



## 2019 Has Been a Record Year for Closed-End IPOs, and 2020 Should Be Better

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Chuck Jaffe, in The NAVigator podcast, interviewed Jerry Raio, president and chief executive officer at Arbor Lane Advisors in New York. Read the Q & A below as Chuck discusses with Jerry



why he says that changes making closed-end fund initial public offerings more attractive have combined with favorable market conditions leading 2019 to be the most prolific time for IPOs that the industry has seen in years, and why he believes the trend is likely to continue into the new year.

Jerry Raio

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

**CHUCK JAFFE:** Jerry Raio, president and chief executive officer at Arbor Lane Advisors, which helps small and midsized money managers develop new products including closed-end funds is here, and we're talking closed-end fund IPOs today in The NAVigator. This is The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, which is a unique industry organization that represents all facets of the closed-end fund industry, from users and investors, to fund sponsors and creators. And that's where my guest today comes in. Jerry Raio is president and chief executive officer at Arbor Lane Advisors, which is a New York based company that works with others to create closed-end funds and bring them to market, and look at strategies that can work in the closed-end structure. If you want to learn more, the best way

to get more information about Jerry's firm is through AICA, the Active Investment Company Alliance, which you can reach at [TheNAVigator@AICAlliance.org](mailto:TheNAVigator@AICAlliance.org). Jerry Raio, good to talk with you.

**JERRY RAIO:** Good morning, Chuck. Good morning, everyone. Thanks for having me on.

**CHUCK JAFFE:** Let's start with the state of the closed-end IPO market, because closed-end IPOs have been picking up, and with it, that's where your firm comes in. There have been a lot of really interesting and innovative strategies. A lot of people going, "Oh, we can twist and bend closed-end funds to do more things than ever before." So it has led to some interesting times, 2019 has been a good year for the market but it's been a good year for closed-end IPOs too, hasn't it?

**JERRY RAIO:** It sure has. 2019 is shaping up to be the best year for the closed-end fund IPO market going all the way back to 2013. And part of that has been a combination of, we've seen some innovative strategies across the diverse set of different asset classes come to market, but also there's been some structural changes in the market that make this more appealing now to a much broader audience of financial advisors, as well as retail investors. So it's shaping up to be a very good year, Chuck, in the closed-end fund IPO market.

**CHUCK JAFFE:** Close-end fund IPOs. We've been doing The NAVigator for a few months now, and closed-end fund IPOs, a space that depending on who you're talking to in the industry, they say investors need to be very careful because of how they work. It's clear that not all closed-end IPOs are equal. If closed-end fund IPOs have a bit of an image issue, where I've had advisors say, "Yeah, I would always wait until we're through the IPO," and everything else. Is there anything that's happening that is trying to change that? Does anybody say when they're working with you, "Hey, I want to structure the IPO that people actually want to buy from the beginning," and not maybe have a leverage problem that they want to avoid from the beginning?

**JERRY RAIO:** Yeah, so there's been a change in the structure of how these are brought to market. Where historically when a new closed-end fund IPO has been brought to market, the investor would pay twenty dollars per share but the NAV or the proceeds that's invested is \$19.10 or somewhere, \$19.50, but below the twenty dollars per share. So out of the gate

when it starts trading, the net asset of the fund is below the IPO price. And two of the biggest objections that we've always received with regard to closed-end funds, is that they perpetually trade at discounts and that they're not a good deal to buy on the IPO. So the two things that have been implemented to address that issue is one, that now these funds are no longer perpetual in nature but have a term, so the new vintage of closed-end funds have a twelve-year term. Whereby the investor at the end of the term can get the net asset value of the fund. So it's not to say that the market price can't fluctuate around the net asset value during that twelve-year period, but if you hold it for the twelve years, you will get whatever the net asset value of the fund is. That's a big change and a good change in the market. The second thing is a newer innovation and probably the bigger change, is the fact that that spread between the market price and the net asset value is now diminished because the sponsor of the fund, so some of the managers, the Nuveen's, the BlackRock's, they're actually paying that selling concession that comes out of the fund. So now when the investor buys it in the IPO, they're paying twenty dollars, but twenty dollars is getting invested in the market. And that is a big change to what we've seen in the past, where again, only about \$19.10 was getting invested. So what we've seen is that a lot of the funds that have come out to market, have traded well following the offering, which again was a change. And I think that's instilled a lot more confidence in investors that there's a benefit to buying it in the IPO. Because when you buy it in the IPO, you can get a known size at a known price. You can get as much as you want at twenty dollars per share. So it creates a good opportunity for people to buy it and get ample liquidity at the time of the IPO. So that's been a big change, and I think that's really resurrected the IPO market. And I think you could see a pretty robust calendar going into 2020 and hopefully beyond that.

**CHUCK JAFFE:** Well, that was my next question. As we get into 2020, with market conditions this year being so much better at the start of the year. I mean, a year ago we were going through all kinds of trouble at the end of the year. With market conditions being pretty good and people being sanguine about it, are we expecting that 2020 will be a better year for IPOs?

**JERRY RAIO:** Yeah, absolutely, Chuck. I think historically if you look at the closed-end fund IPO market, it has been correlated to interest rates. So when interest rates are going down, closed-end fund IPOs picked up. So we're in that environment right now, where interest rates

are headed down and we've seen that the closed-end fund secondary market has traded very well. In fact, it's trading from a discount perspective, tighter than its historical average. So that is a good tailwind for the market. But more importantly, is again, the change in the structure of how these are brought to market, has really opened the closed-end fund to a broader audience of financial advisors. So where historically you saw maybe a narrow focus of financial advisors that would look at this product, today we're seeing a much broader audience because it kind of puts it on par now with buying a mutual fund. Because you get it at NAV, if you believe in the manager, you believe in the asset class, know you can get whatever the return is on that NAV after twelve years. You have to deal with some of the volatility in the interim of where the marketplace trades relative to the NAV, but you have optionality. If you like where it's trading, you can sell it. If you don't, you just hold it for the twelve years. Given that dynamic, I think we're going to see that 2020 is really going to build on the success that we've seen in 2019. And we're already seeing that by the number of filings that have come out in diverse asset classes, and the backlog right now that underwriters have slated for next year. The calendar of IPOs is pretty much full for almost all of the 2020. As the raises now have been larger in this space, more people are embracing it, and more asset managers now are coming into the space. So I think we're setting up for what will hopefully be a stronger 2020, and hopefully continue to be a stronger IPO market for the foreseeable future.

**CHUCK JAFFE:** And is there any specific type of new fund that you would say, "Hey, by the way, keep an eye on this."

**JERRY RAIO:** I think what we've seen is that it's a diverse set of different asset classes. So historically the closed-end fund market has been dominated by fixed-income funds, and that's in large part due to the fact that you can add modest amounts of leverage, so you can get a higher monthly distribution than if the investor was buying on their own. And that's still the opportunity here. However people are now embracing bringing out strategies such as equities through the closed-end fund vehicle. Part of that is delivering not only investments in public securities, but adding a component of private securities. BlackRock recently did a technology fund where they offered investors access to both public technology companies, but also getting into pre-IPO or private companies. So that's a benefit of the

closed-end fund vehicle. And I think we're going to continue to see innovation in the closed-end fund vehicle, and really take advantage of its attributes. The fact that you can invest in less liquid securities. You can use modest amounts of leverage. You can diversify across both public and private securities. So I'm optimistic that the market will continue to innovate to meet the investors demand based upon the environment, whether that's interest rates, economic or equity environments, whatever the environment that we're going into, to deliver solutions for clients in that environment.

**CHUCK JAFFE:** Jerry, really interesting stuff. Thanks so much for joining me on The NAVigator. I look forward to chatting with you again.

**JERRY RAIO:** Thanks Chuck. Thanks everyone.

**CHUCK JAFFE:** Jerry Raio is president and chief executive officer at Arbor Lane Advisors. If you want to learn more about the firm or how to contact Jerry, write to [TheNAVigator@AICalliance.org](mailto:TheNAVigator@AICalliance.org). The NAVigator podcast is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I am Chuck Jaffe, your host, and you can learn more about my show by going to [MoneyLifeShow.com](http://MoneyLifeShow.com). To learn more about closed-end funds and business-development companies, check out the website for the Active Investment Company Alliance, that's [AICalliance.org](http://AICalliance.org). The NAVigator podcast is available every Friday. Thank you so much for joining us, please come back and do it again next week.

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