



American Companies Are Turning To London Exchange For Closed-End Exposure

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Chuck Jaffe, in The NAVigator podcast interviewed Wendy Huang, business development manager for primary markets at the London Stock Exchange Group. Read the Q & A below as



Wendy discusses the differences between American markets closed-end funds and those in England, and explains why fund sponsors and businesses are finding it particularly lucrative and timely to take their issues overseas now.

Wendy Huang

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

CHUCK JAFFE: Wendy Huang from the London Stock Exchange is here, and we're discussing the differences between closed-end funds in America and overseas 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. And if you're looking for excellence beyond indexing, The NAVigator's going to point you in the right direction. Today The NAVigator is pointing us in the direction of Wendy Huang, business development manager for primary markets for the London Stock Exchange Group. If you want to learn more, LSEG.com, the website for the group. If you want to learn

more about investing in closed-end funds, AICalliance.org, the website for the Active Investment Company Alliance. Wendy Huang, welcome to The NAVigator.

WENDY HUANG: Thanks Chuck, delighted to be on your show.

CHUCK JAFFE: We're going to try to educate folks a little bit about closed-end funds through Europe and in England and London, and maybe give some background. Because well, in a lot of cases there's a lot of times when those of us in America feel, hey, we kind of developed all this stuff. But the truth is, England's not just an older country, it's financial markets are older and a lot of things there started in their own ways are similar but different. And that's how it is for closed-end funds too, right? There is a fairly robust closed-end fund market, but it's not quite what we expect of the closed-end fund market here. So help us understand what you do with the London Stock Exchange, and then how the market there is different from the market here.

WENDY HUANG: Thanks Chuck. So I actually joined the London Stock Exchange about a year ago, and my role is basically to provide guidance to companies and funds in the Americas to go public and raise capital in London. And actually my previous role was an equity sales person at [inaudible] for over eight and a half years covering the large institutional investors in the US. Maybe a quick background just generally on London. So I think some people may actually be quite surprised to hear that there are already 134 companies from the Americas listed in London, and it's actually accelerated in the last few years. There's actually been 60 listings from the Americas in London since the start of 2017, and from the US there's currently 76 companies which actually includes a few closed-end funds as well listed in London. The aggregate market cap of these companies is \$600 billion at the start of the year, which I think is quite remarkable. And despite the pandemic last year, 2020 turned out to be the largest year for equity capital raisings in London since 2009. In the closed-end fund markets, closed-end funds as you have alluded, they've actually existed in London for over 150 years. The world's oldest collective investment vehicle, SNC Investment Trust was actually launched in 1868 and still listed in London today, and they have paid a dividend every year since it was in existence, so that's really interesting. And currently there are over 450 investment funds listed in London with an aggregate market cap of over \$280 billion.

CHUCK JAFFE: In the States closed-end fund investing is kind of an adjunct. There are plenty of people who don't have it, don't think about it, it's not something that they routinely put in

their portfolio. Although we at The NAVigator are trying to make sure that folks understand the value. How popular are closed-end funds there relative to other investments? What's the general take of the public in terms of how it reacts to these things?

WENDY HUANG: I think there are certain pools of capital that regularly invest in closed-end funds, and they have as part of their mandate to invest in closed-end funds, which I think is quite interesting. So I think from the sponsor's point of view, for investment managers that launch closed-end funds, they basically have access to what is essentially a source of permanent capital where fund investors can get liquidity by trading fund shares on the exchange. And so managers don't have to worry about redemptions, cash drag, or approaching the end of life of a fund. And I think because of this the structure's well suited for investments in longer term horizon or in alternative or more liquid assets as well.

CHUCK JAFFE: How does the London Stock Exchange closed-end fund market differ from what we see here in the United States?

WENDY HUANG: There's a number of key differences, but I think first and foremost as you're aware the funds in the US are subject to the 1940's Investment Company Act regulation. Whereas the regulatory structure in London offers more flexibility on diversification, liquidity, leverage, and more, and so there's flexibility in London with two key segments where funds typically list. So for funds that want to access actually both retail and institutional investors, they can list in the premium segment of our Main Market. That segment would have investment diversification, free flow, and a certain corporate governance requirements on top of it. But funds that list on that segment can benefit from passive investments due to index [inaudible] and the FTSE UK Index Series. But for funds that want more flexibility, we also have something called the specialist fund segment of our Main Market, and that could provide just that. So there's no diversification in regards to investments or restrictive free flow requirements, it is for professional investors only. Now because of this flexibility you can have funds that invested just in a single asset or in a few concentrated assets listed on that segment of our exchange. And also in terms of cost, it's typically less expensive for funds to raise capital in London versus the US. So all-in fund launch expenses, and this includes advisory fees, are typically around 2% of gross proceeds in London, versus in the US it costs between 4-7%. And also funds in London can take out the launch cost from the IPO proceeds raised usually up to around 2%, whereas in the US

managers are now increasingly having to pay for the launch costs out of pocket. And also the type of investors that funds can access are typically different as well. The majority of investors for London's closed-end funds are typically institutional, whereas in the US it's mostly retail. In terms of follow-on offerings, that's another part we're noting. Because follow-on offerings are much more common in London than the US.

CHUCK JAFFE: Yeah, explain what a follow-on offering is.

WENDY HUANG: So it's just funds after the initial raise at the time of listing, they can actually raise additional capital. We often have funds raising additional capital within a year of launch, including with the new share class which I think is quite interesting. So last year around \$10 billion of follow-on capital was raised by already listed investment funds in London.

CHUCK JAFFE: One of the things you talked about was that there are some things that can happen in London in terms of the type of funds that are developing that maybe aren't happening here. What are the new types of things that are occurring there? Because they can't happen here now, but that doesn't mean that we won't see them at some point. So what are the trends in terms of what's new and what's changing?

WENDY HUANG: So London is home to a wide range of investment fund strategies, and I think historically used to be a lot of equity type of strategies. But now I think recently we've been seeing trends of funds coming to the market such as in real assets, infrastructure, renewables, and healthcare, or unique unlisted assets such as music royalties. Whereas in the US, I think the US closed-end fund market still tends to include funds that are more vanilla in nature, such as equity funds, debt funds, and municipal bond funds, whereas in London we have seen more funds with more esoteric type of assets come to the market. Whereas in the US you'll see more well-established asset managers launch closed-end funds at large IPO sizes, you may see more unique type of strategies come to London. And some of them may come at smaller IPO sizes at launch with a wider range of different types of managers as well, so I think that's quite interesting.

CHUCK JAFFE: Are the prospects for growth in London and on the London Exchange bigger in terms of closed-end fund activity than what we've seen here? Or is it really a case of the entire world is figuring out that closed-end funds are a place they want to be, whether you're here there or otherwise we're just seeing a lot of assets more in that direction?

WENDY HUANG: I think it's just different in terms of what you're seeing in both markets. In London because a lot of the strategies that come to market are a bit more unique and esoteric depends on which ones come to market in a given year. And since they've been more unique, the investors in the UK are typically looking for closed-end funds with a high yield and lower correlation to the broader equity market. So whereas those strategies maybe they'll come a bit more spread out, but when they do come to the market it's interesting and they're all worth taking a look at I think.

CHUCK JAFFE: Wendy, really interesting. Thanks so much for joining me to talk about it.

WENDY HUANG: Great, thanks Chuck. Thanks for having me.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I'm 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, that's the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. Thanks to my guest Wendy Huang, she is business-development manager for primary markets at the London Stock Exchange Group, learn more at LSEG.com. The NAVigator podcast is available every Friday, please subscribe on your favorite podcast app and join us again next week to learn more about investing with closed-end funds. Until then, stay safe everybody.

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TheNAVigator@AICalliance.org

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