

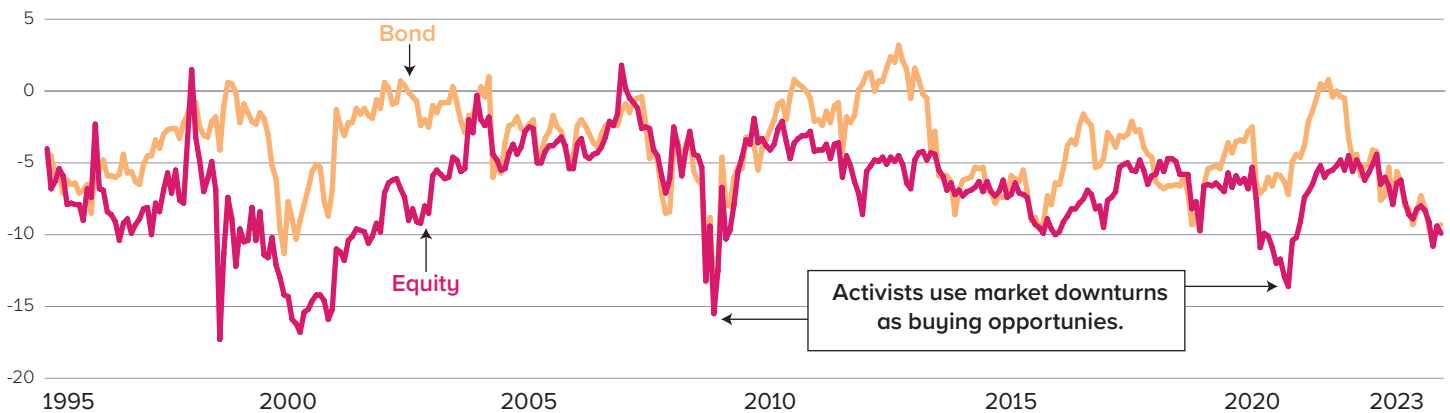
# Closed-End Fund Activism

Closed-end funds (CEFs) are being exploited by a small group of activist investors via a structural feature: the discount. This discount—when a fund’s secondary market price is below its net asset value, or NAV—tends to be viewed negatively, and it is often cited as the primary reason that a fund needs intervention.

But CEFs generally trade at discounts to NAV and have stood the test of time as successful long-term savings options for investors. In fact, on average, about three-quarters of all CEFs trade at a discount in any given month. Discounts can actually benefit long-term shareholders, as they allow investors to get NAV-based income distributions at reduced prices.

## CEFs generally trade at a discount to NAV

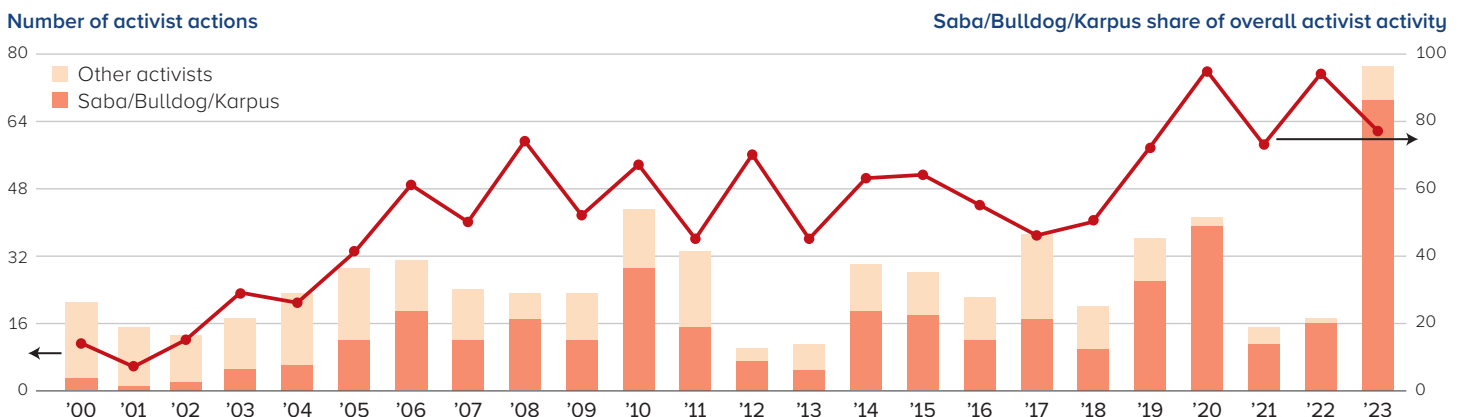
Percent, month-end, January 1995–December 2023



## Shareholder Activism Has Become Highly Concentrated

Activist investors seek to take advantage of discounts, typically with the primary goal of earning short-term profits. They often buy substantial CEF shares during market downturns (generally or for a given sector) when discounts naturally tend to widen. Then they use their substantial stake in the fund to attempt to force the fund to buy their shares at a higher price. In recent years, this has been almost the exclusive domain of three activist firms—Saba Capital Management, Karpus Investment Management, and Bulldog Investors.

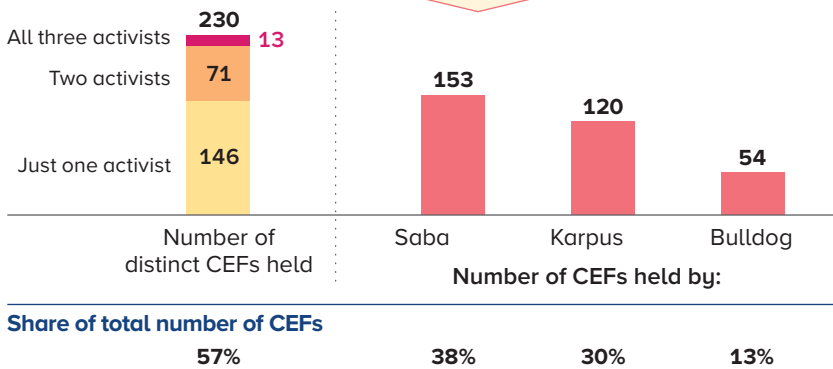
## CEFs are now targeted almost entirely by just three activists



## Three activists hold more than half of the CEF market

December 31, 2023

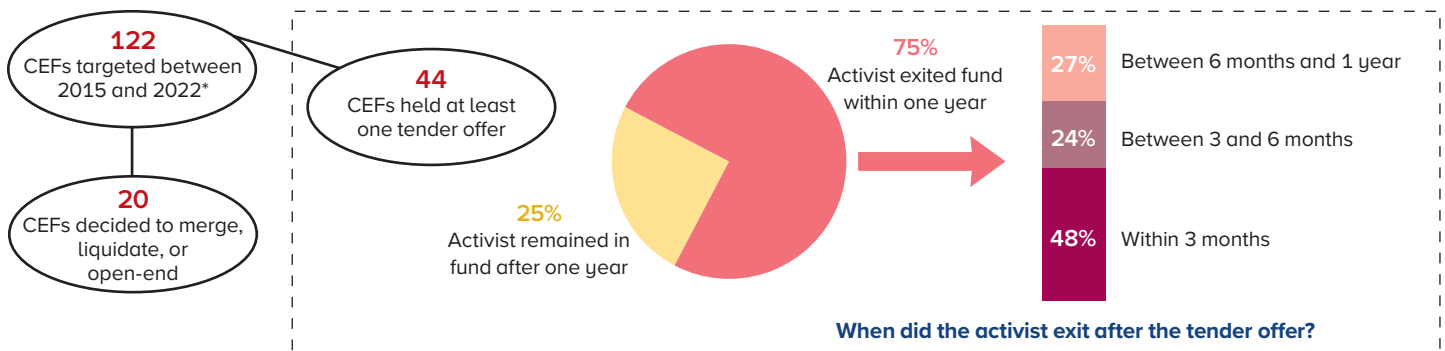
One in three CEFs have been targeted by the three most engaged activist shareholders since 2015, and as of December 2023, they held shares in more than half of all listed CEFs.



- » The activist presence discourages new CEF entry into the market and is an important reason for the **nearly 40 percent drop in the number of traditional CEFs** since 2007.
- » CEF mergers have also played a role in the declining number of funds, but that's because mergers between CEFs provide many efficiencies (e.g., combining similarly-run funds) and may offer a strong antitakeover defense—activists must amass more fund shares in order to exert influence.

## Activists Often Force Tender Offers

Activists primarily seek to force a CEF to liquidate or convert to an open-end fund, but most commonly settle for a tender offer, which is a partial purchase of outstanding CEF shares at or close to NAV. The fact that most activists exit funds within one year of a tender offer provides further evidence that activists are predominantly short-term profit seekers.



\* For some of the remaining 58 targeted funds, activists pursued board seats, likely with the goal to liquidate or open-end the fund from the inside. In other cases, activists did not pursue (or unsuccessfully pursued) change, slowly sold their shares, and either exited the fund entirely or silently remained in the fund.

## Conclusion

Activist shareholders are a significant problem for long-term retail shareholders in CEFs. Unexpected liquidity events resulting from activists' actions can cause tax burdens for long-term investors or leave them without access to the benefits that CEFs can offer, such as steady distributions and exposure to higher-yielding assets. And if the data isn't clear enough that activists are infiltrating CEFs for short-term profits—the exact opposite of their intended purpose—Saba's founder recently stated:

*"But to buy a closed-end fund at a 20 [percent] discount and then work to close that discount through activism...has been super profitable for the last eight or nine years...all they have to do is press a button to turn their closed-end fund into an open-ended fund."*

Activists are emboldened to be open about their short-term profit-seeking actions because of tacit approval by proxy advisory firms, even though these actions lead to worse outcomes for long-term CEF investors. Activists are inviting everyday traders to abuse CEFs rather than use them to round out their long-term portfolios.



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