IPO market. We heard about it, but this is the actual stats through the third quarter. We had a much healthier year. The IPOs are trading much better. We cover that in our quarterly deck thoroughly. Mergers, they were very common amongst muni bond funds and some other taxable credit funds. Recently there was the Zweig funds are merging. There's a lot of similar things merging. I will tell fund sponsors, "Please leave me two of something for tax-loss season, otherwise merge away." Yes? Please.

Audience: What is your advice on fund mergers in terms of, when [inaudible] fund mergers be successful? Because I've notice that sometimes they merge and then still struggle. Or sometimes they merge and then close later. So what's the recipe for success when you merge funds?

John Cole Scott: The recipe for success that we'll see, and I think Dan wants to chime in too. Is the merger often takes funds that are just too small to justify the cost and hassle as a public company. And so you take similar funds thinking one state's muni bond fund is a very easy, clear example. You don't need to have that many of them. In that same vein, there is a chance where you could roll a bunch of funds together and repurpose their goals. So if you look at what Nuveen did to their four big national muni funds, they didn't just merge funds, they merge and define, "This is going to be this, AMT free." "This one's going to be higher, more junky." "This is going to be more investment grade."

I think if you think of a merger as a chance to improve the cost structure by a lower fixed-cost over the things. And if you don't forget to decide, what if you took that manager and IPO the fund today, how would it look? Is it possible based on your guidelines and principals? Can you go to shareholder vote to actually get that wish for a fund? So I do think that's got to be the point. It's not just to make them bigger and save on money. You had a goal. Brian and I were talking about the merger with RA and INF. And I was saying, "Well, that's kind of be interesting. What's the point?" And he goes, "We're looking to this." There's a strategic reason to merge their two funds that they felt RA was trading really well and

successful. If I'm wrong, chime in because that was a call a couple nights ago. They wanted to grow the equity bucket that's currently 20% in RA, to 35%. They had a lot of those resources in INF.

And we had chatted regularly about just how we get INF more popular. Well, I go, "The dividend is tax-advantaged. Your performance is great but your discount's very wide." I'm going to guess, this is my outside their window guess, that they go, "One fund is doing great. Same resources. Let's try to make one product trade better. Let's learn from the success of our more successful fund." I think those conversations can happen across fund sponsor platforms. What's working? What could change? And again, if you were to IPO a new fund today, what would it look like? And then try to get the fund merger to lead to that, will lead to investor interest and demand. So make it different and not just bigger. It's interesting, I've been doing this 20 years. I was born earning closed-end funds, and I actually never thought to run that data. So Dan, let's run that data and try to get something out in a couple weeks?

Dan Silver: Sure, we can definitely take a look at that. But the short answer is, it depends and it varies. So dovetailing with the previous question, they're not all the same. A good example would be City of London eventually got around to orchestrating or facilitating a merger of a whole number of international funds. Some of them were single country funds. They were smaller funds. Some of them had wide discount. And then they merged them all into one fund that survived. And if you look at what happens with the discount of a surviving fund, which is one way to think about, "Is this working?" It really depends. It depends on what's going on with the market. If the market is volatile, then sometimes a whole bunch of smaller discount funds merged into one bigger one and they stay at a large discount. If the market is kind of range bound, then sometimes you can get rid of a discount. I think the takeaway has to be for the fund sponsor. If you have a good reason to do what you're doing, stick to the plan. So if the plan is to eliminate a decent amount of expense, you can take a quarter percent out of the run rate expense ratio, discounts are going to change. They go up, they go down. But if you're doing it for the right reason, if the fundamentals, the economics actually make sense to the investor, then sick with the plan and it

should work out. Because otherwise, if it doesn't work out, the math doesn't make sense then, it doesn't' make sense now.

John Cole Scott: Again, we're kind of short on time, though we do have a panelist in the next that' still on the Amtrak train, so I've got to kill a little time. But do want to cover that there are both activist investors, passive institutions, there are moderately active institutions out there. We tracked them to 13D and G&F filings. It's about 20 billion dollars that we kind of see in the semi-active neighborhood. So not huge, but definitely in the space. So we set this up as a non-profit. I was like, "We really want to bring together the sponsors with institutional investors." And some are maybe more City of London, they're long, and patient, and diligent. And some are a bit more aggressive and want to narrow discounts for their s shareholders. That's their job. And I said, "Well, you know, good or bad, they're in the ecosystem. This is a format and platform for us to communicate and discuss things, and to be civil and disagree, but to learn from each other." I think that if you look at the funds at very wide discounts, it tells me two things.

Either there's so much insider ownership that no activist or institution thinks they can actually press on the discount, which is another way of having a governed instance oversight of a 40 Act fund. Or they're in a sector that's just so hairy, it's hard to hedge the risk. Or the sector might be a sponsor that you think is very willing to fight you with every last breath. At the end of the day, it's kind of like -- what's that red thing that you put in your car back in the 90's? The Claw. It doesn't really keep your car from being stolen, it just makes it a little bit more annoying and so they steal somebody else's car. That's kind of the way I think about that. Maybe that's a bad analogy, but I just thought of it there.

We have 35 indices in the space. We have a diversified mix of indices. We've got equity, taxable bond, and muni bond we provide on our system daily. You can go to a profile page for every index. See previous years. Currently for free download, price and NAV history for the index. If you're trying to learn more about the sector or communicate discount swings to a client or prospect, this is a good rate resource for you off of our 35 indices. And just to let you know that they are there. We really have index just for the non-New York and muni state funds, because we want to benchmark and cover them.

This is that last little bit. Just giving an eye on interval funds, and there are other panels, but this is in our database and the other panels don't have graphs. This is the fund growth. Clearly growing and it is a diversified mix, though heavily in loan and credit, and global equity, and real estate. But there's other niches coming on board and it's very exciting to see new things. Just like it's very exciting, I got a call from First Trust yesterday, and they're trying to figure out can they put a listed closed-end fund of hedge funds in the market? And I told them first, "Well, I'm not a 40 Act attorney and I'm not the SEC. I'm not an expert, but yeah." If you can create a NAV success story and support it with distribution and a good theory, that's an interesting product that could be a new leg of many new different funds. We see strategies coming out, or potentially coming out that are very different than five years ago. What I love about closed-end funds, I've been this for 20 years, my dad's been doing it since '69, there tends to be five to ten year periods of thematic IPOs. And I think we're hitting a much more interesting one for the next five, ten years.

We've had some closures, but net growth and assets definitely have been growing. This is one we used in example, because most people have heard of PIMCO, but the standard deviation here is 4.02 on their institutional share class. It yields 8.2 and it owns not the same exact stuff as their taxable funds. But I know a lot of people in the room trade actively in the close-end funds, or hope to one day as they grow their business. I always tell people the reason why you have to understand interval funds if you trade closed-end funds, is just like the country funds were premiums in the 90's, and now finally a bunch of them got merged to make them more useful in the market and they're still at discounts.

To me, the future premium heights of a PIMCO multi-centric credit fund is going to be capped as this fund gains more traction. Because as a financial advisor, you can buy PCI at an eight or nine premium right now, and get your money out tomorrow or ten minutes later, your choice. The liquidy component. You can get a little less yield, a lot less volatility, but you only have in this case, a five percent a quarter redemption. Now if you're the only one redeeming, you got your money back. If everybody wants out,

you get five percent. And that is not perfect because there's nothing perfect, but it's options for investors and advisors to use.

This is the recently active funds. And again, this will be PDF and linked off the event page, so you can download later. I see Chuck's here, so I've just got to cover the risk slide because the lawyers and the compliance people make me. You can have bad management in a closed-end fund. You can have credit risk. Discounts and dividends can go worse than you thought they were. Quarterly, weekly and non-daily NAV products can surprise you when they finally update their NAV. If you can't trade easily, I can be hard to get out.

Though I'll tell you, you'll hear later from Wallachbeth Securities, they sponsored the lanyards. That's their logo here, thank you Mark Loughlin and his team there. They are one of the best folks across trading closed-end fund portfolios. They have technology and relationships, very, very useful. You heard from the New York Stock Exchange. They have DMMs that stay in touch with folks and make a market. And even our custodian, TD Ameritrade, I can call up and get a quote from four providers for a week's worth of trade volume. And I may not like the quote, but as an RIA firm, I have that access. So I'd say liquidity is often touted as the bane of closed-end funds, but as long as you're thoughtful and there's resources, they're out there. So if you need help, definitely get Mark's card. Happy to talk to you about the TD relationships. That's not available at Schwab, Fidelity or Pershing to my knowledge yet, but I'm sure will follow. And again, it's irrational trading behavior of retail shareholders, I'd say fourth quarter is that.

Recorded on November 6, 2019

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

https://AICalliance.org/

Disclosure: *Listed closed-end funds and business development companies trade on exchanges at prices that may be above or bellow their NAVs. There is no guarantee that an investor can sell shares at a price greater than or equal to the purchase price, or that a CEF's discount will narrow or be eliminated. Nonlisted closed-end funds and business development companies do not offer investors daily lliqudity: often on a small percentage of share on a quarterly or semi-annual basis. CEFs often use leverage, which can increases a fund's risk or volatility. The actual amount of distributions may vary with fund performance and other conditions. Past performance is no guarantee for future results.*