The Month in Closed-End Funds: August 2023

Performance

For the first month in three, equity closed-end funds (CEFs) on average posted losses on a net-asset-value (NAV) and market basis, declining 1.98% and 2.75%, respectively, for the month. Meanwhile, also for the first month in three, their fixed income CEF counterparts witnessed monthly declines on a NAV basis (-0.54%) and a market basis (-2.14%) for August. Year to date, both equity and fixed income CEFs chalked up upside returns on a NAV basis, rising 5.74% and 5.08%, respectively.

The Dow and the S&P 500 snapped a three-week winning streak in the beginning of August, with the Nasdaq and S&P 500 experiencing their largest weekly declines since March. While the Department of Labor reported the U.S. economy added 187,000 new jobs in July—coming in below analysts’ expectations of 200,000—the unemployment rate edged down to 3.5%. The Bureau of Labor Statistics reported that wage growth rose to 0.4%, with a year-over-year rise of 4.4%. The slightly higher-than-expected wage growth was seen by some pundits as a possible sticking point for the Federal Reserve.

The Nasdaq and the S&P 500 suffered their second consecutive week of declines the following week, with the Dow posting modest gains, after July producer prices accelerated by 0.3%—higher than analyst expectations of a 0.2% rise—nagging a tamer U.S. consumer price index report from the day before. The University of Michigan’s survey of consumer sentiment preliminary reading for August inched down to 71.2 from 72.6 the month before. The 10-year Treasury rose 11 basis points (bps) for the week to close at 4.16%.

Rising bond yields and China worries weighed on the equity market the following week—with the tech-heavy Nasdaq and S&P 500 suffering their third straight week of losses as the 10-year Treasury yield rose for the fifth week in a row, closing at 4.26%. Investors turned their attention to China’s second-largest developer, Evergrande, after it filed for bankruptcy protection in U.S. courts, raising concerns that troubles will spread to other sectors of the world’s second-largest economy.

Despite Federal Reserve Chair Jerome Powell taking a hawkish stance after the Federal Reserve Bank of Kansas City’s annual monetary policy symposium in Jackson Hole, Wyoming, the Nasdaq and the S&P 500 snapped their three-week losing streaks. According to the CME FedWatch Tool, traders largely expect the Fed to hold rates steady in September but are pricing in a 49.9% probability that the Fed will hike its key lending rate by 25 bps at its November meeting. While inflationary pressures have eased, Powell noted that core price pressures remained above the Fed’s 2% target.

U.S. stocks finished mostly lower on the last trading day of the month, with the Nasdaq cementing its first monthly decline in six and its largest decline for 2023, falling 2.17%. Investors appeared to ignore a Goldilocks July personal consumption expenditure index report that showed the cost of goods and services rose a mild 0.2%—in line with analysts’ expectations—and instead focused their attention on the upcoming August nonfarm payrolls report.

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- For the first month in three, equity CEFs (-1.98% on a NAV basis) on average suffered downside performance while their fixed income CEF cohorts (-0.54%) also posted losses for the first month in three.
- At month end, 12% of all CEFs traded at a premium to their NAV, with 13% of equity CEFs and 11% of fixed income CEFs trading in premium territory. The national municipal debt CEF macro-classification witnessed the largest widening of discounts for the month among Lipper’s CEF macro-groups—263 bps to a 13.68% median discount.
- Energy MLP CEFs (-0.59%), for the first month in 12, mitigated losses better than the other classifications in the equity CEF universe for August.
- Loan Participation CEFs (+1.26%), for the first month in six, outperformed the other classifications in the domestic taxable fixed income CEF universe.
- The domestic taxable bond CEFs macro-group (+0.60%) outpaced its world income (-0.36%) and municipal debt (-2.39%) CEF counterparts for the first month in three.
With Fed Chair Powell warning the central bank may need to raise interest rates even higher in its fight against inflation, the yield curve bounced around during the month, with the long end of the curve rising the most while the belly saw slight declines. The 30-year Treasury yield witnessed the largest increase, rising 18 bps to finish the month at 4.20%, while the six-month yield witnessed the largest decline, five bps to 5.48%. Yields remained inverted for all maturities from the one-month to the seven-year yield, with the 10-year Treasury yield rising 12 bps to 4.09%. The two- and 10-year Treasury yield spread narrowed 15 bps to minus 76 bps from its July month-end closing value.

During the month, the dollar strengthened against the euro (+1.66%), the pound (+1.53%), and the yen (+2.49%). Commodity prices were mixed for the month, with front-month gold prices declining 1.64% to close the month at $1,938.20/oz. and front-month crude oil prices rising 2.24% to close at $83.63/bbl.

For the month, 34% of all CEFs posted NAV-based returns in the black, with just 13% of equity CEFs and 49% of fixed income CEFs chalking up returns in the plus column. For the first month in four, Lipper’s mixed-assets CEFs (-1.26%) macro-group mitigated losses better than its two equity-based brethren: domestic equity CEFs (-1.73%) and world equity CEFs (-3.39%).

For the first month in 12, the Energy MLP CEFs classification (-0.59%) moved to the top of the equity leaderboard, followed by Income & Preferred Stock CEFs (-1.26%) and Natural Resources CEFs (-3.39%).

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Three of the five-top performing equity CEFs for August were warehoused in Lipper’s domestic equity CEFs macro-classification. At the top of the leaderboard was Flat Rock Opportunity Fund (FROPX, an interval CEF housed in the Income & Preferred Stock CEFs classification), rising 2.99% on a NAV basis. Following FROPX were Sweater Cashmere Fund (SWTRX, an interval CEF warehoused in the Global CEFs classification), gaining 2.80%; PIMCO Energy and Tactical Credit Opportunities Fund (NRGX, housed in the Energy MLP CEFs classification), gaining 2.06% and traded at a 15.42% discount on August 31; BlackRock Energy & Resources Trust (BGR, housed in the Natural Resources CEFs classification), rising 2.06% and traded at a 9.43% discount at month end; and Forum Real Estate Income Fund, Founders Share Class (FORFX, an interval hybrid CEF warehoused in Lipper’s Real Estate CEFs classification), returning 1.80%.

For the month, the dispersion of performance in individual equity CEFs—ranging from negative 9.25% to positive 2.99%—was narrower than July’s spread and more skewed to the negative side. The 20 top-
performing equity CEFs posted returns at or above positive 0.66%, while the 20-lagging equity CEFs were at or below negative 5.62%.

For the month, only 35 CEFs in the equity universe posted returns in the black. The two worst-performing funds were housed in Lipper’s Emerging Markets CEFs classification. At the bottom of the pile was Templeton Dragon Fund Inc. (TDF), shedding 9.25% of its July closing NAV and trading at a 14.25% discount at month end. The second worst-performing equity CEF was China Fund Inc. (CHN), posting a 8.59% loss and traded at a 14.02% discount on August 31.

The U.S. Treasury yield curve remained inverted during the month, rising at all maturities except the six month, one-year, and two-year Treasury yields. The 30-year yield witnessed the largest gain, rising 18 bps in August to close at 4.20%, followed by the 20-year yield, which rose 17 bps to 4.39%. All yields with maturities less than 10 years remained above the 10-year Treasury yield (+4.09%), with the four-month yield witnessing the highest absolute rate, coming in at 5.61%. At month end, the two- and 10-year Treasury yield spread (-76 bps) narrowed 15 bps for August.

For the first month in three, the domestic taxable bond CEFs macro-group outpaced or mitigated losses better than the other two macro-groups in the fixed income universe, posting a 0.60% gain on average, followed by world income CEFs (-0.36%) and municipal debt CEFs (-2.39%).

For the first month in six, investors pushed Loan Participation CEFs (+1.26%) to the top of the domestic taxable fixed income leaderboard, followed by General Bond CEFs (+0.63%) and High Yield CEFs (+0.42%). Corporate Debt BBB-Rated CEFs (Leveraged) (-0.87%) posted the group’s largest losses and was bettered by Corporate Debt BBB-Rated CEFs (-0.63%). On the world income CEFs side, the slight plus-side returns from Global Income CEFs (+0.04%) wasn’t enough to offset losses from Emerging Markets Hard Currency Debt CEFs (-2.35%), pushing the world income CEFs macro-group to the number two position in the fixed income universe for the month.

The municipal debt CEFs macro-group suffered losses for the first month in a three, declining 2.39% on average, with all nine classifications in the group posting negative returns for August. The General & Insured Municipal (Unleveraged) CEFs (-110%) classification did the best job mitigating losses of the group, followed by California Municipal Debt CEFs (-2.04%) and New Jersey Municipal Debt CEFs (-2.07%), while New York Municipal Debt CEFs (-2.78%) witnessed the largest declines of the group. National municipal debt CEFs (-2.38%) mitigated losses better than its single-state municipal debt CEF counterpart (-2.41%).

The three top-performing individual fixed income CEFs were housed in Lipper’s Loan Participation CEFs classification. XAI Octagon Floating Rate & Alternative Income Term Trust (XFLT) remained at the top of fixed income leaderboard, posting a 3.29% return and trading at a 2.68% premium on August 31. XFLT was followed by Carlyle Credit Income Fund (CCIF), chalking up a 2.75% return and traded at a 5.38% discount at month end; City National Rochdale Strategic Credit Fund (CNROX), an interval hybrid CEF housed in the Loan Participation CEFs classification, gaining 2.58%; Pioneer ILS Interval Fund (XILSX, an interval CEF warehoused in Lipper’s High Yield [Leveraged] CEFs classification), rising 2.15%; and BNY Mellon Alcentra Global Credit Income 2024 Target Term Fund, Inc. (DCF, housed in the Loan Participation CEFs classification), returning 2.04% and traded at a 5.46% discount on August 31.

For the remaining funds in the fixed income CEF universe, monthly NAV-based performance ranged from negative 6.45% for Pioneer Municipal High Income Fund Inc. (MHI, housed in the High Yield Municipal Debt CEFs classification) to positive 3.40% for Palmer Square Opportunistic Income Fund (PSOIX, an interval CEF housed in Lipper’s General Bond CEFs classification). The 20 top-performing fixed income CEFs posted returns at or above positive 1.63%, while the 20 lagging CEFs posted returns at or below negative 3.24% for the month. For August, 174 of the 355 fixed income CEFs witnessed plus-side NAV-based performance.

**Premium and Discount Behavior**

For August, the median discount of all CEFs widened 49 bps to 10.64%—wider than the 12-month moving average median discount (9.81%). Equity CEFs’ median discount widened by 47 bps to 11.88%, while fixed income CEFs’ median discount widened by 42 bps to 9.85%. The high yield CEFs macro-group’s median discount witnessed the smallest widening among the CEF macro-groups—53 bps to 8.79%—while the national municipal debt CEFs macro-group witnessed the largest widening of discounts—263 bps to 13.68%.

Gabelli Utility Trust (GUT, housed in the Utility CEFs classification) traded at the largest premium (+124.26%) in the CEF universe on August 31, while Destra Multi-Alternative Fund (DMA, housed in the Income & Preferred Stock CEFs classification) traded at the largest discount (-43.15%) at month end.

For the month, 31% of all closed-end funds’ discounts or premiums improved, while 68% worsened. In particular, 36% of equity CEFs and 27% of fixed income CEFs saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on August 31 (49) was five less than the number on July 31 (54).
CEF Events and Corporate Actions

IPOs

There were no CEF IPOs in August.

Rights, Repurchases, Tender Offers

Tortoise and the board of its closed-end funds previously announced its approval of conditional tender offers as part of the discount management program. A fund would conduct a tender for 5% of the fund’s outstanding shares of common stock at a price equal to 98% of NAV if its shares trade at an average discount to NAV of more than 10% during either of the designated measurement periods in 2022 and 2023. The measurement period for 2023 ended on July 31, 2023, and it has been determined that a tender offer will be executed in each fund. The tender offers are expected to commence on or around October 2, 2023. The funds will issue a press release announcing the tender offers on the day they commence. The funds’ portfolio managers, officers, and board of directors will not tender their shares. Tortoise Capital Advisors is the advisor to Tortoise Energy Infrastructure Corp. (TYG), Tortoise Midstream Energy Fund, Inc. (NTG), Tortoise Pipeline & Energy Fund, Inc. (TTP), Tortoise Energy Independence Fund, Inc. (NDP), and Tortoise Power and Energy Infrastructure Fund, Inc. (TPZ).

MFS Investment Management announced that the board of trustees of MFS High Yield Municipal Trust (CMU) authorized the fund to conduct a cash tender offer for up to 10% of the fund’s outstanding common shares at a price per share equal to 98% of the fund’s NAV per share as of the close of regular trading on the New York Stock Exchange (NYSE) on the date the tender offer expires. The fund expects to commence the tender offer on or before October 6, 2023. As of July 31, 2023, the fund had 28,325,314 shares of common stock outstanding, 700 shares of preferred stock outstanding, and total net assets of $105.4 million (not including preferred shares). The board approved the recommendation of MFS, the fund’s investment advisor, to authorize the tender offer as part of an agreement with a large shareholder of the fund, which had provided notice of its intention to propose two nominees of its own choosing for election as trustees to the board and to ask shareholders to approve a non-binding proposal asking the board to authorize a liquidity event for the shares at the fund’s 2023 annual meeting of shareholders. As part of this agreement, the large shareholder has withdrawn its proposals from consideration at the fund’s 2023 annual meeting of shareholders and has undertaken certain obligations until the fund’s 2025 annual meeting of shareholders. In addition, pursuant to the agreement, the board has agreed to propose that shareholders of the fund approve a proposal for a liquidity event at the fund’s 2023 annual meeting of shareholders unless

the average trading discount of the shares is equal to or less than 7.50% for the entirety of any consecutive 30 calendar day period between the expiration date of the tender offer and July 15, 2025.

MFS Investment Management announced that the board of trustees of MFS Investment Grade Municipal Trust (CXH) authorized the fund to conduct a cash tender offer for up to 10% of the fund’s outstanding common shares at a price per share equal to 98% of the fund’s NAV per share at the close of regular trading on the NYSE on the date the tender offer expires. The fund expects to commence the tender offer on or before October 6, 2023. As of July 31, 2023, the fund had 9,110,245 shares of common stock outstanding, 488 shares of preferred stock outstanding, and total net assets of $77.5 million (not including preferred shares). The board approved the recommendation of MFS, the fund’s investment advisor, to authorize the tender offer as part of an agreement with a large shareholder of the fund, which had provided notice of its intention to propose two nominees of its own choosing for election as trustees to the board and to ask shareholders to approve a non-binding proposal asking the board to authorize a liquidity event for the shares at the fund’s 2023 annual meeting of shareholders. As part of this agreement, the large shareholder has withdrawn its proposals from consideration at the fund’s 2023 annual meeting of shareholders and has undertaken certain obligations until the fund’s 2025 annual meeting of shareholders. In addition, pursuant to the agreement, the board has agreed to propose that shareholders of the fund approve a proposal for a liquidity event at the fund’s 2023 annual meeting of shareholders unless

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Thomas J. Herzfeld Advisors, Inc. announced (i) the filing of a registration statement with the Securities and Exchange Commission (SEC) for a proposed non-transferable rights offer to holders of common stock, par value $0.001 per share, of The Herzfeld Caribbean Basin Fund, Inc. (CUBA); (ii) a modification to the fund’s self-tender policy; and (iii) the indefinite suspension of the fund’s managed distribution policy.

Rights offering: Under the terms of the rights offer, the fund will issue non-transferable rights to its stockholders of record on a date to be disclosed in the prospectus (the record date). Each stockholder of record on the record date will receive one right for each full share of the fund’s common stock owned on the record date. The rights will entitle the holders to purchase one share of the fund’s common stock for every one right held, and stockholders of record on the record date who fully exercise their rights will be entitled to subscribe for additional shares of common stock (oversubscription shares) subject to the limitation set forth in the prospectus. The oversubscription shares will be allocated pro rata to
stockholders who oversubscribe based on the number of rights originally issued to them. The fund may increase the number of shares of common stock subject to subscription by up to 200% of the shares. The rights are non-transferable and, therefore, may not be purchased or sold. The shares of common stock issued pursuant to the rights offer will be listed on the Nasdaq Capital Market under the symbol CUBA. The subscription price per share will be 92% of the average volume-weighted closing sale price at which the common stock trades on the Nasdaq Capital Market on the expiration date (as defined in the prospectus) and the four preceding trading days.

Self-tender policy: In addition, the fund’s board of directors has modified the fund’s self-tender policy. Under the terms of the self-tender policy, the fund has undertaken to commence a tender offer for its shares of common stock by October 31, 2023. Because of the uncertainty regarding the timing of the rights offer, the board of directors of the fund modified the self-tender policy to allow for the fund to commence the tender offer within a reasonable amount of time following the conclusion of the rights offer. The formal offer and detailed terms of the tender offer will be announced following the conclusion of the rights offer.

Managed distribution policy: Additionally, the fund’s board of directors has indefinitely suspended the fund’s managed distribution policy.

Mergers, Liquidations, and Reorganizations

The boards of trustees of six Nuveen municipal closed-end funds approved three merger proposals. The proposed mergers for the funds are subject to certain conditions, including necessary approval by the funds’ stockholders. The mergers are intended to create larger funds with lower operating expenses, enhanced earnings potential, and increased trading volume on the exchange for common shares. In the proposed Nuveen Massachusetts Quality Municipal Income Fund (NMT, the target fund) would merge into Nuveen AMT-Free Quality Municipal Income Fund (NEA, the acquiring fund). Nuveen Pennsylvania Quality Municipal Income Fund (NQP) would merge into Nuveen AMT-Free Municipal Credit Income Fund (NVG), and Nuveen New Jersey Quality Municipal Income Fund (NXJ) would merge into Nuveen Quality Municipal Income Fund (NAD). Detailed information on the proposed mergers will be contained in proxy materials expected to be filed in the coming weeks.

Western Asset Municipal Partners Fund Inc. (MNP) announced the results of the votes cast at MNP’s reconvened special meeting of stockholders held on August 11, 2023. Stockholders of MNP voted to approve the merger of MNP with and into Western Asset Managed Municipals Fund Inc. (MMU) in accordance with the Maryland General Corporation Law (“MGCL”). The merger of Western Asset Intermediate Muni Fund Inc. (SBI) with and into MMU did not receive sufficient favorable votes from SBI stockholders at SBI’s reconvened special meeting of stockholders and was consequently not approved. SBI will continue as its own closed-end investment management company.

Previously, on July 14, 2023, stockholders of MMU voted to approve the merger in accordance with the MGCL. It is currently anticipated that the merger will be effective in mid-to-late October 2023, subject to all regulatory requirements and customary closing conditions being satisfied.

Upon completion of the merger, each share of common stock of MNP, par value $0.001 per share, will convert into an equivalent dollar amount (to the nearest $0.001) of full shares of common stock of MMU, par value $0.001 per share, based on the NAV of each fund on the business day preceding the merger. MMU will not issue fractional shares to MNP stockholders. In lieu of issuing fractional shares, MMU will pay cash to each former holder of MNP common stock in an amount equal to the NAV of the fractional shares of MMU common stock that the investor would otherwise have received in the merger.

Other

Special Opportunities Fund (SPE), High Income Securities Fund (PCF), and Bulldog Investors, LLP (“Bulldog”) (together, the “shareholders”) announced that they have reached a settlement agreement with two closed-end municipal bond funds managed by MFS Investment Management (MFS). The MFS-managed funds are MFS High Yield Municipal Trust (CMU) and MFS Investment Grade Municipal Trust (CXH).

Pursuant to the settlement agreement, each MFS-managed fund will conduct a cash tender offer, which is expected to commence on or before October 6, 2023, for up to 10% of its outstanding common shares at a price per share equal to 98% of its NAV per share. In addition, the board of each of the MFS-managed funds has agreed to propose that shareholders approve a proposal for a liquidity event at the 2025 annual meeting, unless the average trading discount of its shares is equal to or less than 7.50% for any consecutive 30 calendar day period between the expiration date of the tender offer and July 15, 2025. As part of the settlement agreement, the shareholders have agreed to certain standstill conditions.