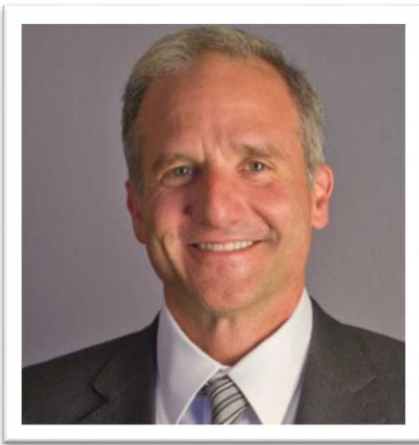




Sit's Doty Is Trading Up And Still Expecting Double-Digit Gains This Year

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Chuck Jaffe, in this episode of The NAVigator podcast interviews Bryce Doty, Senior Portfolio Manager at Sit Investment Associates. Bryce says that current market conditions have changed the opportunity set for investors, who now want to be trading up by unloading closed-end funds that have hardly moved in favor of issues that have swung more wildly, even if that means "holding your nose" on the quality of the funds you're buying. He says that he is playing NAV movement in muni funds but discount movement in categories like high yield. And for all of the turmoil, Doty says his prediction for fixed-income closed-end funds returns this year "is still double digits, it's just going to be different."

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CHUCK JAFFE: Bryce Doty, senior portfolio manager at Sit Investment Associates is here, we're getting his take on the bond market now on The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization representing the full spectrum of the closed-end fund business from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. Today we're heading in the direction of the bond market and bond funds with Bryce Doty, senior portfolio manager at Sit Investment Associates, he and his team manager \$17 billion in assets, including about \$2 billion in closed-end fund of funds for separate accounts. You can learn more about the firm and what it does at SitInvest.com. Bryce Doty, welcome back to The NAVigator.

BRYCE DOTY: Thanks for having me again, Chuck.

CHUCK JAFFE: You know, the last time we talked for The NAVigator was a little bit over a year ago, and you said at the time that you didn't think we would see meaningful rate cuts coming until 2025. Well, we got some rate cuts, they were not as much as the market was anticipating last year, then we got to where folks were thinking no rate cuts, now they're thinking maybe rate cuts. Are they going to be meaningful? Because the ones we saw last year didn't have the impact everybody expected them to.

BRYCE DOTY: We think that we'll see more rate cuts in the third quarter, we see the consumer really strapped, we see some other headwinds that you may have heard of regarding tariffs. And what the Fed cuts did do is steepen the curve, and it's going to steepen the curve further, tariffs have steepened the curve, everything is about the curve right now. For closed-end funds, that's great, so we're taking advantage of the funds that are going to benefit from the steeper curve, specifically ones that have the flexibility to employ leverage, borrow short and invest long. They're going to come out on top of this, but you can't tell right now because it's just a mess. There's so much volatility that differentiation or bifurcation between the haves and have nots in terms of the funds that will benefit from the curve steepening and the ones that won't, it's going to take a while to sort that out, but you should be planning for that today.

CHUCK JAFFE: When we see rate cuts, will we see the kind of impact we would have anticipated last year? That's a huge question both for consumers but also for what's going to wind up happening as we watch the bond market impact those tariff policies and the rest.

BRYCE DOTY: You're right. The impact last year that we were looking for was that the Fed was going to cut rates and rates come down at the same across the board. Maybe the 30-year maturity didn't come down as much as the rest of the curve, but we certainly weren't thinking what's happened this year where the 30-year yield is going up in the last month or so. And if the Fed does cut now, the curve will steepen without any assurance that the curve will come down across the board like we were thinking last year, so it's going to be different. The overall positive returns are just going to be less. It's still going to be good, it's still going to be good for bonds, and the dislocation that's happening with all the confusion is going to provide enough additional return in our minds to make up for the lack of the benefit that we thought we were going to get from the Fed last year. Our prediction for the returns for this year for closed-end funds is still double digit, it's just going to be different.

CHUCK JAFFE: Let's drill down on that. Your prediction for returns on closed-end funds, we are talking about double-digit returns in fixed-income closed-end funds?

BRYCE DOTY: Correct, so we're getting 78% from the income. We thought discounts would continue to narrow or that bonds would benefit from a kind Fed easing, at least to neutral, so bring rates down another 1%, 1.5%, whatever your flavor of neutral is, that would provide a little boost to the NAV. So if you add those three components up, you're definitely over 10%. Now the trading opportunities have been so fantastic, I would warn everyone to not put in a market order, use limit orders. We bought a fund that was down 8%, and it was up 3% the next day, I mean, someone entered that order wrong. But those trading opportunities are going to provide a source of return that will make up for the lack of NAV appreciation we were expecting from a kind Fed. We'll still get some from the Fed cutting, but this whole tariff business causing long rates to go up, long rates have to adjust to the one-time impact of tariffs on inflation, it just has to. That's going to be a headwind, but the trading opportunities are making up for that, we're still getting that 78% income return, and so we still expect to end up north of 10% by the end of the year.

CHUCK JAFFE: That is happening in an environment where so many folks are losing faith that we have seen discounts widen a little bit, are you surprised that they haven't widened more?

And how much is discount activity impacting those trading opportunities you're talking about?

BRYCE DOTY: You know, the discount movement and widening and variance from one fund to the next are really significant right now, trades that we thought would take months to pay off, pay off in hours. It's crazy, you blink, you miss it. I actually kind of love it because of that, but you have to be in the market, you have to be leaning forward, you have to play to win instead of play to not lose, so you're going to make mistakes, but if you do that you're going to have more opportunity than mistakes at the end of the day, and it's a lot more fun. And then you're not living in fear, leaning back, waiting for things to come at you, and so that's the kind of attitude you need to have in this marketplace. When it comes to discount widening it depends on the stock market, even in bond funds, if the stock market's down 5%, no big deal, for some reason the magical level is 8%. If stocks are down 8% in the month, it starts the stampede for the door and everyone just wants to get out, and that's when we see the discounts widen. And so you wait a little bit longer before you go in, it's kind of like *Trading Places* where Eddie Murphy says, "No, no, they're panicking, they're panicking," and so you wait just a little bit longer to where you yourself feel some serious fear, that's when you buy.

CHUCK JAFFE: Are you feeling that fear? Are you sensing that fear? Or was that only in the first initial days when it was so ugly?

BRYCE DOTY: I felt that five times in the last two weeks, it's that incredible, that amount of volatility. We have some clients that allow us to use hedges, we have used hedges on the S&P 500. One time we decided, you know, maybe we should add a little bit here or something like that, and we go, you know, just over the next couple of weeks just to dampen the downside, we sold that within two hours. We made 5% in two hours, and then we reloaded that six more times in the last two weeks. We've done round trips on it, and that is not at all the kind of trading we're used to, it's been kind of intense.

CHUCK JAFFE: As for the closed-end fund marketplace for you, the trading pattern, the trading opportunities you are seeing, how different is this than if we were talking a year ago? And how quickly can these opportunities dry up if we get back to a feeling where, maybe not certainly, but at least we don't feel like the market is in this whipsaw back and forth, what do you say now kind of environment?

BRYCE DOTY: The strategies are very, very different. Normally, like last year, you would look at the funds that were really caring about the shareholder and making up for the losses when rates spiked, you saw a really dramatic improvement in the governance by BlackRock, you saw Invesco do some great things, they've always really cared about the shareholder, and you really had to do your homework on the underlying funds and things like that. Today you basically just say, "All right, what has the universe of funds done?" Rank it from the ones that move, that went down the least to the ones that went down the most. Ones that hardly moved, sell, buy the ones that have moved the most. Sometimes that means holding your nose and not even looking at the underlying holdings. It's a completely different mentally, and the ones that you sold, that had movement, you might have just loved, they might have been your darlings, but you have to let 'em go. Trust me, you'll get 'em back later. But in the midst of the heat of the moment and the volatility, these opportunities don't come along very often, and you gotta move and you gotta take action to take advantage of it. And then later when the dust settles, you can go back to what we were doing last year.

CHUCK JAFFE: And when we talk about movement, are you talking about NAV movement where you might see something that was trading at a premium, now it's trading at a small discount, but the movement is small? Versus let's just go after the biggest discount, which is what the consumer-oriented person might be thinking is, let me go find the wide discounts, you're actually looking more for actual movement?

BRYCE DOTY: You know, that's a great point, because it's different depending on the fund or the sector, so the muni funds are really overreacting to the long end, and the NAVs are even overreacting, the underlying muni bonds themselves. And those funds, okay, they're levered up, so they have very long durations, 12 to 14 years, but they're tired or anchored to the 10-year, not the 30-year, they're not anchored out there but they are overreacting to moves in the 30-year, that's an NAV game out there for the most part. There is some discount moving, clearly, because people are nervous about that volatility being more than they expect, but I don't think they realize how much the NAV is moving sometimes, so that's definitely an NAV game. On the shorter end and on taxable bonds, it's really discount movement that we've been able to take the most advantage of, and high yield seemed immune at first, and then boy, did all of a sudden quality made a huge difference once you started to see the NAV slip

on the high yield, which then spilled over into discount. That's three very different styles of trading or investment that you have to think about, so that's a really good point.

CHUCK JAFFE: I've long told people that there are going to be times when you'd rather hold the paper, and then there are going to be times when you would rather hold bonds in funds. So I'm curious, in a market this way where you wear both hats because you buy funds of funds but you are also are fixed income investors, right now, I don't want to use the word fun, but are you finding at least more fun or better opportunities, perhaps is the right way to phrase it, in the direct ownership of the paper? Or would you rather be doing this in closed-end funds?

BRYCE DOTY: That's a hard question for me to admit, what we're actually doing, and I didn't expect you to ask that. So when we're holding bonds and we're just in our regular straight bond portfolios, we are extremely underweighted in corporates, like in credit. We're down to 11% of a portfolio that might normally have 40% in corporates, so we think there's a lot of opportunity for spread widening probably in the third quarter. The Fed will have to cut, and there's a lot of yield buyers that are like, "I don't care what the Fed does, I still want 6% for my corporate credit risk." Whereas in closed-end funds we're being much more aggressive, we're actually dipping into those high-yield funds because the discounts are so attractive, and you feel like you're getting paid, so it looks like we have a split personality.

CHUCK JAFFE: Well, I'm kind of asking you to choose between your children and tell us which one you like the best.

BRYCE DOTY: I like the closed-end funds, okay? I love them. I love what's going on there, I love the opportunity, we're constantly upgrading our portfolio, increasing the yield. As things turn and as we come out of this, we're going to snap back and we're having a blast.

CHUCK JAFFE: Well, Bryce, we had a blast chatting with you. Thanks so much for taking the time out, we'll talk to you again down the line.

BRYCE DOTY: Thank you.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe, and I am Chuck Jaffe, check out my show on your favorite podcast app or by going to MoneyLifeShow.com. To learn more about closed-end funds, interval funds, and business-development companies go to AICAlliance.org, the website for the Active Investment Company Alliance. Thanks to my guest Bryce Doty, senior portfolio

manager at Sit Investment Associates, where he and his team run \$17 billion in assets, including \$2+ billion in closed-end funds of funds for separate accounts. Learn more about the firm at SitInvest.com. The NAVigator podcast is new every Friday, make sure you don't miss an episode by subscribing or following on your favorite podcast app. And if you like the podcast, leave us a review and tell your friends, because that stuff really helps. Until next week when we're back with more closed-end fund fun, happy investing, everybody.

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