



Think Of Closed-End Funds As 'Alternatives Light' To Solve Yield Woes

Friday, November 27, 2020

Chuck Jaffe, in The NAVigator podcast, interviewed Jonathan Browne, director of closed-end fund research at Robinson Capital. Read the Q & A below as Jonathan says that investors should be looking to closed-end funds to help solve the yield challenges they face today, when low interest rates have challenged the traditional 60-40 portfolio and when bonds have performed in lock-step



Jonathan Browne

with the stock market. While the industry keeps developing new and different investment solutions, Browne notes that closed-end funds are a more simple half-step toward alternatives that can be just as effective.

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

CHUCK JAFFE: Jonathan Browne, director of closed-end fund research at Robinson Capital is here, and we're talking about maximizing returns and minimizing risks now on 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, a unique industry organization that represents all facets of the closed-end fund industry, from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator's going to point you in the right direction. Joining me today, Jonathan Browne, director of closed-end fund research at Robinson Capital. If you want to learn more about the firm and what it

does, go to RobinsonFunds.com. If you want to learn more about closed-end investing, AICAlliance.org, the website for the Active Investment Company Alliance. Jonathan Browne, thanks so much for joining me on The NAVigator.

JONATHAN BROWNE: Thank you, Chuck. Thanks for having me today, I really appreciate it.

CHUCK JAFFE: At Robinson Capital you guys are really all about trying to help people improve their yield without amping up their risk, and there's been a lot of fixed-income solutions. If you could see me right now, I'm using air quotes around solutions. Which everybody's saying, "Hey, I've got a fixed-income solution," and it's something alternative and in some cases it's something different. I know you believe that closed-end funds, which are not really an alternative investment, are kind of the right solution for a lot of folks right now. So let's talk about that. Why, if you're looking to improve your yield, can we do it in closed-end funds without ramping up the risk at the same time?

JONATHAN BROWNE: That's a very good question, and everyone has seen lately that the mainstream media has been talking quite a bit about the death of the 60-40 portfolio as well as traditional fixed-income solutions not necessarily working going forward. We've seen Barings put out a few articles, J.P. Morgan just put out an article suggesting that alternative investments are going to play a larger role, and we happen to agree. Traditional fixed-income obviously are seeing rock-bottom yields right now which aren't providing the principal protection that quite frankly they used to provide. They're also not providing a negative correlation with stocks that they once provided, which we also think is a problem. We've been managing closed-end funds for about six years now and we look at those as being alternative light solutions to the traditional fixed-income problem. So we're able to provide a yield that quite honestly is anywhere between four to six times what the traditional fixed-income market is providing as seen by the Barclays Aggregate Bond Index which is currently yielding roughly 1.2%. So we think that closed-end funds provide a reliable source of income for our investors that they just can't get elsewhere in the traditional fixed-income market.

CHUCK JAFFE: When you talk about the alternatives that are out there and how folks are coming out with them, compare the risk of some of the alternative investments if you would to what you see in closed-end funds. Because closed-end funds, obviously if you're able to buy certain things at a discount, the discount gives you cushion. But there's more to it than that, right?

JONATHAN BROWNE: Oh absolutely. So it really depends what alternative strategy that you're looking at. If you're looking at private credit, private equity, infrastructure, are you looking at litigation funding? All these alternative investment strategies generally are much more complex than closed-end funds. There's also liquidity issues with a lot of those strategies being much more illiquid than what closed-end funds provide. Really it's on a case-by-case basis that that needs to be evaluated. As you mentioned with the discount, it absolutely provides a level of protection when discounts are as wide as they are say, today were historically much wider than long-term averages. Which not only provides protection on the downside, but we actually view that as a buying opportunity. Really that's what we consider to be the alternative piece to closed-end funds. We're getting access to some of the biggest and best managers of some of the more traditional asset classes, whether it's high-yield mortgage backed securities, converts, preferreds. But the alternative piece to that is that we also are providing an extra 5, 10, 15% return potential in some cases by buying these at deep discounts and holding them until they go back to NAV or premiums, which over time we suspect that they will.

CHUCK JAFFE: In terms of where you're finding income today, there is heightened risk whether we want to acknowledge it or not in certain places in the fixed-income market if only because we're still living through uncertain times. The municipal bond market hasn't seen a lot of defaults or whatever, but we know empirically that municipalities are struggling because many of them rely on revenues that they get from taxes that travelers pay or what have you. If they're not holding conventions and they're not doing that other business, they're not bringing in the revenues they typically would, and that may have an impact down the line. So how much are you worried about the underlying risks right now going up?

JONATHAN BROWNE: Yeah, there's underlying risks that have become exposed due to COVID, right? Especially in the municipal bond market. However we think that quite honestly that over the next six, 12 months, we're set up to see those risks start to diminish. First and foremost we're seeing better than expected results out on the vaccine front, which obviously should help limit any of the downside risks. But we're also seeing a Fed that has come out and said they're going to keep rates low for an extended period of time, and they're willing to backstop almost any asset class that is going to see risks. So with that being said, we think that municipal bonds are poised to have strong performance going into the next six or 12

months going forward. In addition to that we just saw several states, I believe it was California and Connecticut who came out and said their budget actually was much better than they had anticipated, meaning that the impact of COVID wasn't necessarily bad as expected. So all that bodes well, as well as a market that's quite honestly functioning very efficiently. We just had New York and New Jersey went to market and actually didn't need the Fed municipal program, they actually got better rates within the market. So we really view things as functioning properly, which is good for spread tightening going forward.

CHUCK JAFFE: What are the other areas in the fixed-income market with closed-end funds that you're maybe expanding into or reaching into? Because obviously munis, a spot where a lot of people are comfortable, junk, a spot where a lot of people aren't comfortable or where they consider the risk to be more like equity risk at a time like this. So again if we're going to talk underlying risk, the underlying risk of high-yield has been changing as well. Can you reach for yield there without going beyond the scope of risk that you want to hold to?

JONATHAN BROWNE: Yeah, and I think actually high-yield and bank loans are an asset class on the taxable fixed-income side that we're pretty constructive on at the moment. Obviously the spreads have come in quite a bit from the March lows, but they're not really near where they were pre-COVID. We expect that, as I mentioned earlier with an accommodating Fed, we expect that spreads should continue to migrate back to pre-COVID levels. On the bank loan front, we like the fact that they're relatively short duration in nature, and so they're not going to be exposed to as much risk with rising rates. What we do in our mutual fund structure though is we have the ability to hedge away some of that credit risk that we're not comfortable. So currently we have a heavy exposure to high-yield and bank loans in that portfolio in order to produce above-market yield, however given the risks that are still present in the market, we are utilizing credit hedges to sort of dial that down a bit.

CHUCK JAFFE: Looking forward, we've talked about how so many things are being pitched as alternatives. For you is it less about doing something new, and more about focus and stick with your knitting? Right now we've talked a little bit about where you're directing folks to, but when they're hearing about "Oh, there's this development or that development", what's the space that maybe you want to point them to that maybe they're not thinking about that maybe isn't all that new in all of this?

JONATHAN BROWNE: We are extremely constructive on the closed-end fund space as being an alternative light approach for investors who maybe don't have exposure at the moment to some of the more complex alternative strategies to really get their feet wet. Along with investors who are experienced in the alternative space, we really do believe that closed-end funds provide significant upside, and quite honestly maybe provide much less risk than some of these newer alternative sources that maybe haven't been tested longer term. So we think that the closed-end fund space is a great way for someone to take an alternative look at fixed-income without necessarily having to go to an extremely complex alternative structure.

CHUCK JAFFE: Jonathan really interesting stuff, thanks so much for joining me on The NAVigator.

JONATHAN BROWNE: Thank you Chuck for having me, I really appreciate it. Have a great day.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I am Chuck Jaffe, and you can check out my show on your favorite podcast app or at MoneyLifeShow.com. To learn more about closed-end funds, interval funds, and business-development companies go to AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. Thanks to my guest, Jonathan Browne, director of closed-end fund research at Robinson Capital, which you can learn more about online at RobinsonFunds.com. The NAVigator podcast is available every Friday, please subscribe on your favorite podcast app and join us again next week. We hope you had a great Thanksgiving and that you get off to a great start to your holiday season. We'll talk to you again next Friday.

Recorded on November 25th, 2020

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