2021 AICA Tax Free and Tax Advantaged Income For Investors event Day 2 Panel #1; "Fireside Chat with Parametric: Building and Managing a Tax Efficient Portfolio"

Thursday, September 30, 2021

John Cole Scott, Founder and Executive Chairman of the Active Investment Company Alliance moderates the opening panel of day 2 of the 2021 AICA Tax Free and Tax Advantaged Income event; "Fireside Chat with Parametric: Building and Managing a Tax Efficient Portfolio". Read the transcript below to hear the discussion between Mr. Scott and Mark Milner from Parametric.

John Cole Scott

Mark Milner

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John Cole Scott: And like I told Mark, I was going to go over a minute or two because I was trying to slow down the process. If he would like to join me on stage, I'm glad we got the intro session together, Mark. I decided I went with coat, no tie the other day. I see you went the other way.

Mark Milner: I did.

John Cole Scott: Keep it interesting when we were prepping and chatting yesterday. I really do thank you for being involved. I do love meeting managers that build closed-end funds on stage because I'm always fascinated by the work that they do to keep me from having to worry about technically what the Federal Reserve is going to do because they're the manager of funds that we use. Also in full disclosure, Parametric is a data client of CEF Data. And that's the reason I got to know you, is building that relationship and really has been nice to learn your firm and your process.

So what I'd love to do is if you could just take a few minutes, your experience in closed-end funds. I can't believe people don't know who Parametric is, but talk about the evolution of the firm, the recent events in the last 12 months, and how you pull it all together for your investors that you work with.

Mark Milner: Yeah, I would imagine if you have heard of us or if you have exposure with Parametric it probably wasn't in the closed-end fund space. We have been in that space for quite a while but really probably what most people know Parametric for is we are the market leader in direct indexing, our custom SMA platform. Our previous parent company was Eaton Vance. Of course Eaton Vance was acquired by Morgan Stanley as of March 1st this year, so we are a subsidiary of Morgan Stanley now. So that's really sort of what Parametric is from an entity perspective. We offer a whole host of things outside of our custom SMA business as well, of course one of which being our closed-end fund solution. But I imagine you're probably going to ask me a few more questions about those things.

John Cole Scott: I think we'll uncover a little bit. And analysts say according to our 13 I told you yesterday, "I see about $2 billion under your 13F filings for closed-end funds and even BDCs," which we cover as well. And so you definitely are a significant player in the space. And I know a lot of our AICA members would love to talk to you more and maybe you want to hear from them. Hopefully we can do it through forums like these so it's organized and helpful for all.

So how would you describe the actual investment focus? People go to Parametric and then are doing closed-end funds, which is the focus of this event and this session. What is the reason? What is the solution you're solving for?

Mark Milner: Yeah, so with pretty much all of our, I guess we'll call them our active solutions at Parametric, it's really a systematic investment process. It's all based on what I like to call thoughtful research. Everything is research driven, so we're spending the time understanding the market, understanding what drives it, and then building thoughtful solutions around that, that hopefully take advantage of either some inefficiencies or some things that we see in the market where we can generate alpha. Again, a systematic rules-based, structured, diversified process.

John Cole Scott: Very helpful. And again you mentioned you're basically only doing SMAs. You don't have a hedge fund, you don't have a ginormous open-end fund of closed-end funds. But really that individual, that ability to apply at the direct level for transparency is the DNA of a Parametric.

So as you think about the different ways to manage closed-end fund portfolios, we talked to quant managers, beta-neutral, interest-rate neutral, total return income. I think we know the answer here, but what is that lens that you put all of your research through? Do you track how you're doing? Versus is it total return or is it income?

Mark Milner: Well, the names of our strategy, the suite is called the Enhanced Income Suite of Solutions, so I think that probably answers your question. We are an income focused closed-end fund solution. Yeah, that's really it. Don't get me wrong, total return is great. We'll take alpha any way we can get it, but again, we're trying to generate income for our investors.

John Cole Scott: It is. I know when I first was meeting your firm, we actually ran your numbers versus our indices and go, "Oh yeah, your size, that's actually very good net performance."

Mark Milner: Thank you.

John Cole Scott: I will say that is our due diligence process in the market. So yesterday we covered munis and preferreds, and today we're dabbling more in strategies like yours and energy, and touching on covered-call funds. Munis and preferreds must be a big part of what you're doing, but thinking about MLPs and covered-call funds, how do you mix your portfolio together? What are the bands of equity versus bond? Do you have sector goals or limits that really govern the portfolio?

Mark Milner: Yeah, really since the inception of the strategies back in early 2008, it's really again systematic. But we typically have fairly static asset classes, and so it's more or less a 50-50 blend of equity and fixed income, and then sub-asset classes underneath that. With of course the biggest pieces being core equity, so your typical stock closed-end funds. And then the fixed-income side, our core bond exposure. If you're in our standard versions of the strategy it's going to be taxable, and then if you're in our tax-advantaged versions of course it's going to be muni exposure.

John Cole Scott: Very good. So when you look at closed-end funds they have different characteristics of the distributions. If it's a muni and it's tax free, that was the expectation. If it's a preferred and it's got qualified dividends, that's kind of the general flavor. There's more I guess sausage being made on the equity side of closed-end funds. From the regular equity funds that do more year-end stuff, to the equity funds that do monthly, to the energy of the sector. So when you look at the sectors and the funds and you're seeing return of capital, is it good, is it bad? When you're looking at again, the characteristics of distributions. Because you know it's going to end up on your clients 1099's, how do you review that?

Mark Milner: I guess from a return of capital perspective, keep in mind these numbers came from my data provider, so if there's any discrepancies we'll have to talk to them. But I think it's 52 or 53% US listed closed-end funds have some sort of return of capital, and of those it's about 35-36% of the distribution is ROC. So if you're going to be in closed-end funds, and if you're going to be running some sort of diversified strategy, or if you're a diversified investor you're going to be exposed to return of capital.

So for us as we like to think of ourselves as typically buy and hold investors, we're long-term thinkers, long-term investors. Return of capital for us is actually a good thing. If we're trying to generate that consistent income for our investors, call it paycheck replication if you will or consistent cashflow, that's great. They're getting those cashflows, they're getting those distributions tax-free, of course until they sell. But as long as it's a long-term gain, the tax implication is the same as distributing long-term gains as part of the distribution. So from a return of capital perspective, yeah, we're totally fine with that. And closed-end funds, we think that's one of the advantages of the asset class.

John Cole Scott: If you think about it, if you have a return of capital fund and you sell it after six months you actually don't get the tax deferral because you didn't own it long enough. And so that is a reminder for advisors and investors that if you see this in the live, or see this in the replay or read the article, making sure you understand, you don't get rock, you don't wait 366.

Mark Milner: Yes. Great for long-term income-focused investors. Probably not as great for other investors that are maybe a little bit more short-term oriented.

John Cole Scott: It is. We chatted about this, it's nice to have so many different versions of closed-end fund investing. I talk about I'm pretty sure that we've traded shares in the market and not known it, and we've both been right for our clients because we have different needs and different levels of where we do things. It's what's interesting, I feel sometimes in a market structure every trade is right or wrong. I think that's probably more the case when you're dealing with meme stocks and crypto currency than closed-end funds. I do like to get a chuckle out of panelists and the audience by calling closed-end funds sexy again, but at the end of the day these are relatively boring investments. Yes, they can be volatile, but they're meant not to be moved by Twitter or things of that nature.

Mark Milner: Yeah, they're probably like the pleated Dockers of the investment world, right? They're not awesome, they're not sexy like you said, but there's absolutely a place and time for them.

John Cole Scott: And it is. And because of discounts generally for most funds are from many environments, and because most funds employ leverage at levels your investors couldn't easily secure on their own. That idea that I talked about earlier about you only need to do this, the manager does this, and we can give you this. And it's not because we're going up the risk spectrum necessarily. We can buy the same bonds in an ETF that's unlevered and a closed-end fund and not worry about redemption risk, and actually give you more yield because we're a 5% discount with 25% leverage. I just find that math invaluable to remind people.

I imagine you sit down with your sales folks or with a new client or advisor and they're like, "Well, how the heck can you yield 7%?" This is how you yield 7%. It's not because we're buying CCCs. There may be some CCCs in some of our funds, but the managers selected them, we're not selecting them. Anyway, it's maybe more a PSA, but I'll step off the soapbox of closed-end funds.

Going in, you mentioned it a little bit. But when you study the dividend history, and so you talked about lightly, but really we talk about different sectors and preferences. This fund has a lot of long-term gains that are not paid out, this fund paid them out last year. If there's maybe simple things like a US equity fund, there's a couple that maybe have similar NAV trajectories based on some tilts and pivots. Is that part of your process to say, "We're more likely to get a long-term gain here and a short-term gain here? We're going to lean right versus left?"

Mark Milner: Not primarily. However let me caveat that with we are very aware of and cognizant of, I guess I could call them the offenders, the ones that maybe differ from their tax-projections and maybe slide some short-term gains in. Maybe after the fact, call it after the calendar year has closed, things like that. We pay attention to that, but as a broad, diversified SMA or strategy, we know we're going to have exposure to long-term gains, we're going to have a small exposure at some point to short-term gains even. We try to minimize that of course, but we're going to have that so we're okay with that. It's just obviously we'd rather have a good idea of what we're getting into beforehand as opposed to after the fact.

John Cole Scott: Just like we can't forecast interest rates on January 1st for December 31st, we can't forecast tax [inaudible] of dividends. Even on the following year's New Year's Eve, because you know we get those updates, some surprise updates. I'd say I think you guys have about 115 ticker symbols that we pick up in your filings, so you're definitely not super concentrated in any sponsor or ticker symbol. Again, in our review of your firm.

So closed-end funds, we talked about discounts, we talked about premiums, they exist. So maybe give kind of the perspective you have and how much that drives your research and process. And then if you want to give our audience any opinions versus my own about where you view discounts today, that'd be super helpful as well.

Mark Milner: Sure. Well, the strategy again incepted in 2008 but the research was started well before that. Since the very beginning discounts have always been a huge part of it, that's something that is baked into how we construct these systematic strategies. And so buying funds at a discount is one of our hard and fast rules.

So before we transition maybe into the second part of that question, it's great. I think you had the muni panel yesterday and talked about that. I guess for those that weren't on the very beginning, you were talking to another gentleman before this started. And I guess the real easy way to think about it, like super, super easy way to think about is if you buy a bond at a discount. You can buy a discount bond for 88 cents on the dollar, and at some point if you're a long-term investor you're going to get paid a dollar back or maybe you sell it at 97 or 98 cents, right?

Same thing with a closed-end fund, you can buy it at a discount, wait for that discount window to close, but in the meantime you're just going to collect that coupon along the way. You're going to collect those distributions, whatever flavor they are, whether it's gains or QDI or return of capital. But you're going to collect that regardless and you're going to have that cashflow. And so that's kind of a really simplistic way to think about it, but that's kind of how we like to think about it.

John Cole Scott: And it is. I often try to say, diversified closed-end fund portfolios are always either quasi-bond, it's not real. Or a synthetic bond because humans are manipulating what is not a bond. I think every closed-end fund is an equity company, it just drives its value from whatever the manager puts in it, whether it's unlevered muni bonds to levered CLOs. Very different outcomes, very different parts of income markets that are useful. But then definitely you're technically an equity.

And remember I joined my father's firm in 2001, it was frustrating to see bond funds listed as equities in the brokerage statements. Finally most custodians at least put them as a closed-end fund group, but not we're battling now with interval funds. They're putting interval funds in the open-end fund category, and well, you can't redeem those every day. So you've got to watch with expectations of shareholders, investors, and I'm pretty sure some lawyer might get interested and pick up the case hopefully.

Mark Milner: Right, and then you just benchmark everything against the S&P 500, right? Regardless of what the actual closed-end fund holds or regardless of the asset class in general. Just throw it all against the S&P 5, and you didn't keep pace with Apple, and Microsoft, and Google, and Tesla.

John Cole Scott: So then of course you buy Google, and Tesla, and Apple alongside of the income?

Mark Milner: Maybe a PA. Probably not in this strategy, but yeah, that's a good PA investment, right?

John Cole Scott: I keep thinking 21 years in, I wouldn't be having that same conversation of, "Well, what's your downdraft? And why were you down, why you weren't up this much as year?" As you said, I believe it's 25% of the S&P is five or six stocks. They're fine companies if you're an equity investor and want to own stocks that could keep going up in theory. But if you think of the value, the financial, just the infrastructure, the real assets, these alternative things, it's amazing to me. I sit on my college alumni board and we're talking about our bucket of money with the advisor that stewards it for us. The REIT exposure that they're recommending to their average client is 2-3%, and we just moved real assets up to 10%, but that includes MLPs and infrastructure and commodities.

To me I'm like, "Only 10?" Because I'm so used to building income portfolios with closed-end funds as my tools, and it just reminds me when you're a regular financial advisor that gets called on by every wholesaler for every open-end fund and every ETF, just how much of a focus there really is on income-producing strategies in this universe of 500 listed funds. You're not 15% REITs when they seem cheap, and you're not 8% when they're expensive. That's potentially a more tolerance ban for maybe a Parametric or Closed-End Fund Advisors. I just find that fascinating. You've probably had the same experience in my guess.

Great. So extension of that, going back to the premium conversation versus down the rambling chat about other things. Closed-end funds I think they don't always go to a premium, they don't always go to par, there's always the thesis or potential. But some of them do, some of them start at discounts of 10-15% and end up at 2, 3, 4, 5, 10% premiums. When that happens and you're stewarding tax-driven decisions for income investors, what does a Parametric do?

Mark Milner: Sure. Again, so we're not buying anything that is not trading at a discount. However I will say I don't subscribe to the old adage of you buy your portfolio every day, because of course that ignores the tax implications of buying and selling. So we are, especially in this current environment, call it decade-plus lows in discounts broadly speaking. Maybe it's longer than that, but at least based on a look-back on our strategies, it's decade-plus lows. The opportunities are certainly fewer, especially as you're managing more capital. So in those instances where we are trying to get back to a target weight in an asset class, again you had preferreds on yesterday, preferreds, pretty much the entire asset class has been trading at a premium all summer long. Which is great, their managers are probably off enjoying the beach all summer as they're trading at premiums.

In those instances where we're under our target weight and we need to add, we're obviously not buying premium funds there. We are content, not happy but we're content to substitute ETFs as a stop gap. So obviously PFF for preferreds is where we go there. Ideally as soon as we see discounts shift again, and there are preferred funds trading at a discount, assuming they meet our other screening criteria of course, weight will be added to them. We hold a good majority of them anyway but we'll continue to add weight to them.

John Cole Scott: And it came up in that session, the differences in the ETF versus any of the funds on the panel or even the missing fund sponsors, that there are sometimes missing parts of the market. But you're saying content not happy because you're like, "well, we're trading off not as good of guts for the opportunity to buy a discount when and if one happens. Knowing that your clients, while they're not 100-year investors like institutions, typically they're retired for 30 or 40 years potentially and you're going to be looking for those opportunities to get back into preferreds with what you're doing. Is that kind of the way you put that together?

Mark Milner: Yeah, it's death, taxes, and discounts in closed-end funds. They widen, they narrow, that's just the way it is throughout time. And so when you're at a narrow discount environment, kind of like where we are today, you make do with the opportunities. You scratch and claw, sometimes you have to work a little bit harder to deploy additional capital, but that's just part of the job. Again, we don't dislike ETFs, it's just that the enhanced income strategies at Parametric are closed-end fund strategies and that's what we want to hold.

John Cole Scott: And again, I think you know RiverNorth is very active in cross-trading closed-end funds and ETFs, as is relative value and others. But those are some other billion dollar plus billion dollar fund firms and they tend to have that same different use of the funds, different strategies than you guys, but definitely doing similar processes as they think about what's appropriate.

I actually was thinking about how we talked about the real assets and infrastructure, it's growing. So as you see the legislation in DC, which it's important but my perspective is maybe that's more the managers than me the builder of the product. Do you really think of those, what you see in Washington leading to, where are you going to skate, to the puck? Because where you see opportunity, do you do any work of thinking where discounts may narrow next quarter as part of the process? And with the ideas that infrastructure and real assets which seem to have a lot of hype – well closed-end fund hype, not meme stock hype – in how you build and manage the product?

Mark Milner: We don't, just because Parametric as a whole is really again, we're research-based and systematic investors. So we don't forecast, we don't come up with estimates. I have a background in individual equities, so I'd like to say we don't care about earnings season. Obviously matters a little bit less in closed-end funds, but in some of our other equity strategies it does. So it's not as important to us. We have our asset class and sub asset class targets that we're trying to hit, again based on research and based on the principles of diversification. We're trying to avoid those, maybe not idiosyncratic but certainly the concentration risks of being overweight a certain asset class, or a certain sector, or whatever it is.

So I guess we tend to benefit less on the upswing. So you mentioned real estate, infrastructure obviously had a strong year so far, maybe minus MLPs of course. But at some point the tides will turn and something else will come into favor that will fall out of favor. So in those instances we would hope to not suffer as much on the downswing and benefit in another asset class that is in favor. Again, diversification is our friend, and that's sort of how we think of things.

John Cole Scott: Interesting. Sometimes it comes up, and whether it's the closed-end fund discussion boards or some of the articles we review on Seeking Alpha, people that's saying, "This equity fund has bad muni or earnings coverages," some crazy number. And it's just interesting because this doesn't feel like it's new to me. Do you find even the advisors you talk to are worried about the earnings coverage of their equity funds or the UNI balance of the equity funds that you buy? Does that ever come up in any of the conversations you've seen?

Mark Milner: I don't recall a single question about that.

John Cole Scott: You must not be in all the nooks and crannies of the closed-end fund world I guess tend to traffic in. But I'd say it's such an interesting way to remind people, any equity strategy, whether it's even infrastructure, is driven by equity returns. But that means it's not a duration return. And so like you said, you put them together and you're able to use munis, and taxable, and equity, and sector, and then suddenly you don't have one market lever causing the worst pay for you. Again, I just think that's a piece we often see really driving a lot of behaviors and habits inside.

So you have a couple of accounts that you manage, I'm sure like five large accounts, so lots of accounts. So when you're trading, because I think a lot of people we talk to they trade under a hundred million dollars, or they're an LP, or an open-end fund. We have like 100 clients and I think that's a lot. So how do you trade in the market and deal with the way you build and manage these portfolios? At such a large scale it has to come up as a question to prospects.

Mark Milner: Yeah, I think especially this year as we've seen liquidity come out of the market at least a little bit, I like to use the analogy of, I feel like I'm piloting a cruise ship at times. You're never going to be rewarded for making the right move, but if you make the wrong move something catastrophic could happen. The last thing we want to do is just blow up the price of a fund intraday, so it’s really making those small surgical, sort of tactical trading decisions. And making them on a pretty frequent basis.

Just obviously sitting with the assets that we have, sitting around and I guess waiting for opportunities isn’t necessarily the most advantageous way to run the strategy. If you build up too much cash you may not even have a place to put it. There are certain limitations in the liquidity of many of these funds out there. So at some point maybe we’ll get to PSAs, but my PSA would be let’s all trade a little bit more. You, me, everyone else listening in, everyone that’s going to listen to the replay, let’s trade a little bit more. Let’s get some fund sponsors to, you mentioned IPOs, issue some more IPOs, and let's keep this a vibrant market.

John Cole Scott: We chatted in the prep call, three to five cents a share of slippage is horrible for a regular US equity trader. But I think my question to you was if discounts are generally narrow and you’re picking funds that are generally wide, do you worry about five cents of trading to get into a thesis because you never know what the next day’s open or close could be? Again, a press release out of Washington. You remember back when Obama opened up Cuba, and suddenly the CUBA fund, one of the smallest closed-end funds in the market run by Herzfeld was the most interesting closed-end fund in the world for about a month. And if you had a thesis on that, you could have made a few bucks.

Is that the concept of, not worrying about, I think some of our UIT traders of closed-end funds, their benchmark on not VWAP for the day, volume, weight, average price, but actually the starting and closing price, different sponsors. How can you control that? Do you feel fortunate you’re not judged on VWAP or judged on beginning day or end of day pricing when you trade? Does that feel like an advantage of your structure?

Mark Milner: Yeah, I don’t want to speak for our trading desk, they do a fantastic job, they’re great. To your question about maybe losing a couple of cents in implementation, I guess to me the most important thing is the relative trade. So even if discounts are tight, if you’re buying something that might be 100 or 200 basis point bigger discount than peers or that’s the trade that you’re making, then I guess you can afford to make it. Of course you don’t want to. Every penny of alpha is certainly worth it, you don’t want to give that up.

But if you’re making a trade, I don’t want to say just to make it, but if you’re making a very narrow window trade, then yeah, every penny’s going to matter. But if you’ve got that wide gap there, that relative gap between peers or between what you’re moving from and moving to, then in closed-end funds you’re probably going to, yeah, have to experience a little bit of that from time to time.

John Cole Scott: Just expanding on this idea, imagine some of the sectors where munis, national munis, I won’t say that’s a perfect system, but there’s the most number of symbols, they’re generally the most similar in their NAVs at least. There’s tilts, as we heard on yesterday’s panel about how they manage things differently. From being a huge firm to a small firm, advantages to each. But imagine biotech or even the REIT real asset, where there’s under 12 funds. And imagine you own three and you are looking to get into three others, you’re not just worried about the slippage of the buy, it’s the combination of rotating. Trying to make sure that you’re getting good cross trade, so you're trading discount alpha with thesis of NAV trajectory being similar. Layer into this conversation, so more than just being a good trader, because you're fully invested most times. You're not a market timer, correct?

Mark Milner: That's correct.

John Cole Scott: You're not expecting what the Fed's going to say tomorrow, or the next *Beige Book* or whoever. Staying fully invested, you must be really making sure your trade desk has gotten good at just saying, "Well, I want a 3% spread between the discounts." I'm making this up. "So as long as we get that, Mark is a happy partner. That's my goal." And so if there's slippage five cents both ways, it's good.

Mark Milner: Yep.

John Cole Scott: Now inversed the wrong way on each trade, maybe it's bad.

Mark Milner: Right, yeah. Yeah, and that comes from a long track record of doing this. Being able to make these changes at weight. These large institutional sized trades that we're able to do, kudos to our traders because they're excellent at what they do. They are able to squeeze out that extra penny or two if need be, and they know when to hit the gas or when to back off. So I'm very fortunate to have a great team to support the strategies.

John Cole Scott: And again in our work we find that, we custody at TD Ameritrade just because that's what works for us. And they have relationships with Citadel, and Virtu, and others so that I can actually get me, a tiny little RIA versus a Parametric can get a risk-free quote over the phone that says, "Okay, they're willing to bid two cents over, but do you want to do four days trade volume right now?" "Sure!" Your guys I'm sure are doing similar things, maybe at a higher level because of the size of being with Morgan Stanley now. But it's that same access.

And so I read so much, "Don't use market orders." "Always use limited orders." "Stops are the best." "Stops are the worst." It reminds me, and other retail investors can't call up Virtu and get a trade quote. That's not the nature of capital markets, they need to work through an intermediary like whether it's your firm or whatever to get that connection. I find more liquidity in the market. You've been doing this a while as well. I know I have more data than 10 years ago, but do you feel like there's more liquidity? You want more, we all want more, but do you feel that liquidity has actually expanded for closed-end funds in your career?

Mark Milner: I don't know. I feel like it kind of ebbs and flows. I guess if you really need it, it's probably there. You can probably always find a buyer or seller. And maybe this is a question back for you, I just haven't done the research enough. But is there a lot of seasonality in closed-end funds that you've found in your career in liquidity? Is the sell in May thing even more so true than individual equities?

John Cole Scott: I do find just scanning the movement of [inaudible] for a client review. I'm like, "Oh, it's interesting." Every month it kind of builds up to the X dividend date, and then it pulls back. I believe it's not just the X dividend pulling out temporarily for two to four weeks, whatever the nature is. It does feel this strange behavior. Again this is an opinion hat – I'm wearing my advisor opinion hat in this one, not my AICA hat – that you buy the dividend. You want to receive a dividend, but if you buy it at a lower price you have a higher yield on cost. And you have a little less taxes but a little less dividends, but it's the same total return. I just find that ebb and flow is definitely there.

We do kind of track the 30-day versus 90-day trade volume, and the quarterly versus the previous quarter as part of our quarterly review in our session which again will be held in a couple weeks through the CEFA system. And we definitely see there are time periods where there's way more volume in the sector versus the previous quarter usually, even equity funds is tied to interest rates. What's interesting to me is you might argue, or it's common to argue that a REIT fund or an MLP fund has some relationship to bond yields.

But how do you take an equity like a covered-call fund, and that it's distribution is manufactured. But an exemption with the SEC to offer a monthly payment of a managed distribution policy, we're going to pay 6% of NAV, 7%, whatever the number is that's approved. How is the future distribution sustainability and payout have anything to do with whether the 10-year is here or here except for the general premise that if yields are lower there's more growth? I can borrow more, companies can borrow more. That's that major thing of just seeing that disconnect between interest rates and how it moves it.

So when the Taper Tantrum hit, I was actually on a panel back when Mike Taggert was still at Morningstar, with Patrick Galley and Rob Shaker and myself in Chicago at the Advisor Conference. And June of '13 got to kind of give our opinions on what the heck just happened in discounts in that true tantrum. So deciding when and how the next move can be. It's interesting because I think everyone saw the tantrum coming. Well, the movement coming. We had recovered from the Great Recession. It's just interesting.

I'd like to think that it shouldn't be as bad because we've been through it before. We've been through it before so at least the market has seen it. And the people pulling the levers have witness it, so there's probably more guardrails and more handholding along the way. But you're right, the seasonality is interesting. Another task for people on my team or an intern or something to really dig in deeper. Beyond tax-loss selling season and proxy season, other seasonality. And I'd say definitely around the dividends.

I always like to put on my calendar for the funds I want, that I'm patient with, after the X dividend date. Because on average, would you say closed-end fund investing it's kind of like you're playing baseball versus a sharp shooter? You're not just needing to hit the bullseye to win, you need to have a team and you need to try to stack the team in your favor so you can be the Oakland A's. Not the Oakland A's-- was it the A's?

Mark Milner: You're talking *Moneyball*? Yeah.

John Cole Scott: Yeah, *Moneyball*, that was a data-driven process. I like sports, I'm not as big a sports fan as some people. But just the fact of stacking the portfolio so that the discount is wider than normal, and the NAV performance is better than normal, and the tax efficiency is better. I feel like closed-end fund investing is better than normal, where no one fund is perfect but the portfolio is set to navigate it for you as an investor. Does that feel like the way you run your cruise ship?

Mark Milner: Yeah. Yeah, absolutely right, all that. All the above as long as they can continue to generate that income. As long as the managers are all doing their job, which you kind of give them the benefit of the doubt. But as long as they continue to do that, you talked your presentation before this session about cuts, the dividend cuts. And you saw it individual equities last year, I think 2020 obviously was a very odd year across the board for everyone. There wasn't anyone that had a normal year last year I don't think.

John Cole Scott: I had the same '20 as '19 personally. You didn't?

Mark Milner: Oh, you did? Oh, okay, wow.

John Cole Scott: I was on the road 100 nights, I worked in my office, not this room. Now to be fair, I don't have a video game in my office. That must be how you take your lunch breaks.

Mark Milner: Up here, so I'm based in Minnesota as you know, but for those that don't know on the chat. So we're a big golf state, I'm a big golfer of course as you can see behind me. But we do have this thing called snow, it gets ridiculously cold here in the winter, so I do need the option to play a little indoor golf. So from time to time in the winter I can step back and play a quick nine holes. Even though it's virtual it gets me my fix and then I'm back here or back in the actual office-office when Covid allows, taking on the closed-end fund world just like you.

John Cole Scott: And again, I think some people that know me know this, but I think you know. My mom's family is from the West St. Paul and I have spent winters, not working, in Minneapolis. I find it odd that it can be the coldest top 50 demographic region in our country, and yet your July's and August feel very similar to Richmond. Maybe a little cooler, but you get as many thunderstorms, you seem to have as many mosquitos. Maybe it's different, but I don't remember going there, "Oh, this is San Diego, I'm happy here." And there's Canada right there.

Mark Milner: Yeah, it's a unique place. It's great.

John Cole Scott: It is. We talked a little bit about IPOs, and I think that's a great thing to talk about. Because AICA's audience is not just advisors and investors, we talk to service providers, we talk to fund sponsors. We talk about how to give us more funds. We were chatting about liquidity on the prep call and it's like, "Have you ever considered buying a closed-end fund IPO?" And as you've looked at the progress as we've showed in our data, about price to IPO and the discount to NAV, and if you were to benchmark, if you had bought this on the IPO how you did. Is that maybe a future liquidity opportunity for investors through your firm?

Mark Milner: Yeah, I think everything has to be on the table. And specifically in relation to IPOs, it's not something that we had participated in in the past. Again, it's not whether it was an access issue or again back to the underlying drivers and the underlying creation of the strategy, historical based, the IPO is not going to have any data behind it. But as we look to the future and we're looking towards the IPOs that you mentioned, IPOs are getting bigger. They're coming from across the board but they're typically coming from the bigger players in the space.

So yes, they may not have a track record for that ticker, but obviously the firm has a track record in the asset class, they have a track record in closed-end funds. So I think it would probably be very short-sighted of me and short-sighted of our team if we didn't potentially leverage our newfound corporate structure and our newfound corporate leadership at Morgan Stanley to at least explore that as an option as we go forward.

John Cole Scott: It reminds me I think when RiverNorth, the RIV IPO happened to be when closed-end fund discounts were blowing out. So worst time to launch a closed-end fund, best time to have cash to buy closed-end funds, so that divergent tension. And so I remember buying into that fund, I can't remember, I'll say at 19 or whatever number it was, assuming they hadn't fully deployed. And I was basically buying cash at a discount because they were putting money to work while I was putting money to work. And knowing RiverNorth the way I do they're really good at what they do as well in their approach to everything. I just find that a fascinating thing. The best time to launch a closed-end fund is the worst time to buy it, and the best time to buy it is the worst time to launch it.

And that tension of challenge seems to be the frustration I think some of the updates – this is going to get a little bit weedy – in the shelf offerings and being a [inaudible] offeror be able to come to market faster as a larger fund. Think of Morgan Stanley working with a BlackRock or Nuveen, can bring things to market faster. And the faster a good idea gets to market, the less likely you're going to have missed the opportunity. Because you have to have the data to build the pitch book to get syndicate to say yes, but then you have to implement an IPO while there's still innings to run in the game. Very good perspective on that. If we ever decide to have a committee of institutional investors that want to tell fund sponsors what to build so we can buy it, maybe we'll put you unofficially or officially on that committee to give that perspective to everyone.

Mark Milner: Yeah, maybe unofficially, then I can give my real opinion behind the scenes. But yeah, if there's one word it's just more. There are other levels to it too, but just more. I think there's the appetite out there. And again, I mentioned it before, it's up to us then. Not just the retail investors but the institutional investors to step up and buy it as well. Assuming it's a decent offering, but yeah, I think there's definitely appetite out there. Yeah, so we'll certainly explore that avenue. Or worst case scenario maybe you'll see me buying it six months or nine months down the road.

John Cole Scott: See what?

Mark Milner: You might see me buying it six or nine months down the road if I don't get the IPO, if we don't go down that road. But hey, works the same way.

John Cole Scott: I know in the old structure where the NAV was hit with the cost to create the fund and it was perpetual. As we heard yesterday, some of the funds on the panel yesterday, they've had perpetual funds that just endure and are beautiful tools in our toolkit. We'd done a study with an intern, and looked at the data, and generally speaking and we haven't updated it in a few years, it was between six and 10 months, actually seven and 10 months was the general discount widening of an IPO'd fund versus a peer group basket to benchmark off of. And the best theory I could come up is that once you get to around seven months, you get the semi-annual report, you actually know the leverage, you have a sense of the distribution policy, you can see some of the holdings, you can start modeling net asset value if you're that type of investor. You're not just flying blind.

And then you may come into this in your work as well, there's so many people that dabble in closed-end funds, so think zero to 10 max. They may only look at a fund with a 12-month history because they have a rule or a premise, "How can you judge a manager until you have 12 months of history?" So it feels like there's this tailwind on 366 days, and so again I just tell people, seven to 11 months is a nice historical valley. And now that we're getting a couple years of version 2.0, maybe we'll have to re-run that study and see how it's changed. I think hopefully it has.

Great, great longer piece than we expected, but that kind of goal, let's talk about breaking rules. I think as an active manager you're not index creating. You're not saying, "We're going to seek out this, this, and this every 90 days and reset." There's a team, and a brain, and there's research. So that concept as an active manager of closed-end funds, and I would argue we want our active managers of the closed-end funds to be willing to break their rules because that's how humans learn. And so how do you think about the rules you have beyond just IPOs, that you tend to ebb and change? How has your perspective changed where five years ago you said, "We'll never do this," and now we're doing it because it's changed. Do you have any perspective on how you've broken other rules besides potentially one day being part of an IPO?

Mark Milner: Yeah, I don't know if breaking rules is a great, great way to advance your career path.

John Cole Scott: Improving process?

Mark Milner: I think evolving is probably the better term. Again, you need to do the work. I think just trying to evolve something, change something on a hunch, on a tactical bend, on a forward-looking thought, at least for our firm is not something that we're going to do. We're established, we've done the work, this is what we do, this is what we're good at. Again, that being said, I think personally one of my least favorite phrases in the whole world is, "That's how we've always done it." I absolutely hate that. That just means that you're content to sit on your hands and never make changes.

If you're an active manager, a quant active is I guess kind of what we fall into, no matter what you do, even in your own PA, you should always be reevaluating how you're investing, what you're investing in. Are there better ways to do it? Are there other things you could be investing in? That's part of the process that we're doing now. And maybe part of that was brought on by our change in our corporate structure and our new obviously having the weight of Morgan Stanley behind us now.

And part of that is credit to you and CEFA, we have a far more robust dataset than we've ever had. And we're in the process of going through and reviewing that, doing some back testing of our own, doing some of our own modelling just to see if there are opportunities that we might be missing. Places maybe that we could spend a little bit more time in and that could eventually make it into the strategies. But right now there's nothing that I can say 100% for sure, "Hey, we're going to do this, we've never done this before." But I will say absolutely everything's on the table. And if it's a way we can evolve and do things better, then it behooves us to do that for our investors and for ourselves.

John Cole Scott: Yeah, I was going to say, there may even be a time in theory where a firm at a Parametric size could even consider interval funds as part of an allocation as long as they could marry the liquidity of the strategy with the needs of the client. Because then you drop your volatility. In theory, nothing's equal. But if you could find a preferred interval fund with a manager you liked to rotate into, you wouldn't be able to quickly trade out of it but you might still get the leverage and that active manager. The interval funds, for those who don't know, you get daily inflow at NAV and you get no listed volatility, but you generally get 5% liquidity a quarter for everyone to get access to. So if everyone wants out, you're only getting 5% of what you have. And that's the bad of interval funds, but because of that there's no market price volatility.

And I know we covered it on the muni panel yesterday because it was so pronounced in 2020, but when you talk to advisors and investors about risk of your portfolio, how do you disconnect the actual risk of the assets in the portfolio, as in the NAV, and the volatility that every investor in a listed fund experiences? What's the wisdom you can share of how you've had any of those conversations about, I'm sure you had at least one volatility conversation last year, I know we did.

Mark Milner: Well, I think broadly even just to step back to just closed-end funds in general, you're probably going to see more volatility than your average large cap domestic stock. Or certainly if you're investing in something like SPY, or any sort of index ETF, or something like that. I think it's just making sure that the client, and of course the advisors as well, because if you train the advisors they can have the conversations at first with the client, just understand that this is going to be a little bit more volatile. Closed-end funds are a more volatile asset class. And when you have two things that move, both price and NAV, now you're looking at volatility of two different numbers. So not only is it volatile, but you have different volatilities there to look at.

So as long as you can tell that story well, and I think you guys do a great job with your instructional materials, certainly we can direct people that way. But if you can get people to buy into that concept, obviously we saw what happened in March of last year, basically we were back to even by whatever it was, late summer or early fall, it doesn't matter. But all along that timeline, yes, your account may have looked like, you were losing money or you lost money certainly, but you were still collecting that same income along the way.

So if you're content to ride the dips and you're content to experience that volatility, hopefully in the short term or at least in the interim, you can still collect that paycheck, you can still collect the distributions. And that's really sort of the beauty of this asset class. And that's really what retail investors, institutional investors, that's what we all need to understand and experience.

John Cole Scott: Absolutely, definitely appreciate that. I'm just remembering that yesterday on the muni panel we ended up sidetracked into an ESG conversation. About how many of the bonds available are actually things that are more Wall Street sexy, and so I think potentially when the first fund came out, there's a second one in filing, one of the reporters [inaudible], "Is there going to be a new group of closed-end funds? The ESG or the socially responsible?" I'm like, "Well, I hope so, as long as they make money." As long as they're good investments, it's a great way to expand the ownership base.

Mark Milner: Yep.

John Cole Scott: Imagine, this may blow your mind, Mark, but did you know that the London closed-end funds are owned by institutions and not retired people?

Mark Milner: Very different than it is here.

John Cole Scott: Very different, and a different market. We've gotten to know the London Stock Exchange, and get to know more of whether there's some strengths there we can bring into AICA. I actually modelled AICA out of one of the organizations that I think is 50 years old that supports their structure in trying to create that educational lens for the Active Investment Company Alliance. And so imagine if we can get 30 to 50-year-old's to like closed-end funds. Going back to that conversation, it's not about--

Mark Milner: You've got Grayscale, right? You've got crypto.

John Cole Scott: It's technically not a closed-end fund yet. They intend to once they're allowed to. Again, Marc Loughlin at Wallachbeth, you may know him as well, we chatted. I like the concept, it's an idea, but it's technically not a closed-ended management company yet. I was chatting with somebody I believe on Seeking Alpha, or somewhere that wrote about it, maybe it was Barron's that wrote about it, and I just had to gently tell them. Again, because again not everyone's a closed-end fund nerd, that this is a closed-end fund to be, not a closed-end fund now. I would say that if you're into crypto and don't know what we're talking about, message either of us. But there's a fund that trades in an implicit discount if you want to be there that might better than trading in a Coinbase or other places if you want to be in crypto. And again, these are sectors that can grow.

Again, the other thought about liquidity, have you looked in the Toronto fund or the London funds as a way for expanding targets for the portfolio? Is there any issues that hurt that? Whether it's regulatory or data collection?

Mark Milner: Yeah, I just imagine it would be a bit of a challenge for probably a good deal of our investors. It's not something that we're opposed to. Maybe have to be a separate vehicle, we probably wouldn't run them in our current strategy. But again certainly open to it, looking forward to the data for those filtering through in my data feed at some point.

John Cole Scott: Again, if I can figure out the business model for data collection of Toronto and UK funds, I think I told you I've been thinking about that since 2008 when we partnered with Fundamental Data in our data business. One day I'll build a Toronto sheet and a UK sheet. And we've just been very busy doing everything with the US market as it grows and expands. Again, we're one quarter away from a 10-year history, so we'll eventually have 10-year index data and other more fundamental data going back for a full 40 quarters which I'm looking forward to. So thank you.

This may surprise you, Mark, but imagine somebody that listens to the live, or the replay, or reads the article is wondering, "So how do I actually invest with Parametric?" This is an actual permission to put your sales hat on and explain to people who they talk to, their advisor, your firm? Is it only Morgan Stanley? Can they do it through and RIA? What's the interface for you in the market?

Mark Milner: Yeah, we are available at several RIAs. But yeah, ParametricPortfolio.com, I'm sure it's in the literature or Google. Or if you're a Bing user, no judgement. But Google Parametric and you can find out about enhanced income strategies and all of our other strategies. Or if you're on the financial times or *Wall Street Journal* you'll probably get served, after listening to this with all the big tech I'm sure you'll get served our Custom Core Direct Indexing banner ad. You can always click on that and then navigate to the closed-end fund page from Parametric there.

Yeah, obviously lots of ways to find us. Again, if you have an advisor, reach out to your advisor, see if we're available on your platform. The Enhanced Income strategies or not, maybe you have a different Parametric strategy on there, it's certainly a possibility for being added. Obviously the more cash you're willing to put in, the larger the assets, obviously we're more willing to be flexible.

John Cole Scott: Again, if you're working through an advisor, can they bring clients of many sizes? Is this only for people with a million dollars to invest? I mean, what's the actual liquidity range that's normal and how do you distinguish that?

Mark Milner: Yeah, $100,000 minimum actually.

John Cole Scott: That's low. Usually those are people that work out of their garage. I think you're saying you've got such good systems.

Mark Milner: I work above my garage.

John Cole Scott: Oh, you work above your garage. You have elevated your station to above your garage.

Mark Milner: Right, right.

John Cole Scott: I had to chuckle a little bit. Which means your floor must be cold in the winter, just thinking of Minneapolis.

Mark Milner: Yeah, it is.

John Cole Scott: Mine's fully cold in the winter and I live in Virginia. Good, I've been looking for questions along the way because I've been peppering you with questions for basically almost an hour. I would say again we started about five minutes late, I kind of made the break 20 minutes knowing there's always a risk I'll talk for five minutes too much. Feel free if you have any questions for Mark that I didn't cover. I tried to be thorough, we covered everything I could think of that I wanted to share about your firm and process. Really bringing a manager in the space that's with resources and scale that considers taxes and any tax thoughtful income really is a benefit.

Thank you for finding a babysitter for your son this week. You told me you couldn't do it and I should find a better replacement. And I go, "Well, there's really no one else I have in mind to do this with, so I guess we'll just start late.: And so I really appreciate all of the ability to be a good dad and a good steward for your investor capital. I don't see any questions popping up on the box, so I guess I'll let you end with any final PSA that wasn't covered, the public service announcement. When I used to do interviews with our newsletter I often used to ask the random question of, "What's the last non-investment book you read?" You can tackle that one if you choose as a nice personality flavor for everyone.

Mark Milner: Yeah. Well, I'll go backwards. So the last non-investment book I read was the most recent, it's Kyle Mills now, but Vince Flynn, the *Mitch Rapp* series. You may know or may not know, but Vince Flynn is from St. Paul. Obviously he passed away a decade or so ago now and the series has been continued on by another author. Just a typical CIA kind of spy series. So that's what I read to take a break from the investing side of it.

On the closed-end fund PSA side, or just investing PSA side, again kind of back to what I said earlier. Fund sponsors, fund families, issue more. I think there's a lot of appetite out there. And those of us that are investing in them buy them, buy them and trade them. This is a great asset class that I think deserves far more publication and far more recognition than it gets. I get it, they're not Stonks, this isn't our Wall Street bets. Although if they really wanted to get into closed-end funds and splash around, they could certainly make some noise. And it's not crypto, but that's okay. It's okay to buy things that generate 6-7% yield, that pay a consistent payout, that are going to gift you a little bit more alpha on price movement. That's okay too. All of these things have places in your portfolio, and I think closed-end funds for any income investor really should be part of your portfolio.

John Cole Scott: Again, thank you for saying those words to help close us out. With that again, appreciate your perspective. Definitely if you ever need help getting the word out to anyone, always let us know. I think you know one reason why I started AICA is because I like talking closed-end funds to everyone. I was already kind of doing it and I tried to put a business wrapper around it where we're doing it more efficiently together, so it's not just my voice on stage but bringing you on stage to add your perspective. So again, really appreciate it.

For those listening today, the next session starts at 3:20. So there's a chance to mingle the tables if you'd like, or you can grab a cell phone call, a cup of coffee, whatever you need. Again, thank you very much, Mark, we'll be in touch, I'll see you in person, but definitely probably not November through May, your snow season.

Mark Milner: Yeah, you're going to wait till spring or summer to come out, aren't ya? I understand.

John Cole Scott: I don't love the heat in the summer, but honestly probably late May or September. My cousin got married. Actually I was in Minneapolis in November of '08 when the Dow was going down. And we landed in Minneapolis, get to the Mall of America because we're tourists, and I kept wanting to go back to the hotel to just watch. I was in Minneapolis at a wedding that Friday that the world was ending during the Great Financial Crisis. And then dovetail, I was actually at Mall of America as a child the day the corner stores opened, because like I said, I have family there. So a long history with Mall of America in my life. So we'll definitely get together in person, thank you for your inclusion and glad to have you here.

Mark Milner: That's funny. Because I think November of '08 was probably the last time I was at Mall of America too. As a local you just typically try not to go there if you can.

John Cole Scott: I took my daughter there in '16 and we actually went with my cousins and uncle so she could see an indoor rollercoaster. Because I think if you have never been on an indoor rollercoaster at a shopping mall, it's not as important as going to New York City for theater but it's definitely a bucket list item.

Mark Milner: Very true.

John Cole Scott: All right, see you, sir. Appreciate everything.

Mark Milner: Take care, John.

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