# Nuveen's Meyers Talks Muni Funds, Interest Rates and More

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In this bonus edition of the NAVigator podcast taped at the AICA Boot Camp and Round Table in New York City on November 6th, Chuck Jaffe interviewed Bill Meyers, senior managing director at Nuveen. Read the Q & A below as Chuck discusses with Bill about how and why he thinks investors are overly focused on discounts, and about how interest rates are affecting funds and more.

Bill Meyers

The podcast can be found on AICA's website by clicking here: [https://aicalliance.org/alliance-content/pod-cast/](https://aicalliance.org/alliance-content/pod-cast/)

**CHUCK JAFFE:** Hi, it's Chuck Jaffe, host of the navigator podcast. I attended the Active Investment Company Alliance closed-end fund, business development company, interval fund Boot Camp in New York City on November the 6th. While I was there I did several interviews with closed-end fund experts for Money Life, my radio show and podcast. We're bringing those interviews to you as bonus episodes of the NAVigator, enjoy. Welcome to Money Life at the Active Investment Company Alliance meeting in New York, where I'm pleased to be joined now by Bill Meyers. He is senior managing director at Nuveen, and he is in charge of business development for closed-end funds. He and I were sharing a panel this morning, and I need to bring you a little bit of that flavor, because we were talking about basically how people should consider closed-end funds as yield investments and how they should be thinking about them. And I think so many folks focus on certain things when they hear about closed-end funds, they focus on discounts and more, that maybe you need to learn a little more about what we were talking about. So first things first, Bill, thanks for taking time out.

**BILL MEYERS:** Yeah, thanks for having me Chuck. A pleasure.

**CHUCK JAFFE:** So like I said, I think when most people think closed-end funds as they're learning about closed-end funds, and my audience is fairly new to us spending as much time now as we do, they think discounts, "I can buy things on sale. Everything on sale is good." And it's not that you were saying, "Oh, people should go off and look at premiums." It's that you believe that people should look at discounts a little bit differently than they do. Explain.

**BILL MEYERS:** Yeah, I think there's a focus on discounts that's probably greater than it should be for closed-end funds. I think the first feature of closed-end funds that people should consider is, what's the asset class that the closed-end fund invests in and focuses on? Once you get past that, you can look at valuation. You can look at cashflow and characteristics like that. I think a lot of times people focus exclusively on whether it's on sale and how big the sale is. Stated otherwise, how big the discount is. And that really it extends beyond really how people should view closed-end funds. And that's for where it fits with an investor portfolio and what type of returns can they expect over a period of time. If you look at the longer arch of closed-end holdings, most of the total return is going to be derived not from the discount creating up to par, but the cash flow that the fund generates for an extended period of time.

**CHUCK JAFFE:** Well that being the case, that part of a closed-end fund is basically like holding any traditional open end mutual fund. So you work at Nuveen, where they do lots of work in closed-end funds, but also traditional funds, so what is the advantage to the closed-end structure if we take discount out of it? And I'm looking for, I don't know, a muni bond fund. You guys have plenty of flavors of muni bond funds, why do I buy a muni bond closed-end fund, as opposed to a muni bond traditional fund? Or is it simply going to be, compare them side-by-side and decide?

**BILL MEYERS:** Yeah, I think there's some features within closed-end funds that are unique that are helpful for the investor experience, provided there are some risks attributed with them. But the benefits of closed-end funds, one primary benefit is it's able to invest in probably more illiquid securities than an open-end counterpart is. And additionally, it can remain fully invested a hundred percent in the target asset class without having a cash position. Contrast that with an open-end fund that needs to stand ready on a daily basis to redeem out investors if they're selling. Because there can be selling for an open-end fund, it needs to stay probably a little more liquid and have a cash position to meet investor redemptions on an ongoing basis. A closed-end fund, because the shares are traded on the stock exchange on the secondary market, if someone wants to sell, they can sell and there's someone else buying it on the other side. The fund is not making liquidity for the investors, so the fund can remain fully invested at all times. Another key feature of closed-end funds that is probably in two thirds of the closed-end funds in the market, is leverage. Leverage provides the ability to increase returns versus what they would otherwise be for mutual fund or open-end fund investors. So because the closed-end fund can generate incremental income based on the difference between what the portfolio is being invested at, and the cost of funding for the portion of the fund that's leveraged, those incremental returns help increase what distributions would otherwise be to the common shareholders.

**CHUCK JAFFE:** Leverage scares folks as a general rule, especially folks who aren't that familiar with it. Why shouldn't they be scared when they hear that there's leverage in their closed-end fund?

**BILL MEYERS:** People should realize that closed-end funds are heavily regulated. Closed-end funds are governed by the Investment Company Act of 1940, that stipulates leverage levels, or maximum leverage levels that a fund can have. If you think about leverage broadly, structures like CLOs or CDOs are leveraged at much, much higher levels. Or if you think about a homeowner who buys a house, they might put ten or fifteen percent down for example, so that's a lot of leverage taken on by the homeowner. With a closed-end fund, a typical leverage level is about thirty, thirty-five percent for a structure. So think about it, the converse of that, two thirds of the capital is coming from common shareholders and only a third of the fund is leveraged. So leverage levels are much more modest for a closed-end fund than they are with other structures, and while it's leveraged somewhat conservatively, I think it provides decent incremental returns that in many cases overcome the risk that is associated with leverage.

**CHUCK JAFFE:** When I hear you talk about the differences between closed-end funds and traditional or open-ended mutual funds, I start to think that at this point, should we maybe be considering closed-end funds more like ETFs, which the audience and investors have adopted in droves and which have been winning the day, then we think about closed-end funds as a comparison to traditional funds?

**BILL MEYERS:** It's funny you mention ETFs, because Nuveen's first couple closed-end funds in the 1980's, we called them ETFs back then. And then over time, ETFs kind of assumed that acronym versus what we had. So we're now closed-end funds, but more broadly we look at closed-end funds really being uniquely different from both open-end funds and from ETFs. I think ETFs, they're generally more beta exposure. They don't provide or enable the fund to have leverage generally for investors, and the returns from a cash flow basis are typically lower for ETFs than closed-end funds. Again, we would look at closed-end funds given the different attributes, having a unique place to supplement what an investor portfolio would otherwise be. We wouldn't recommend having an entire portfolio net worth exclusively in closed-end funds, but they can be used as a satellite to supplement asset classes within a mix.

**CHUCK JAFFE:** I would be remiss in the limited time I have left with you if I did not ask you about your take on interest rates and what's been happening with the interest rate environment, and how that sets up closed-end funds. Because it's been very different as the rate picture has changed, how does that affect closed-end funds, and what do you expect to happen going forward?

**BILL MEYERS:** With respect to closed-end funds, I had indicated earlier that about two thirds of the closed-end funds in the market have leverage. Because leverage is tied to short-term interest rates typically, the direction of those short-term interest rates is going to influence the dividends on closed-end funds because leverage is a cost. So as the cost of leverage moves higher, there could be dividend cuts. If the leverage costs move down, generally speaking, the dividends should or have the ability to move higher given that cost has fallen. With respect to the direction of interest rates, it's our expectation at Nuveen that the Fed is done for the time being. If you think about expectations that the market has on short-term rates, I think the expectation that few people have would be that rates are going higher. So we think interest rates are in a good spot, and that the leverage pressures should be muted going forward. I've been at Nuveen for quite a while, so we saw rates move sharply higher for an extended period of time in 1994. We saw it again in 1999. That puts severe pressure on leverage costs, and in distributions. I think we're in a very different market now with respect to short-term rates and their potential direction.

**CHUCK JAFFE:** Bill, thanks so much for taking time out. This has been great.

**BILL MEYERS:** Thank you, Chuck. I appreciate the forum.

**CHUCK JAFFE:** Bill Meyers is senior managing director at Nuveen. He's in charge of business development for their closed-end fund business, you can learn more at Nuveen.com. We'll be back with more of Money Life from the AICA Conference in just a moment.

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