Aberdeen's Pittard: US Closed-End Opportunities Are Growing and Changing

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Chuck Jaffe, in The NAVigator podcast, interviewed Christian Pittard, group head of product opportunities for Aberdeen Asset Management. Read the Q & A below as Chuck discusses why Christian says changing structures have made IPOs in closed-end funds more attractive and were responsible for a big increase in IPO activity in America in 2019, and why he expects that to continue.

Christian Pittard

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

CHUCK JAFFE: Christian Pittard, group head of product opportunities for Aberdeen Asset Management is here, and we're talking about the opportunities that Aberdeen has seen in the closed-end fund space in the United States. That's today on The NAVigator. This is The NAVigator, where we talk about all-weather active investing and plotting a course to financial success through the use 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. Today we are talking with creators, because Aberdeen Asset Management is a really interesting firm in the closed-end fund space. They have dramatic, longstanding history in Europe. They have been a longtime sponsor of funds in the United States as well, but they do really interesting targeted, kind of tactical funds. If you want to learn more, AberdeenStandard.com. They're on Twitter @ASinvestmentsUS. Christian Pittard, good to chat with you.

CHRISTIAN PITTARD: Thank you very much for having me, Chuck. It's an absolute pleasure.

CHUCK JAFFE: Aberdeen sees opportunities here in the United States, and you are the guy that's looking at product opportunities. Let's talk just a little bit for some background on what Aberdeen is looking to do with its closed-end fund business here in the U.S., and how what you're doing here contrasts with what you guys have always done in the UK.

CHRISTIAN PITTARD: Thank you, absolutely. We're really excited about the opportunities that the U.S. presents for us. What we try to do in simple terms, is democratize institutional strategies for retail investors. So bringing strategies like private infrastructure allocation to the U.S. retail investors, offers unique asset classes. You can see from our existing product offering, we have a number of differentiators. Significant differentiators or even unique strategies like Asian Bonds, ticker FAX. Or Global Emerging Market Equity Income, ticker AEF. Where there are no immediate peers. And we think it's really important to be able to offer less correlated income sources to retail investors.

CHUCK JAFFE: You guys are doing, in some cases, some single country issues or you're looking at markets that are under covered not just by the closed-end fund industry, where you are the only one in the space that might be looking at certain things, but also in the fund world in general. So if we're looking at a case where I have limited opportunities in an investment space and I'm looking to be tactical, what are the benefits to me of choosing a closed-end fund structure over an ETF structure or a traditional mutual fund structure, if we're looking at single countries or a defined space?

CHRISTIAN PITTARD: Well, very typically closed-end funds offer considerably more attractive yield; so the distribution yields on the products. That's for several reasons. First of all, closed-end funds can take advantage of a portfolio where there's some liquidity premium. So the underlying asset securities that are held in the portfolio oftentimes generate high-yield. We are able typically to have some leverage on the fund itself within the confines of the 40 Act. And oftentimes you can find a fund, if it's trailing in the market at discount, then you get a yield enhancement because of that discount to NAV. So you'd find that the yield on a closed-end fund is very significantly higher than almost any ETF or open-end mutual fund is able to offer.

CHUCK JAFFE: In terms of the opportunities that are here in the U.S., we've been talking on The NAVigator with a number of folks who see significant expansion and a space that is not quite fulfilled. Where the ETF space has been growing dramatically and everybody's been racing in, close-end funds have been growing but it's a little bit more considerate growth. It's been a little bit slower and there still is an opportunity there in terms of establishing things. So what has been Aberdeen's plan? How do you grow your presence in closed-end funds and make domestic investors in the United States aware of what you're doing?

CHRISTIAN PITTARD: Over the last twenty or so years, we've been gradually building out our U.S. closed-end fund franchise. We've done that really in combination threefold. We have one, number of pitches for mandates; existing funds where they've gone out to tender to a point of the most suitable advisors. We've done that objectively. Pitched for those, like a fund like JQ, CHN, SGF that have subsequently been restructured. So we've able to win those pitches and position the funds to offer a differentiated strategy that isn't otherwise available in the market. Secondly, we've undertaken a number of acquisitions where funds that were previously managed by Credit Suisse or Alpine Woods, or Blackstone, where it's a small family of funds and we've taken on the advisory role for that subject to shareholder approval, which I'm pleased to say we've received. Thirdly, we've been involved in a small number of IPOs. And I'm pleased to say that very importantly, because the cost model has changed, that the IPO market in the U.S. has really come back to the fore in 2019. To put some numbers on that, in 2018 before the cost model changed, the total proceeds raised was about a hundred and ninety million, so less than two hundred million dollars. Last year the market raised, including overallotment, about 5.7 billion. So the new issue market, and a very important thing about that new issue market, is we're not only seeing it exist in closed-end fund investors but we're seeing new investors being attracted to the structure. Which is really exciting for us. So I think the change in the cost model, where the promoter, that's Aberdeen in this world, we pay all the costs. So the twenty dollars that investors subscribe at IPO, means twenty dollars invested in securities, and all the launch costs are born by the promoter. So that's a significant change and it's more akin to the UK model, and that only got introduced at the beginning of last year. So we're really excited about that and seeing new investors join the marketplace.

CHUCK JAFFE: You just mentioned that the United States has learned from the British model. And closed-end funds are basically unit investment trusts in Great Britain, and they are the precursor to all of our mutual funds in any form. How much are you able to bring that model to bear in what you're doing in the United States? And what are the distinctions between what we call a closed-end fund and what you call a unit trust in England?

CHRISTIAN PITTARD: It's a great question. I think there are very few things that the UK's able to do in advance of the U.S., but perhaps some places, closed-end funds is one of them because the industry's been so old and going for so long. In the UK we have a great deal of variety of alternative investment strategies in closed-end fund structures, which exactly the type of product that I think is attractive to U.S. retail investors as well. We have a number that are ironically run by U.S. managers who come here because it's a well-established structure. I'm sure like us, they will also look to offer those in the future, to the U.S. market. But the brokerage model was one thing that has been well-established in the UK, where the launch costs were much lower for a considerable period of time then the U.S. And now that's changed, the U.S. has adopted a similar structure and I think that's been to the benefit of all investors. We were really happy to see that change, and it's a natural for us because we were seeing it in the UK. We as a group have thirty-seven closed-end funds, of which twenty-four are in the UK at about twenty billion dollars. It's the heritage of our business actually; listed closed-end funds in the UK. As I've said, we've only been going in the U.S. for twenty years, but we're committed to it. Committed to seeing it expand.

CHUCK JAFFE: You talk about the expansion, so I'm going to ask a question that is a little bit different but I suspect you have an answer for it. Which is, in your role, you're not supposed to play favorites. You represent all of the funds that Aberdeen is doing, but there's got to be one that you particularly go like, "Hey, this one, we're pretty cool." So if there's one particular issue that you wish domestic investors, the folks here, would check out. We're not saying go buy it. We're saying, "This is the one I think you'd learn a lot about how Aberdeen is doing things and how we're doing it differently." Is there one that stands out to you like, "Yeah, this is the one I want you to check."

CHRISTIAN PITTARD: That's a bit like asking, which is your favorite child, isn't it?

CHUCK JAFFE: It is, however these aren't your kids and they're not going to be offended. The difference is, your kids would be offended. The closed-end funds will not be offended when you answer, if I can squeeze that out.

CHRISTIAN PITTARD: I think one is tough. Clearly the next one is always our best idea, right? The next IPO is going to be refined. But no, in all seriousness, when you reposition an existing fund, it's hard to communicate that repositioning to the market in an effective time period. So it tends to go under the radar because people remember it as the IPO. To the extent that you've gone to the shareholders and repositioned the portfolio, oftentimes it's hard to communicate that effectively to the market. We've got a fund, AEF, which is Global Emerging Market Equity Income. Pure equity portfolio, but generating an attractive yield in excess of the emerging market index. Great track record, but we repositioned it only two years ago and a lot of people have failed to appreciate that. I think it's a lesser known product. It's three hundred odd million in size, but I think underappreciated because it didn't have that IPO promotion as that strategy.

CHUCK JAFFE: Aberdeen Emerging Markets Equity Income, AEF. I won't say it's your favorite child, it's just the one that you're the most interested in having people check out. Christian, this has been great. Thank you so much for joining us.

CHRISTIAN PITTARD: Thank you, Chuck. A real pleasure to come on and talk about my favorite subject.

CHUCK JAFFE: Christian Pittard is group head of product opportunities for Aberdeen Asset Management, which is on Twitter @ASinvestmentsUS. The NAVigator is a joint production between Money Life with Chuck Jaffe and the Active Investment Company Alliance. I'm your host, Chuck Jaffe, and you can learn more about my show at MoneyLifeShow.com. To learn more about closed-end funds and business-development companies, go to AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance, and The NAVigator is available to you every Friday. Thanks so much for joining us for the podcast, please come back and do it again next week.

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