February 3, 2022 AICA Virtual Event-Passive Access to CEFs/BDCs via ETF and UITs, Panel #2; “Gaining Access to CEFs Through the Passive ETF Structure”

Thursday, February 3, 2022

Sal Licata of ETF Global moderates the second panel of the February 3, 2022 AICA Passive Access to CEF/sBDCs vis ETF and UITs virtualal event; “Gaining Access to CEFs Through the Passive ETF Structure”. Read the transcript below to hear the discussion among Mr. Licata and panelists Roxanna Islam from Alerian, Herbert Blank from ValuEngine Inc., and John Cole Scott from Closed-End Fund Advisors.


Sal Licata


Roxanna Islam


Herbert Blank


John Cole Scott

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Sal Licata: All right, guys, well thank you all for hopping on here. Really excited to start this session. My name is Sal Licata, I’m from ETF Global. I know that it says Patrick Shadow on the agenda, he had a last minute situation where he couldn’t make it. But happy to take over the spot here and talk about this panel. I think it’s going to be very interesting and I’m really excited to talk with the really good lineup that we have here.

So just to get started, this is going to be a panel about gaining access to closed-end funds. I know that this is all through the passive wrapper, this is more focused on ETFs, UITs, and trying to understand how to gain that access to closed-end fund and BDCs through the products. As I mentioned, my name is Sal Licata, ETF Global, we are a data research company for ETFs. Thought it would just be good to have everyone here just give a little bit of an introduction to start. Herb, I could start with you. Maybe just give a quick two minute introduction on yourself and we can get rolling.

Herbert Blank: Yeah, I'm Herb Blank, I'm more than 35 years in the investment financial industry, a quant by trade. I was the first portfolio manager of ETFs in the US back in 1996 with Deutsche Bank. Currently I'm with ValuEngine, an analytics provider for ETFs and stocks. I use quantitative methodologies and I write a weekly blog for them that's very germane to this. I do comparative analyses of ETFs for readers that's slanted towards financial advisors uses and needs.

Sal Licata: Thanks so much for that, Herb. Roxanna, maybe you could just give a little background on yourself.

Roxanna Islam: Yeah, sure. My name is Roxanna Islam, I'm currently the associate director of research at Alerian and S-Network Global Indexes. In my current role I cover most of the thematic indexes along with some of the income indexes such as closed-end funds. I actually started off in the early years of my career in the closed-end fund and ETF industry. Probably back in 2014 or so I was a closed-end fund and ETF research associate at Wells Fargo working under Mariana Bush. I'm going to name drop a little bit because I'm sure a lot of you know her here. And in between then and now I spent several years [inaudible] equity research covering individual freight transportation and logistics stocks at a bank called Stifel. So very excited to be back in the closed-end fund and ETF world here.

Sal Licata: That's great, that's great. And John, I don't think that you need any introduction because I'm sure that you've given it already to the folks over here. But anything that you want to say before we kick into this?

John Cole Scott: I'll just say that my regular job is Closed-End Fund Advisors, a 33-year-old investment firm focused on these structures, and I got into it with my father's career in the '70 bear market 50 years ago taking over control of a fund with his best friend. So again, we do separate accounts is our business, but even before AICA we were able to just want to stay in touch with our peers, our partners, the managers, we had a newsletter. So it's just good to be here and I'll be representing the BDC ETFs on this panel. And so I'll be putting my analyst hat on, how they're different, what you're getting from the portfolio, if you're choosing to accept them. That's my focus on this panel, though happy to take any questions from participants and from audience.

Sal Licata: Great, and just an editorial note here from my side. As you know, the Q&A portion of the chat over there, feel free to ask any questions. If it makes sense and is relevant to bump into the conversation, be more than happy to answer them, but then afterwards we will have some time dedicated just strictly to Q&A.

But yeah, so just to start us off, Roxanna, I thought it'd be really good to start here with you here. Obviously we have all experts in the CEF space and into the ETF structure, just want to talk a little bit about some of the things that your firm is doing in this space, maybe some of the products that you guys have that have this structure where it's a passive fund that has access to closed-end funds. Just some of the insights on XMPT and PCEF, could you just start to talk a little bit about those and what type of access it gives to investors?

Roxanna Islam: Yeah, sure. So to start off with I need to mention that Alerian and S-Network Global Indexes is probably best known for our MLP and midstream indexes. We have closed-end fund indexes that we're very well known for and then we started expanding more into the thematic space including space, cryptocurrency, etcetera. So a broad range of cool things going on here in my opinion, but we are the index provider, meaning that our indexes underline investment products such as ETFs.

Our two main closed-end fund indexes that I'll talk about today are the S-Network Composite Closed-End Fund Index, and that's ticker CEFX, and that underlines the products PCEF. I know, it's a lot of letters and numbers here. And the other one is the S-Network Municipal Bond Closed-End Fund Index, which is CEFMX, and that underlies the ETF XMPT. So both of those products serve as passive ETF wrappers to closed-end funds, which as most people know are otherwise typically active managed products. So it's a bit of an interesting play on there in my opinion.

And so the primary closed-end fund index which I call CEFX, it has about 120 constituents and it selects those out of the universe of about 200 or so. And that includes most of the taxable sectors including high-yields, fixed-income, option income, and investment-grade income, and we'd say it's about one third distribution to each of those sectors. So that really gets you into the feel of the more taxable side of closed-end funds. Whereas the municipal bond index, as the name says, obviously goes more towards tax-exempt side and holds about 60 constituents out of a starting universe of about 100.

So besides that, they're actually constructed very similarly. So they both limit holdings to closed-end funds that have a bit of liquidity. We're saying these are ones at about $100 million or more in assets, it excludes anything that trades too richly, and by that we're defining that as about a 20% premium or so. And then we also limit the management fee that constituents can have to that 1.5%. So it really I guess eliminates some of those more dicey elements that a lot of people see in closed-end funds and it plays more into a diversified passive wrapper that can be more easily accessible to certain investors.

Sal Licata: Great, that's great. And yeah, that's one of the overarching themes that I definitely see for this panel, is [inaudible] mentioned there, having that passive structure, making it a little bit easier for some investors to get into these types of investments.

So just to piggyback off of that, Herb, I just want to talk through some of the other products that we see out there in the space. And maybe some of the similarities to that that Roxanna mentioned, specifically thinking of YYY here. So if you can just talk a little bit more about that ETF and then some of the similarities that that has to some of the ones that Roxanna mentioned that would be great.

Herbert Blank: Yeah, YYY is very interesting, and we should mention overall, but that's what I do is comparative analysis of these products, that YYY and PCEF are the closest things to head to head competitors we have here. They are the only two competitors in this space. PCEF has more steps, as Roxanna just talked about, in their process. There are three major steps that YYY looks at, but both are designed to give a large income, a large dividend yield to the investors here.

In fact, there are dozens of dividend ETFs based on stocks that are designed to give large yields, and as I put in my comparative piece, the largest of these is 5.1%, nowhere near what these products PCEF and YYY are able to give. YYY is currently giving a 7.9% yield and PCEF I believe is 7.6% yield. So these are very large, they're [inaudible] products. Amplify had issues sometimes with turnover in its beginning, so it's why it's got the underlying index which is done by NASDAQ, went from 30 to 45 stocks with a maximum of 3%, so that they didn't have some of the rebalancing they had in the past. It used to have more of an energy bend, now it has more of a banking bend, banking is about 70% of the overall portfolio. Amplify is the leading provider of thematic index ETFs out there along with the other two represented here, VanEck, and has been one of the great thematic providers and so has Invesco.

These are very different from generic ETFs like iShares, and frankly require an index that thinks a lot more like an active manager than a generic iShares type of index. So I think these are very unique features that need to be looked at in these. These are also pretty unique in that they pay monthly distributions as opposed to quarterly distributions for most ETFs. Again, very oriented towards the income investor. And all of them look at both YYY and PCEF to pay a lot of attention to who the issuer is, how much capital they're consuming, all of those factors.

We had Paul Mazzilli look at this, we've had John Cole Scott look at that PCEF in the beginning. Andy [inaudible] was a consultant at NASDAQ on the YYY and is one of the experts there who we used. So these are expertly built indexes that mimic active managers, they're not generic indexes that just anybody could slap together. NASDAQ in particular on this one does a very good job of supporting what's underneath, just like Alerian S-Network does, I know from personal experience. And VanEck I think on BIZD uses Selective and they do a very professional job as well. So you've got top players doing top things here. I'm sorry, Sal, I didn't mean to run over.

Sal Licata: No, no, no. Not at all, not at all, that was great. You kind of just helped me to segue right into the conversation I wanted to have with John here. So Roxanna and Herb, they both talked about the access to CEF through an ETF wrapper. Could you give us a little bit of an understanding about maybe the access to BDCs through the ETF wrapper? Specifically one of them that Herb mentioned, the BIZD and then BCF as well, kind of give us a little bit of insight on what's going on there?

John Cole Scott: Absolutely, and so first off, because a BDC is a closed-ended management company with a modification from 1980, we started covering them actively in 2014, we make them essentially another sector of traditional closed-end funds. They have a lot of similar characteristics, they have some differences as I put on my analyst hat, they actually do file more like an operating company and are kind of a hybrid-ish structure. But they are an active manager, they're listed on exchange, at least for the listed ones we talk about today, or the ETFs that make up the wrapper for, and then they have portfolio holdings. They're not truly an operating company the way we see them.

The largest and oldest ETF in this space, in the passive is BIZD. Just checking my math, it was actually launched in February 11th of 2013. Like I shared in the intro session, a little over half a billion in assets. And really 25 positions, because honestly there's only about 30 liquid positions in this space. We actually at my firm did benchmarking indices. Which I think might be worth mentioning that when you build a benchmark index, you're not worried about if you're going to be a billion dollar ETF, you just want to do a true benchmark without liquidity concerns.

We have 37 BDCs in that index right now, and all it requires is a million dollars of liquidity in the prior quarter so that you're not the tiniest BDCs, you have some sort of liquid access. And so this more focused than that, but you will notice that basically the largest position is a well-run BDC, ARCC, but it's 19% of the portfolio, versus our index for benchmarking is equal weight, is 2.9-2.5% is the average current holdings based on the movements since we reconstituted year-end.

Now VPC which is a Vertus product, it's actually not the first time this product existed but it changed and got rebooted, and so its current inception date is February 7th, 2019, so almost a three-year track record. We'll have that next week on Tuesday. And basically its process was designed to say, "Okay, we don't want to be a market cap weighted exposure to BDCs," so there are about 65% BDCs, it moves around a little bit. They've added senior loan funds and they've added CLO-focused funds into the universe of potentials. And then their weightings are a mix, the largest is 3.19%, the largest BDC exposure, and the smallest is 0.91%. So still some small pieces but nothing that's quite driving the equation.

So on BIZD, many of its largest BDCs are well run, but the top five BDCs are half the assets. So while you're getting exposure to the index, it's still focused on a few players. I will say in looking at our index, which is truly equal weight, their three and five-year performance figures are actually within 1% of each other. So the experience has not been so detrimental by having the overweights, but that doesn't mean it couldn't in the future. What I also liked about the VPC is the way that it does again allow less overall volatile exposure. If we analyze the holding's correlations to each other, it's about 15% less correlated than the holdings of BIZD, because CLO funds generally move in different directions through non-panic periods as BDCs. So again, two interesting products, very different constructions and a different reason to buy either.

Sal Licata: Great, thank you so much for that. Just to take that a little bit further, Herb, I think you might be the best person to speak to this part of it. But I did want to mention about the new 6c-11 rule within the ETF structure that has really been able to kind of open up the investment landscape for issuers to start to invest in certain products and level the playing field here. So I know that you could probably talk about this for hours on length, but maybe if you could give everyone here just about a two-three minute understanding of exactly what this 6c-11 rule did and why it is so important to the investment community.

Herbert Blank: As one who once spent two and a half years between '94 and '96 trying to convince let this structure go and amassed three teams of lawyers' fees on behalf of Deutsche

Bank for this, I can't tell you what a boon this has been to just be able to follow a number of simple rules and list your ETF on there. And the 6c-11 basically says that if you have an index that can be explained in any algorithmic way, that you put the rules on the website and you have your holdings on every day on the basket and on the website, you basically don't need to do a filing beyond the standard regulatory filing. You don't need separate approval, you just put your no action letter in and you're done. That's ETF and we've seen a big of rush of them towards them.

But subsequently there was an active management rule that really put a bone on that, but that's not part of this discussion because none of the active managed ETFs yet hold closed-end funds at least to a major extent of their portfolio. I'm not sure that that won't change in the future either.

Sal Licata: No question at all. No question at all. But no, I appreciate that part of it. And to your point, we have seen just in our database the amount of funds that have been launching. And just from the different types of players too, players that have never been in the ETF community, they're really starting to get into here because of the flexibility that this new 6c-11 rule gives. So I think to your point you're going to see a lot more of these types of investments come to the forefront because you're starting to get some of these more, I guess people that are tailored to certain types of investments coming into the space because this rule allows them to.

So just to switch gears on that too and really talk a little bit more about the ETF structure, I know Roxanna, you guys obviously have a bunch of different indices. But to be able to access the CEFs through an ETF structure, what do you guys see as maybe some of the benefits of that, being able to access it through this passive wrapper instead of just a regular closed-end fund investment?

Roxanna Islam: So I think the answer to this, and honestly to any asset class not just closed-end funds, is obviously the ease of diversity. For people like us on this panel, we may know a little bit more about closed-end funds than the average investor does. So they might be really exciting, the discounts and the premiums and catching a value play off of them sometimes, but for the average investor the purpose of these closed-end funds is typically the income portion. If honestly you know a few closed-end funds that are going to give you some high distributions and you're confident that those are going to be stable, then by all means, you should probably get those closed-end funds. But for the average person you may not have that ability or that time, and that's where these passive ETF indexes come in. Because they really just take the average of that universe.

And especially the way that our indexes are constructed, it's actually weighted more towards the constituents that have larger discounts and there's a smaller weighting for the constituents that trade at a larger premium. So you're really getting the whole discount premium aspect of that professionally managed, and you're still getting a decent yield. As I know Herb mentioned the yield for PCEF, it's about the same as the index obviously, it's in the high seven percent range and that's been about the five-year average. And same with CEFMX on a tax-exempt basis, it's about the same.

So you're getting what's considered a decent yield without worrying about the discounts, the premiums, all of those sort of dicey elements that people like you and I might find interesting but the average investor might not have as much time or willingness to look into. So you're getting the diversity of the managers, you're getting the diversity of the distributions. If one manager makes a distribution cut, in the long run it won't hurt the distribution as much because you're taking the average of all those closed-end funds in that index, which to me really has just a lot of that risk that you get with those individual holdings.

Sal Licata: That was great. John, maybe you have something else to comment on that one?

John Cole Scott: I do. I really come back to this is actually the most, not most uncomfortable but just most new type of panel for me. Because coming to the world owning closed-end funds essentially at my birth and knowing about ETFs, we go, "No, we're Closed-End Fund Advisors." And then 10 or so years ago the first ETFs came out, there were already the UITs in this space, I got to know about ETFs through folks like Herb and people at S-Network, and your firm, Sal. And then seven years ago we launched a UIT of BDCs. So as I'm really just sitting here thinking of the structure of the wrapper of the passive access and really what I think the benefits can be.

After this phone call you could go sell your ETF or buy more based on what you heard today. If you're the UIT holder, like an open-end fund, you do have to submit a request and it usually takes an extra day in our experience than day-of for the liquidation. Not that I suggest investors actually be managing a portfolio on a daily basis if they're choosing ETFs or UITs, but I would say in my experience that UIT exposure to BDCs, where they're more active and it's not thinking about necessarily market weight or not necessarily thinking about other factors, is the different than the passive.

And so the BIZD and VPC, like they read a news report, someone says at *Bloomberg News*, "BDCs have too much leverage and nobody wants that in a rising rate environment." And there are all these underlying, whether they're closed-end funds or BDCs are retail held by about 80% of the shareholder base, so you tend to get some really emotional reactions. And if you're an advisor that has a busy practice, you're like, "Well, I just want closed-end funds," you're going to place that ticket for a bunch of shares in a block account and allocate in one day across many funds, many sectors through these different products, whether it's the closed-end fund or the BDCs. And that's truly the way I think of it, is what's the value? Is that ability to quickly get that exposure and you can hold it for years or hold it for days, it's your choice as the investor and the advisor.

Herbert Blank: The characteristics here, also as a choice, are amazing in terms of a tradeoff. You've got more than five times the yield of the S&P 500 in both PCEF and YYY. You've got 30% less standard deviation of the returns. And you've got a growth about 60% on the average of the S&P 500. So you're still getting your growth, you're appreciating, but you're getting an amazing yield and being paid monthly. Compared to that, if you're an income investor but still want stable growth, you want diversification, you want volatility, and you want managers underneath it who know what they're doing with leverage and have to meet very sophisticated rules in order to be in those funds, these are alternatives that you have to look at compared to a dividend ETF like DIB which has much more spotty returns, much higher volatility, and only gives you 5.4% yield. You're much better looking at these PCFs I think than super dividend ETFs that use ordinary stocks but can't use leverage.

Sal Licata: Yeah, that was great, that was great. Really appreciate the insight from all of you guys. So just shifting, I know that we spoke about some of the advantages that the ETF structure has, but now I want to take it to the advantages that advisors could really get from managing these. So John, maybe if you could just start us off here, could you talk a little bit more about how ETFs of closed-end funds and BDCs might work versus the UIT structure or even a self-selected portfolio? Just give maybe some of the advantages and disadvantages of both.

John Cole Scott: It is. So my day to day work is the building of customized SMAs for clients, I actually know some of my clients are in the audience, it's just different. But we are very labor intensive, we don't manage a billion dollars, we don't expect to, we like that. Our portfolios tend to be 2% is small and 6% is large. They tend to be 30-45 holdings through regular markets versus these indices really to do their job. It's interesting, when I sat down with the folks at S-Network early in my work here and I'm like, "So, what if you don't like a couple of the holdings of your index?" And I don't think we really talked about this in the prep call, but any analyst could say, "Well, that's a bad closed-end fund or that's a bad sector."

What's really interesting is when you think about if I make a change for my clients, customize at the client level or at the sector level because of a news flow, it's a much different experience. I'm actually picking a ticker symbol with my brain versus the index is selecting it based on criteria that it could be there for only 90 days. You may not even notice it was in your exposure to the index because the index isn't really the each selection, it's the theme around the selection. If I get this wrong, the two other people can correct me, but that's really where my brain was. The point here is you could say, "I don't like five of the holdings of this ETF." But you go, "But do you want the criteria to reset every 90 days or annually?" or whatever the reconstitution period is. T

That's how I think the advisors, if they understand the rebalancing and the rules at a high level for the ETF, and then they understand there are people that buy our UIT and BIZD and they do it differently, or individual holdings. There's no really wrong answer. But if you as an advisor buy individual holdings you have more being right or wrong to your clients, if you buy a product you have at least a shelter of someone else's. If it's the UIT you can call and blame me, if it's the index I guess you just blame the rules, and you have these different access points.

So that's really how I think of it. And the UIT, good or bad, I don't know any that live in this sector more than 24 months. So there is some differences in the ownership versus you could own PCEF or XMPT or YYY or BIZD for 10 years and not even worry about it if you wanted to be in that allocation. And I think that's where the ETF wrapper really brings its strength. And again, if I missed anything there's two other sharp panelists that can fill in the gaps for me.

Herbert Blank: Yes, I think one thing that's also overlooked, we're talking closed-end funds, we're talking ETFs, there's more than $7 trillion in ETFs but there's still more in the traditional mutual fund. The closed-end fund is a very efficient structure for managers to work in and operate, they don't have to match the daily cash flows, they can put their best information, investment and leverage ideas, and create their closed-end fund according. And the ones that pass the test for these ETFs do so. ETFs are very efficient vehicles, managers don't have to look at daily cash flows. Anything that's going on in terms of putting in assets or taking out assets is done outside the sphere of the fund in little back buckets that resemble the fund in and out of the fund. The manager can hold a very minimal amount of cash and doesn't have to destroy positions that his investment philosophy doesn't want to destroy but has to do it because of the inflows and outflows of the fund.

So that's why you're seeing, Sal, so many new issuers come into here. Because it benefits the management company, it benefits the investor tremendously to switch from the open-end 40 Act structure with the distributor model with daily in and out redemptions. It benefits the investors and the managers a lot more to shift to the ETF model, and then they can start looking and holding and having rules that allow them to access efficient vehicles underneath as well.

Sal Licata: That was great. And Roxanna, I don't know if you have any comments on that as well.

Roxanna Islam: No, they pretty much covered it. Like I already mentioned, even though we're all in the indexing, ETF world, the ETF isn't always the best choice. If you do have a strong opinion about certain holdings and you think this is going to do better, then by all means that might be better for you. But the ETF really does take a lot of the difficulty out of that decision making and it really gives you access to that yield without having to worry so much about discounts and etcetera.

And I think this is sort of a subjective thing as well, but many investors I think are a lot more comfortable with ETFs I would say. They're very much more household names, whereas closed-end funds can sound a bit scary, they are definitely more of a niche product. So I think just subjectively having an ETF is probably a bit more comfortable for someone who's not exactly comfortable with the term closed-end fund.

Sal Licata: Yeah, that's great, that's great. And we definitely see that too. Always with an ETF wrapper you get access to generally speaking a larger swath of a certain asset that you are looking for instead of going into individual securities. So as Roxanna said, there's definitely use cases for all types of ETFs, there's use cases for a self-selected portfolio or a UIT, it really is dependent upon the type of client that you're really looking for there.

So with that being said we did get a question here that I just wanted to mention, and panelists feel free, whoever thinks might be the best person to answer here. But the question is, "It appears that the selection of closed-end funds within ETFs are static. Is that true? And that concludes the trading of closed-end funds for cap gains if the closed-end fund was up and others are down." Anyone here might want to take a stab at answering that one?

Herbert Blank: Well, as Roxanna was explaining and I can go through the rules, both YYY and PCEF have a quarterly rebalancing and they have very unique decision rules. So if the closed-end fund that's in there no longer meets the criteria, then they are rebalanced and replaced with another holding at the rebalance and reconstitution time. Reconstitution is what we're talking about here, instead of just changing weights you are physically taking a stock or a closed-end fund out of the index and replacing it with another one that meets the criteria.

And that's the thing, these are expertly built indexes, these are built to meet the criteria that are most important for the continued growth and the underlying income to persist. Not destruction of capital and not other positions. So yeah, it's an index but it's not what I would consider passive in any way, these are not weighted by market capitalization.

John Cole Scott: Again of course the BIZD is a little bit more market cap weighted, VPC a little bit different approach in their methodology. And there are technically some active ETFs of closed-end funds and we just deal with those in our institutional panels of closed-end fund investing. This panel is focused on the passives where there isn't the questions approach, the ability to sell losses and match them with gains to have that normal loss harvesting or loss gaining approach to a separate account or a private structure.

Herbert Blank: And since that goes to taxes, let me just interject a second on one of Roxanna's other products, XMPT or tied to it, the VanEck XMPT. That gives you a tax-exempt yield of more than 3% as opposed to VTEB, the biggest one out there, Vanguard Tax-Exempt Bonds which currently has a yield under 0.9%. And again in most accounts that's qualified as tax-exempt income, which is incredible and only due to the leverage underneath and again the selection techniques which wield out any trouble spots and keep you with the cleanest, most productive, most continuing closed-end funds.

Sal Licata: That's great. So here's one of the things that I'm thinking here, the ETF rule, it came to be in, I believe it was December of 2019 that it really started to go into effect, right? So still relatively new when you look at the ETF industry that has been around since 1993, and some people will say even before that, I know that there's a lot of different time periods that people see, but SPY created in the early 90s there.

Just speaking from that side of it, since this rule is so new and you're starting to see a lot of these new folks get into the industry, any type of product innovation that we think might continue to happen within the CEF and the BDC space for ETFs? Is there anything that you guys can maybe see as something that might be coming down the line now with this new ruling in place for certain managers to get into? Start off with anyone that might want to take it here just to kick this one off.

Herbert Blank: John?

John Cole Scott: I would say that what I'd like to see, when I think of things I wish were in the market whether they'd be an SMA or an ETF, an active/passive, I think there's some themes where closed-end funds can really be in concert. We don't put preferred stocks or other instruments in our portfolios, but I can see them really being-- I'd like to see a way to have more products where closed-end funds were a piece, or BDCs. I'd say their big challenge is the acquired funds fee rule. For UITs to actually have an exemption, you only see the acquired funds fee rules in the footnotes of the disclosures, you don't see it on the fact card because the way the rules happen to be.

But the average BDC, the way you look at a regular open-end fund has an average expense ratio of around 10, nine maybe, and that usually confuses people. And I'd say that's because that's like the cost of an operating company that is doing venture loans, it's not buying muni bonds, it's different business. And so I'd like to see more sponsors think about, as we can maybe soften the acquired funds fee, challenge in building products the ability to add them as tactical parts of the greater universe. Because our clients are all closed-end funds, we recognize that's the normal experience of advisors and investors. You have to really like the structure or really want the output.

Sal Licata: That's great. So yeah, another question here from the crowd which I think is very good, and we've definitely seen this. ETFs have without question seen decompression over the years, where you're talking about where they were at one point to some of these being a basis point and not even having any fees really attributed to them at this point. We haven't necessarily seen that yet in this space with the closed-end funds ETFs. It's probably coming I would imagine just because of the competitive nature of the ETF landscape. But to this question, do you expect the expense ratios to come down in line with the rest of the industry? And why or why not? Roxanna, Herb?

Herbert Blank: I'll jump in here. You have to separate first of all the management fee, which is really the only part of the fee that the management company, the provider, in this case Amplify can control in anyway. Amplify's is 50 basis points on this product. Correct me if I'm wrong, Roxanna, I think Invesco's is 45 basis points. And until there are other providers who can give this kind of income stream and this kind of durability in this space, I don't see a fee war between those two on the management fee. And again, that's the only part that's malleable. The acquired fund expense ratio for YYY is 2.44%, and that's including all the embedded investment management fees in the closed-end fund which is already factored in, it's already part of the NAV, and it's really an overstatement of anything of importance to the investor.

Roxanna Islam: I'll second that statement, it's a good point. And you know with these fund of funds, let's be honest, you're going to have higher fees than the average ETF. And within our indexes, that's sort of why we have a lot of these criteria for the universe. For example, for both of our indexes, the maximum fee for constituents is 1.5% I believe to be in the universe, and then for a holding I believe it must not be higher than 1.25%. So there are things that we put into place there to make sure that the fee doesn't get ridiculously high, but it is going to be a higher fee for a fund of funds. I feel like it can't get too much lower, not that I'm an ETF fee expert but it's going to be a little higher than the normal ETF obviously.

Herbert Blank: The only thing you could see is the 45 or 50 part going to like 30. Below that you can't put all these criteria. The research is very expensive compared to just getting generic stock research.

John Cole Scott: It is, and you might say that to get the wholesaler to get the attention of the advisor to explain closed-end funds and then explain the theme of the criteria of the index is a little different. I think as I've seen, the sponsors that bring ETFs of closed-end funds to market have wholesalers and sales teams that can support the product to grow the product and it's different. It's a different ecosystem even though it's the same wrapper in my experience.

Sal Licata: Yeah, that's great. You see it just within the ETF industry, as you guys mentioned, this is a highly specialized product compared to some of the regular passive indices that we have out there that are just tracking stocks or technology sectors or whatever it might be. So you can definitely see there's always going to be a potential, and most likely at some point as more products do come out on marketplace and more managers get out there in terms of the ETF industry, there might be some fee compression coming down the line. But to the point, I don't think it'll ever get to the SPYs of the world and so on just because it's a totally different type of product.

Herbert Blank: Even though it's a little out of the purview, I'll just say fee compression has been universal to 40 Act funds, I want to mention these are still governed by the 40 Act. Forty Act open-end funds have had huge fee compression, and again the managers in this competitive environment have to justify earning their fee and that's again why you're seeing more and more migration to the more efficient structures. This is going to be a 10-year cycle. Again, they're huge assets in the 40 Act funds out there, but they are suffering as much or more fee compression on a basis point basis than are the ETFs.

Sal Licata: Yep, absolutely. So just one question that I had here, just out of curiosity, and please anyone who would be able to speak to it, but as we know the ETF wrapper is obviously very tax efficient for the issuer especially as well, right? Being able to use that creation and redemption mechanism and have those in-kind transactions, you get a lot more a tax efficiency when you're talking about a portfolio turnover, reconstitutions and so on. Is there anyone that might be able to comment a little bit on that and just talk about why that could also be a very good thing for the end investor having that type of open-ended structure with these closed-ended products?

Herbert Blank: Yeah, I'm probably one of the original people who explained that back in 1994 going forward. Yes, but the creation, redemption, and technically called free receipts and deliveries to the fund, you're not selling the shares on the exchange, you're not buying the shares on the exchange, and that's what makes these kind of ETFs, it works with closed-end fund ETFs so very efficient. It's not universally true, there are some things, like there are some structures now in the semi-transparent where they're going to have to buy some shares on the exchange. So there will be some passed on. There have been some fixed income and other esoteric products where they've had some taxable distributions. But most equity ETFs in the US have pretty well minimized to almost zero most of the distributions, and that's true of YYY and it's true of PCEF and XMPT since it existed, no capital gain distributions. Distributions, only the distributions you want, the monthly income distributions.

John Cole Scott: I might just add that even the muni bond closed-end funds are technical equity investment companies that are listed on an exchange, which derive their NAV from the underlying bond and fixed-income exposure.

Herbert Blank: Correct.

Sal Licata: Yeah, that's great. Roxanne, I don't know if you have any comments on that.

Roxanna Islam: No, I think they covered it.

Sal Licata: Yeah, pretty efficient these guys over here for sure. But yeah, look, from my standpoint this was great. I think for something that is going to only be a continuously growing industry within the passive space, especially in ETFs as Herb mentioned, the 6C-11 rule coming about and more managers coming into it, it's going to be something that from an educational standpoint people are going to have to try to keep up with. And I think that that's the hard part for the issuing firms, for the index providers and so on, to make sure that people can really understand why having these structures through an ETF wrapper is so important and how efficient it could be for advisors and so on.

Herbert Blank: Question for John if I may. John, with that fund of funds rule, and with the need to keep up with both inflation and interest rates and the current seat change and the environments, what is the chance and who might be most likely that will see a spate of new closed-end funds and closed-end fund syndication in the offering? Because I think we need more of them in the selection set.

John Cole Scott: It is. So I mean, I was doing our work for the quarterly, we've had our data business for 41 quarters, doing my quarterly research call last week and we had the highest asset growth of $15 billion in '21 than I've seen since we started our data business. But I went to our other records the ones that I didn't create, and reminded myself that in 2003 there was $28 billion of IPOs, there were 47 IPOs, there were seven alone in September. And right now with the closed-end fund structure of a general 12-year term, which is a discount management feature that is attractive for investors. With the manager paying the load, it's the inception NAV, is the NAV that as you paid, which is a nice benefit and attracting more advisors that didn't buy the old IPOs, it's still hard to get the focus and attention of syndicate and the advisors which is a current methodology for creating funds more than one a month.

We had two funds that tried to launch the same month and one ended up having way more success than the other just because of the size of the sales force and the number of other ticker symbols of that sponsor's piece. I'm an optimist. Now I created AICA for many reasons, but I also realize if we get smart people together, remember, service providers, product people, asset managers, we'll find a way to solve this problem. The technology and what's new.

Oh, the one benefit is the funds are now three times bigger on average than they were back in the 2000s. So we are getting many multibillion dollar funds versus smaller funds. I would like to think there'll be a way to get a good idea into the market that allows indices and UIT managers to have more options for their portfolios for of course people like me. I'd say a lot of the reduction, 80% last I counted was mergers, which generally makes for more liquid funds, larger funds, lower expense ratios, more liquidity which would aid in an Alerian S-Network selection process for PCEF. There may be less targets but there might be more options, if that makes sense.

But you're right Herb, a lot of smart people, like I was thinking of what I was doing in 1994 and it wasn't closed-end funds, when you were really forging the frontier of this structure. I really hope that we find a way to solve it.

Sal Licata: That's great. That's great. And I appreciate that and I'm sure that we could have a longer conversation about this too, but it does seem that we're out of time. I want to thank you all for hopping on this panel, I thought it was very insightful. Yeah, I think John, do we have the networking sessions next?

John Cole Scott: It is. I'm going to do a quick closing session and show that slide I forgot in my excitement to start panel one.

Recorded on February 3, 2022.

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