The Month in Closed-End Funds: February 2023

Performance

For the second month in three, equity closed-end funds (CEFs) on average posted negative returns on a net-asset-value (NAV) and market basis, declining 2.68% and 3.08%, respectively, for the month. Meanwhile, also for the second month in three, their fixed income CEF counterparts witnessed monthly losses on a NAV basis (-1.79%) and market basis (-3.09%) for February. For the year-to-date period ended February 28, 2023, both equity and fixed income CEFs posted plus-side returns on a NAV-basis, rising 2.68% and 2.18%, respectively.

The U.S. markets were mixed at the beginning of February after the Federal Reserve Board hiked its key lending rate by an expected 25 basis points (bps) and after a much stronger-than-expected nonfarm payrolls report showed a large rise in new jobs and wage gains in January, stoking fears that the Fed will need to be more aggressive in its fight against inflation. The Department of Labor reported the U.S. economy added 517,000 new jobs in January, soundly beating expectations of 187,000, with the unemployment rate dipping to 3.4%—its lowest since 1969. The Bureau of Labor Statistics reported that wage growth accelerated in January by 0.3%, in line with expectations. The January ISM services sector index rose to 55.2% from December’s 49.6%—signaling economic expansion. The 10-year Treasury yield rose one bp for the week to 3.53%, while the two-year Treasury yield jumped 11 bps to finish at 4.30%.

The following week, U.S. stocks ended lower—with the S&P 500 and the tech-focused Nasdaq posting their worst one-week returns since December as fears were fanned by inflation concerns. While the University of Michigan consumer sentiment index rose to a 13-month high, inflation expectations one year out edged up to 4.2%. Disappointing Q4 earnings results from the likes of Expedia, which showed declining profit margins, weighed on investor resolve as they questioned the recent run by consumer discretionary issues—a top-performing sector this year. The 10-year Treasury yield rose 21 bps on the week to settle at 3.74%.

U.S. stocks ended mixed the following week, with the Dow posting its third consecutive weekly decline following stronger-than-anticipated inflation data and hawkish comments by Fed Reserve officials weighed on the S&P 500 and Dow. Investors’ resolve was tested during the week after the January producer price index showed wholesale prices increased by 0.7% last month—its largest rise since summer—and after Fed Governor Michelle Bowman indicated her concern that inflation is not falling quickly enough, leading many pundits to believe the Fed will continue hiking interest rates. However, in support of the thinking that recent interest rate hikes have had some influence on the economy, the Conference Board said that its U.S. January leading economic index fell 0.3% for a 3.6% decline over the last six months—in line with analyst expectations. The 10-year Treasury yield rose eight bps to 3.82%.

The Dow suffered a fourth weekly decline after the personal consumption expenditures prices index rose 0.6% in January for a yearly rate of 5.4%, rising from the 5.3% reading in December. The core PCE index (the Fed’s preferred inflation gauge, stripping out food and energy prices) rose 4.7% for the year versus analysts’ forecasts of 4.4%. Fanning inflation concerns, January consumer spending rose 1.8%—its largest gain in almost two years. The 10-year Treasury yield rose 13 bps for the week to 3.95%.
On the last trading day of the month, the Dow locked in its largest monthly percentage decline (-4.19%) since September as rising interest rates and sticky U.S. inflation data unnerved investors. In other news, the Conference Board reported that consumer confidence declined in February to 102.9 from 106—hitting a three-month low. The 10-year Treasury yield declined three bps to 3.92%—but still rose 40 bps for the month, while the two-year Treasury yield rose three bps to 4.81%, rising 60 bps for February.

After a rash of reports showed inflation was stickier than many had previously hoped, investors pushed long-term yields up during the month, with the three-year Treasury yield witnessed the largest gain, rising 61 bps for the month—settling at 4.51% at month end. However, with at least two more interest rate hikes already priced in, the one-month Treasury yield witnessed the smallest rise for the month, increasing seven bps to 4.65%. While flattening during the month, the yield curve remained inverted for all maturities from the one-month to the seven-year yield. The two- and 10-year Treasury yield spread remained negative by 89 bps—widening 20 bps from January’s month-end closing value.

During the month, the dollar strengthened against the euro (+2.41%), the pound (+1.88%), and the yen (+4.57%). Commodity prices were down for the month, with front-month gold prices declining 5.21% to close the month at $1,828.90/oz. and front-month crude oil prices falling 2.31% to close at $77.05/bbl.

For the month, only 20% of all CEFs posted NAV-based returns in the black, with just 9% of equity CEFs and 28% of fixed income CEFs chalking up returns in the plus column. For the second month in three, Lipper’s mixed-assets CEFs (-1.81%) macro-group outpaced or mitigated losses better than its two equity-based brethren: domestic equity CEFs (-2.69%) and world equity CEFs (-3.48%).

Also for the second month in three, the Income & Preferred Stock CEFs classification (-1.46%) moved to the top of the equity leaderboard, followed by Real Estate CEFs (-1.85%) and Options Arbitrage/Options Strategies CEFs (-1.93%). Utility CEFs (-4.83%) was the laggard in the equity universe and was bettered by Natural Resources CEFs (-4.79%) and Emerging Markets CEFs (-4.37%). For the remaining equity classifications, returns ranged from negative 4.20% (Energy MLP CEFs) to negative 2.46% (Diversified Equity CEFs).

Two of the five-top performing equity CEFs for February were warehoused in Lipper’s Real Estate CEFs classification. However, at the top of the leaderboard was Taiwan Fund Inc. (TWN, housed in the Emerging Markets CEFs classification), rising 4.29% on a NAV basis and traded at a 17.35% discount on February 28. Following TWN were Flat Rock Opportunity Fund (FROPX, an interval hybrid CEF warehoused in the Income & Preferred Stocks CEFs classification), gaining 2.73%; Columbia Seligman Premium Technology Growth Fund (STK, housed in the Options Arbitrage/
Municipal Debt CEFs (-3.62%), while High Yield Municipal Debt CEFs (-2.79%) and New Jersey losses for February. The General & Insured Municipal Debt CEFs average, with all nine of the classifications in the group posting performing macro-group for the month, declining 3.78% on the municipal debt CEFs macro-group was the worst subgroup in the chase for the month.

By smaller losses from Global Income CEFs (-0.55%), keeping Markets Hard Currency Debt CEFs (-3.82%) were partially offset (-2.63%). On the world income side, large losses from Emerging Markets CEFs (-4.53%) mitigated losses better than their single-state municipal debt CEF counterparts (-3.95%) by 26 bps.

The second worst-performing equity CEF was ASA Gold & Precious Metals Limited (ASA), warehoused in Lipper’s Sector Equity CEFs classification, posting a 10.96% loss and traded at a 14.18% discount at month end. The U.S. Treasury yield curve remained inverted but flattened during the month, with all maturities witnessing gains—but to a lesser extent at the short end. All maturities less than 10 years remained above the 10-year Treasury yield (+3.92%), with the six-month yield posting the strongest yield at 5.17%. At month end, the two- and 10-year Treasury yield spread (-89 bps) widened 20 bps for February after hitting (-69 bps) on February 2 (the day the Fed hiked its key lending rate by 25 bps). The one-month yield was inverted for the last 41 trading days—something not seen since October 10, 2019 (when the one-month and 10-year Treasury yields closed the day out at 1.74% and 1.67%, respectively).

For the month, 24 CEFs in the equity universe posted plus-side returns. The worst-performing fund was housed in Lipper’s Emerging Markets CEFs classification. At the bottom of the pile was China Fund Inc. (CHN), shedding 12.12% of its January closing NAV and traded at a 12.91% discount on February 28. The second worst-performing equity CEF was was ASA Gold & Precious Metals Limited (ASA), warehoused in Lipper’s Sector Equity CEFs classification, posting a 10.96% loss and traded at a 14.18% discount at month end.

The first month in four, the domestic taxable bond CEFs macro-group outpaced or mitigated losses better than the other macro-groups in the fixed income universe, posting a 0.61% loss on average, followed by world income CEFs (-1.23%) and municipal debt CEFs (-3.78%, their largest monthly loss since September 30, 2022).

For the first month in five, investors pushed Loan Participation CEFs (+0.22%) to the top of the domestic taxable fixed income leaderboard, followed by General Bond CEFs (-0.33%) and High Yield CEFs (-0.34%). Corporate Debt BBB-Rated (Leveraged) CEFs (-2.72%) experienced the group’s largest losses and was battered by Corporate Debt BBB-Rated (Unleveraged) CEFs (-2.63%). On the world income side, large losses from Emerging Markets Hard Currency Debt CEFs (-3.82%) were partially offset by smaller losses from Global Income CEFs (-0.55%), keeping the subgroup in the chase for the month.

For the month, 20 top-performing fixed income CEFs posted returns at or above positive 1.02%, while the 20 lagging equity CEFs posted returns at or below negative 4.53% for the month. Only 99 of the 354 fixed income CEFs witnessed positive NAV-based performance for February.

For February, the median discount of all CEFs widened 25 bps to 8.60%—wider than the 12-month moving average median discount (7.99%). Equity CEFs’ median discount widened 104 bps to 9.65%, while fixed income CEFs’ median discount widened one bp to 8.19%. High Yield CEFs’ median discounts witnessed the largest narrowing among the CEF macro-groups—93 bps to 5.33%—while the single state municipal debt CEFs macro-group witnessed the largest widening of discounts—191 bps to 12.16%.

For the month, 44% of all closed-end funds’ discounts or premiums improved, while 56% worsened. In particular, 54% of equity CEFs and 35% of fixed income CEFs saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on February 28 (75) was five less than the number on January 31 (80).
CEF Events and Corporate Actions

IPOs

Forum Real Estate Income Fund, Class I (FORAX) is a Delaware statutory trust registered under the Investment Company Act of 1940, as amended (the Investment Company Act), as a non-diversified, closed-end investment management company. The fund will operate as an interval fund pursuant to Rule 23c-3 under the Investment Company Act and has adopted a fundamental policy to conduct quarterly repurchase offers at NAV. The fund’s primary investment objectives are to maximize current income and preserve investor capital, with a secondary focus on long-term capital appreciation.

The fund concentrates its investments (i.e., invests more than 25% of its assets) in the real estate industry. Under normal circumstances, the fund will invest at least 80% of its net assets (plus the amount of borrowings for investment purposes) in a portfolio of commercial real estate loans and other real estate-related investments located in the United States. Real estate-related investments include, but are not limited to, commercial mortgage-backed securities (CMBS), commercial real estate collateralized loan obligations (CRE CLOs), preferred equity (PE) issued by real estate investment trusts (REITs) or companies that develop, own, and operate commercial real estate assets, mezzanine loans backed by commercial real estate assets, and securities issued by publicly traded REITs.

To a lesser extent, the fund may also invest directly in commercial real estate. The categories of commercial real estate underlying the fund’s investments include, but are not limited to, multifamily, industrial, mixed use, hospitality, office, and retail. The fund may invest in securities that are rated below investment grade by rating agencies or that would be rated below investment grade if they were rated. There are no limits on the fund’s investments in below investment grade securities.

PIMCO California Flexible Municipal Income Fund, A-1 (CAFMX) is a newly organized, non-diversified, closed-end investment management company that continuously offers its shares of beneficial interest, and is operated as an interval fund. The fund has launched two of its five separate classes of common shares: Institutional Class, Class A-1, Class A-2, Class A-3, and Class A-4. The fund seeks to provide high current income exempt from federal and California income tax. Capital appreciation is a secondary objective. The fund attempts to achieve these objectives by investing, under normal circumstances, in the “80% Policy”—at least 80% of its net assets (plus any borrowings for investment purposes) in a portfolio of municipal bonds and other municipal securities, the interest from which in the opinion of bond counsel for the issuer at the time of issuance (or on the basis of other authority believed by PIMCO to be reliable), is exempt from federal income tax and California income tax (i.e., excluded from gross income for income tax purposes but not necessarily exempt from the alternative minimum tax or from the income taxes of any other state or of a local government). To a lesser extent, the fund also expects to invest in a full range of preferred securities with an emphasis on preferred securities that, at the time of issuance, are eligible to pay dividends that qualify for certain favorable federal income tax treatment.

Flat Rock Global, LLC announced the launch of a new interval fund, the Flat Rock Enhanced Income Fund (FRBBX). The fund will invest primarily in the junior debt tranches of collateralized loan obligations (CLOs), with a particular emphasis on tranches initially rated BB by a nationally recognized statistical rating organization, such as S&P Global Ratings. The fund is the third interval fund managed by Flat Rock Global, which also manages the Flat Rock Opportunity Fund and the Flat Rock Core Income Fund. The fund is organized as a Delaware statutory trust and registered under the Investment Company Act of 1940 as a continuously offered, non-diversified, closed-end investment management company that is operated as an interval fund.

Rights, Repurchases, Tender Offers

Delaware Enhanced Global Dividend and Income Fund (DEX) announced the final results of its tender offer for up to 3,186,291 of its common shares, representing up to 30% of its issued and outstanding common shares, without par value. The offer expired on Friday, February 10, 2023. Based on a count by Computershare Trust Company, N.A., the depositary for the tender offer, approximately 4,212,892 common shares, or approximately 39.67% of the fund’s common shares outstanding, were tendered. The fund has accepted 3,186,291 shares (subject to adjustment for fractional shares) for cash payment at a price equal to $8.89 per share. This purchase price is 98% of the fund’s NAV per share of $9.07 as of the close of regular trading on the NYSE on February 13, 2023, the pricing date stated in the offer to purchase. Because the total number of common shares tendered exceeds the number of common shares offered to purchase, all tendered common shares are subject to proration in accordance with the terms of the offer to purchase. Under final proration, 75.64% of the common shares tendered will be accepted for payment, subject to adjustment for fractional shares. Following the purchase of the tendered shares, the fund will have approximately 7,434,680 common shares outstanding.

KKR Income Opportunities Fund (KIO) announced the preliminary results of its transferable rights offering. The offer commenced on January 23, 2023, and expired on February 16, 2023. The offer entitled the rights holders to subscribe for up to an aggregate of 6,780,105 common shares of beneficial interest of the fund. The subscription price for the common shares to be issued was $10.75 per common share, which was determined based on a formula equal to 82% of the fund’s NAV at the close of trading on the NYSE on the expiration date.
which was greater than the formula of 92.5% of the average of the last reported sales price of a common share on the NYSE on the expiration date and each of the four immediately preceding trading days. The offer was oversubscribed. The common shares subscribed for will be issued promptly after completion and receipt of all shareholder payments and the pro rata allocation of common shares in respect of the oversubscription privilege.

**Mergers, Liquidations, and Reorganizations**

The New Ireland Fund, Inc. (IRL) announced the results of the votes cast at the special meeting of stockholders held on January 5, 2023, where stockholders approved the liquidation and dissolution of the fund pursuant to a plan of liquidation. The fund has fixed the close of business on February 28, 2023, as the date for determining the stockholders of the fund that were entitled to receive liquidating distributions (the valuation date). The proportionate interests of stockholders in the assets of the fund were fixed on the basis of their respective holdings at the close of business on the valuation date. It was anticipated that one or more liquidating distributions will begin being paid after the valuation date. The fund expected its last trading day on the NYSE to be on or about February 27, 2023, after which time there would be no secondary market for the fund’s shares. Until the valuation date, the fund was expected to devote from its investment objective and investment policies as the fund’s portfolio was managed in anticipation of the liquidation and the fund’s portfolio securities were sold. In addition, the fund will not declare any future dividends as a result of the pending liquidation.

**Eaton Vance Tax-Managed Buy-Write Strategy Fund (EXD)** held a special meeting of shareholders on February 2, 2023. At the special meeting, fund shareholders were asked to approve an agreement and plan of reorganization pursuant to which the fund will be reorganized with and into Eaton Vance Tax-Managed Buy-Write Opportunities Fund (ETV) as approved by the fund’s board of trustees. The special meeting was adjourned to March 16, 2023, at 1 p.m. Eastern time to allow more time for shareholders to vote. The November 21, 2022, record date for shareholders entitled to vote at the adjourned special meeting remains unchanged.

**Western Asset Intermediate Muni Fund Inc. (SBI), Western Asset Municipal Partners Fund Inc. (MNP), and Western Asset Managed Municipals Fund Inc. (MMU)** announced approval by each fund’s board of directors of a proposal to merge (i) SBI with and into MMU and (ii) MNP with and into MMU, subject to approval by the stockholders of each fund. The approval of each merger is not contingent upon the approval of the other merger. If approved, the mergers are anticipated to occur during the third quarter of 2023. If the proposed mergers are approved by the stockholders of each fund, (i) common stockholders of SBI and MNP would receive common stock of MMU based on each fund’s respective NAV per share, (ii) holders of SBI’s and MNP’s variable rate demand preferred stock (VRDPS) would receive shares of VRDPS of MMU in the same number and with identical terms to their respective VRDPS, and (iii) holders of SBI’s, MNP’s and MMU’s auction rate preferred stock (ARPS) would have their shares redeemed in accordance with their terms in advance of the closing of the mergers. Any redemption of ARPS will be contingent upon shareholder approval of the merger for the specific fund. In lieu of issuing fractional shares of common stock, MMU will pay cash to each former common stockholder of SBI and MNP in an amount equal to the value of the fractional shares of MMU common stock that the investor would otherwise have received in the merger.

**Other**


Each fund’s control share bylaw provides that a shareholder who obtains beneficial ownership of common shares of a fund in a control share acquisition (as defined in the bylaws) may exercise voting rights with respect to such shares only to the extent the authorization of such voting rights is approved by other shareholders of the fund or the transaction is declared to be exempt from the control share bylaw by the board. The control share bylaw, which was adopted by the board in August 2020 after careful consideration and with the advice of counsel, is intended to ensure that transformative and potentially harmful changes to the funds sought by activist investors pursuing an arbitrage strategy could only be made with the support of a broad cross-section of the funds’ shareholders.

On January 23, 2023, the Massachusetts Superior Court issued a ruling on cross-motions for partial summary judgment in litigation initiated in 2020 to adjudicate Saba Capital Master Fund, Ltd.’s challenges to certain funds’ bylaw amendments, including the control share bylaw. Each party’s motion for summary judgment was allowed in part and denied in part. Among other actions, the Court granted the funds’ and the board’s motion for summary judgment on Saba’s claim that the board breached its fiduciary duty, finding that “the record reflects that the trustees had a legitimate business reason for their action” and that “the purpose of the bylaw amendments was to protect the funds’ retail shareholders from the harm they perceived that activist hedge funds like Saba could cause.” As part of its ruling, the Court held that the control share bylaw violates Section 18(i) of the Investment Company Act of 1940, as amended, and granted summary judgment with respect to Saba’s claim for rescission of the control
share bylaw. The litigation is ongoing in the Massachusetts Superior Court. Any decisions regarding appeal will be made after the remaining issues have been fully litigated. Following careful review of the ruling, on January 26, 2023, the board voted to exempt on a forward-going basis all prior and new purchases of fund shares that might otherwise be deemed “control share acquisitions” under the funds’ control share bylaws until further notice. The board will continue to carefully monitor legal developments with bearing on control share bylaws, and may take additional actions as it deems appropriate in the future.

Blackstone Liquid Credit Strategies LLC, an affiliate of Blackstone Alternative Credit Advisors LP (collectively, and together with their affiliates in the credit-focused business of Blackstone Inc., “Blackstone Credit”), announced name changes for two listed closed-end funds it advises. The name changes are being made to clarify the limited terms already in place for the funds, which are both anticipated to be dissolved in 2027. Blackstone Senior Floating Rate Term Fund (BSL) and Blackstone Strategic Credit Fund (BGB) are being renamed “Blackstone Senior Floating Rate 2027 Term Fund” and “Blackstone Strategic Credit 2027 Term Fund,” respectively, effective March 6, 2023.

BSL’s limited term ends on May 31, 2027, and BGB’s limited term ends on September 15, 2027. Blackstone Credit expects that the funds will work toward wind downs on or around those dates and intends to manage the funds accordingly. In the event there are extraordinary market conditions that warrant an extension of either fund’s term beyond 2027, both board of trustee and shareholder approval would be required to extend such fund’s term. No change is currently being made to either fund’s investment objective and strategy, nor in fund management. There will be no changes to the funds’ ticker symbols on the NYSE.