The Month in Closed-End Funds: June 2023

Performance

For the second month in three, equity closed-end funds (CEFs) on average posted plus-side returns on a net-asset-value (NAV) and market basis, gaining 3.57% and 5.65%, respectively, for the month. Meanwhile, for the third month in four, their fixed income CEF counterparts witnessed monthly gains on a NAV basis (+1.63%), but for the second month in three posted a positive return on a market basis (+2.58%) for June. For Q2, both equity and fixed income CEFs posted plus-side returns on a NAV basis, rising 2.22% and 1.51%, respectively.

U.S. markets started on an up note in the beginning of June, with the tech-heavy Nasdaq posting its sixth consecutive weekly gain—its longest winning streak since January 2000—after the U.S. Senate passed the debt ceiling bill. Adding to the rally, the Department of Labor reported the U.S. economy added 339,000 new jobs in May, beating expectations of 190,000. However, the unemployment rate rose to 3.7%. The Bureau of Labor Statistics reported that wage growth rose to 0.3%, in line with analysts’ expectations. The 10-year Treasury yield rose eight basis points (bps) on the last trading day of the week to settle at 3.69%, while the two-year Treasury yield rose 17 bps to 4.50%.

U.S. stocks extended their winning streak the following week, with the S&P 500 booking its longest weekly winning streak since August 2022—climbing for the fourth straight week and exiting bear market territory (closing 20% above its October 2022 low) as investors awaited the Fed’s policy decision on interest rates. Investors breathed a small sigh of relief earlier in the week after learning first-time jobless claims for the prior week rose 28,000 to 261,000 (a 21-month high), with investors believing that might give Federal Reserve officials more fodder to skip a rate hike at its next FOMC policy-setting meeting.

U.S. stocks finished the following week higher after investors learned that the U.S. May consumer price index rose 0.1%, with the year-over-year rate of inflation slowing to 4% from April’s 4.99%—its lowest level since March 2021, supporting the concept of a temporary pause in rate hikes. The Fed held interest rates steady at the close of its policy-setting meeting but left the door open for more increases this year. In the FOMC statement, committee members said, “Holding the target rate steady at this meeting allows the FOMC to assess additional information and its implications for monetary policy.” However, Fed Chair Jerome Powell said, “nearly all policymakers view further hikes this year appropriate.” As a result, fed-fund futures traders pushed the probability of a 25-bps hike in July to 64.5%, according to the CME FedWatch tool.

The following week all three broad-based indices witnessed declines, with the Nasdaq Composite snapping its eight-week winning streak on global recessionary concerns. Casting a pall over the market, Powell stated that senior Fed officials expect the Fed to hike interest rates “a couple of times” later this year. Earlier that day, the Bank of England, Norway’s central bank, and the Swiss National Bank hiked their interest rates, causing investors to speculate on how rate hikes might impact global economic growth.

In the last trading week of the month, U.S. markets were choppy after Powell reiterated that the Fed is likely to raise rates twice more in 2023 to combat inflation and after investors learned that the Biden administration is considering a new ban on sales of artificial intelligence chips to China—stalling the recent rally in select mega-cap tech stocks.
On the last trading day of the month, stocks ended higher following a better-than-expected inflation report. The personal consumption expenditures price index eased to 3.8% in May on a year-over-year basis—it's slowest increase since April 2021. The PCE report showed consumer spending rose just 0.1% in May, which was lower than analysts’ forecasts. In other news, the University of Michigan said the final reading of its June consumer sentiment index rose to 64.4, a four-month high. The 10-year Treasury yield rose 17 bps to 3.81% for the month.

While the Treasury yield shifted up in the belly of the curve during the month, yields remained inverted for all maturities from the one-month to the seven-year yield. The two- and 10-year Treasury yield spread widened 30 bps from its May month-end closing value at minus 106 bps. The two-year Treasury yield witnessed the largest increase, rising 47 bps to 4.87%, while the three-month yield saw the largest decline for the month, nine bps to 5.43%.

During the month, the dollar strengthened against the yen (+3.39%) but weakened against the euro (-2.42%) and the pound (-2.48%). Commodity prices were mixed for the month, with front-month gold prices falling 2.18% to close the month at $1,921.10/oz. and front-month crude oil prices rising 3.75% to close at $70.64/bbl.

For the month, 92% of all CEFs posted NAV-based returns in the black, with 88% of equity CEFs and 94% of fixed income CEFs chalking up returns in the plus column. For the third month in four, Lipper’s world equity CEFs (+4.44%) macro-group outpaced or mitigated losses better than its two equity-based brethren: domestic equity CEFs (+3.43%) and mixed-assets CEFs (+3.11%).

For the first month in eight, the Natural Resources CEFs classification (+6.29%) moved to the top of the equity leaderboard, followed by Energy MLP CEFs (+6.15%) and Diversified Equity CEFs (+5.10%). Real Estate CEFs (+1.33%) was the relative laggard in the equity universe and was bettered by Income & Preferred Stock CEFs (+2.45%) and Utility CEFs (+3.15%). For the remaining equity classifications, returns ranged from 3.33% (Options Arbitrage/Options Strategies CEFs) to 5.08% (Convertible Securities CEFs).

Two of the five-top performing equity CEFs for June were warehoused in Lipper’s Emerging Markets CEFs classification. However, at the top of the leaderboard was ARK Venture Fund (ARKVX, an interval hybrid CEF housed in the Sector Equity CEFs classification), rising 16.92% on a NAV basis. Following ARKVX were Gabelli Equity Trust Inc. (GAB, warehoused in the Diversified Equity CEFs classification), gaining 10.20% and traded at a 9.43% premium on June 30; Central and Eastern Europe Fund Inc. (CEE, housed in the Emerging Markets CEFs classification), gaining 9.80% and traded at a 7.86% premium at month end; Herzfeld Caribbean Basin Fund Inc. (CUBA, also housed in the Emerging Markets CEFs classification), rising 9.71% and traded at a 20.52% discount on June 30; and Canadian General
Investments Limited (CGI, warehoused in Lipper’s Developed Markets CEFs classification), returning 9.47% and traded at a 37.55% discount at month end.

For the month, the dispersion of performance in individual equity CEFs—ranging from negative 4.11% to positive 16.92%—was slightly narrower than May’s spread and skewed significantly more to the plus side. The 20 top-performing equity CEFs posted returns at or above positive 7.64%, while the 20-lagging equity CEFs were at or below negative 0.20%.

For the month, only 30 CEFs in the equity universe posted returns in the red. The worst-performing fund was housed in Lipper’s Global CEFs classification. At the bottom of the pile was RENN Fund (RCG), shedding 41% of its May closing NAV and traded at a 13.81% discount on June 30. The second worst-performing equity CEF was Wildermuth Fund, Class C Shares (WEFCX, an interval hybrid CEF warehoused in the Options Arbitrage/Options Strategies CEFs classification), posting a 3.48% loss.

The U.S. Treasury yield curve remained inverted but rose in the belly of the curve during the month. The two-year yield witnessed the largest gain, rising 47 bps in June to close at 4.87%, followed by the three-year yield, which rose 45 bps to 4.49%. All yields with maturities less than 10 years remained above the 10-year Treasury yield (+3.81%), with the three-month yield witnessing the largest decline (nine bps) to 5.43%. At month end, the two- and 10-year Treasury yield spread (106 bps) widened 30 bps for June—its widest value since March 8, 2023.

For the second month in a row, the world income CEFs macro-group outpaced or mitigated losses better than the other two macro-groups in the fixed income universe, posting a 2.17% gain on average, followed by municipal debt CEFs (+1.65%) and domestic taxable bond CEFs (+1.50%).

For the first month in six, investors pushed High Yield CEFs (+2.63%) to the top of the domestic taxable fixed income leaderboard, followed by Loan Participation CEFs (+1.78%) and High Yield (Leveraged) CEFs (+1.72%). Corporate Debt BBB-Rated CEFs (+0.16%) posted the group’s smallest gain and was betteder by U.S. Mortgage CEFs (+0.32%). On the world bond CEFs side, the strong performance from Emerging Markets Hard Currency Debt CEFs (+5.24%) and Global Income CEFs (+1.48%) kept the world income CEFs macro-group at the top of the fixed income universe for the month.

The municipal debt CEFs macro-group posted plus-side returns for the first month in three, returning 1.65% on average, with all nine classifications in the group posting positive returns for June. The New York Municipal Debt CEFs (+1.78%) classification chalked up the strongest return of the group, followed by General & Insured Municipal Debt (Leveraged) CEFs (+1.76%) and Other States Municipal Debt CEFs (+1.63%), while Intermediate Municipal Debt CEFs (+1.02%) was the group relative laggard. National municipal debt CEFs (+1.69%) outsized its single-state municipal debt CEF counterpart (+1.62%) by six bps.

Three of the five top-performing individual fixed income CEFs were housed in Lipper’s Emerging Markets Hard Currency Debt CEFs classification. Virtus Stone Harbor Emerging Markets Total Income Fund (EDI, housed in the Emerging Markets Hard Currency Debt CEFs classification) rose to the top of fixed income leaderboard, posting a 9.38% return and traded at a 1.37% premium on June 30, followed by Virtus Stone Harbor Emerging Markets Income Fund (EDF), chalking up a 9.35% return and traded at a 4.88% premium at month end; BrandywineGLOBAL - Global Income Opportunities Fund Inc. (BWG, housed in the Global Income CEFs classification), gaining 5.53% and traded at a 15.10% discount on June 30; Templeton Emerging Markets Income Fund (TEI, also warehoused in Lipper’s Emerging Markets Hard Currency Debt CEFs classification), rising 5.42% and traded at a 10.12% discount at month end; and Opportunistic Credit Interval Fund, Class I Shares (SOFIX, an interval hybrid CEF housed in the High Yield CEFs classification), returning 5.02%.

For the remaining funds in the fixed income CEF universe, monthly NAV-based performance ranged from negative 4.01% for Bluerock High Income Institutional Credit Fund, Class A Shares (IMAX, an interval hybrid CEF housed in the Loan Participation CEFs classification) to positive 4.46% for XAI Octagon Floating Rate & Alternative Income Term Trust (XFLT, housed in Lipper’s Loan Participation CEFs classification and traded at a 4.70% premium on June 30). The 20 top-performing fixed income CEFs posted returns at or above positive 3.17%, while the 20 lagging CEFs posted returns at or below 0.00% for the month. For June, only 19 of the 345 fixed income CEFs witnessed negative NAV-based performance.

Premium and Discount Behavior

For June, the median discount of all CEFs narrowed 76 bps to 10.79%—wider than the 12-month moving average median discount (9.16%). Equity CEFs’ median discount narrowed by 64 bps to 11.92%, while fixed income CEFs’ median discount narrowed by 91 bps to 10.10%. The domestic equity CEFs macro-group’s median discounts witnessed the largest narrowing among the CEF macro-groups—133 bps to 10.55%—while the municipal debt CEFs macro-group witnessed the largest widening of discounts—34 bps to 13.30%.

Gabelli Utility Trust (GUT, housed in the Utility CEFs classification) traded at the largest premium (+107.98%) in the CEF universe on June 30, while Destra Multi-Alternative Fund (DMA, housed in the Income & Preferred Stock CEFs classification) traded at the largest discount (-52.60%) at month end.

For the month, 63% of all closed-end funds’ discounts or premiums improved, while 37% worsened. In particular, 67% of equity CEFs and 60% of fixed income CEFs saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on June 30 (48) was nine more than the number on May 31 (39).
CEF Events and Corporate Actions

IPOs

First Trust Hedged Strategies Fund (A Share Class: HDGAX and I Share Class: HFLEX) is a newly organized 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 that intends to operate as an interval fund. Shares of the fund are continuously offered under the Securities Act of 1933, as amended, and repurchased by the fund on a quarterly basis in an amount no less than 5% and not more than 25% of the outstanding shares, according to the fund’s repurchase policy established pursuant to Rule 23c-3 under the Investment Company Act.

The fund’s investment objective is to seek long-term capital appreciation. The fund is a fund of hedge funds and seeks to invest primarily in private investment funds, or commonly known as “hedge funds,” managed by multiple third-party investment managers that employ a variety of alternative investment strategies (“investment funds”). Under normal market conditions, the fund seeks to achieve its investment objective by allocating at least 80% of its net assets, plus the amount of any borrowings for investment purposes, to a portfolio of investment funds. During temporary defensive periods, the fund may deviate from its investment policies and objective and may invest up to 100% of its total assets in cash or cash equivalents, including short- or intermediate-term U.S. Treasury securities, as well as other short-term investments, including high quality, short-term debt securities.

The Redwood Real Estate Income Fund (CREMX) 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 intends to operate as an interval fund pursuant to Rule 23c-3 of the Investment Company Act and has adopted a fundamental policy to conduct quarterly repurchase offers at NAV, subject to certain conditions.

The fund seeks to achieve its investment objective by investing, under normal circumstances, at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in U.S. commercial real estate-related income investments. For this purpose, commercial real estate-related income investments include U.S.-based (i.e., backed by real estate based in one of the 50 U.S. states): (i) real estate mortgages, (ii) participation notes of real estate mortgages, (iii) mezzanine debt, and (iv) lines of credit for commercial real estate-related investments and real estate-related investment entities, such as REITs. These investments may include but are not limited to senior mortgage loans, second lien mortgages, also known as junior or subordinated debt, mezzanine loans, and participation interests in such mortgages or debt. The fund may also invest up to 20% of its net assets in short-duration fixed income instruments (e.g., short- or intermediate-term U.S. Treasury securities; certificates of deposit issued against funds deposited in a bank or a savings and loan association; commercial paper; bankers’ acceptances; bank time deposits; and shares of money market funds).

Rights, Repurchases, Tender Offers

Neuberger Berman High Yield Strategies Fund Inc. (NHS) announced the final results of its transferable rights offering, which expired on June 21, 2023. The final subscription price per share of common stock was $7.42, which was equal to 89% of the fund’s NAV per share of common stock at the close of trading on the NYSE American on the expiration date. The offer, which was oversubscribed, will result in the issuance of 6,482,227 shares of common stock. The gross proceeds of the offer are expected to be approximately $48.1 million. The shares of common stock subscribed for were expected to be issued on or about June 29, 2023. The fund will return to subscribing investors the full amount of any excess payments. The offer was oversubscribed, and the oversubscription requests exceeded the oversubscription shares available. Accordingly, the shares issued as part of the oversubscription privilege of the offer will be allocated pro rata among record date stockholders who submitted oversubscription requests based on the number of rights originally issued to them by the fund.

Mergers, Liquidations, and Reorganizations

Nuveen Corporate Income 2023 Target Term Fund (JHAA) has entered the wind-up period in anticipation of its termination date. The fund is a “target term” fund that will cease its investment operations and liquidate its portfolio on or about December 1, 2023, and distribute the net proceeds to shareholders unless the term is extended for a period of up to six months by a vote of the fund’s board of trustees. The fund has the investment objective of providing a high level of current income and returning the fund’s original $9.875 NAV to shareholders at termination. Based on current market conditions, the fund does not anticipate returning the original NAV at its termination. The investment objective relating to original NAV is not a guarantee and is dependent on a number of factors including the extent of market recovery and the cumulative level of income retained in relation to cumulative portfolio gains net of losses.

Under normal circumstances, the fund invests at least 80% of its managed assets in corporate debt securities. During the wind-up period the fund may deviate from its investment objectives and policies and may invest up to 100% of its managed assets in high quality, short-term securities. High quality, short-term securities include securities rated investment grade (BBB-/Baa3 or higher or unrated but judged by the fund’s subadvisor to be of comparable quality) with a final or remaining maturity of 397 days or less. Consequently, for the remainder of its term, the fund will invest at least 80% of its managed
assets in (i) corporate debt securities; and (ii) short-term investment grade securities that have a final or remaining maturity of 397 days or less, so long as the maturity of any security in the fund does not occur later than June 1, 2024. These expanded investment parameters currently will provide the fund additional flexibility to reinvest the proceeds of matured or called portfolio securities in higher quality, short-term securities. As the fund gets closer to its termination date, the fund will begin to affirmatively transition its remaining below investment grade portfolio holdings to such high quality, short-term securities to enhance its ability to efficiently liquidate its portfolio at termination. The fund has also completed the process of redeeming and retiring its leverage in anticipation of its termination date.

Goldman Sachs MLP and Energy Renaissance Fund (GER) announced additional details regarding the liquidation of the fund. Pursuant to the fund’s plan of liquidation and dissolution previously announced, the fund has fixed the close of business on July 10, 2023 (the “liquidation date”), as the effective date for determining the shareholders of the fund that will be entitled to receive liquidating distributions. The fund’s last day of trading on the New York Stock Exchange (NYSE) was July 5, 2023, after which time there will be no secondary market for the fund’s shares. It is anticipated that liquidating distributions will begin being paid after close of business on the liquidation date. The proportionate interests of such shareholders in the assets of the fund will be determined on the basis of their respective holdings at the close of business on the liquidation date. The fund may pay more than one liquidating distribution. If the amount of cash or cash equivalents set aside by the fund to pay the amount of its tax liabilities exceeds the amount of the fund’s tax liabilities as finally determined, the fund may pay such excess amount to shareholders of record on the liquidation date.

abrdn plc announced that its U.S. subsidiary abrdn Inc. has entered into an agreement to acquire the healthcare fund management capabilities of Tekla Capital Management LLC (Tekla), a global specialist healthcare investment advisor based in Boston, Massachusetts. The deal includes four NYSE listed healthcare and biotech thematic closed-end funds, totaling approximately $3 billion in assets under management, with approximately $30 million revenues in 2022. The names of the four NYSE listed funds are Tekla Healthcare Investors (HQH), Tekla Life Sciences Investors (HQL), Tekla Healthcare Opportunities Fund (THQ), and Tekla World Healthcare Fund (THW). As part of the deal, Tekla’s investment team will also be joining abrdn. Pending approval by each Tekla fund’s board of trustees and shareholders and the satisfaction of certain regulatory approvals and closing conditions, the transaction announced is expected to close during the second half of 2023.

Common and preferred shareholders of Nuveen Senior Income Fund (NSL), Nuveen Floating Rate Income Opportunity Fund (JRO), Nuveen Short Duration Credit Opportunities Fund (JSD), and Nuveen Floating Rate Income Fund (JFR) have approved a proposal to merge the funds. The mergers will combine each of NSL, JRO, and JSD into JFR. Subject to the satisfaction of certain customary closing conditions, the mergers were expected to become effective before the market opens on July 31, 2023. Leading up to the mergers, NSL, JRO, JSD, and JFR are expected to follow their normal distribution schedules. Following the mergers, JFR is expected to declare its regular August distribution on July 31, 2023, with a record date of August 15, 2023, payable September 1, 2023.

Other
BlackRock Advisors, LLC announced a change to the tax and fiscal year end for BlackRock Multi-Sector Income Trust (BIT). This change will be effective as of December 31, 2023. Current FYE: October 31, new FYE: December 31.

Duff & Phelps Utility and Infrastructure Fund Inc. (DPG) announced that on July 14, 2023, it will redeem 200,000 (the “called shares”) of its 1,600,000 issued and outstanding Floating Rate Mandatory Redeemable Preferred Shares, Series C (the “Series C MRP Shares”) (CUSIP No. 26433C4#9). This partial redemption is being made at this time at the fund’s voluntary option and as part of what the fund’s investment advisor believes is prudent management of the fund’s use of leverage. The partial redemption of the Series C MRP Shares is being funded by cash on hand. The called shares will be redeemed pro rata from the holders of the Series C MRP Shares in proportion to the number of Series C MRP Shares held by such holders. The redemption price per share, which will be paid to holders of the called shares who surrender their called shares to the paying agent (as identified in the notice sent to holders of the Series C MRP Shares on or prior to the redemption date), will be the liquidation preference of $25.00 plus accumulated but unpaid dividends and distributions up to, but excluding, the redemption date.

Morgan Stanley Investment Management announced that, effective July 1, 2023, the annual advisory fee of Morgan Stanley China A Share Fund, Inc. (CAF) will be reduced from 1.50% to 1.25% of the fund’s average weekly net assets.

New York Life Investments announced a name change for MainStay CBRE Global Infrastructure Megatrends Fund (MEGI) to MainStay CBRE Global Infrastructure Megatrends Term Fund. This name change is being made to better align the fund’s name with its existing limited term structure, and to increase awareness to the fact that there will be a liquidity event at NAV for shareholders, either at the termination date (December 15, 2033) or in connection with an eligible tender offer. The name change was effective on or around June 30, 2023. There are no changes to the fund’s investment policy or strategy in conjunction with the name change.

Saba Capital Management, L.P. filed a lawsuit in the United States District Court for the Southern District of New York against 16 closed-end funds advised by BlackRock, Inc., Franklin Resources, Inc., Tortoise Capital Advisors, L.L.C., Adams Funds, and FS Investments, as well as the BlackRock fund trustees (R. Glenn Hubbard, W. Carl Kester, Cynthia L. Egan, Frank J. Fabozzi, Lorenzo A. Flores, Stayce D. Harris, J. Phillip Holloman, Catherine A. Lynch, Robert Fairbairn, and John M. Perlowksi) and the Tortoise fund trustee (P. Bradley Adams) that have adopted control share acquisition provisions that strip voting rights from shareholders. In addition to their other board assignments and outside responsibilities, each of the BlackRock fund trustees also serves on at least 70 BlackRock fund boards at the same time, despite BlackRock’s guidelines for governance explicitly calling for a four-board maximum.

Similar to prior lawsuits Saba brought and won against Eaton Vance and Nuveen, Saba is seeking to invalidate the funds’ control share
provisions as unlawful under the Investment Company Act. Previously, on January 21, 2023, the Suffolk County Superior Court in Massachusetts issued a summary judgment ruling in favor of Saba that invalidated Eaton Vance’s control share provision as a violation of the Investment Company Act. In its ruling, the Massachusetts Court agreed with a 2022 ruling by the United States District Court for the Southern District of New York in a prior lawsuit Saba brought against Nuveen that found the restrictive use of control share bylaws to violate federal law.