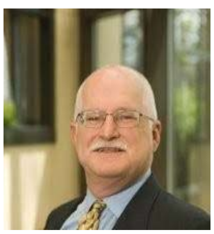
Bonus NAVigator: ICON's Paul Still Likes Closed-End Fund Opportunities

Friday, July 30, 2021

Chuck Jaffe, in this episode of The NAVigator podcast interviewed Jerry Paul, senior vice president of fixed income for ICON Advisors, manager of the ICON Flexible Bond Fund. Read the Q & A below as Jerry says that fears of rising interest rates and inflation haven't made reasonable yields on closed-end investments dry up. Paul continues to look at closed-end activism situations, which has brought him to bank-loan funds; he worries about decreased investor activism but thinks they will always play a role in closed-end fund investing.



Jerry Paul

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

CHUCK JAFFE: Jerry Paul, senior vice president of fixed-income for ICON Advisors is here, and we're talking about generating income in these tricky markets, this is The NAVigator. Welcome to 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 NAVgator's going to point you in the right direction. And today it's pointing me in the direction of Jerry

Paul, senior vice president of fixed income for ICON Advisors, portfolio manager for the ICON Flexible Bond Fund, that's IOBAX, co-portfolio manager for ICON Equity Income. You can learn more about the firm and the funds at ICONAdvisors.com. And you can learn more about investing in closed-end funds generally at AICAlliance.org, the website for the Active Investment Company Alliance. Jerry Paul, it's great to have you on The NAVigator.

JERRY PAUL: Hey Chuck, it's good to be back with you again.

CHUCK JAFFE: Yeah, you and I, we go a long way back. We go back to when you were Morningstar's bond fund manager of the year, which was more than two decades ago. I'm not saying it was another century ago, but it was.

JERRY PAUL: Yes indeed, we've been talking to each other for a long time, and I'm looking forward to today.

CHUCK JAFFE: I'm thrilled that I've got you here, because when it comes to closed-end funds, you were looking for closed-end funds to be an alternative source for generating income within your bond fund. So it's not that you weren't buying bonds, but you were doing it through closed-end funds decades ago. And lord knows we have seen closed end funds go through particularly times, huge discounts at the start of the pandemic, things starting to narrow. But now we've got you looking at closed-end funds as a way to goose your yield in a rate environment where the Fed is threatening to raise rates and inflation seems to be up. So let's start with your overview. How tricky is the closed-end fund market for generating yield right now in an environment that is in flux?

JERRY PAUL: Well Chuck, there are many very interesting alternatives. We've seen some narrowing of discounts recently, but a lot of these funds have portfolios that still hold what I'll call 'older securities', securities from a different marketplace. And I'm still finding yields in some cases as high as 7% on one particular bank loan fund I'm involved with, and a little bit higher even if you stick your neck out for some risks. At the same time, you can still find some pretty decent yields in some of the muni funds too. I'm not really involved with many of those right now but there's still opportunities in closed-end funds.

CHUCK JAFFE: How are you determining those opportunities? Because as you point out, discounts have got narrow, that often is what people are looking at first. So how are you deciding? I mean, it can't just be the yield, it's got to be the right underlying holdings for this kind of market, right?

JERRY PAUL: Yeah, it does, Chuck. You're aware from our past conversations that I spent a lot of time watching the closed-end fund activists who are out there, folks like Phil Goldstein who I know you recently interviewed, Phil is a long time veteran of activist activity in this space. So I tend to be focused on funds where those particular investors are involved, basically riding their coattails. At the same time, of late it's been convenient because they've been involved with a lot of the bank loan funds. And the bank loan funds as you well know, have a variable rate feature so they protect you if you're concerned about rates going higher, which I have been. Been wrong so far this year but I'm still very concerned about that issue,. And these give me both protection against that, and at the same time, some very generous yields.

CHUCK JAFFE: In terms of the activist investors, Phil Goldstein was here on The NAVigator just a short time ago talking about how there's been a lot of effort to make it harder on activist investors. For you as an investor trying to ride their coattails, are you finding fewer of those opportunities, and are you worried that they're going away?

JERRY PAUL: Well, there are fewer opportunities in the current marketplace. I'm not sure that they're going to go away, that remains to be seen, we'd need to see further tightening of the discounts. Now that's certainly an issue. As Phil noted, the fund sponsors are really working hard to make it even harder for activists. But I think that the activist group, including Phil and Saba, those are really smart people, I think they'll figure things out.

CHUCK JAFFE: When you are trying to figure things out with closed-end funds, one of the things that's happened over the last few years, maybe more than a few years, has been the way that new issues are done. There was a time when nobody would have wanted to buy a new closed-end fund because of all the leverage and all the other things that are involved. But now we've seen a tremendous expanse in the industry, we've seen many new funds coming to the fore. Has that actually created more opportunities for you? Or because you're looking as much as possible for those activist situations, yeah, the new stuff is kind of interesting but it's not really actionable for you?

JERRY PAUL: No, some of it has been actionable, Chuck. There's a couple of funds out there with unique strategies if you will, I think sometimes aren't well understood by the retail investor. So you can get involved with those, and at the same time one in particular was done under an interval structure. That is, in this case, they make a tender on a quarterly basis for shares. So depending on where that fund is trading, you can get involved and it's not requiring activist activity. There's another one that I'm involved with that again has a different underlying asset than most of the funds out there. It's trading at a pretty big discount, some of the activists have positions, there's no event there yet, but yeah, I think you can still find some stuff. We've dabble with a few of the term trusts. Those you've got to be careful with because the yields tend to go into a pretty steep nosedive in say, the last year or so prior to the term expiration. So you have to be careful with those, but we've dabbled in a few of those. Again, those don't necessarily require an activist to be involved.

CHUCK JAFFE: What about the business-development company side of the industry? Because of course it's definitely not considered any kind of remotely classic fixed-income play but it has some possibilities.

JERRY PAUL: I don't get involved with them a whole lot, but basically as an old high yield guy, I look at them a lot of the times as high yield on steroids. A day like today in the marketplace, where risk isn't maybe as attractive to investors, those are going to suffer. If you have a strong view on credit worthiness going forward, they can be worthy plays. But I don't do a lot in those. I'm involved with a closed-end fund, the one that I was speaking of just a little while ago that creates a portfolio of both their common and their debt, I've chosen to opt for that route.

CHUCK JAFFE: And for you as somebody who does worry about the retail investor, there are now plenty of choices. If I want to invest in a fund of closed-end funds, it's pretty easily achievable. If I want to invest with somebody like you who's got a mix of bonds and potentially some closed-end fund investments, etcetera, also doable. Is this a case where nobody really says, "Hey, you're an individual investor, go out and build your own bond portfolio." But people do. You're an individual investor, you want to get fixed income, add some closed-end fund exposure. Do you believe that investors are better off Or does it not make a difference?

JERRY PAUL: I don't think it makes a big difference. It kind of depends on how much they really have to invest, whether or not they really want to do the research on the underlying funds. As you know, in recent years even there's been a nice increase in the fund of fund space where they're using closed-end funds. So a retail investor with let's say $10,000 or $25,000, that may be the best way or smartest way for them to build a diversified portfolio.

If you have more serious money, where you can buy five to 10 funds on your own, and you get a kick out of doing the research as many of your listeners do, I think you have a lot of what I'll call, 'do it yourselfers', and they're pretty smart people is my take on them. Maybe smarter than the average retail investor. I think they can do the work. There are resources now that didn't exist back when you and I first started talking, that make it so much easier to do research on the closed-end funds.

CHUCK JAFFE: Jerry, great stuff. I enjoyed catching up, I hope we get to do it again in the not too distant future.

JERRY PAUL: Fantastic, Chuck. I always enjoy our conversations and welcome the opportunity to speak again.

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 hour-long weekday show on your favorite podcast app or at MoneyLifeShow.com. To learn more about interval funds, closed-end funds, and business-development companies go to AICAlliance.org, the website for the Active Investment Company Alliance. On Facebook and LinkedIn @AICAlliance. Thanks to my guest, Jerry Paul, senior vice president of fixed income for ICON Advisors, portfolio manager of the ICON Flexible Bond Fund and co-manager of the ICON Equity Income Fund. You can learn more about the firm at ICONAdvisors.com. The NAVigator podcast is new every Friday, though we occasionally have bonus episodes just like this one. You can ensure you don't miss anything by subscribing to the podcast via your favorite podcast app. We'll be back again at the end of the week with another episode and we hope you'll join us then. Until next time, happy investing everybody.

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