Greg Drose talks about Closed-end funds with Gregg Greenberg at the November 6, 2019 AICA Bootcamp and Round Table

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Financial reporter Gregg Greenberg interviewed Greg Drose, Executive Director of Business Development at UMB Fund Services, at the AICA Boot Camp and Round Table held on November 6th in New York City. Read the transcript from the interview below.

Greg Drose

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Gregg Greenberg: So Greg, how do you think that the AICA can really help boost the closed-end fund community?

Greg Drose: Well, Greg, I think the AICA, and we talked about it on a panel a few minutes ago, this segment of the industry with the continuously offered closed-end funds, needs a group to bring all of the various constituents together. Those being fund managers, the custodians or platforms on the distribution side, legal, audit, service providers. We still have some operational challenges, some educational challenges that need to happen. And we really need a group that can bring this whole segment of the industry a little more together.

Gregg Greenberg: Before we talk about the challenges, lets talk about some of the trends. What do you see going on in the industry right now heading into 2020?

Greg Drose: 2020, we've seen a large increase in the number of continuously offered closed-end interval funds being launched. There's certainly a lot of interest and discussions in those. These products are designed for alternative, less liquid strategies, but putting them in a registered wrapper. Of which advisors like more than private funds for the most part, according to the research we see. In 2019, we've seen industry-wide, 31 plus launches of these products. And there's only 109 coming into the year, so we're seeing tremendous interest and growth.

Gregg Greenberg: There's interest and innovation. So essentially the fund companies are listening to the investors and they're going to say, "All right, you want this type of product? We're going to give it to you." Right?

Greg Drose: Correct. Because a lot of the retail investors and advisors are looking for additional sources of alpha. They're looking for some of these alternative type strategies, but they want to have them in a registered structure so that there's oversight, compliance, and they're more comfortable investing in that type of structure than a private fund structure.

Gregg Greenberg: And I'd said we'd get back to the challenges. So what are the challenges for the industry, and the risks?

Greg Drose: Well, I think the risk is education. With these products, as I mentioned, they're investing in more less liquid type strategies. These funds have limited liquidity, so advisors and the end investors must understand that. Because that only happens once they want out of the fund, and sometimes that could be a year or two, and they may forget that there's limited liquidity there. They're not open-end mutual funds. So there's an education risk, I believe, is the main one.

Gregg Greenberg: But right now the performance has been outstanding, at least for the past year. I know we had a rough December last year. Any expectations when it comes to performance heading into the new year?

Greg Drose: Well, I think we've seen good performance but we've also seen some funds, it just depends on the structure. I think right now the latest research I saw was that 32% of the funds out there are in some type of credit strategy. So I think there's investors and advisors, they're still looking for yield and wanting yield. Over half of the funds out there now are just considered alternatives. Meaning as I mentioned before, some type of alternative strategy that's been put in a structured wrapper. But we have funds that are doing quite well, and we've seen funds that just depending on their segment of the market, are having some performance.

Gregg Greenberg: All right. Well, thanks a lot for coming and talking about it.

Greg Drose: Thank you.

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