CEF Advisors' Quarterly Closed-End Fund, BDC Universe and Interval Funds Update, IPO Review & Outlook

Thursday, July 9, 2020

On July 9, 2020, Closed-End Fund Advisors’ John Cole Scott held the quarterly closed-end fund, BDC universe and interval funds update, IPO review, and outlook webinar to review the second quarter of 2020 and to look ahead to the third quarter. Read the transcript of the webinar below.

John Cole Scott

Good afternoon. John Cole Scott, Closed-End Fund Advisors. We are going to cover the second quarter 2020. We have about a quarter of all the attendees every session. I did the math, this is our 34th session for this, and definitely a lot of ground is covered. We started this once I finally had some data folks working.

A lot to cover, and so let's just go ahead and jump in. Again, I would like to note that it's my father's 83rd birthday, and if you don't know the firm, he bought it in 1996 with Frank Cappiello, who was already an owner. He's been in the sector for a long time, and wouldn't be in this seat, wouldn't be on this call with him, and so I really just want to on his 83rd birthday, we can't get together in person, I just want to give him a quick shoutout. I know a handful of folks on the line knew him. He recently retired in 2019, and has been pretty active since the 70s in closed-end funds.

Just some questions popping up, please type questions there during. And I also review the questions that you submitted in the registration process and we're going to go through those. There's about 16-17 good questions in there, I bet we cover half during the course of the presentation, and then the other half I have printed here, I'll go through and make sure that we've covered them. If by chance we miss something that's more granular or somehow we miss it, just email me or call me after and we'll get you a good answer for that. But with that, there's always a lot to do.

We still find after being 30 years old and doing this 34 times, making sure people know who we are. We are Closed-End Fund Advisors, we're an SEC registered investment management firm. We also have our data business since 2012, and we do various approaches to some research with partners or previously with our Scott Letter newsletter service. We're independent, fee-only, and family owned. Scott Letter, we really haven’t done in a while. We've converted a lot of our efforts into the non-profit, the Active Investment Company Alliance and their weekly podcasts, webinars, videos, articles, and events. So I still say the intent of that newsletter was to be a journalistic approach and to educate folks on managers, sectors, sponsors, and we're still taking that through all the content that we're still heavily involved with.

Our main work is called separate account work or discretionary portfolio management. We don't have an active fund we work with. We really enjoy the work with individual investors, and we find that while we have styles and flavors of investments, they're often income focused. And then if they're a taxable account, we always use your tax rates in part of the analysis of asset allocation and fund selection because that's a piece of the process we can also add. It adds a layer of control, and with our data capabilities, do some good work there.

We also have a unit investment trust. Just submitted series 19 of our BDC trust to Smart Trust today. The portfolio will be live and publicly known next Friday, and definitely that's the bulk of our work in BDCs. We were covering them before we had the trust in November of '14, but a lot of our efforts have come working with thousands of financials advisors and raising hundreds of millions of dollars of assets in that UIT sector.

When we really went to build our own data business, and if anyone's built a data or any sort of system on their own, you've really got to start with a couple of things. One is a price, a NAV, and a dividend file. But then the second thing is a news alert service and an SEC filing alert service. You have to know when every fund gives us updates across all the different pieces, and we're now tracking that for about 750 ticker symbols between the entire listed and non-listed traditional closed-end fund, BDC, interval fund, and even tender offer, and non-traded BDC universe.

We don't do a lot of it because we still do most of our work with individual investors, but we are able to work occasionally with institutional investors in a consulting role or fund sponsor or a board of directors are able to come in with a perspective from both a practitioner of a secondary buyer of closed-end funds, that's our base core business. And then also with our data, we're able to go back and back it up and show how the data can often support those trends that we've seen over-- I've been doing this 20 years and 30 plus for the firm.

We continue to program features and functions often based on our needs or based on others that want to buy access to our system, and I think it's really been a great way to grow our data business. To balance what the market looks for and what we feel we need to serve our clients, and to solve questions that come up in our heads. And like I said, just about a year ago we had just landed on the name, didn't have a bank account, didn't have any other legal structure yet, but got that in place in September, the Active Investment Company Alliance.

I've got a couple slides just to go over that, to make sure you're aware. Because I think if you've got the tenacity and the curiosity to be in this session and you haven't been on that website, I think you'll find some things that you'll just find really interesting, and then you'll hopefully give us some feedback to guide us going forward as we keep transitioning to a more fully independent non-profit with more membership and more representation.

Again, we founded in 1989, a long time ago back in Santa Barbara, California. Now of course based in Richmond, Virginia. I'm working the 105th day from my home, and have spent some time making this space both good for videos as well as for a lot of work here without having to leave the house. AICA, the Active Investment Company Alliance -- I'm not going to read all of this, because this is similar to the slide we showed last quarter and you can always review this in the deck. But pretty much I looked at what was available through the IR/PR, the for profit people supporting closed-end funds.

I looked at, there was kind of a narrow, smaller closed-end fund association that we've worked with in the past. And I'm on my college's non-profit alumni board, and my fourth year on that 24 member almost 100-year-old institution, managing 25 staff and helped to oversee just a billion dollar capital campaign for the College of William & Mary, and really thinking about efficiency ratios, and effectiveness, and serving our constituents in a regular, on-going way. Just a really well-run non-profit in my opinion. It's only my first fiduciary board position on a non-profit.

And I want to take that to my work and to my ecosystem. We have the data, I've got the perspective, we already worked with the exchanges, and the sponsors, and the peers, and partners, and service providers. And I really wanted it to be three things. I wanted it to be for listed closed-end funds, the big 1893 original animal. I wanted it to be for BDCs, they've been around since 1980 but more active since 2013-14. And I wanted it to be interval funds, which have gained a lot of traction as you'll see in the data later. I wanted to include all of those structures because they're all active management, they're all fixed-ish capital, depends on how it's structured. And really often income-focused and often levered, and so it's just a lot of unique components to it.

But then I also want to be more than just the fund sponsors. They're an important part of the ecosystem. They create the funds that we all can use, and we all need them to build our portfolios, whether it's me building it for a client, or you building it for yourself, or for your advisor building it for your clients. And then we also wanted the other firms like me, we're not the only closed-end firm in the U.S. We all have different flavors and many of us know each other pretty well. And then there's also service providers, from the lawyers, accountants, to proxy firms, to the exchanges, and people who help create closed-end funds, people who help trade closed-end funds, we wanted a unified perspective.

We had a great event last November, there's a link to it off the website. And we have another event, just the date firmed up, August 13, 2020, five weeks from today, to create some great content. And we wouldn't have our logo without Piers Currie of Warhorse Partners, did a beautiful job helping us create colors, and branding, and thinking about how we'd want to be positioned in the market.

If you haven't heard of our *NAVigator* podcast, you don't have to listen to every episode as I do, but it's about an eight to 10 minute every week, drops on Friday mornings. This is the last eight and I'm not going to read them, but basically it's a balance of sponsors, institutional investors, service providers, press across the different segments and landscapes. We have all three service providers in the last eight podcasts, and all three parts of the ecosystem. I keep telling our podcast, and content, and membership coordinator, let's keep making sure we invite high-quality speakers and keep it diverse.

This is on the public landing page for AIC Alliance. You guys may not know there's some data we bleed there at a high-level. Again, it's a little different then we show in this quarterly, but this stuff does update daily and can give you some different perspectives if you're just wondering about the universe of funds. And we thought it was enough data to be helpful, but not so much that the people that buy our data would stop buying it because it's not as granular as if you were to have our enormous amounts of information in our various feeds, and spreadsheets, and whatnot.

This is the conference. I'm not going to go over it, but again, three types of structures, trying to bring in all of the various components. We have spots for 12 panels. There is more than 12 on this list, we'll be working in the next week to firm up which ones will live, which ones we can get the right people to speak on. And if anything we don't get for the conference, we're probably going to bring about as a webinar in September. It's going to be starting at 10AM and go til 4, and then there'll be networking time, both an hour in the middle of the day, where you can network with presenters and sponsors, have lunch at your desk and meet them at a table and interact with them in a video and virtual way. As well as a happy hour session after for those that want another connection to the supports of the industry. And we're going to be having three, hour long breakout sessions, with four going at a time.

But the budget, again, we're non-profit, we have to file a public tax return if you know the non-profit structure. We have an estimated budget about $68,000, it's about $4,900 per panel if you include the keynote and $136 per registrant. Estimating 500 is just a hope, and we think we can hit that with the right marketing, and peers, and press. And compared to the conference last fall, that was just $135 for the food for the 100 that showed up at that event, so we feel like we've got a good platform for it. We've got some great content, I'm expecting some great presenters. It is going to cost $59 a person to register, that puts us to where about half. If we get 500 people, and that's our goal and our intent, half the cost is covered by participation and half covered by sponsorship, and that feels like a nice, efficient, and diverse financial model so we can stay independent and neutral.

This is the fund screener. Go to it. You can do listed and non-listed, and this just reminds you of some of the features. It will improve, it's a draft one out there. I went a bit long on that, but I think it's important. Because if you didn't know about that site, you hopefully do now.

The closed-end fund, I'm just going to put these on the screen and say, whether it's a BDC, a traditional fund, or an interval fund, they basically allow active management, most are listed on exchanges. Again, BDCs are a cross between closed-end funds and operating companies in how they are analyzed. And a lot more work needs to be done on the portfolio, and the holdings, and the management team, I'd say even more important than most traditionalistic closed-end funds.

And then interval funds are basically a hybrid of a mutual fund or open-end fund structure in closed-end funds, where you can inflow money daily, but they may typically offer 5% of the assets every quarter for redemption. And for that, you can't get out as quickly, but you have none of the market price volatility, and we have a little bit of data that shows how it's much more enjoyable to be in those funds in March and much of this year than in listed funds. Though there's no discount to recover as well.

BDCs are focused on lending money to generally private U.S. only businesses. It's often variable rate loans, it's often secured loans. And again, right now if you can believe it, between the both non-listed buckets of structures, there's about 155 and 77 billion, so not as big as the whole listed sector, but significant.

In 2016 we developed our index pages. Some of the features, I say this every quarter, are being turned off. I thought they were by July 1st, but we got behind on some project work and it should be mid-July, but there'll still be some good information there. You'll be able to visualize some good data on diversified portfolio indices, like this is my answer to the average closed-end fund as well as sector level. And you'll see some more there.

In March, I think it was March 3rd, we developed this tool, a new charting module to do more selective and granular charting of the data we already have in our system, and I really liked it. This is about a 15-year lookback, and right now we're at about an eight discount for the average traditional closed-end fund. The average and the median are about the same, 4.5%. So what that means is about 3.6% wider than the 15-year average, and we did hit back if you remember October of '12, that was right about a month and a half before I hired my data team, or the first initial members of my data team, a 1.5 premium to the average fund. And of course while we hit a pretty low discount earlier this year, you'll see back in 2008, we hit a wider discount for the sector.

Again, this recession or this period, while it's very different, was faster down for the markets. Similar, maybe a little steeper on the down than the down before, and we really only have one significant pullback in the sector from a discount perspective. Again, we may not be done, last time we had three or four, it depends on how you group that middle group if you look right here in the portfolio.

But seeing where we are now versus the average, it does suggest that it's maybe hard to be above average, a lot above average in the number. But then it also tells me that it is hard to stay as low as we are now for a long period of time. If you look at how few, it's '15-16, it's December of '08, it's the financial crisis, and it's COVID that it was this level of discounts. And so that to me is a lot of the questions were about discount perspective. I would say that we don't know the pace of the recovery for discounts, but there's far more tailwinds and headwinds for discounts.

We produced this chart also separately on our website for CEF Advisors on the resources page, but it's a great way to continue to look at the net asset value performance, something that most investors don't care as much about. It doesn't impact your performance directly, but as you'll hear us talk over time about closed-end funds, we always talk about the anchoring point of a discount or even a premium is net asset value. And so you can't forget about it, even if you can't buy and sell it directly. And it's fascinating of course, convertible bond funds -- someone had a question about convertibles are doing well and at discounts, and preferreds are doing pretty well, not horrible but not as well, and they're at premiums, and the why. I would say historically preferreds and convertibles both do well, they're very different investments.

So two broad things just in case you're not familiar. Convertibles act like equity but with a bond floor, and their dividends are usually mostly fully taxable at the convertible level. Many of the funds will have part of their portfolio be return of capital or maybe long-term gains. A little tax sensitive, it does attract some investors to them.

Preferreds are basically typically 60-70% qualified dividends. They're of much more of a duration at a fixed-income, and almost akin to a muni bond level of defensive stature for the portfolio, and so they just act differently. And so I would say while converts widened and rallied from a credit perspective and are a very popular closed-end fund sector for the size of the universe and the number of ticker symbols available. Preferreds again, I would say another popular sector, but it's all just so similar. It's a similar approach to the munis. And what we do for our clients, while we still in most cases will own a sleeve of preferreds and a sleeve of munis for a taxable account, that's our basic approach to an income investment from a taxable account perspective.

We'll take your tax rate and look at the portfolios and decide the weightings partially by what your after tax yield is. And again, with munis you traditionally only have to pay state income tax if you have that. If you're in Florida or Texas or others, you don't. And then preferreds you have to pay state and federal on the non-qualified rate, plus the qualified rate on that. But then the yields are typically higher, but the durations are typically lower, and so it's a lot of pushing and pulling on that.

I think that gives a little bit into the questions that you had for me for this webcast. But I'd say that the key is, some sectors just tend to perform better because they're supposed to. I'd say if you look at the data, it's not been a great, easy 10 years for international bonds or international stocks or for energy. And then senior loans, another sector we can get to if you want later. But I'll just say that to me they have a lot of the mechanics of an equity-like portfolio, a more high-yield, kind of a blend of those two, a little bit more secured though. They just haven't been as loved both from a NAV basis or from either a market price basis. Discounts have been very wide really for the last four or five years. And again, I don't know when they'll perform on a high-level like they did in '16, where they were up 15%, but hopefully we'll have a good year for them and people will want those holdings and those funds can benefit.

It looks like in early August, we'll have Larry Holzenthaler from Symphony Investments, which does a great job weekly producing commentary that we read covering both the high-yield and senior loan sector. And I wanted him to come in and give us an update before the fall, when we'll hopefully have some more data. So that should be a good podcast you guys will see in early August.

Discounts. If you ever want to say, "How do you talk about closed-end funds?" It's discounts, it's dividends, and it’s leverage are typically the first three things that come out of everyone's mouth. And the concerns, the questions, and the excitement or the fear typically come around all three of those pieces. I'd say the discounts change but they have patterns to them, some generally are tight. I'd say the ones that are generally tight are tax-driven investors, munis and preferreds tend to really value the closed-end fund structure and so they tend to have tighter historical discounts.

You can review these slides in more depth later and of course ask questions in the box if you want me to dig deeper, but I know we have a lot to cover as always. I do my best to keep it to an hour of prepared remarks and then Q&A after that if you were willing to stay.

Correlations. The 14 major sectors are higher than they traditionally have been, that happens in a period of March of 2020. But there's still some nice pockets of disconnect even through this level of five-year correlation data. And this information comes from-- we developed a correlation model in both the portfolios as well as for groupings of sectors and funds to be able to analyze. And again, this is price correlation, so this is what you experience as an investor. We also look at net asset value correlation, that's what we're looking for from the managers diversification because generally discounts tend to move in rough periods of very tight. Correlations all get close to one in carnage periods like what we saw last quarter.

So just to get a sense of where the three major buckets of traditional funds live. These 20-year charts, I think very, very useful. We brought these charts out, I believe, in January of '19 to think about the fourth quarter of '18. But I think may have been developed during the fourth quarter of '18 for a special webinar. Right now the average equity fund is at about a 10 discount. You can see very uncommon and when we plot that. You can see not many observations in the 10-year period wider than where we live now. But again, equity closed-end funds are typically not secured or contractual or like a bond portfolio, it's just following the directional trend of U.S. and global markets in both the broad-based sectors like common stocks but also REITs and energy, and all these other, biotech and whatnot, other areas of the market.

Taxable fixed-income is a nice large bucket of funds, it's been about 150-180 funds pretty much since we launched the data business and I track that stuff really closely. Right now discounts are still rather wide; 5.5, but still sitting a little bit closer to their 20-year average. If you look at that, it's still on tail end of that big five to six number. Obviously, when they breach six, that's a lot less common at the end of a calendar month, and typically if they get over three, not too many periods of time above that either.

So we're tighter, but still I think well positioned for opportunity. And the way I think about that, just very simply, lots of different sectors here, but much of these dividends and much of the reason why people own these is for those monthly distributions. And as long as there's net investment income, then there's opportunity for cashflow that can support the distributions that I'm guessing you or your clients are using to live on in retirement, or planning to live on in retirement is 90% of the people that we engage with regularly.

And then going for munis, again, still trading again, I'd say wider. Here it's interesting, people with taxes still love this sector and people with concerns about the economy often like munis. But I'll say there's two reasons I think munis are still going into this quarter, even after the recovery we've seen, are priced a little wide, and it comes down to two very different pieces of the equation.

One is that there's concern, and we're trying to get a video interview covering this for AICA, but how worried are the closed-end fund muni managers about state budgets and their ability to pay the interest on all of these muni bonds in the market? And I can tell you that the stuff I was listening to in March and April at that time says they weren't as worried because of the cushions, especially the investment grade portion of it. And even when you look at the high-yield part of the muni market for closed-end funds, typically those funds-- I remember reviewing a couple last week for our clients, they're 20% true high-yield, and usually there's about 20-30% non-rated bonds. Again, those aren't all high-yield, but they're just smaller and usually some great opportunities there.

So even in the funds where you're trying to get high-yield, where there should be some more risk, it's not a full-blown risk. Again, the managers tell us two major reasons. One is, if you're mostly high-yield, your leverage costs a lot more and you can actually genuinely pass on less yield to shareholders while of course taking more risk. And it's just a smaller part of the market, I think the last note I read was the high-yield muni market's only about 5-6% of the total number of bonds out there. And so there's just not as many options, and it feels like you're too crowded and it's not the right investment decision. I think it'd be wonderful if we could have those very select high-yield portfolio with modest leverage, and then just play with the duration as the major fulcrum for that portfolio. I think that would be a very useful fund for me if it was managed well.

And then the other thing like I said is tax. If you look at muni yields, as we'll see, they're right around four and mid change. And if you're in a state with-- like Virginia’s about a 5% tax, four and change, five and change, depends on your income level. You're looking at four and low change distribution yield after tax for a national muni. And if you're in New York City or California or New Jersey, it's basically four. And while that's more than you get from individual bonds, it's just not as enticing. And I still feel like even the after-tax focus of income investors are still not as excited about munis because the dollars aren't big enough and there's a little bit of concern for what's going on.

But you can see, they're not commonly wider than this. There's a tailwind but the tailwind has two factors; income production and unwinding how the states can keep surviving the environment in because it's so unique. We brought this slide out [inaudible] success and failure with the GainsKeeper, so that's the TD Ameritrade vendor, but the gains and losses in their account even for IRA money. And so I feel - this is my strong opinion - that you can't forget about time, dividends, and discounts when evaluating anything. Because whether you've made 5% in five weeks or five years is a very different answer. And whether you've lost 5% and made a bunch of money in dividends or you haven't is a very different answer. And whether you're sitting at a wide discount or a narrow discount, to me, all three of those change where you've been.

You know we have a data business and I obviously love data, data's a rear-view mirror, it's where you've been. You have to think about how data's worked in the past - this is my approach - and where you can point your arrow, and where the arrow should be pointed to get you through what's to come. And just to bring a little bit of an example to that, I was driving this Monday for a good amount of time between New York and Virginia, thankfully not stopping, and one of the podcasts I listen to talked about how we have to plan right now.

So as an investment strategist I have to plan right now, both for a possibility of inflation, and not just a 2-3%, but higher, strong inflation. Or deflation. And you have to think about both pieces of that and how it'll impact the funds and the market. Not that it's going to be easy to happen, but there are good cases for both deflation and inflation based on whether the supply side of our economy picks up faster and with more steam than the demand, or if the demand side of our economy picks up faster and with most stream than the supply. And matching those two parts, we've done very well for 30 years in this country, and so that's very hopeful but I think you can't forget about that.

And the other thing is people will look and go, "Oh, we pulled back at the end of March 30th." I go, "Yes, back to where we were in '18." It was a huge pullback, but total return, you still were ahead. And while you've got big moves, we haven't seen as big of a move in closed-end fund total returns as we did in the financial crisis. The speed and the discount quickness was intense, and the dividend changes have been more intense, but the not total returns.

BDCs, similar story. Most people don't know that they have a net asset value or cover them well, they definitely continue to have a chance to recover. This is that discount chart for them and I'd say we recovered about 80% of the discounts off the March 23rd lows. Slight pullback since that recovery, but again, I think people are just trying to anticipate what we're going to see when earning season starts at the end of this month. BDCs, like I said, mostly secured, mostly variable. The LIBOR floor is about half the loans of a 1.2 floor. We’ve covered that in the past, and why we still cover the data because it's actually back to of interest for us and others in the sector.

Average loan size about 9.5 million dollars. I think that's part of what people don't think about. This is part of the sector with very small companies because big companies you've heard of don't blink for $10 million loans. Almost three quarters of the loans are under $25 million in size. That's with some larger BDCs coming to the public market and being able to look at just larger, diverse-- more BDCs able to write $100 million checks now, but still seven out of 10 loans are under $25 million. And every fund's different the way every closed-end fund is different, but just to normalize it for advisors and investors, there's about 203 loans from 146 companies in the average BDC. So some more diverse than others but you're generally getting diversification inside that structure because it's a fund, it's not an operating company with one source of revenue.

Munis, again, they pulled back but they still continue to power on. I think that they're a third of the traditional sector and they can't be ignored but they have to be used properly. Now we ran this data, so we didn't have a muni model until after the taper tantrum, and right now we have now clients in our direct muni model, I was discussing it with a current client. And often it's the diversification, even if you don't pay us a fee, that the after-tax yield often doesn't solve our problem.

The bulk of the work we do for clients, and it takes asset allocation, and our data, and our experience to do this, but we're often seeking 6-8% after-tax, after-fee. We're looking to reinvest some of the distributions every quarter, thinking about taxes being around your qualified dividend rate as a milestone; 15-20% is the max you should pay in taxes off of your total yield because otherwise it's just too much in taxes. And if you can't get close to six, then it's really hard, I think, to justify the complexity and the hassle of a portfolio. But again, that's an opinion.

Going back to munis, this case helps see why we do use them and why we like the closed-end fund version of them. Basically in simple terms, and we're using federal or New York higher income clients, but right now the average muni fund, which includes state funds, about 4.57%, indicating yield end of the quarter. If you take away discounts, so that's like an open-end version of the same guts, 4.2. If you take away leverage, it would be just if you own the underlying bonds in my opinion, about 3.2.

It's still better than the ETF, though I will say if you don't know the sector, there's more duration in closed-end funds. And if you look at durations, they were ticking, ticking, ticking down. I just had to factcheck a bunch of our data because the duration figures are going a lot higher because of the strong conviction of active managers to really find longer duration bonds because of the intense unlikelihood of rates going higher anytime soon, and that's helped to drive the dividend increases we've seen for munis.

But the reason why they still make sense when you're in a higher income bracket is you're getting the equivalent yield of 7-8% of a taxable bond for that muni. And again, that's a powerful number to compete against with also some hedging of credit risk and equity risk, and a different part of the capital market that I think works beautifully in a closed-end fund structure. But like I said, we don't have any peer play there because even without a fee it's hard to justify the after-tax net to a client.

The universe is about $267 billion. Remember I said it's about $77 billion for the non-listed. And so right now about $350 billion there for the entire universe that we cover. We basically have about 700 ticker symbols and that's where we live. Even though there's been mergers, but there's IPOs, there's usually lots of options. Some sectors are contracting, some are growing, that's the nature of capital markets and where we are. I can say five years ago when we launched our UIT of BDCs, there were around 50 BDCs. We've had some mergers and liquidations, but some IPOs, and so there's about 50 BDCs in there as well. And there's another 40-50 billion in non-listed assets that just aren't as known to the market, but a handful of the listed funds recently have come from that non-listed environment.

I keep thinking to pull this slide from the deck, but it always tells me a story that I enjoy as I'm reviewing and preparing for this. And basically, thinking of market price performance versus NAV, and how sometimes they're very similar and sometimes they've very different. There are only nine funds with a negative NAV total return, but then of course there were 18 funds that had negative price returns, which is discount widening during the period, and the bulk of it was in munis from discount widening.

Like I said, there were some dividend increases from munis and preferreds was the major groups last quarter, but there were some dividend decreases there, and I think that could have taken some premiums and slipped them down and created that divergent behavior. And the fact that every BDC had a positive NAV last quarter, and 92% had price. The only caveat is NAVs are quarterly, not daily like most other funds. And so that just mean that the first quarter, because that's the data we have available June 30th, were all positive going into this. Which is a very healthy thing, hadn't seen that in a while. But still most of the funds had a very good quarter.

And we'll get to it, but the questions I remember reading, outlook for BDCs, I'd say we've been saying this for more than two years, it's a tale of two cities. It's quality management and fairness to shareholders. When we build our portfolios, we said in 2019 if you can't generally make your money back in a good economy, you do not want to own those BDCs in a bad economy. We set series 18 of our UIT the first two days of March, and it went live the next week right before March 11th or 12th, major pullback or start to pullback, and we were doing some support work for the advisors that buy that trust.

I took the index of 30 funds that we have on our website for our BDC universe, and we took the funds that we owned in series 18 versus the funds that weren't in our portfolio but in in the index, which is the liquid part of the BDC market, and again looking after and earnings period, dramatically better. Lower non-accruals, which is defaults. Better net asset value performance, less dividend reduction, more cushion. And I'd say, while it's hard to only own one BDC, we traditionally own four to 10 in a sleeve, it depends on the portfolio and the model, and be willing to be active. It's just reminds us it's just a very diverse variant.

Couple of quarters ago this chart was very boring and flat, and I'd say if you think of the [inaudible] being low, I'd have to run the data but I would say it's probably common that the closed-end funds are all kind of smooshed together in how they are trading. Right now we have a much more stable period than previous. There's still a lot of divisive perspectives on the sector. And like the fellow said earlier, the average preferreds at a 3.7 premium, and the average convertible is at a 7.8 discount, why is there that 12%, or almost 12% divergence between the two? I hopefully gave some color on t hat for that.

People always say, where's relative opportunity? And this isn't the only way to look at it, but it's on our website, publicly available, we just plot the current discount level of the index to it's three-year range. So we take the peak to valley of the index and we look at where we live. Before COVID, being 50, 60, 70% in your range was not uncommon for a diversified mix. Now the only funds really up there are utilities and preferreds. High-yield's done surprisingly well, but I think that's probably the tailwind of the Fed being vocally in the high-yield market supporting it, has given more support to that end of the portfolio.

Traditionally, investors seem to have enjoyed the multi-sector bond fund group better. They've generally had tighter discounts and better NAV performance in many periods of time. There were some PIMCO dividend cuts that were not unexpected, that we never know when they're going to happen because they just were too lofty. That maybe has pushed that sector down a little bit in its historical pricing. And then the national funds are trading better than state funds is probably a simple answer to diversification, and the fact that the state funds are mostly New Jersey, Pennsylvania, California, and New York. Not a lot of other funds in there, and there's more concern for those economies, both from where COVID is as well as just the obligations of the municipalities.

This slide, we're glad to finally get it updated. Again, you would have seen it last quarter but it reminds us this was our answer to, "How do we measure tax-loss selling season?" So we look for the widest discount around November 15th-- I think after November 15th, I can't remember the rule but I believe it's before December 1st. And then you look for the highest discount after January 30th and before February 15th, or maybe it's January 25th. But try to find those movements, both because I'm always curious in the magnitude of those movements and in the actual what dates generally do we get those? And then I love stringing them together like this because you connect tax-loss selling season into a total return of first couple of years prices were actually kind of widening discounts. And then they were narrowing, and then widening, and then narrowing, and then of course they widened a little bit in the last quarter. And this doesn't even include what we're seeing now in that move, but I think it’s very useful to see that most years you get movement.

Which again, I think two of the seasonality’s that I think if you're going to be a little bit active at the sector level is going to be the tax-loss selling seasonality and then activist seasonality, which is a little hairier and harder to document. I was trying to think today what data could I plot together for an activist perspective, one slide for this presentation? If you've got one in mind, let us know, we've got the data, I'd be happy to play with you on that concept.

We also get volume trends to see where there's interest, and I'd say BDCs, and convertibles, and high-yield, basic debt stuff, and then real estate because the headlines for real estate. I think it can be fine but definitely it's going to have a bumpier road because I keep rethinking our office space, and when am I going to be in a hotel again, and the change of the landscape that was previously un-thought February 15th.

I've always loved this chart, been using it for so many years, at least five probably. Again, it answers two things for me. The green is what the manager has to meet to fuel the policy, and on top of that is if there's leverage and discounts, that's the blue. So the blue is what you and I get as investors in the space from the average of these groups. We use averages just because we don't want to be cherry picking, and also if you're a registered person you understand compliance can be challenging for specific ticker symbols because it's easier to say buckets of funds. And when there's a big magnitude, then there’s more beneficial value of the closed-end fund version of this if you're just trying to maximize that spread between managers return requirements to meet the board of directors policy. And again, inside of the sectors and the funds, it's one of the many data points we use to assess dividend risk. It's never only one answer. I think no one data point answers anything but I just love to think of it in that way.

And then just going back to, we don't buy ETFs, we don't buy individual securities, that's not what we do for a living. Many of you own more than just closed-end funds, they might just be part or a significant part of your portfolio or for your client portfolios, and we looked at indices as comparison. So triple-C didn't use to be 14.5, that tells you the status of very low-quality corporate debt. But thinking of high-yield, index is seven. And you can get preferred yield, 7.4, and yet, more tax beneficial too. So it doesn't mean you shouldn't own other securities, but it reminds me of that beneficial layer of, there's the ebb and flow of NAV and market price.

The expense ratios tend to be similar or slightly higher than open-end funds, and definitely more than passive ETFs, there's a leverage cost. We generally break that out separately, because to me, when there's a spread, it's helpful. And while you don't want to ignore the cost of leverage, it does impact net asset value performance, we just prefer to understand what the operational costs, non-financial leverage is for a fund. Because for me, it's much more telling whether they're worth that cost or not, or whether the discount or other factors are worth that cost.

I just want to comment here that munis stabilized so far, that is a generally positive trend for the muni market. Another reason why we aren’t avoiding it, we're just thoughtfully using it. Return of capital trends, down for speciality equity kind of, generally up for non-U.S. but trending a little bit down. This was a sense of some data we've been using since 2012 to just sense maybe some stress in the equity funds because it's more prudent for them. But I can tell you, seeing return of capital pop back up in the last year in munis, we hadn't seen that before since-- very uncommon. Just suggests some stress there, where either they overpaid and then didn't have the income, or they just maintained the dividend policy a little bit too long and they probably should have reduced it sooner.

This data, it's still showing up really noisy but I don't want to not give it to you. But we added it years and years ago to kind of think about, can NAV performance fuel NAV yield as one of the major drivers of, is return of capital destructive? It's far more complicated now because of some of the extreme pullbacks we've had, but still shouldn't be ignored in the analysis. Volatility of these numbers look very similar for the last 33 times I reviewed them. Generally bond fonds have twice the volatility, it's a little more for taxable right now, and generally equity funds have about 20% more volatility than their NAVs. Press releases, and this sums the cover here, basically little bit less N-2 filings are creating closed-end funds. Leverage has continued to change at a consistent pace for the last year or so, couple of years. Manager changes are down a little bit, but policies really are changing.

This is not a percentage change, this is going from a level to a non-level, or this is going from an unmanaged to a managed. Just changing the structure of your policy. And tenders, people think tenders have been spiking. I think they'll spike a little bit next year, but no. Secondaries for BDCs are non-existent last quarter. Traditional closed-end funds again had some sneak out. But I'd say the main thing here is that the leverage has been consistently changing and that dividend policies are still changing. There's a little less filling of new funds, but we're having funds come to market as you'll see again.

We have a couple slides on dividend changes. I took some notes, I wanted to get all of this right. So dividend cuts have been 2.8 times as large, and 2.2 times as many in the second quarter. We ran the data earlier to get a sense, and so the cuts are much bigger and there's more of them. I'd say if you look across our portfolios, we did have cushion baked into essentially every model we were running, some larger bands of tolerance than others. We're running 90-93% of the dividend that we were banking on February 15th, looking at January 15th. I think four months later, almost five months later, that's healthy.

And I'd say broad guess here, about half of that deficit is because we actually changed our asset allocation in March, and we've over weighted utilities, preferreds, munis, and senior loan funds because we felt that more contractual revenue would be useful with the unexpected bumps. We weren't going to time the market, but change the asset allocation. And so we do feel like if we get a handle on the economy with more comfort, we can probably get back about half of that deficit for the average portfolio, and that's a piece of what we're asked to do for our clients and to support with our data for you do your own work.

Munis are still the biggest level of changes, you can see largest number of decreases the previous year, but largest number of increases the last quarter. I think there's still net decreases on a three-year basis, but I do say that fund sponsors are acting differently in that capacity.

Looking at this data, the red is last quarter, the darkest green is last quarter, and the paler two are the last one-year rolling, and as you see it's a mix both directions. It's not just the sector, it's actually a lot more complicated than just picking the sector and being in the safety for less cuts or more increases.

This is one of the ugliest slides that we have, but I cannot think of a way to explain the ‘policy not profit’ is better for dividends. Thinking about the growth rate, it's a 4:1 negative ratio for three years. Thinking that almost eight out of 10 funds in the last two years have changed their distribution, so that's a pretty tight window, and almost 200 of them had levelled or managed. And some investors and advisors keep thinking that if it's levelled or managed it can't be changed. It just means it's currently at a level or currently being managed at a certain level, and those cuts, some of them were significant. Little less than the average, but still significant.

And then looking back on the year, the piece of that I always find the most fascinating, it's a little higher than usual, almost 80 funds in the last 52 weeks both decreased and raised it's dividend. Which goes back to there's some funds that nudge the policy numerous times during the year, and there's some that just do big moves up and down as needed.

IPOs, we had a very large listed of BDC, but we have had some assets come out this year, and so basically it's still averaging about six billion a year, but that's a lot of BDC assets if you want to put it in perspective. And so the number of ticker symbols getting four outs in the first quarter of '20 is nice going into that perspective.

The BDC was the biggest piece in the last one year, but still other sectors being allocated and IPO'd. I think some very useful funds for the market, many trading well and I think have a lot of interest and use in the current environment. Looking at the funds that have come out, the one BDC, and then we had just recently the Angel Oak and the First Trust to the market bring together about $700 million in taxable fixed-income I think is a very good story right now. Right now I know that Aberdeen is in the market with infrastructure fund, a global one that I think has a good story for the market now.

Success of IPOs, I'm going to highlight the two that kind of have been successful. The BlackRock biotech one, BMEZ, about 104 at the IPO price. And then of course, AOI, the Alliance One artificial intelligence, kind of interesting new fund, about 99% of the IPO price. And then thinking about recent investors and who's probably happier, you can look at the DLY trading tight to par, though 12% off their IPO price. And then you're looking at EIC, trading at par, but again 35% off the IPO price. And then closely to that is the RMM, RiverNorth's been bringing out some interesting combo closed-end fund direct muni portfolios that have been unique to see.

Mergers, you'll see that they're up from last year, but still I don't think we'll hit 30 this year. Thirty has only been hit three times int he last 17 years. There's not many mergers left, but there's still another five or 10 I think should happen if anyone wants my opinion. But it's still nice and useful for at least two siblings to live because of tax-loss selling, swapping, and other useful components. A little bit of differentiation of the strategy for different investors, but then still make it live fine for a 30-day period tax swap.

Deaths, people keep thinking that closed-end funds are dying. I don't know, I'd say that they're not. Obviously, the data, we had the most deaths in a calendar year. Before the financial crisis, and granted 10 to 12 in a year, eight to 12 is a good, large number. We're not seeing a growing of deaths in the sector. This just shows correlations have spiked towards one. To me, that means that generally wide discounts can revert, that's the correlation of the NAV and the market price to each other of funds. And the correlation trends, again a little disconnected. State muni is going to pull back to more independent from their NAVs, and I think that that generally means more upside of the discounts there, though national is still pretty close.

Index performance, just seeing the average closed-end funds down 15 and change percent year to date. Some huge losers in the energy space and REIT, real estate, which did very, very well last year. One of the best performers last year was real estate. I think people often say, "How can they be down so much still? The market's getting better." I'd say partially it's discounts and partially most closed-end funds aren't directly tied to the NASDAQ, the S&P, and the Dow Jones. There are other sectors with, I think, much more diversification, and whether it's duration exposure or other things, it's very, very useful.

The credit side, again, I'd say looking at it, convertibles and senior loans have a similar performance year to date and yet I would say are very rather different structures in how investors use them. Very different discount ranges than where they generally sit but their prices are good. And then munis are basically-- the national ones are only at a three and a half. So it's a little bit wide, and it's not positive performance, but it's not been horrible to have survived this year with your muni allocation.

Institutional ownership is training up again but not quite as high as we saw in '17. This is a slide, we run it by 13 filings versus our database, where the investors are. Again, the numbers change a little bit and the order changes a little bit but a lot of the same folks showing up on the list as who's filing publicly; 13 notices on closed-end funds. The wirehouses that often create closed-end funds are usually at the top of the list because they're a generally buy-and-hold approach to them.

Not a lot changes in the activist/institutional list. It's always an interesting group of who's an activist or a follower. Maybe there's a middle group we should allocate that's less active and more than following but not fully proxy battle active. Saba continues to be active in this space as well as Bulldog. Ancora came back in the mix, they had a Dutch auction for PEO, Adam's Natural Resource Fund. I believe there's another Dutch auction going on in the BDC space right now. Not as common of a approach for a tender, but it can be helpful.

We do expect activism to probably pick up, though the activist investors lost that ruling of the Boulder Letter, which means that under certain contingencies it can be hard or possible for an owner to vote more than 10% of the stock, and so it gets harder to own 20% and then do something to a closed-end fund. We had Phil Goldstein on *The NAVigator*, he happened to be scheduled regularly the week that happened. And we're hoping to get an attorney from Skadden to come on to represent the fund sponsors hopefully, still getting approval and working the details out on that. But yeah, this is where the assets are by the 13 D&G's.

And interval funds, again this is in the deck, but the growing number of funds continues to grow even though there are-- as you'll see here, the red ones are deaths. I think there's some funds that don't gain traction or didn't know they needed to have a good plan for distribution to get going. It's not as easy. You’re IPO’ing a half billion dollars and then having trading. You're going to be inflowing capital, it generally needs some seed capital. You need to really be using the non-listed structure well to really sit between open-end funds and listed closed-end funds in the way that we use them for our clients and the way that we think about interval funds. This is the whole list. It's a little hard to see. You can get to this list but with less data on the AIC Alliance website as I showed earlier.
And the tender offer funds, people ask, “What funds are out there?” And so we just put those in this section. I look at the last year, this is the average find, and obviously there's better versions of them. The average one-year return for interval funds is down 2.4%, and the average one-year return for NAVs of closed-end funds is divergent, far more divergent by the sector. So some sectors have a one-year positive, some have a one-year negative. I think the one on note, whether they're different uses of the guts. But the real estate listed sector, which is down 16% one-year NAV, and the real estate interval fund down to 5.6% NAV, generally a little bit less data of a real estate exposure. Usually different makeup of securities, sometimes more private securities, but different experience there that I think could be useful to consider. There's five or six options there that have enough of a track record and aren't such high minimums that it can be harder to own.

I want to do a quick shoutout. Northern Trust has joined AICA and given us some budget to do content covering interval funds, both a piece for advisors, a piece for fund sponsors, and a piece for individual investors to make sure they'll well educated on them. Nice commitment from them, and really do appreciate that help.

These are the most recent names of folks in the space. Lord Abbett, no listed closed-end fund, no BDC, and they only have one share class reporting, about 120 million when we spoke on the phone. I just love the fact that it's not a daily outflow and they can put their global high-yield stuff there that they have a longer time horizon for and less liquidity in there for shareholders and you can get it for $2,500 blocks.

With that, I'm going to look over the questions that I see to my left. First question from the live webinar. "What will be the effect of the SEC withdrawal for the Boulder Letter? Say 'Hi' to George for me, and hope you guys are well." Thank you, David.

Again, two things. Going back to why I wanted to start AICA; a healthy conversation between institutional investors that have resources and experience, and focus, and fund sponsors that have resources, experience, and focus to create better product. I keep going back to this concept of the healthy tension and I can see the role of the fund sponsor not wanting to just be attacked by activist investors. But I think at the end of the day, if you have a fund that's run well, that makes sense in the market, that investors will reward you in how they price you, and will reward you with how they have an appetite for future funds.

Almost every closed-end fund sponsor wants another fund and doesn't want to lose a fund. And going to higher level conversation, Dave, is I think that there's good and bad behavior on both sides of the street. Now I can say that because I'm on neither side of the street and I have friends on both sides of the street, and I think that life is full of compromises and only one story being right. But I think it could hurt the sector from a discount perspective, but it could help save some funds that might get taken out that I prefer to be more [inaudible].

We had a good conversation with one of the larger institutional closed-end fund investors last week, hadn't talked to them in a while, just catching up in the new quarter. And again, they reiterated that they're very focused on working with boards, and managers, and sponsors. They prefer to make funds better and have them exist in 10 years than fund go away. And I think that more of that behavior and attraction is useful. But at the end of the day, I do believe in our economy, I do believe in capital markets, I do believe that if you are going to take on a fund that you see opportunity in, an activist investor does have to have ability to make some money because they’re going to be spending some money to try to do what they're trying to do. And then we can agree or disagree about whether they should be doing that, but there's no way for them to push on funds if they don't have the ability to recoup the cost of pushing the funds.

"What do I think of the City of London and Karpus merger?"

Again, another good question. If you're not aware, two large investors came to an agreement last quarter to merge, and I think very different flavors of the Karpus and City of London. City of London, is up when I spoke to them last week, but more of that style. And Karpus is maybe not as aggressive as Bulldog and Saba, but has been aggressive in the past. I'll be curious to see how they blend their investment committee and their governance teams. I didn't see it coming but it does make sense. They're large institutions and there was a liquidity event interested by that one person, by George Karpus I'm guessing.

So Frank has a question. "How long will the worst closed-end fund managers be tied up in court defending shareholder lawsuits?"

Maybe Frank has a specific name in mind, but to me when I think about worst managers I go, what you're doing doesn't make sense in the wrapper and either your fee structure is too high for what you're actually doing, your manufacturing distribution rate, that is just completely implausible, and it is designed solely to avoid a discount. And while nobody wants a discount, it's one thing for a fund to have a little bit high of a policy and trade at a five discount to five premium. It moves around, it might do a rights offering, might do a secondary offer of shares, dividend policies might be set to some formula, and some net asset value is trending down, the dividend policy is generally going to go down, and if it's trending up, go up. That's less painful of an experience. I think when you are up there so high it can be hard.

There are other times where we always think it's great when boards and funds own their fund. It always goes back to eat your cooking, show vested interest, that you're invested in the success. But we do see a couple of sponsors where I would argue if talking to the SEC or someone else, that they basically own those shares. Maybe not originally for this reason, but currently is more defensively to avoid institutions able to even wage a suggestion against the firm or the fund. And that can be bad. It's hard. I think the challenge is rough rules can't apply evenly and the same across all people in the space.

Good, all right. So I'm going to look over this list here. “The ability of senior loan funds to maintain distributions in a low interest rate environment?” The senior loan funds have variable loans as the bulk of their portfolio. They probably have LIBOR floors right now, LIBOR's very cheap. Again, going back to as long as the manager can work through good loans, pay it back, I get more excited generally speaking for a senior loan investment than a high-yield. There's some specific differences for that, I've been saying that for a couple of years and so it's not a change in perspective. But I do think that it's more than just the sector, I think it's much more the sponsor.

Again, as a senior loan that's on the higher end of the spectrum of yield than the bottom. And then when you really break down the portfolio, what's their net investment income coming through? It may be on a six month and 18-month rolling basis. And then what types of loans do they have to write to make that? And are they having to go up the risk spectrum too far and possibly get pinched than just simply saying it's the sector? So it's more than one answer.

“Outlook for BDCs for the second half of the year?” I think that they got hit as they were expected to, it's the nature of their only quarterly marks and a concern for their private holdings. But a lot of BDC companies got the PPP loans. We are expecting Saratoga, they’re on a one month earlier refresh, so they actually reinstated their dividend but lower than before. But went into this with this strong balance sheet and raised some debt. I think that they're an example of one that has been very conservative and now they've got another 90 days of perspective, are letting some gas back into the carburetor.

You have to think about the liquidity of their balance sheet. You have to think about how easily they're going to be able to work with their portfolio companies that are going to have continued stress. Because we haven't really talked about it directly on this call, but I think every call we've had for three months is, how long will this act, this situation occur? And how fast can we recover? Are we going to making slow progress, or is it going to be one step forward, two steps back with the economy? And the length, and depth, and breadth of that is going to be a lot different. I would say I'm a much bigger fan of secured loans versus unsecured loans in our current environment, and I'm a much bigger fan of credit lenders that have the resources to write these good loans.

Someone asked about different forms of leverage and I'll try to make a note to include a link to it, but Nuveen has a great piece. Because especially in the muni space, they developed a lot of the leverage post-auction rate market.

Joe in North Carolina, this made me laugh and so I'm going to read it. "Downside minimization strategies," and in quotes he puts, "Should I have a portfolio with Bitcoin, gold, freeze dried beef, and stew futures?" And I think what he means is, it's a little bit tongue and cheek, but we saw so much downside in March and we haven't recovered all of it yet. So if you think back to a lot of closed-end funds are still around 15% on the year, yields are down 20% for a lot of funds, 15-25% is a very common experience. How do I get back the income? Or is my discount going to recover? Can my NAV recover?

I would say that I believe that we can get back a good amount of that, just maybe a piece of it from discounts, a piece of it from NAV improvement. But really, I'll say two things. We have to keep thinking about inflationary pressures and deflationary. And we have to think that the fixed-capital structure of closed-end funds does allow managers to hold the line. It's much better April, May, and June than we had February, March in that sector from a structural level.

Most of our portfolios are at 50-60% equity to bond, to 40% equity to bond. So that 60/40 either scale is a very common experience for us, and we're typically in about 30 to 45 funds, and we're typically in about 14 or so sectors per strategy and picking our spots. I'd say as long as you produce both a portfolio that can produce the cashflow that you need with a little bit of buffer, because I don't think that you can run at the edge of the rail in this market. I think you need a buffer. And I think you need to just understand that just because the fund yields a high number, doesn't mean it can maintain it, and you need to just be tactical and cautious in the higher yielding funds. Understanding what's [inaudible] in high yield and whether it's sustainable or not. But hopefully that's helpful, Joe. I don't recognize your name, so thank you, I think you're a first-time attendee. Thank you.

I would say issuing the debt of BDCs, preferreds, and baby bonds, I don't think we've seen a price yet for the Ares ARCC's debt, but the note I was reading this morning I think was, can they get 4%? Rates are so low, what can they get? I think they will continue to be the issuance on that debt because that's one source of liquidity. And I think right now where it makes sense from the rating agencies, and the investment bankers, and the investors, that's probably a better place to be than raising equity right now. Though we have seen some equity being raised, and raising equity is one of the ways you gain liquidity on the balance sheet of a BDC, and that's a very needed piece.

“How do NAV discounts impact long-term fund performance?” I'm not sure which question you're asking here. I'll say, so basically if you're at a wide discount and the NAV hopefully goes up next three years as an example, and the discount narrows, you've made extra return. That's that closed-end fund fulcrum of additional performance. If your question is, how does a discount affect net asset value performance, generally it doesn't, they're disconnected. They're related, anchoring point, but not arms length. Normally, if the discount's narrowing, it's a guarantee that the net asset value is going up. But hopefully those answer your question, whichever one was your question.

All right, so Troy in West Virginia asks me, "How did Q2 compare to Q1, and what do I expect going forward? And then how to hire you?" I would say that Q1 ended rough as Q2 started rough, and I think that we're rougher today than we were in January from a complexity standpoint. But again, to me, thinking about owning individual positions, not understanding how to get the cashflows needed to survive retirement for 40, 50 years, there's some benefits to open-end funds and ETFs. But if you think about in a rough market, whether it's a passive or active version of those things, the fixed-cap structure falls often a little bit more expensive and discounts can blow out. It is a very, very, very useful structure for the bulk of the investments that are available to investors, and they're not all income focused. Now there's some interesting interval funds that have almost no yield, and there's some institutional funds that have almost no yield, and they're very useful in fulfilling pockets and holes in a diversified portfolio.

Now how to hire us, we do separate account work. We work through advisors that are TD Ameritrade, we have that UIT of BDCs that you can access that. You can buy our data and do it yourself. Do some limited consulting projects. So those are the ways that we actually pay the bills to produce content to run these type of services. If you want to learn about that, we might reach out to you if you say that’s okay. If not, you're welcome to reach out to us.

“Impact of sustained low interest rates on the industry?” And so I'd say when interest rates are low, it's traditionally a boon time for closed-end funds. Leverage is low. New funds are easier to bring out when interest rates are low, and there's a much better spread between borrowing versus returns for that investment.

Energy and infrastructure, we covered this a lot the last couple of interviews, podcasts, and webinars. But violent in March and April, and I think that really some dividend policies reinstated. It's still a sector that I think can't be ignored. And I said this is the last two times, but a sector's a sector. The one reason we don't have pure muni portfolios is because there is risk of a pure muni portfolio. And the way I approach closed-end funds at our firm, and for my practice for our clients is I'm producing the income needed, but I'm thinking about risk and trying to handle it, manage it, and adjust to news flow and the unexpected events that occur.

But there’s other players in the space, some we know better than others, some we can see their track record and measure them. I think probably the most different firm from us that has a long closed-end fund history and a solid track record is Shaker Financial. And again, I met Rob speaking in New York in 2011, and then we spoke in Chicago at Morningstar in '12, and started to become friends. We actually can offer what he does, so it's little self issue to talk about him, but good results. I measure him versus our 60/40 index. I measure him gross and net. I measure him on a monthly basis when discounts widen and narrow. But good results, and yet purely quantitative discount capture.

One of our clients put some money with him at the end of the first quarter, was little concerned at the end of the first quarter, has done very well. But also the challenge is when you're a quantitative discount trader, the portfolio has produced about 1/6 of the principal in realized gains in about three months. It's a taxable account, so there'll be some taxes due. But as people often say, we optimize for taxes for income. You can't ignore taxes, but when you're paying taxes, it's basically because you've made money. Again, it's a good, simple process. I just say, there's different versions of how to invest in closed-end funds. We take a risk-optimized, tax-optimized income approach, and he does none of that. It's probably why we get along so well. And his dad was in the business, but now retired as is George.

Return of capital is such a hairy idea because it can be an indicator, like in muni bond funds, to me, that there's too much stress on the structure and dividend changes are more likely to happen. If I think of, what did I see in the data before the first big run of dividend cuts in 2011, I believe? I wrote an article on *Seeking Alpha* that thankfully got published before the open so I got full credit before the movements. The U&I trends were down, the earnings coverage was down, the return of capital was up, and there was a load of dividend announcements coming within 24 hours based on the past announcements. So sometimes the data gives you that perspective, and I think that return of capital, when done properly, is beautiful. And we extract it for our clients and taxable accounts because it's tax deferred and it helps give them a more neutralized tax experience.

Scott in Alabama, "Remember closed-end funds don't run in step with the S&P." Correct, Scott. "Recent correction up on the S&P is very concentrated and relatively few stocks." Yes, I would agree. And so I'd say that there are a handful of covered call funds or equity funds where you can say you're tracking. There's probably less than 20 closed-end funds you can really benchmark on the S&P 500, but even in that case, you're right.
It goes back to if you think about why I like our 12 sector index, every sector gets a vote. It's an eight and change vote. And so whether it's the biggest muni sector or the smaller investment grade and convertible bond sectors, it's a decision. And my reason as an asset manager is, I'm not going to buy all 150 muni bond funds, it makes no sense. But I can buy four to five of those funds, and I can buy two to three of the smaller groups and be diversified and selective. Really each fund, just because there's more of them doesn't mean they should impact the results more. But so many people do it, we do show data both ways. But yeah, that I think was just a useful piece.

"What closed-end fun investment should an investor avoid right now?" I would say avoid a lofty dividend policy and a fund at a narrow discount or a premium in a sector that you don't understand. So two of the more complicated sectors, the CLO sector not as big. We did a webinar for AICA at the end of April with Octagon and Eagle Point. It's on the AICA website, it's replay and transcribed. A great way to dig into two large managers in that space to that sector.

We then also did a BDC kind of post-mortem on the first quarter, preview of the second quarter, and we a had a BDC analyst at National. We had the *BDC Reporter*, who you may have seen at our conference last year. And then we had an institutional investor in BDCs up at Putnam I met at a BDC conference a few years ago. And then an attorney did a great job moderating it. Good discussion, deep discussion on BDCs in early June. Again, it's replay, it's transcribed, it's the way we're doing content.

I would say, if you don't understand the sectors, be thoughtful in what you're doing. I'd say we generally half size BDCs versus traditional funds because of the volatility. You can probably use that same rule for MLP funds right now because it can be so volatile to other areas.

I'm looking at the list, I'm not seeing any other questions that look broadly of interest to everyone. I'm going to double check I'm not missing any. There's a list, it shrank a little bit. But with that, it's been a great time talking to you guys. At the end of the deck there are just some links, and resources, and the models that we do run. You obviously recognize me, I'm on camera in this presentation, but that's my headshot should we ever be meeting for coffee ever again. But if not, I'm running the firm from the home office. Jenny, and David, and Alex, their team is doing great work for us. We have an extern helping with the non-profit and CEFA this summer. It's been fun working with a junior at James Maddison University. Not my alma matter, but another good Virginia school.

And with that, I just like to say thank you. This is very interesting time in my career, and in the economy, and in the country, and in the market. So with that, please, good luck, stay well, and stay tuned. I think if you're on this call you're going to love the event in August, and hopefully we decided that the major difference is, you're invited to speak so you can't pay to be on stage. And then attendees pay to be there, it's a great way to help support the financial model. I would argue if you can afford $59 for watching four or five panels, I think the quality is there and it's a great way to measure success and to get people to actually show up and register. With that, we'll be in touch soon. Email, call anytime, and best wishes. Good day.