



VIDEO

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Focus on Funds: Gain Market Insights on Closed-End Funds

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Closed-end funds saw growth and increased attention in 2019. In the May 29, 2020, edition of *Focus on Funds*, ICI Economist James Duvall highlights key trends.

Transcript

Stephanie Ortvals-Tibbs, ICI director of media relations: Closed-end funds are getting a closer look from investors and regulators, and ICI's [annual report](#) looking at the trend lines is out. James, you authored this report. What do we see as some of the key takeaways here?

James Duvall, ICI economist: So total assets of closed-end funds rose by about 10 percent in 2019 to \$278 billion, which is quite the reversal from their 10 percent decrease between 2017 and 2018. However, this isn't unexpected. The total returns on stocks and bonds were really strong in 2019, and so we would expect their assets to rise equivalently.

Ortvals-Tibbs: When you look at the bond closed-end fund category, what do you see there?

Duvall: The total assets of closed-end funds are primarily bond funds, with 61 percent of the total assets. And they've been this way for at least the past decade.

Ortvals-Tibbs: And then when you step back also and look at flows, what do you see there?

Duvall: Flows in 2019 were actually really strong—much stronger than they were between 2015 and 2018. And not only were they strong in 2019, they were strong across all asset classes, so both equity and bond closed-end funds received a relatively large net share issuance in 2019.

Ortvals-Tibbs: James, reflecting on the fact that both the bond and equity markets were so strong in 2019, what does that mean for closed-end fund pricing?

Duvall: What's helpful to keep in mind is that since closed-end funds trade in the secondary market based on demand, their share prices might be above or below their net

asset values. When a closed-end fund's share price is above its net asset value, it's trading at a premium. And when its share price is below net asset value, it's trading at a discount.

Closed-end fund discounts have been thoroughly examined and have persisted for the past couple of decades. In 2019, equity closed-end funds traded at an average discount of about 6 percent throughout the year, and that was relatively stable. And for bond closed-end funds, their average discount narrowed to 3 percent by the end of the year.

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