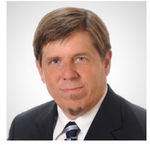
Lipper's January Closed-End Fund Market Review

Tom Roseen, Head of Research Services with Refinitiv Lipper and author of the Fund Market Insight Report which provides in depth monthly commentary on the closed-end fund market and the Closed-End Fund Association discuss Tom's insights on January's closed-end fund market action. The podcast audio can be heard here.


Tom Roseen

CEFA: **Welcome to CEF Insights, your source for closed-end fund information and education, brought to you by the Closed-End Fund Association. My name is Diane Merritt.**

Before we start our discussion, I would like to note the Closed-End Fund Association is holding an educational conference for registered investment advisors on March 10th in Fort Lauderdale, Florida. For more information and registration, please go to www.cefadvisorsummit.com.

Today we are joined again by Tom Roseen, Head of Research Services with Refinitiv Lipper, and author of The Fund Market Insight Report, which provides in depth monthly commentary on the closed-end fund market. We're happy to have you with us today, Tom.

TR: Diane, thanks for having me.

CEFA: **Tom, you recently published your report covering January 2020. You study over 500 closed-end and interval funds regarding performance, premiums and discounts and corporate activity. What trends are you seeing in the closed-end fund space as we get the new year started?**

TR: Well, we've actually seen a continuation of the proliferation of interval funds. We'll talk about what I think on that a little bit later and also a continuation of rights offerings being used by a lot of the fund families to raise new money. As we all know, closed-end funds generally have a fixed amount of money and that's what we see, an increase in new fund offerings and also, we have a continuation of mergers where we're seeing, for instance single state municipals merging with the national municipal funds. Obviously they're trying to capture economies to scale there and then we're also seeing broadly based MLP energy funds kind of coming in and broadening their exposure to infrastructure in MLP funds, so we've seen that, then the last piece, obviously as we always looked at closed-end funds, we've seen a continuation of a focus on income.

CEFA: **Your data breaks out closed-end funds into over 20 classifications. What classifications were the best performing for the month and which sectors struggled?**

TR: Well basically, what we saw was a market that was very up and down. It was a roller coaster ride as far as returns go. We heard stories about a rising Middle East crisis, so tensions there, and weaker than expected economic data. Well, it's offset by better than expected fourth quarter earnings and the signed trade deal and the like. But then we saw a couple of bad things, reported coronavirus and also oil took a tumble, so this really impacted the returns we saw in the closed-end fund universe and we'll take a look at equity funds first. People were actually putting their money to work betting on income generation. We talked about that when we first opened this up, but basically we saw utility closed-end funds up about 2.39% on an NAV basis and convertible security funds were up about 1.39% and real estate funds were up about 0.64%.

But at the bottom of the barrel, I told you that oil basically tanked. There was news out that basically that U.S. inventories had risen and we saw some of the biggest percentage declines that we've seen in quite some time, probably about five months, in oil prices. So we saw energy MLP funds down 7.31%, natural resources funds down 7.03%, so really kind of a quagmire in that area, but when we take a look back at the fixed income point of view, we saw municipal bond funds up about 2.62%, domestic fixed income funds up about 0.77%, world income funds up about 0.55%, so really it was quite a good story for the fixed income market. Overall, we were up in good single digit numbers, but they're certainly strong. California municipal bonds were up 2.91%, the best performing category. On the domestic side, we saw corporate bond funds triple B-rated, up 2.09% and even emerging market currency funds were kind of able to mitigate, lowest category by the way, in the fixed income side, but we were able to mitigate losses and the only ones that actually suffered a loss, but only to the tune of 0.11%, so it was really quite a story and a change in market patterns that we've been seeing over the last several months.

CEFA: Is this a change in what you have seen in the previous months?

TR: It is, so one of the things that we saw, if we take a look at the January numbers we saw that basically, it was almost a flip. We saw oil prices were on the rise in December. Our top performers, which I told you was just our bottom performers, MLP funds, were up 10.3%. Real estate funds were at the bottom at 0.21, so we've really seen a flip and then on the other side, remember I told you emerging market was the worst performing debt funds and when we take a look at it, they were down by 0.11, but they were the best performing fixed income, up 3.82%. So again, everything got turned on its head this month, the month of January.

CEFA: Closed-end funds can trade at a premium or a discount to net asset value. What were the trends in premium and discount behavior?

TR: Well, the discounts narrowed in January, which we kind of expected. Remember, there was a lot of tax loss selling at the end of the year and then we saw kind of an inordinate amount of widening of discount from the equity side. So what we saw overall, the median discount narrowed about 83 basis points for all closed-end funds to 4.95%. That does beat the 12 month moving average of the median discounts of 6.70%, so really quite a low discount if you take a look at that. Equity narrowed 160 basis points to 5.4% discount and fixed income narrowed about 93 basis points to 4.69% discount, so the numbers are improving as we look at the last 12 or 13 months.

CEFA: How do premiums and discounts compare to their historical averages?

TR: So, when we take a look at this, remember I told you that they look a lot better, if we take look at 13 months ago, all closed-end funds traded at a discount of 8.27% compared to a 4.95%, so we are seeing a little bit more confidence in the market. Keep in mind a year ago, if we're looking back in January, in December, remember we had the melt down late in December of 2018 and so, 2019 started off with a whimper rather than a bang. Now when we're taking a look at the numbers, obviously they have halved, so again, 8.27% to a 4.95%, so quite a change.

CEFA: Which sector saw the greatest improvement and the most downdraft?

TR: So, we saw that the world income funds witnessed the best improvement or the best narrowing of discounts, 370 basis points, that's a huge amount to 2.7% versus 8.42% on January 31st, 2019, so that was quite an improvement and really, I don't have any particular group that I can say did poorly. Everybody was narrowing and so, I didn't see any widening of discounts in January.

CEFA: Tom, there was quite a bit of corporate activity in 2019. What corporate activity trends do you expect over the course of this year and what impact do you see on the closed-end fund market?

TR: Well, I think we're going to see a continuation of funds raising new money via rights offerings. It gives them, the closed-end funds, especially when they're doing well and they're consolidating, they're trying to get economies of scale to get their expenses down. They are now stepping up and rather than trying to come up with a whole new issue, they're doing the consolidation, which I talked about a little bit earlier, right? So, we're seeing again the single state municipals merge into national municipals, and the like, but particularly, for them to raise new money, they go to the rights offering and so, I think we're going to see a little more and we've been seeing it over the last 12, 18 months. Funds coming more often with a rights offering and allowing people to increase the cash under management, but also participate in the attraction of net new money as well. Let me give you an example. We saw that Cohen and Steers Quality Income Fund basically had a rights offering in January, so that trend continues. The Cohen and Steers Quality Income Realty Fund, "RQI", they had a rights offering. But again, I could go back through a slew of these over the last several months that we've seen rights offerings in fund families raising a little bit more money for their funds.

CEFA: Tom, you also follow interval funds which differ somewhat from traditional closed-end funds. What activity are you seeing among interval funds?

TR: Well, the last time we talked, we talked about what happened in 2019 of the 36 new closed-end funds that were brought to market, we saw 26 of those were interval funds and certainly we expect that to happen as well. In fact, in January we had two new offerings come to market. First one was an interval fund, basically we saw the Hartford Schroders Opportunistic Income Fund come on out there. It was an interval fund and it was a roll out of additional share classes, so they already had a fund out there. They added another new fund by bringing it to market and bringing it out as an interval fund, but on the flip side, we did see the first conventional fund of the year as well come out, it's BlackRock Health Sciences fund, it's trust two fund, BMEZ and that came out, so we're seeing fund families bring these new products to market, but certainly the big push as of late, has been for the interval funds.

CEFA: Do you expect interval funds to gain a greater interest among investors?

TR: I do believe it's going to, I'm not going to say remain the same, but I do believe we're going to see more fund families bring this. It's easier for them to do that, they don't have to worry about any syndication rights, they don't have to worry about whether... How well the IPO is offered, they can actually come, they can start building a track record and have people bring money into their coffers. There's a drawback to that though, of course, then they have to worry about their quarterly refundings. Most of these interval funds have quarterly refundings, which they offer to do, a tender offer of the sort of a certain amount of their assets under management, but there is no guarantee in that and so, I think people may start to evaluate it because we've had this huge proliferation of interval funds. But again, for the income investor who says, "You know what, I really don't need to have liquidity. I'm looking for income, or I'm looking for a particular management style." I do believe it's popular and I do believe this trend will continue as we go into 2020.

CEFA: Tom, thank you so much for taking the time to join us today.

TR: Diane, thanks for having me.

CEFA: And we want to thank you for tuning into another CEF insights podcast. For more educational content, please visit our website at www.cefa.com

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Disclosure

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