



## Why Closed-End Directors Need More Than A Rubber Stamp

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Chuck Jaffe, in The NAVigator podcast interviewed Anne Kitzmire, an independent closed-end fund trustee. Read the Q & A below as Anne explains how the role of directors differs in closed-end funds compared to traditional mutual funds, where boards are known for passing everything management's way. She explains the ways in which independent directors in closed-end funds have a more active hand in oversight on key factors like leverage, involvement in alternative and illiquid investments, dividend payout policies and interactions with activist shareholders, and how that involvement is crucial in protecting investors.



Anne Kitzmire

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

**CHUCK JAFFE:** Anne Kitzmire, an independent trustee for closed-end funds is here and we're talking about how directors in closed-end funds protect you 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's 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, and today The NAVigator is pointing us in the direction of Anne Kitzmire. Now she is an independent closed-end fund trustee who is a veteran of more than 20 years at Nuveen. If it sounds like we're dodging who she is the independent closed-end trustee for, there's a little bit of truth in that because she's the lead independent trustee for a newly formed fund that is in registration that should launch later on in 2021. She can't talk about that fund, and that's not where we're going anyway, what we want to know is a lot about how the director process works and how it protects you as a shareholder. Anne Kitzmire, thanks for joining me on The NAVigator.

**ANNE KRITZMIRE:** Thanks so much, Chuck. I'm really pleased to be here.

**CHUCK JAFFE:** As I said, we want to focus in on what directors do for shareholders, and it's a little bit different with closed-end funds than traditional mutual funds. I mean, traditional mutual funds, well you don't have some of the proxy fights and things along those lines that you can have in closed-end funds. And quite honestly I think most investors believe, and as a guy who's tracked the industry for many years I would be right there with them, that the bulk of traditional fund directors are kind of guys who are really active with their rubber stamp. But closed-end funds there's a lot more issues, aren't there? And closed-end fund directors therefore have to be more involved, right?

**ANNE KRITZMIRE:** Yes, I would agree. Closed-end fund directors do need to be a lot more involved while still maintaining 'I'm a director, I'm not a manager of the fund'. But if you think about what are the differences and the similarities between a closed-end fund and an open-end fund, I call it more moving parts for the closed-end funds. And the directors, again, they're not managing those moving parts but they need to know enough about them with enough depth to ask the right kinds of questions. To be able to say, "All right, are we in the right place here? Do the shareholders, are they benefitting from the things that they expect to benefit from buying shares of this fund?"

**CHUCK JAFFE:** And the things that they might benefit from that you get involved with are things like, "Hey, are we going to use leverage?" "Are we going to go alternatives?" 'Are we going to get illiquid?" Things along those lines, plus potentially what's happening with discounts and premiums, right?

**ANNE KRITZMIRE:** Exactly. If I think about those moving parts of closed-end funds, I put them in four categories, how they differ from a regular mutual fund, an open-end fund. Number one, you hit on it is what's in that investment portfolio? The investment portfolio for a closed-end fund can get a lot bigger, a lot less liquid than that of a mutual fund. And it's because the shares aren't coming and going, you don't need to be raising cash so you can afford to take on some of that illiquidity risk and hopefully get compensated for it in the portfolio. It's an interesting thing, in the past people had asked me, "Gosh, are the portfolio managers for closed-end funds the B-team? You don't hear as much about closed-end funds, so they must be the kind of silent minority." And in fact, portfolio managers love managing these because they can look at and say, "Hey, this is the strategy that we told everybody we're going to follow. Because I don't have to worry as much about people lining up and getting panicky and asking us to sell, I can pursue this strategy for the long run." I might be able to pick up things that other people have to shed when the market's in a little bit of a tizzy <clears throat>, March 2020. So in that area, again, we've got to be more mindful of what is the possible investments that can be in that portfolio, and be able to ask intelligent questions that help protect the shareholders. That second one you hit on is leverage. My background is engineering, to me it's a nice math thing. Leverage is a multiplier, if you're expecting things to go up over the long run than you might want to multiply going up. But it's a two-edged sword, it's going to multiply up, it's going to multiply down. So need to be mindful as the director of, are there guardrails, are there processes? Do they have the tools and the right skills as a manager to be able to keep leverage within the guidelines and within the boundaries that are going to help still benefit shareholders and give them what they expected? The third one I would say moving parts on closed-end funds isn't as different but it's really the importance of dividends. So many people seek closed-end funds for the regular cashflow they provide or that they tend to provide, and so the understanding of, well where's that dividend coming from? Is it sustainable over time and how does it affect my taxes? That's also an important thing for the directors to be mindful of, asking those questions, demanding that information that substantiates, is this sustainable? And then that fourth one is the trading.

**CHUCK JAFFE:** And then beyond the trading you have the issue that comes up in closed-end funds where you've got activist shareholders. As an independent trustee, if an activist is

coming in, you're not really supposed to be on the fund's side, you're supposed to be on the 'Hey, is this really what's best for shareholders?' right?

**ANNE KRITZMIRE:** Exactly, and it becomes a real interesting conundrum, doesn't it? Because an activist shareholder is the shareholder, and one also has to think about not just individual shareholders but the good of all shareholders over time. And how do you strike that right balance, staying within the legal regulations that one needs to stay within and also saying, "All right, how do we look out for the best interests of all shareholders, if at all possible, over time?" And so activist shareholders in some ways they can be a benefit in terms of waking up somebody who, to use your term earlier, is just rubber stamping something. They also can be looking to potentially benefit only themselves, and so then as the independent trustee you need to keep in mind, all right, what's the greater good for everybody here?

**CHUCK JAFFE:** I mentioned that you are going to be part of a fund that, assuming goes through registration, will be opening later this year. We can't talk about the specific fund but we can talk about new closed-end funds.

**ANNE KRITZMIRE:** Yes.

**CHUCK JAFFE:** Because there was distinctly a period when the standard advice was you really shouldn't buy most new closed-end funds, they've got to get through their initial offering, you've got to wait and see how everything sorts out. That was pretty standard advice, in fact it was something I once wrote about as stupid investment of the week, like who would want to buy a new closed-end fund when it's new? Some of that's changing, and as a director, how much do you worry about those issues and try to make sure that, hey, when we open, we get off to the right kind of start and people are disadvantaged somehow if they buy us when we're new?

**ANNE KRITZMIRE:** Well as a director, some of that is out of our hands because there really is in the launch. We need to be approving the underwriters, we need to be confident that the strategy has sustainability, it's not just a pop and a flash in the pan at an IPO. But to your point, certainly that was a big objection years ago when IPOs came with sales loads that really came out of the pockets of shareholders, and you had to look and say over time does that work? Now what's happened is the market is taking care of some of that, and most closed-end funds are launching right now at NAV, which means from a shareholder if that's

launching at a \$15 NAV, they're buying it at \$15. They're not buying it for more, and they're not buying at \$15 and in fact only having \$14.10 go to work for them. So that has allayed some of those fears. Certainly after that, like any traded security, the prices can go up, the prices can go down. But I think that launching at NAV is taking a lot of the concern out of that, and I would encourage people to take a stronger look at them certainly because of the structure and because of where we are in rates. And the idea that a lot of closed-end funds are really geared towards income, I think you're seeing a resurgence in popularity and I think that's merited.

**CHUCK JAFFE:** And let's talk lastly about the resurgence in popularity when it comes to close-end funds. Because they have been very popular vehicles even though in some respects they got hammered more than the rest of the market when there was the downturn in early 2020, and they've recovered nicely but still they gave that bumpy ride. And yet, because they're so valuable as a tool for income investors, they seem to be gaining again in popularity. It's like everything old is new again, suddenly more people are finding closed-end funds. As somebody who is a trustee and has worked in the industry for a long time, do you ultimately think that we're about to see a surge in closed-end fund activity?

**ANNE KRITZMIRE:** I do. I do. I'm a little optimistic in general given my background, and there's some psychological framing I'm sure that somebody could explain that with, but I do think it is. I think number one, the idea that these are income vehicles and the demographics of people looking for cashflow continue to march on, whether it's a closed-end fund or something else. The idea of having rate-keeping low, whether or not you believe that will continue with the new administration, rates are low now, people need to have some level of cashflow, and this is a nice vehicle to be able to manage that for the retail investor. As well, the opportunities for that wider universe, some of these things. And I'm hoping that Congress and the SEC continue down that path of helping to enable retail investors to have access to broader investment possibilities while still keeping them with fiduciary responsibility to responsible people like me, to watch out for their interests if they don't understand what's inside them as well as they might. So I do think that they're going to see that resurgence. They don't get a lot of attention, it's difficult from a manager's standpoint to be able to help support it as much as you might given the fact that they trade [inaudible] and you don't know who the next buyer is. But I do think that they will have the popularity, and I think they

should. Properly understood they're a really nice vehicle for offering those different investment strategies, offering the managed or regular cashflow, and honestly, the opportunity to trade on the exchange is actually a nice thing to be able to choose your price.

**CHUCK JAFFE:** Anne, great stuff. Thanks so much for joining me to talk about.

**ANNE KRITZMIRE:** Thank you so much, Chuck. I look forward to listening to this and more of the podcast.

**CHUCK JAFFE:** The NAVigator is a joint product of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I am Chuck Jaffe and you can check my show on your favorite podcast app or at MoneyLifeShow.com. To learn more about closed-end funds, interval funds, business-development companies and more go to AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. Thanks to my guest, Anne Kitzmire, an independent trustee for closed-end funds. The NAVigator, it's normally available every Friday, but we're out a day early this week. But if you subscribe on your favorite podcast app, you'll get us whenever we're out and you won't miss an episode. Join us again next week to learn more about investing with closed-end funds, and until then, stay safe everybody.

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