February 3, 2022 AICA Virtual Event-Passive Access to CEFs/BDCs via ETF and UITs, Panel #1; “Opportunities for Closed-End Fund and BDC Access Through UITs”

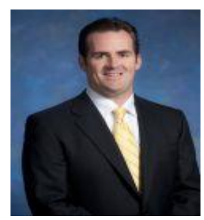
Thursday, February 3, 2022

Randy Watts, Co-Founder of Advis Network, moderates the opening panel of the February 3, 2022 AICA Passive Access to CEF/sBDCs vis ETF and UITs virtualal event; “Opportunities for CEF and BDC Access through UITs”. Read the transcript below to hear the discussion among Mr. Watts and panelists Matthew Bryant from Guggenheim Partners, Kevin Mahn from SmartTrust Unit Investment Trusts, and Joseph O’Malley from Invesco.


Randy Watts


Matthew Bryant


Kevin Mahn


Joseph O’Malley

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https://aicalliance.org/aica-event/passiveaccesstocefs-bdcsviaetfanduits/

John Cole Scott: Once you’re situated, I will drop off and you guys can have your discussion, and I’ll be here thinking of some great questions to ask you should time allow. But I would recommend everyone in the audience feel free to submit questions during the Q&A section, the box on the right. The moderators will be watching for those questions and address them either during the session or after as appropriate. And with that I’m going to wish you well.

Randy Watts: Thank you, John. I appreciate the introduction and intro to UITs. I’ll be hosting our first panel here which is titled “Opportunities for Closed-End Fund and BDC Access Through UITs.” John gave a brief introduction of me but my name is Randy Watts who was referred to. For a little background on me, I’ve been in UITs for over 15 years and have worked for both large and small sponsors in really multiple capacities. Whether it’s distribution, trading, product management, product development, even compliance on the legal side.

Over my career I've been part of two UIT issuer. And like John said, I started a company called UIT Investing, which was the first dedicated research and data platform for the UIT market which was acquired by NASDAQ. And most recently founded a company called the Advis Network, where we're developing tools that are resources for the wealth management and asset management industries.

I'd first like to welcome our panelists, and I'll go through each one of them before I have them speak. But Kevin Mahn, chief investment officer of SmartTrust Unit Investment Trusts, welcome. Matthew Bryant, managing director unit investment trust at Guggenheim Partners, welcome. And Joseph O'Malley, thematic and specialty strategist, ETF and indexed strategies at Invesco. Welcome gentleman and thank you for coming and joining us here.

I'm going to first turn it over to each of you to give a little background on yourself and tell our participants and viewers a little bit about what you do and your firm. And let's start with Kevin Mahn, why don't you get us started?

Kevin Mahn: Why thank you, Randy. And thank you to John Cole Scott and AICA for inviting me to speak here today. My name is Kevin Mahn, I'm the president and chief investment officer of Hennion & Walsh Asset Management. I'm also proud to be the chief investment officer of SmartTrust Unit Investment Trusts. As John alluded to in his opening comments, we're one of the top five sponsors of the UITs in the country. We have 26 different specific UIT strategies which blend some combination of common stocks, ADRs, GDRs, REITs, MLPs, closed-end funds, and exchange traded funds.

That's one of the beauties of the UIT wrapper, is our ability to incorporate different security types into the overall portfolio strategy. Excited to talk to you about how optimistic we are about the future for incorporating closed-end funds and BDCs into our UIT structure for the foreseeable future. And of course just in terms of full disclosure, John Cole Scott is a portfolio consultant to SmartTrust on our CEF Select BDC Trust here, so I just wanted to make sure everybody was aware of that. Thanks Randy.

Randy Watts: Thank you, Kevin. Next, Matthew Bryant, go ahead and introduce yourself.

Matthew Bryant: Hi, thanks Randy, and good afternoon to everybody. It's a pleasure to be here today on the panel. I've been with Guggenheim for almost 15 years now. I've been covering the closed-end fund space for all of that time. I'm responsible for selecting and [inaudible] all of our unit investment trusts of closed-end funds. I also have a sleeve of closed-end funds that I manage in one of Guggenheim's open-end funds, so I can trade that a little bit more actively than a traditional UIT obviously which is passive by nature. So the point is I'm constantly watching the closed-end fund space and looking for opportunities there.

On the equity side of Guggenheim's lineup I cover the [inaudible]. I know that's outside of this call. I have a team of four fundamental equity analysts that report to me, that each in turn cover several gig sectors. We select and supervise all of the domestic equity UITs that Guggenheim offers. So that's [inaudible] for a bio so I'll turn it over to you guys.

Randy Watts: Thank you, Matthew. Joe O'Malley, go ahead.

Joseph O'Malley: Thank you, Randy, and thanks John as well. Yeah, so Joe O'Malley with Invesco Unit Trust. Invesco is one of the pioneering firms of the UIT industry. We deposited our first UIT portfolio back in 1975 and since that time we've deposited over $207 billion worth of UITs. So a lot of experience, a lot of history within the UIT industry as our firm. Personally I joined the firm back in 2007, so 10 days from now will actually be my 15-year anniversary with the firm. Funny enough one of the first people I met on day one was our moderator Randy here, so I learned a lot about UITs from him. It was a great way to start my experience in the UIT industry.

So my role has covered a number of different areas, so I've gotten to really see a lot of different angles of the UIT industry. Starting from the trading desk, developing relationships with broker-dealer home offices, and then adding roles in business development and product development. So a lot has changed over time, Invesco back in 2010 they acquired my original firm Van Kampen and certainly have seen a lot of interesting things occur along the way. So very excited about this discussion today.

Randy Watts: Joe, thanks for dating me here back when we first met over 15 years ago. First let me thank you for those introductions, guys. And as you can see, this panel represents a very accomplished set of experts in the unit investment trust industry and it is an honor and a pleasure to have you guys here to share your insights to our group. Let's get started here.

So one of the most popular and utilized strategies of unit investment trusts is portfolios that consist of closed-end fund and/or business-development companies. And from what I see in my career, most of them really fall into three different categories: tax-free income, taxable income, and equity income. How I want to start is by having each of you talk a little bit about the categories or types of unit investment trusts of closed-end funds that your firm offers. And even more provide us a little bit about the product development process, the selection process or methodology that each of your firms endure to offer quality products to clients out there in the street. This time we will start with Joe O'Malley. Joe, go ahead.

Joseph O'Malley: All right, thanks Randy. So at Invesco we really have six distinct closed-end fund strategies. We have a number of other portfolios that use them in some capacity, we refer to those as hybrid portfolios. And I think you can lump BDCs in there as well, we do use those from time to time in different strategies. But for today's discussion want to focus on the pure closed-end offerings that we have.

So of the six that we offer, we have one on the tax-free side, so Tax-Free National Muni Portfolio. We have two that we consider to be a little bit more thematic, so touching on the senior loan space and covered-call options strategies. And then our three broad-based portfolios, one of those will focus more on the fixed income side while the other is going to be focused more on the equity and options side. And then lastly several years ago we did see some interest in the market for a non-levered closed-end fund portfolio. So for advisors and clients where leverage can be a bit of a concern, we found that to be a nice product to slot in to meet that need.

So as we build our portfolios there's really kind of three key factors that guide our selection process. And those three factors that we look at are going to be the discount, the performance, and the yield. And generally we'll look at each of these on a relative basis, how they've done over time historically and then also how they've done relative to competitor funds within that space. I think one of the nice things that Invesco is able to offer is that we are quite a large investment management firm. We manage a large amount of assets in the ETF, mutual fund, closed-end fund, and UIT space. So with that come a large number of resources.

So I think when you look to areas like munis or senior loans, our portfolio managers have the ability to collaborate with other investment teams. So for example on the muni side our muni team, they're going to see who's buying a lot of the deals that come across. And so they can provide us some insight on who's buying those types of deals, or if we're looking at a particular fund they have a pretty good idea of the types of deals that they've purchased. So if they're deals that we as a firm like, that's generally going to lead us towards a more favorable view of them and we'd probably include their fund in the portfolio.

On the flip side, if there are deals that we don't like, deals that we think are a lot higher risk than they are on the surface, that can help us perhaps avoid some of those pitfalls. And I think a very similar dynamic occurs within the senior loan space. So I think those are some of the things that really drive our process, things that I like about what we do. And our ability to leverage those resources really does make us a great partner within the closed-end fund investing space.

Randy Watts: Thanks Joe, great information. Next we'll go to Matthew, tell us about Guggenheim's UIT of closed-end funds.

Matthew Bryant: Sure. So Guggenheim [inaudible] 12 pure closed-end fund UITs, and then as Joe mentioned we have a few other trusts that are more hybrid, have some closed-end fund exposure. Overall we have three in the muni space, we have a national muni, a New York muni, and a California muni. We have two in the equity category which is we have a covered-call portfolio and then one that's more of an equity and income type play. We have three in the taxable fixed-income space. We have a convertible on income, a high yield, and then a senior loan trust.

And then we offer four other strategies which I would term as multi-asset trusts, which range from one being more focused on discounts. One being a little bit more conservative in its nature in terms of investing in more investment grade funds, less volatile funds. And then one which is really kind of focused on higher distributions overall, where you might see some funds trading at a premium in there and there's less discounted concerned. And then we have one sort of moderate, kind of right in the middle of all three of those, kind of hits all the sweet spots.

So I'll just walk through, our process is pretty similar to what Joe had mentioned. We have sort of four key things that we focus on and [inaudible] our fourth one is liquidity, and [inaudible] last category as well, but I think we're going to talk about that in more detail later on in the call.

So just briefly on each of those four points, the discounts we're seeking, attractively valued funds trading at discounts to NAV. So we're looking at Z-scores to see where current discounts are versus its average of discounts over different time periods historically. In general we'll try to avoid funds trading at a premium but we will consider them in some cases. For instance, recently there are a lot of funds trading at double-digit premiums, and then in January with market volatility have come back down to single digit premiums, we will consider putting those in just because we view them as oversold at the time.

Our next point, distributions, obviously we're seeking the competitive distributions but we also want to make sure they're consistent and sustainable. So we aren't just picking the highest yielding funds in the categories, we want to make sure the funds are able to earn their [inaudible] and really try to avoid the funds that consistently are returning capital to shareholders. Performance, pretty straight forward [inaudible] funds that perform better on both NAV and share price performance over multiple timeframes versus benchmarks.

And lastly liquidity, we generally exclude the smaller funds. So usually we have kind of a soft cap of $100 million in market cap, although in certain cases if we really like a fund we'll put it in. We generally will exclude funds lower than a five dollar share price just because that increases trading costs to the trust. And lastly like I said, with the new 12d1-4 rule, has had some limitations that we're still working through as we have to consider our ownership levels across the entire Guggenheim complex. So that's just [inaudible] of our process, I'll turn it back to you guys.

Randy Watts: Thanks Matt, great information. Kevin, why don't you finish it off here.

Kevin Mahn: Sure. So I'll start with we have three different municipal oriented UIT offerings, our mothership here at SmartTrust of course is our Tax-Free Income Trust, which is our longest standing and largest asset raising strategy that we have since we deposited our first UIT back in 2003. Similar to Matt we also have a New York version and a California version of our municipal closed-end fund UIT strategy. We have a portfolio called our Taxed-Advantaged Growth and Income Trust which blends 50% of qualified dividend paying equities with 50% municipal closed-end funds for unique tax-advantaged growth and income opportunity. And then we have our opportunistic portfolios, one of which is our portfolio of closed-end fund opportunities, a portfolio that's 100% invested in closed-end funds based upon our investment committees outlook for both the market and the economy over a series of that two-year UIT. And then we look at comparative characteristics within the closed-end fund universe to select the categories for each series.

And then we have two strategies that employ a similar approach, Randy, but with different allocations. So our Strategic Growth and Income portfolio is 70% closed-end funds, 30% stocks, and then our Dynamic Sector Income portfolio, flip that around, is 70% equities and 30% closed-end fund. Again based upon areas of the market that we believe should drive over the course of each series of the trust strategy in addition to providing a sustainable, high level of income throughout this series.

And that's why we use the closed-end funds primarily, is for their income-producing potential. As a result of that, the first thing that we factor into our selection process is their ability to sustain that income potential over the life of the trust. And to do that we look at two key characteristics, first being the earnings to distribution coverage ratio; both Matt and Joe touched upon that in each of their comments. We want to ensure that each closed-end fund is earning more than it's distributing. Sounds basic, right? That's logical. Why would you want to invest in something that's actually paying out more than they're actually earning? Because at some point in time in the future they're likely going to have to cut their distribution if you do not.

But certain closed-end funds do pay out more than they're currently earning. How do they do that? Well, they're dipping into their UNII balance, or their undistributed net investment income balance, so that's important to us as well. That UNII balance is like a cash cushion or a cash buffer to the closed-end fund portfolio manager that they can dip into to help prevent a distribution cut if in fact there's a hit to their earnings. So we want to select those closed-end funds that have positive UNII balances, and in many cases at least one half months' worth of distribution sitting in that UNII balance.

Then we'll consider where the fund is trading to its NAV. And we've never subscribed to the notion that closed-end fund trading at a discount is on sale or a closed-end fund trading at a premium is too expensive. As Joe said in his comments, it's all relative. It's relative to their own 52-week averages, their three-year averages, and the peer group. So we factor that in as well and then we look through to the underlying characteristics of the portfolio. Remembering that these closed-end funds are being actively managed and we can look through their portfolios to get a feel for their duration, to get a feel for their credit quality, to get a feel to other characteristics that are germane to areas such as municipal bonds that are important to the clients who invest in these UITs.

So we really do like the closed-end fund structure but I can't leave without touching upon leverage of course. That's why we like the enhanced yield potential of closed-end funds because of their ability to use leverage. That requires an understanding of the amount of leverage and the type of leverage that they're using, and for how much longer leverage will work as we now are entering a rising rate environment.

Randy Watts: Thanks Kevin. I thank everybody. It sounds like there are great offerings out there available in the marketplace to investors. And what I really like the most, and I think I can speak for everybody listening, is the amount of work, and due diligence, and analysis that go into every one of your guys' firms do to build quality products.

So since these funds of funds types securities, I would imagine many of our listeners are also wondering what are some of the benefits of using the unit investment trust to access closed-end funds as opposed to investing straight in either closed-end funds directly or through another structure? Would one or two of you briefly go over the benefits to using a unit investment trust structures to access these types of funds? I'll start with Joe, do you mind addressing that question?

Joseph O'Malley: Sure. Sure, and off the back of Kevin and Matt's comments, the quality of the distribution I think is something important. And that's something that utilizing a manager whether it be Invesco, SmartTrust or Guggenheim, that's what you're going to get from a professionally managed portfolio. It's a little different than the evaluation of a dividend based portfolio, we really are doing an evaluation of the managers.

So I touched on it a little bit earlier with some of my comments about how we do have some additional resources within our firm to know who's buying which types of deals. And I think that's important because if your screen is really just those three basic principles that I touched on earlier, you could just look for a widely discounted fund with a great yield, and I don't know if performance is going to tag along with that, but that kind of gets to my point of that evaluation that we're able to do is really going to be of benefit to an investor.

Because it can be a bit of a complicated space, there's a large number of funds out there, each runs a different distinct strategy. So the fact that we have portfolio managers that really know that space makes a lot of sense. And I think one of the great things about the closed-end fund space and that gets just about every investor that I speak with excited about it, is the attractive yields that it offers, and I think that's absolutely a fantastic aspect of the product. But keep in mind there are some potential traps along the way and these are levered investments. Invesco sees no problem with utilizing leverage but with that does come some additional volatility, so that's why I think working with a professional management team is vitally important to this space.

Randy Watts: Thanks Joe. Matt, how about you help us address the question.

Matthew Bryant: Yeah, Joe actually gave a great overview to start off with, but I think that the unit investment trust as a vehicle, obviously it's a passively held structure. However using closed-end funds those are actively managed, the underlying, so you get that [inaudible]. I also like to point out just in general, just because a closed-end fund trades at a discount doesn't always mean it's a bargain. On the flip side, just because a fund is a highest yielding fund, they're potentially not [inaudible] distributions. So if you have professionals that are watching the space that can avoid those funds when we're putting the trust together, look at the resulting universe of managers, study their strategies, I mean you're really getting access to the higher tier of [inaudible] up there in a unit trust.

Randy Watts: Thanks Matt. I appreciate it, you can tell the structure adds a ton of potential benefits to investors. So I'm going to shift over to a growing area which is equity income investment trusts of closed-end funds. Typically when you think, I know historically you think of UITs of closed-end funds you'll think just tax-free and taxable type of strategies, but what would be some of the reasons an investor would purchase a unit investment trust of closed-end funds to receive dividend income as opposed to just investing in a straight equity unit investment trust? Let's start with Kevin.

Kevin Mahn: Sure, and we don't use equity income oriented closed-end funds that much in our UIT strategies. One of our strategies, the portfolio of closed-end fund opportunities, at times we do. Such as you might be familiar with the Alpine funds, AOD or AGD, the dividend capture portfolios. I think those types of portfolios offer clients an opportunity to receive an enhanced level of yield without having to understand the often complicated world of GDRs and ADRs and investing in international securities. So I think the UIT wrapper provides an opportunity for portfolio managers like myself to tap into certain equity income oriented funds that are actively managed within the confines of our passively managed UIT wrapper.

That’s a great point that Matt made earlier, is that you have to remember that with our UITs, we’re passive, right? We have pre-set allocations to the portfolios in each series of our UIT, and in very rare circumstances can we remove any of those securities, and certainly not replace those securities from inception date. So being able to use closed-end funds, generally which are actively managed, and in certain exchange-traded funds which we’ll touch upon or they’ll touch upon in the next panel after that, that provides some actively managed component to the UIT wrapper which can be important in certain circumstances.

With that said, in most cases we do use individual equities within the UITs to provide for a high level of income potential because we can look through and find those companies that have strong balance sheets, positive free cash flow, a history of growing their dividends. And I would love to see more new issuance in the closed-end funds with those types of equity income-oriented strategies so that I can start considering using them more and more within the SmartTrust UITs.

Randy Watts: Thanks Kevin. Matt, how about over to you?

Matthew Bryant: Sure, so on the [inaudible] side, closed-end funds that utilize leverage are obviously going to be able to pay out a little bit of a higher distribution than just straight equity funds. There are funds that do utilize a dividend capture strategy which allows for a higher income stream. There are a number of [inaudible] use covered-call strategies that are able to generate income on top of just the underlying equities. There are some equity closed-end funds that have a tax-managed strategy, so they’re harvesting losses with some of their gains. In that case, in a lot of cases you’re getting a quote/unquote “good return of capital” because of the tax-managed strategy of the underlying fund. Lastly in a lot of closed-end funds [inaudible] qualified dividend incomes, which are taxed at lower rates than ordinary income. So that’s another benefit that you’ll see in equity closed-end funds as opposed to just a plain equity trust.

Randy Watts: Thank you. To be honest with you, I’ve been with UITs a lot and I’m learning a ton with you guys here and your presentations here. So I know you guys already gave me introduction to my next question. There’s been talks on this panel, there’s been talks all over the street about the new funds of fund rule and that definitely seems to apply to these type of investment offerings. Can someone tell us what exactly is the fund of funds rule and the impact, if any, it will have on the current offerings of unit investment trusts of closed-end funds at your firm or the street in general? I am going to go to Kevin for this one.

Kevin Mahn: Certainly, and for those of you who do not know me I had a full of head of brown hair prior to the implementation of the fund of funds rule and you can see what’s happened now as some on my team are calling me the Silver Fox and not for nice reasons. But essentially at the start of the year there was the implementation of a new fund of funds rule which limits the ability of certain 40 Act product sponsors from investing in closed-end funds as an example. This doesn't just apply to UITs, it also applies to other 40 Act product sponsors as well. But essentially it limits the amount of closed-end fund shares that we can hold with respect to a given closed-end fund, unless of course an agreement is signed with that closed-end fund issuer which would allow you to invest in up to a higher percentage of the outstanding shares of that given closed-end fund.

As it stand right now, not all of the closed-end funds have necessarily signed those agreements, so we're bound to that lower range of that maximum that we can potentially invest in. The good news is there are enough closed-end funds out there in certain areas, including municipal closed-end funds, mainly in the national municipal closed-end funds space, that allows us to stay within those new rules and those limitations without having to relax our selection criteria.

One thing that I'll point out to everybody though, I write a quarterly newsletter called *CEF and ETF Insights*. It was originally called *ETF Insights*, we expanded that to include closed-end funds about four years ago. Got a pretty good distribution, about 20,000 subscribers, or perhaps a better way to suggest it is 20,000 people who have opted not to unsubscribe as of yet. But we've been tracking the total number of closed-end funds in existence, and since 2013 there's been a 22% reduction in the total number of closed-end funds outstanding. Either because of mergers, consolidation, or of course a lack of new issuance to offset those funds that have closed or been merged or consolidated. So the universe continues to narrow.

And with the implementation of the fund of fund rules, it's even more important now that you use experienced portfolio managers such as Invesco, Guggenheim, and SmartTrust to help select and navigate the closed-end fund universe to be able to select the right ones, abiding by the regulation, and still able to provide your clients with that sustainable high level of income that they're looking for.

Randy Watts: There's always change and there's always adapting, glad to hear that you guys are on top of it. Sorry about the hair turning gray for it. Hopefully in the long run once everything gets worked through it'll make things better and more efficient for investors for the marketplace of funds of funds.

I know we're running short on time here for our panel. I do want to leave some time for questions from our audience. So I want to offer one last around the horn to each of our panelists for their thoughts or other comments they would like to make regarding the opportunities they see in accessing closed-end funds and business-development companies through the unit investment trust structure. Kevin, I'll go right back to you to continue, and then go around the horn after you.

Kevin Mahn: Sure. I would just remind everybody about the ability for closed-end funds to achieve that enhanced level of income and the way in which they do that, and that's by employing leverage. When you look at leverage, always consider the [inaudible] of the fund, not just the structural leverage but also the effective leverage that you achieve through the use of derivatives or even reverse repo agreements.

Historically closed-end funds can maintain their distribution levels in a rising rate environment up until the point in time when rates have truly risen. As it stands right now you look at the current yield of the 10-year muni it's around 164, the current yield of our [inaudible] 12-month trailing yield of our national muni closed-end fund trust is 437. That's through the ability to invest in closed-end funds that employ leverage, but be mindful of that leverage. And ultimately when raised ultimately do rise to non-historically low levels, that difference, that differential, that cost of carry trade is going to start to diminish.

And I'm not suggesting that's going to happen this year, next year, or perhaps even in the following year, but it's going to start to diminish over time as the Fed starts upon their tightening program. So make sure that your end clients are aware that that is going to happen down the road, and also the inherent volatility in leveraged closed-end funds.

Randy Watts: Great points, thanks Kevin. Matt, I'll turn it over to you.

Matthew Bryant: Yeah, I would just reiterate some of the points we've touched on today. Just as the benefits of professional selections across the closed-end fund space that we think will ultimately lead to better performance for the unit holders, along with the benefit of competitive and sustainable distributions. As well as just having diversification across all the different categories in the universe. Beyond that I'd just like to thank everyone for their time today, it was a pleasure to be on the panel. I know we're going to have some Q&A but I wanted to give a shoutout, a thank you before we get to that, so thank you everyone.

Randy Watts: Thank you, Matt. Joe, go ahead and take it.

Joseph O'Malley: Yeah, so a lot of great points already on this topic so I'll probably keep mine pretty short. But I think one of the important things to be notefull of is while the UIT itself is going to be passive, the underlying closed-end funds that we invest in are not. So part of the due diligence process that we go through in evaluating these funds is manager quality. And certainly our hope and what we strive to do is to identify the best managers out there that can navigate the changing interest rate environment.

I think I would encourage everybody in the audience to take a look at a number of these different offerings. I think with increased talk on rising interest rates it has started to provide a bit of an opportunity from discounts being wider than they were a couple months ago. So being that that's a key factor that we look at, I think that's certainly going to be an opportunity, like some of the impacts of rising interest rates could already be priced into a lot of where these funds are currently priced at. So just think now might be a pretty good time for this space. And if you're in it, I'd say continue to be in it because the benefits of this structure are tremendous. With the yield and capital appreciation opportunity I think it definitely sets it apart from other investment vehicles.

Randy Watts: Thanks Joe, and thank you for the great information provided from all of you on the panel. I certainly have learned a lot and have a much more clear thinking about the opportunities for closed-end funds and business-development companies through UITs. We have about 10 minutes left on our panel so I would like to leave some time to address any questions from the audience. I see we do have some building up here in the question & A part. I will go ahead and read them off and then leave it up to the panel. I guess anybody wants to take it and give their inputs on what the questions are.

So first one is, “How do you handle the liquidity of the underlying for product creation and if a trust gets too large in the primary?” Anybody want to address how their firm handles that?

Matthew Bryant: Sure, I can take that one. We look at the trading volume for each closed-end fund. Going into our deposits we make an assessment of what we expect the trust size to be and the daily sales run rate for it. We will weight a fund if we choose to include it based [inaudible] the volume that’s traded and the daily sales, so we keep it to a minimum so we’re not moving the prices in the primary or in the secondary.

I cannot think of any instances where we have run into a UIT hitting our maximum capacity that we set going into the deposit, so we do a lot of work making sure we have [inaudible]. When we’re in the primary and when we’re terminating a trust we have a process in place that will allow us to sell out of a position over a certain number of days versus selling everything at once on the last day of the trust so we’re not moving [inaudible] at that time either.

Randy Watts: Thanks Matt. I’ll turn it over to Joe and Kevin if they have anything additional to add to that question, or we can move on. Okay, great. Next question from our audience is, “Who is the ideal candidate for a UIT versus an active portfolio of CEFs or ETFs?” Anyone on the panel want to volunteer to answer that?

Joseph O’Malley: I’ll take the first stab at it. Income seekers, number one. I think one area where we have seen it have a negative impact is if you have a very conservative older client, you may want to provide some exposure in this space but certainly wouldn’t want to take somebody on a fixed income and put all of their assets into a closed-end fund portfolio. They do come with some extra volatility, that’s one of the byproducts you get from the rewards of a higher yielding product.

But other than that, it does provide good exposure, whether you’re looking for tax-free, something specialized or just broad based. It can provide that high level of income, the ability to reinvest that income even if you’re not solely focused on income. So I would say it does appeal to a broad base, just be careful with the more conservative clients because with the leverage, because with the potential for discount widening, that can potentially lead to a poor investor experience and we all want to try to avoid that.

Kevin Mahn: And the only thing I would add, Randy, is that UITs, our client if that’s the right term, is the financial advisor or the investment professional, not the individual investor. So individual investors are not logging on and buying units of a UIT, rather they’re accessing them through their financial advisor. And financial advisors can use UITs because they are professionally selected, there is a defined term or maturity to them, they can buy them either on a fee-based or on a transactional basis, but either way it gives them an opportunity to annuitize their own cash flow, gives them an opportunity to keep their clients disciplined and invested in a given strategy. And also an opportunity to talk to their clients on a 15-month or a 24-month basis with respect to that strategy, whether it's appropriate for them, their investment objectives, and that current market environment. So the UITs unique structure in that regard, and one in which financial advisors may be appropriate for based upon the way they run their business and their own clientele.

Randy Watts: Great, thank you. Great points, guys. Next question, "Is it fair to say that the closed-end fund leveraged structure will work favorably in all environments except one with a sustained inverted yield curve?"

Kevin Mahn: Sounds like a question from my old friend Jack Tierney. I don't know, what do you think, Joe? I think that sounds like our good old friend Jack Tierney with that type of question?

Joseph O'Malley: I'd put some money on that.

Kevin Mahn: So Jack obviously is asking a leading question as he's one of the more respected UIT professionals who retired recently. But only thing I would add to that question which you would think that the answer be yes, but in addition, if in fact there are significant short-term raises to interest rates, well then that could have a short-term impact on those leveraged closed-end funds because their distributions may have to be cut quicker than earlier anticipated. So an inverted yield curve, obviously it doesn't work well in that environment. In addition, if rates rise shortly over a short period of time that could also have an impact on leveraged closed-end funds from the research we've done.

Randy Watts: Thank you, Kevin. We'll move on, we're running out of time, let's try to get through all the questions here. This one could be for anyone. "Is a UIT a term vehicle with a liquidation date?" I think the simple answer, I'll go ahead and take that one, is yes, it is. And you'll see them typically anywhere, equity ones from 13 to 24 months with traditional fixed incomes probably being a little bit longer.

Next question, "What's the typical added fee in the UIT?" Now I'm probably going to assume that this question is referring to the acquired fund fees of these type of products. Anybody want to address that question?

Kevin Mahn: It depends on if the financial advisor purchased the UIT on a transactional basis or a fee based. There are CUSIPs available for each. For example, if you buy it using a fee-based CUSIPs, generally there's a 50 basis points creation and development fee, that's a two-year UIT, you could look at that as 25 basis points a year. If you're going to buy it on a transactional basis, there's a different fee structure in place whether it's a 15-month or a 24-month structure. Matt, Joe, do you want to add anything to that?

Matthew Bryant: Yeah, nothing too much to add. I'll just say that it will follow, from an expense standpoint, follow what other typical equity UITs would offer. In a lot of cases, the larger the UIT, the lower some of the internal management expenses are going to be. And then beyond that we would just take on the underlying expenses of the funds which are typically between one or two percent.

Randy Watts: Thanks guys. Looks like we're almost out of time, we probably have time for one more. And I think this is a question regarding some of the comments that were made. "So UITs are not available to the average retail individual investor via Schwab or Fidelity at all?" Anybody want to address that one?

Joseph O'Malley: They are available on those platforms. Admittedly those platforms aren't built out for UITs so it can be a bit of a process. Personally, I have a Schwab account, I've been able to buy UITs in there, you just have to pick up the phone and do that. But to the nature of the product, it's something that has been sold typically through financial advisors, so that's the way a lot of the platforms have been built out for that. But certainly an individual investor can buy any of our portfolios, just note that you're probably going to need to pick up the phone and call whichever platform you're using to trade.

Randy Watts: Thanks Joe. I think we're at time. Welcome back, John Cole Scott. Let me first say thank you again to the panelists here for your contributions, and I'll turn it back over to you, John.

John Cole Scott: Yeah, thank you all, and again, some great feedback. I'll say for TD Ameritrade it trades like a fixed income through the fixed-income desk, which we've done, that's where we custody for our clients and for both retail investors.

I would say I totally forgot about the fund of fund rule, I'll cover it in the closing PDF, the slides, and make sure they're accessible because they're great comments from our partner at Skadden. I would say the way to add in some flavor to the great commentary you guys did. When we talked about rising rates impacting closed-end funds from the leverage, I kind of say that for a levered closed-end fund it's one part leverage, four parts investment. Eventually the investments get replacement bonds generally speaking and catch up, but there is that headwind at the first onset that we've all experienced in our careers. And I like that, that seems to work well when I talk to advisors and investors about that potential rising. And again, Mike Taggart did a great job with an article that we'll make sure everyone has access to that just got published last week on rising rates for closed-end funds, which I'm sure is going to impact all of our future growth.

So with that, thank you guys so much for the time. I learned a few things. I love AICA, it brings great content to light. We're going to take about a 15 minute break, feel free to mingle at the tables, grab a cup of coffee, whatever you need. The next session will start at 2:30 promptly and we look forward to that as well.

Recorded on February 3, 2022.

Click the link below to go to the home page of Active Investment Company Alliance to learn more:

https://AICalliance.org/

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