

The Advantages and Risks of Closed-End Funds II



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Closed-end Fund (CEFs) Recap

- Exchanged-traded CEFs.
 - CEFs trade on a stock exchange between investors.
 - CEFs have **premiums/discounts**, which adds an extra dimension to enhance returns.
 - **Leverage** (investing borrowed money) is another feature.

CEF Premium/Discounts

- **Premiums/Discounts**

- A CEF's Net Asset Value (**NAV**) is the same as an open-end mutual fund.
- CEFs also trade at a **market price**.
- If **market price > NAV**, CEF trades at a **premium**
- If **market price < NAV**, CEF trades at a **discount**
- **Most CEFs trade at discount** → buying opportunities

Premiums/Discounts II



- A CEF's premium/discount reflects the trading demand for the fund.
- Factors influencing demand include
 - **Historical fund performance**
 - **Management fees** (higher fees = bigger discount)
 - **Investor sentiment for CEF asset class**
 - **General market conditions** (bear market = discounts)

Analyzing CEFs

- Go to cefconnect.com to get general data on a CEF.
- cefconnect.com also has a **fund screener**
- Go to the CEF manager's website for further information on holdings, performance, fees, etc.
 - Google the ticker or fund name and “fact sheet”
 - Look for the website address of the fund manager.
 - Data from the manager itself is the most accurate.

Example [cefconnect.com](https://www.cefconnect.com) fund page

BlackRock Health Sciences Term Trust:BMEZ

Print View

Manage Alerts

All Overview Fund Basics Distributions Pricing Information Performance Portfolio Characteristics

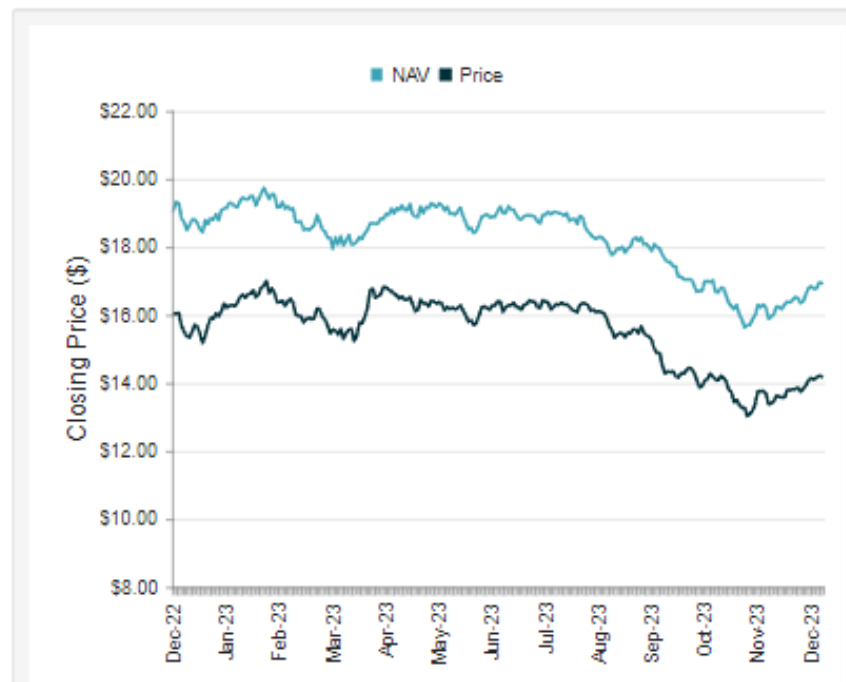
Overview

As of 12/8/2023

	Share Price	NAV	Premium/Discount
Current	\$14.18	\$16.92	-16.19%
52 Wk Avg	\$15.55	\$18.25	-14.82%
52 Wk High	\$17.05	\$19.72	-10.28%
52 Wk Low	\$12.93	\$15.62	-19.06%

Regular Distribution Type†	Managed Distribution
Distribution Rate	7.75%
Distribution Amount	\$0.0916
Distribution Frequency	Monthly

- BMEZ trades at a -16.19% discount.
- BMEZ has pays an 7.75% annual dividend.



Closing Price (\$) vertical range: Narrow Wide

5D 1M YTD 1Y 3Y 5Y Since Inception

Finding Attractive CEFs

- **Discount-related factors to look for in choosing a CEF**
 - **Large discount** – the larger discount the better the deal. However, some funds trade at large discounts because they stink.
 - **Negative z-score** – A negative z-score indicates a fund is trading cheaper than normal.
 - **Limited Term** – some funds pay you back NAV after a fixed term. That means the discount should go to 0 over time.
 - **Shareholder activism** – if an activist investor owns the fund, the activist may get the company to reduce the discount.

Finding Attractive CEFs Part II

- **Other factors to look for in choosing a CEF**
 - **Low expense ratio** – hard to find, since closed-end funds have high fees.
 - **Good long-term performance versus benchmark**
 - **Strong earnings and undistributed investment income**
 - **High yield** – Investors love funds with high dividends

Finding Attractive CEFs Part II

- **Running the CEF screener**
|
- **Bond CEFs**
|
- **Recent case study investment example**

Using the CEF Fund Screener

CEF Connect
The authority on closed-end funds
brought to you by
NUVEEN CLOSED-END FUNDS

Quick Search Ticker or Keyword(s)

Home Daily Pricing Fund Screener Portfolios Alerts Education Center

Dashboard Strategies Criteria Sponsors Presets Settings

To access enhanced screener features, please login or create an account

Fund Criteria

Closed-end funds can be defined by multiple parameters. You can filter funds by selecting criteria from the five categories below. Once you've selected your basic criteria, you'll be able to further refine their ranges. You can also tap "Most common data points" to call up common filtering criteria.

✓ MOST COMMON DATA POINTS CLEAR CATEGORIES

- Fund Basics 2
- Distributions 2
- Pricing 2
- Performance 0
- Portfolio Info 0

Effective Leverage %
Range selections available
UNDER 20% 20% - 30% 30% - 35% OVER 35%
ADVANCED VIEW

Market Capitalization
Range selections available
UNDER \$300 MM \$300 MM - \$600 MM OVER \$600 MM
ADVANCED VIEW

Distribution Rate
Range selections available
UNDER 5% 5% - 7% 7% - 9% OVER 9%
ADVANCED VIEW

Distribution Amount
Range selections available
UNDER \$0.05 \$0.05 - \$0.10 \$0.10 - \$0.20 OVER \$0.20
ADVANCED VIEW

Create a free account

- Create a free account to use the screener
- Click **Strategies** to choose a fund strategy
- Click **Criteria** to select criteria. I focus on **Pricing - Discount /Premium** and **Pricing Z-Scores** but also look stuff like at **Performance – Annualized Return on NAV**, and **Distributions – Distribution Rate**
- Click **View Funds** at bottom to see the funds. Click a column to sort in ascending/descending order.

CEF Screening for an Equity CEF

- **Fund Screener** – Click **Start New Search**
- **Strategies** – Select all **Equity** – **Select All**.
- Click Tab **Settings**
 - Change **Fund Name** to “**When Selected**” from “**Hide**”
 - Click **Save Display Settings**
- Click Tab **Criteria** to select criteria.
- Click **Fund Basics**
 - I unselect **Baseline Expense** because that field is not working (blank).
 - I unselect **Effective Leverage**
- **Click Distributions**
 - I unselect **Distribution Frequency**.
 - I keep/add **Distribution Rate**
- **Pricing**
 - Keep/add **Discount /Premium** keep/add
 - Add **Pricing Z-score 3-month** (cheap vs. last 3 months?)
 - Add **Pricing Z-score 1-year** (cheap vs. last year)
- **Performance**
 - Add **3 Year Annualized Return on NAV**
 - Add **5 Year Annualized Return on NAV**
- Click **View Funds** at bottom right to see the funds.
- Click **Discount/Premium** column to sort in ascending/descending order.

Screen Results

133 Funds Found! Results are based on closing price as of 01/17/2024

RESET FUND SCREENER

SHOW / HIDE SUMMARY

✓	PORTFOLIOS	TICKER	FUND NAME	DISTRIBUTION RATE	DISCOUNT / PREMIUM	Z-SCORE 3 MONTH	Z-SCORE 1 YEAR	3 YEAR ANNUALIZED RTN ON NAV	5 YEAR ANNUALIZED RTN ON NAV
<input type="checkbox"/>		FXBY	FOXBY CORP	2.09%	-42.74%	0.02	-0.79	13.95%	15.12%
<input type="checkbox"/>		MXE	Mexico Equity & Income	2.85%	-26.22%	1.14	1.06	10.18%	7.02%
<input type="checkbox"/>		TEAF	Ecofin Sustainable and Social Impact	9.54%	-23.46%	-1.56	-2.40	3.22%	--
<input type="checkbox"/>		BSTZ	BlackRock Science and Technology Term	7.48%	-21.41%	-0.31	-1.41	-10.57%	--
<input type="checkbox"/>		STEW	SRH Total Return Fund	4.03%	-21.06%	-2.12	-2.02	11.84%	10.20%
<input type="checkbox"/>		TWN	Taiwan Fund	1.30%	-20.17%	0.36	-0.36	15.48%	25.80%
<input type="checkbox"/>		CET	Central Securities Corporation	8.89%	-20.11%	-1.96	-2.23	11.85%	14.84%
<input type="checkbox"/>		CUBA	Herzfeld Caribbean Basin	20.75%	-19.94%	1.28	0.46	-6.02%	0.11%
<input type="checkbox"/>		KF	Korea Fund	16.02%	-19.72%	-0.94	-1.74	-5.64%	4.38%
<input type="checkbox"/>		MXF	Mexico Fund	4.95%	-18.72%	0.36	0.67	17.80%	13.34%
<input type="checkbox"/>		GRX	Gabelli Healthcare & Wellness Trust	6.35%	-18.25%	1.06	-0.38	-0.44%	6.49%
<input type="checkbox"/>		GAM	General American Investors	6.28%	-18.08%	-0.83	-0.88	9.05%	13.07%
<input type="checkbox"/>		NBXG	Neuberger Brmn Nxt Gnrtn Cnncvtvy	10.96%	-17.67%	0.52	0.62	--	--
<input type="checkbox"/>		IIF	Morgan Stanley India Investment	14.15%	-17.53%	1.85	0.95	12.20%	8.71%
<input type="checkbox"/>		BIGZ	BlackRock Innovat and Growth Term Trust	7.49%	-17.51%	-0.70	-0.23	--	--
<input type="checkbox"/>		TTP	Tortoise Pipeline & Energy	8.38%	-17.01%	0.43	-0.41	26.79%	1.64%
<input type="checkbox"/>		GLQ	Clough Global Equity	12.26%	-16.90%	1.33	-0.27	-13.87%	0.96%
<input type="checkbox"/>		SPE	Special Opportunities	9.58%	-16.59%	0.57	-0.05	5.54%	9.85%
<input type="checkbox"/>		TYG	Tortoise Energy Infrastructure Corp.	9.99%	-16.58%	1.16	0.62	18.38%	-9.47%
<input type="checkbox"/>		NTG	Tortoise Midstream Energy Fund	8.97%	-16.35%	1.13	0.27	23.96%	-13.90%

Other Possible Fund Basics to Add to Screen

- **Market Capitalization** (e.g. avoid < \$100 million).
- **Term Y/N** (Y is preferable)
- **Leverage Y/N** or **Leverage %**

CEFCConnect Screener Disclaimer

- The CEFCconnect.com screener is a first step.
- Don't buy CEFs from the screener without researching them further.
- **You must still do your own due diligence!**
- **Check the CEF holdings, expenses, trading volume, performance, news, etc.**
- Avoid cheap CEFs with upcoming rights offerings, as shareholders get diluted by new shares.

Leverage and Bond CEFs

- Unlike open-end mutual funds, CEFs can use leverage (borrowed money) to invest.

- This can make bond CEFs attractive
 - Leveraged bond CEFs **usually** offer higher yields to their investors

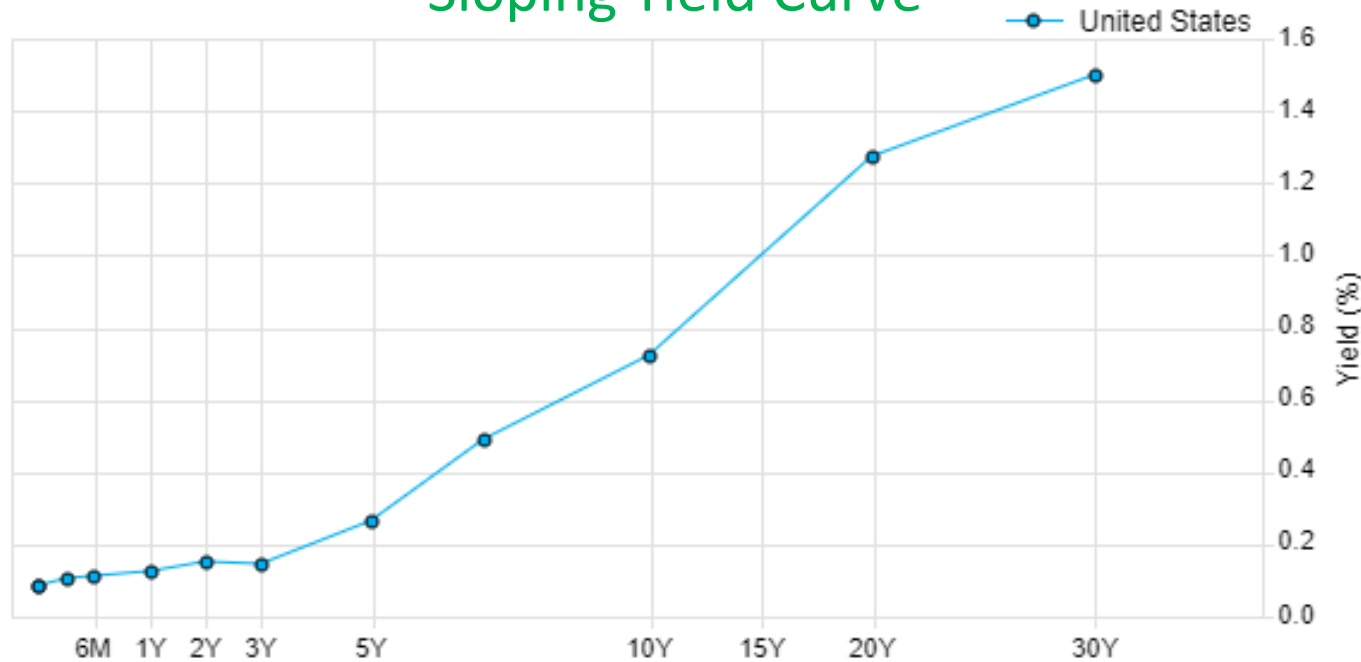
 - Funds borrow at low rates and invest at higher rates.

 - Funds borrow at cheaper rates than you can borrow at your broker.

Not Great Time For Bond CEF Leverage

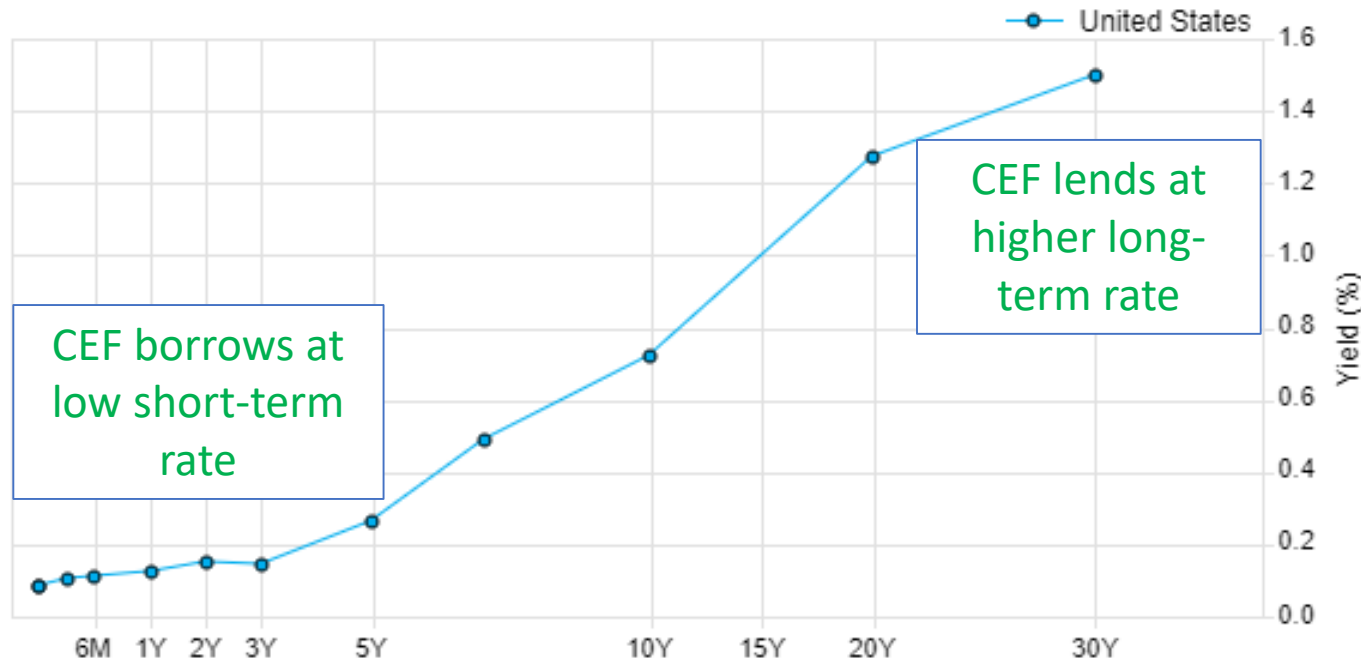
- With Fed Funds rate > long-term rates, leveraged bond CEFs are less attractive now (Jan 2024).
 - High Fed Funds rate means high CEF borrowing expenses and lower dividends.
 - Leverage also adds risk.
 - Fed rate cuts could change the outlook.
 - Requires discussion of the **yield curve**

Typical Upward-Sloping Yield Curve

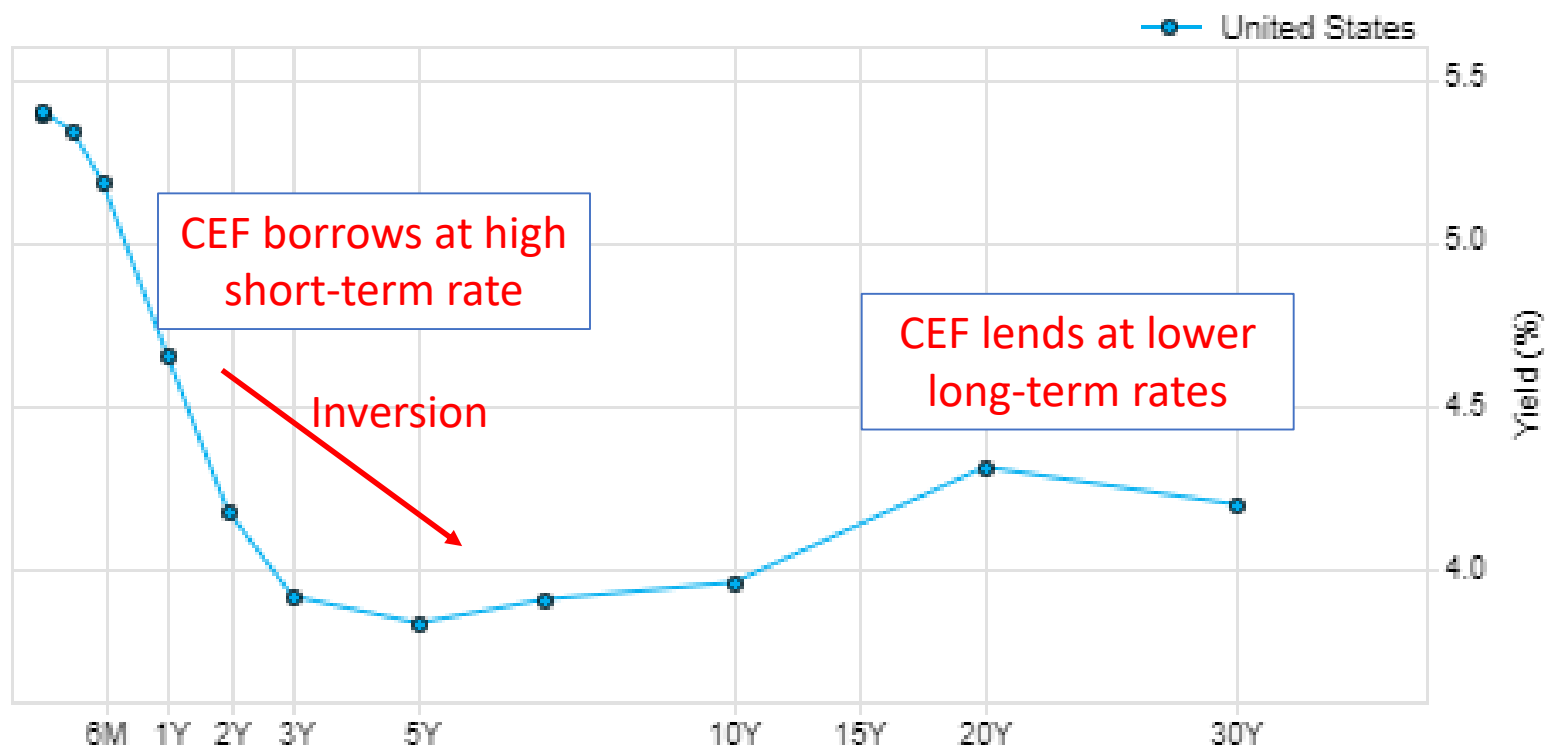


- The yield curve is a chart of the interest rate the US government currently pays to borrow money as a function of maturity.
- **Usually, yield curve slopes upward**
- See <https://www.ustreasuryyieldcurve.com/> for current yield curve

Source: FactSet



- Leveraged CEF borrows at low short-term rates
- Leveraged CEF lends at higher long-term rates (plus credit spread for lending to riskier companies)
- **Leveraged CEF income > open-end bond mutual fund**



- Leveraged CEF borrows at high short-term rates
- Leveraged CEF lends at lower long-term rates
- Long-term lending rates are increased by lending to riskier companies but often not enough to offset the fund's expense ratio
- → Leveraged CEF earnings may not be better than open-end bond fund.

Bond Price Risk

- **Bond prices go down when interest rates go up**
 - New bonds issued in the market pay a higher coupon than “old” bonds in your portfolio
 - **Prices of bonds in your portfolio go down**
- **Bond prices go up when interest rates go down**
 - Bonds in your portfolio pay a higher coupon than new bonds issued in the market
 - **Prices of bonds in your portfolio go up**
- This bond price risk is called **duration**.
- **Because leveraged CEFs own more bonds their price risk (duration) is amplified.**

BrandywineGLOBAL – Global Inc Opp Fund:BWG

Print View

Manage Alerts

All Overview Fund Basics Distributions Pricing Information Performance Portfolio Characteristics

Basic Information

Investment Objective

The Fund's primary investment objective is to provide current income. As a secondary investment objective, the Fund will seek capital appreciation. The Fund seeks to achieve its investment objectives by investing, under normal market conditions, at least 80% of its assets in global fixed income securities. The fund normally invests at least 80% of net assets in global fixed-income securities.

Capital Structure

As of 12/8/2023

Total Investment Exposure:	\$264.638M
Total Common Assets:	\$153.981M
Common Shares Outstanding:	16,791,836

Leverage

As of 12/8/2023

Preferred Share Assets:	\$49.657M
Total Debt (USD):	\$61.000M
Regulatory Leverage (USD):	\$110.657M
Effective Leverage (USD):	\$110.657M
Effective Leverage (%):	41.81%

Fund Management

Fund Sponsor

Franklin Templeton Investments

Portfolio Managers

Anujeeet S. Sareen, Jack P. McIntyre, David F. Hoffman, Tracy Chen, Brian L. Kloss

Basics

Category: Fixed

Ticker:

NAV Ticker:

Average Daily Volume (shares):

Average Daily Volume (USD):

Inception Date:

Inception Share Price:

Inception NAV:

Tender Offer:

Term:

Fiscal Year End:

October 31

Third Party Links & Reports

Leverage:
Investment exposure > assets.
This means the fund uses leverage (borrowed money).

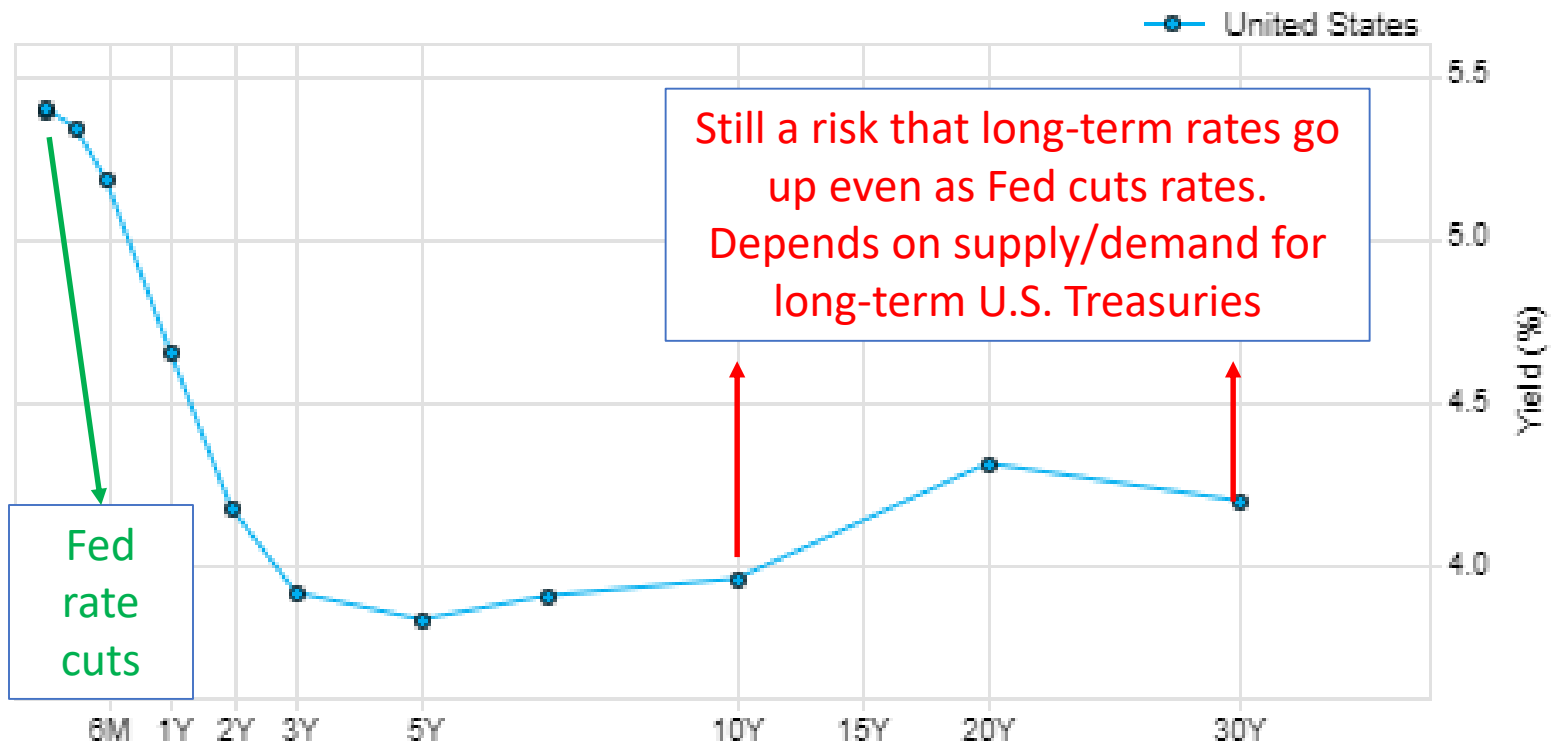
The fund BWG has about \$1.72 invested for every \$1.00 of assets (\$264.638/\$153.981), so it is 1.72x as risky as a regular bond fund.

Leverage is most commonly used in bond closed-end funds.

Subtle Point on Bond Risk

- **Bond prices are sensitive only to the market rate of their same maturity.**
- **Bond CEFs typically own long-term bonds**
 - Exception: Loan CEFs and limited-duration CEFs.
- **Thus, bond-CEF NAVs are typically sensitive to the 10-30 year rates on the yield curve.**
- **These NAVs could decline even as the Federal Reserve cuts short-term rates.**

Understanding Risk: Jan 2024



- Don't assume Fed rate cuts will lead to a rally in bonds. It could, but it is not 100% guaranteed!
- Long-term rates have already decreased about 1% (5%ish to 4% on 10-year U.S. Treasury).

My Bond CEF Market Outlook

- Not an attractive environment to own leveraged bond CEFs unless you expect several Fed rate cuts or long-term rates to decline further.
- Fed rate cuts will improve CEF dividends, but cuts take time to filter through into earnings
 - One or two cuts won't make a huge difference.
 - Also, cuts can take a few months to filter into higher earnings/income.
 - **Speaking of which, CEF earnings reports are a great report for predicting future CEF dividends.**

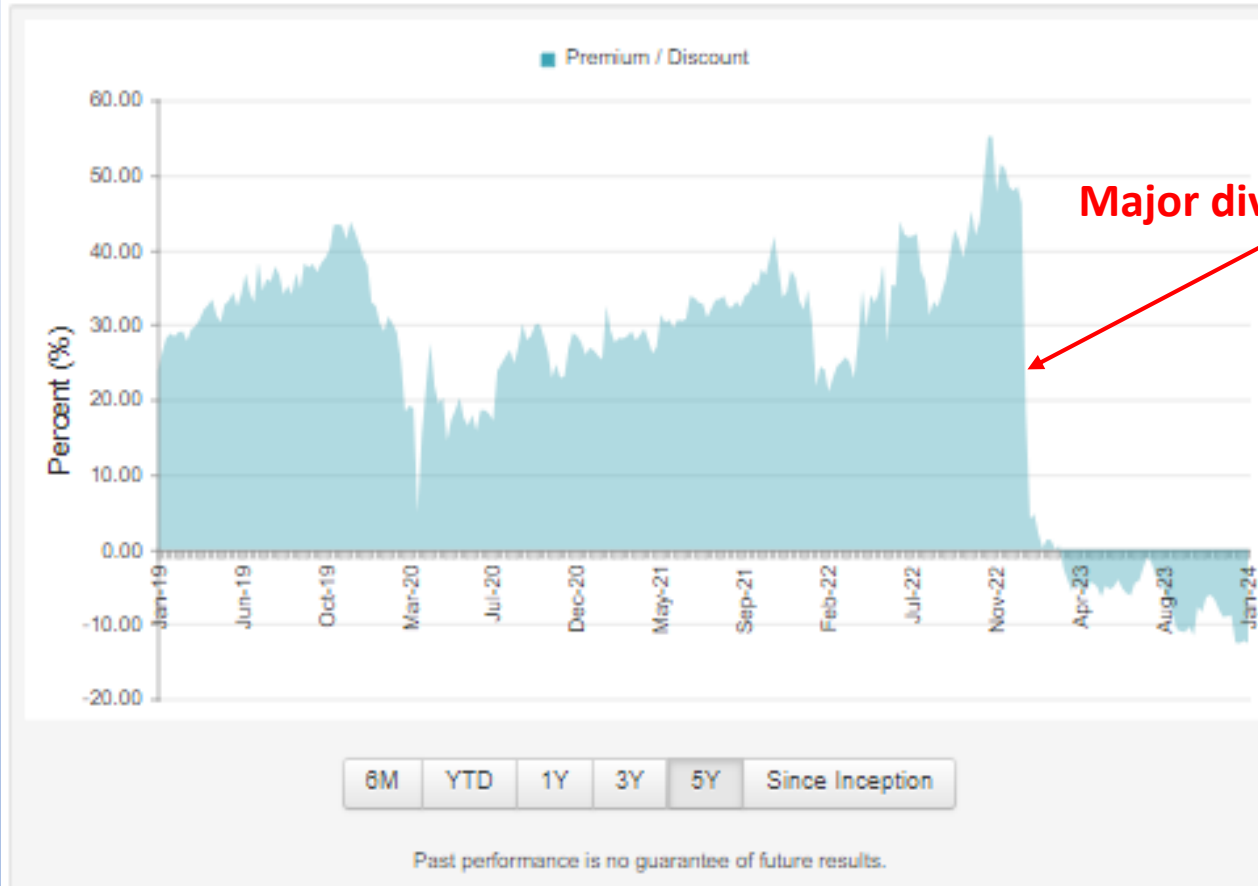
CEF Earnings and UNII Reports

- Bond CEFs publish their earnings per share, which you can compare to dividend per share to see if a fund is overearnings or underearning its dividend
 - Earnings > dividend → possible future dividend increase
 - Earnings < dividend → possible future dividend decrease
- Bond CEFs also publish **UNII** (Undistributed Net Investment Income) which is income that has been “banked” to pay for future dividends.
 - A CEF with earnings < dividend but a large positive UNII can delay cutting its dividend.
 - A CEF with earnings < dividend and negative UNII is most at risk for dividend cuts, although funds can still delay making cuts.

PIMCO California Municipal Income Fund (PCQ)

Pricing Information

Premium/Discount Information



- Huge drop on a dividend cut from \$0.065 to \$0.036 per month.
- Extreme example serves as a cautionary tale

Finding CEF Earnings and UNII Reports

- Large CEF managers like Nuveen, Blackrock, and PIMCO publish monthly earnings and UNII reports for all their funds.
 - Find on the fund manager website.
- Some smaller CEF managers only publish their data in **annual and semi-annual reports**
 - Check fund manager website or go to SEC filing **N-CSR** (like a 10-K/10-Q for stocks)

Case Study PDI Earnings

- Several Seeking Alpha authors recommend **PIMCO Dynamic Income Fund** (Ticker: **PDI**)
 - PIMCO is a skilled bond CEF manager
 - PDI has an eye-popping 14% yield.
 - PDI's leverage enhances returns if bonds continue to rally.
 - Large allocation to mortgage bonds that undervalued.
 - PDI has a history of paying special dividends.
- These authors miss a concerning earnings/UNII report with PDI trading near a 10% premium.

Fund Name	Ticker	Current Fiscal Year End	YTD Net Investment Income (NI)	UNII	Estimated Net Investment Income (NI)	Monthly Dividend	3 Month Coverage Ratio	6 Month Coverage Ratio	Fiscal YTD Coverage Ratio
Municipal CEFs									
PIMCO California Municipal Income Fund	PCQ	31-Dec-23	\$0.56	(\$0.16)	\$0.0538	\$0.0360	80.60%	77.67%	77.46%
PIMCO California Municipal Income Fund II	PCK	31-Dec-23	\$0.35	(\$0.09)	\$0.0332	\$0.0215	86.24%	81.59%	80.37%
PIMCO California Municipal Income Fund III	PZC	31-Dec-23	\$0.42	(\$0.10)	\$0.0392	\$0.0295	77.96%	75.02%	75.49%
PIMCO Municipal Income Fund	PMF	31-Dec-23	\$0.60	(\$0.17)	\$0.0557	\$0.0420	77.46%	75.64%	75.90%
PIMCO Municipal Income Fund II	PML	31-Dec-23	\$0.52	(\$0.14)	\$0.0489	\$0.0395	82.50%	80.28%	79.04%
PIMCO Municipal Income Fund III	PMX	31-Dec-23	\$0.50	(\$0.11)	\$0.0462	\$0.0330	85.44%	83.16%	82.49%
PIMCO New York Municipal Income Fund	PNF	31-Dec-23	\$0.41	(\$0.23)	\$0.0383	\$0.0335	67.58%	65.25%	64.50%
PIMCO New York Municipal Income Fund II	PNI	31-Dec-23	\$0.47	(\$0.13)	\$0.0428	\$0.0295	79.33%	77.24%	78.73%
PIMCO New York Municipal Income Fund III	PYN	31-Dec-23	\$0.37	(\$0.17)	\$0.0338	\$0.0248	68.48%	67.48%	68.53%
Taxable CEFs									
PCM Fund Inc.	PCM	30-Jun-24	\$0.24	(\$0.16)	\$0.0520	\$0.0800	64.97%	60.51%	60.65%
PIMCO Corporate & Income Opportunity Fund	PTY	30-Jun-24	\$0.48	(\$0.28)	\$0.0936	\$0.1188	73.82%	72.84%	77.55%
PIMCO Corporate & Income Strategy Fund	PCN	30-Jun-24	\$0.40	(\$0.25)	\$0.0839	\$0.1125	73.32%	71.21%	71.51%
PIMCO Dynamic Income Fund	PDI	30-Jun-24	\$0.77	(\$0.77)	\$0.1589	\$0.2205	72.04%	62.04%	71.62%
PIMCO High Income Fund	PHK	30-Jun-24	\$0.20	(\$0.01)	\$0.0431	\$0.0480	85.73%	75.13%	80.20%
PIMCO Income Strategy Fund	PFL	30-Jun-24	\$0.35	(\$0.13)	\$0.0736	\$0.0814	85.20%	74.73%	79.70%
PIMCO Income Strategy Fund II	PFN	30-Jun-24	\$0.30	(\$0.18)	\$0.0641	\$0.0718	82.43%	72.77%	75.76%
PIMCO Strategic Income Fund, Inc.	RCS	30-Jun-24	\$0.24	(\$0.16)	\$0.0482	\$0.0510	94.49%	81.68%	93.77%
PIMCO Global StocksPLUS® & Income Fund	PGP	30-Jun-24	\$0.25	(\$0.02)	\$0.0579	\$0.0690	83.88%	76.81%	73.30%

- All PIMCO CEFs at risk of dividend cuts.
- PDI too risky for me to own or recommend to others.

Selected Per Share Data for the Year or Period Ended ^(A)	Net Asset Value Beginning of Year or Period ^(B)	Net Investment Income (Loss) ^(C)	Net Realized/Unrealized Gain (Loss)	Total	From Net Investment Income	From Net Realized Capital Gains	Tax Basis Return of Capital	Total
PCM Fund, Inc.								
06/30/2023	\$ 7.69	\$ 0.82	\$ (0.81)	\$ 0.01	\$ (0.73)	\$ 0.00	\$ (0.23)	\$ (0.96)
06/30/2022	9.52	0.79	(1.66)	(0.87)	(0.93)	0.00	(0.03)	(0.96)
06/30/2021	8.47	0.97	1.04	2.01	(0.96)	0.00	0.00	(0.96)
06/30/2020	10.19	0.86	(1.62)	(0.76)	(0.95)	0.00	(0.01)	(0.96)
06/30/2019	10.23	0.69	0.23	0.92	(0.96)	0.00	0.00	(0.96)
PIMCO Global StocksPLUS® & Income Fund								
06/30/2023	\$ 7.27	\$ 0.77	\$ 0.08	\$ 0.85	\$ (0.83)	\$ 0.00	\$ 0.00	\$ (0.83)
06/30/2022	10.44	0.87	(3.21)	(2.34)	(0.83)	0.00	0.00	(0.83)
06/30/2021	7.47	0.95	2.85	3.80	(0.83)	0.00	0.00	(0.83)
06/30/2020	9.89	1.10	(2.42)	(1.32)	(0.85)	0.00	(0.25)	(1.10)
06/30/2019	10.50	1.11	(0.34)	0.77	(1.20)	0.00	(0.18)	(1.38)
PIMCO Strategic Income Fund, Inc.								
06/30/2023	\$ 4.68	\$ 0.39	\$ (0.14)	\$ 0.25	\$ (0.61)	\$ 0.00	\$ (0.00)	\$ (0.61)
06/30/2022	6.55	0.61	(1.87)	(1.26)	(0.60)	0.00	(0.01)	(0.61)
06/30/2021	5.94	0.58	0.64	1.22	(0.41)	0.00	(0.20)	(0.61)
06/30/2020	7.12	0.74	(1.20)	(0.46)	(0.49)	0.00	(0.23)	(0.72)
06/30/2019	7.32	0.60	0.03	0.63	(0.61)	0.00	(0.22)	(0.83)
PIMCO Access Income Fund (Consolidated)								
06/30/2023	\$ 17.20	\$ 1.81	\$ (1.90)	\$ (0.09)	\$ (2.25)	\$ 0.00	\$ 0.00	\$ (2.25)
01/31/2022 - 06/30/2022	20.00	0.45	(2.78)	(2.33)	(0.47)	0.00	0.00	(0.47)
PIMCO Dynamic Income Fund (Consolidated)								
06/30/2023	\$ 19.72	\$ 2.23	\$ (1.56)	\$ 0.67	\$ (3.30)	\$ 0.00	\$ 0.00	\$ (3.30)
06/30/2022	25.23	2.84	(5.77)	(2.93)	(2.65)	0.00	0.00	(2.65)
06/30/2021	22.59	2.51	2.57	5.08	(2.52)	0.00	(0.13)	(2.65)
06/30/2020	28.29	2.92	(5.80)	(2.88)	(3.07)	0.00	0.00	(3.07)
06/30/2019	28.98	2.73	(0.37)	2.36	(3.15)	0.00	0.00	(3.15)
06/30/2018	28.32	2.95	0.18	3.13	(2.65)	0.00	0.00	(2.65)
06/30/2017	26.56	2.60	3.18	5.78	(4.10)	0.00	0.00	(4.10)
06/30/2016	31.38	3.87	(3.45)	0.42	(4.25)	(0.99)	0.00	(5.24)
04/01/2015 - 06/30/2015 ^(B)	30.74	0.80	0.47	1.27	(0.63)	0.00	0.00	(0.63)
03/31/2015	32.11	3.25	(0.49)	2.76	(4.13)	0.00	0.00	(4.13)

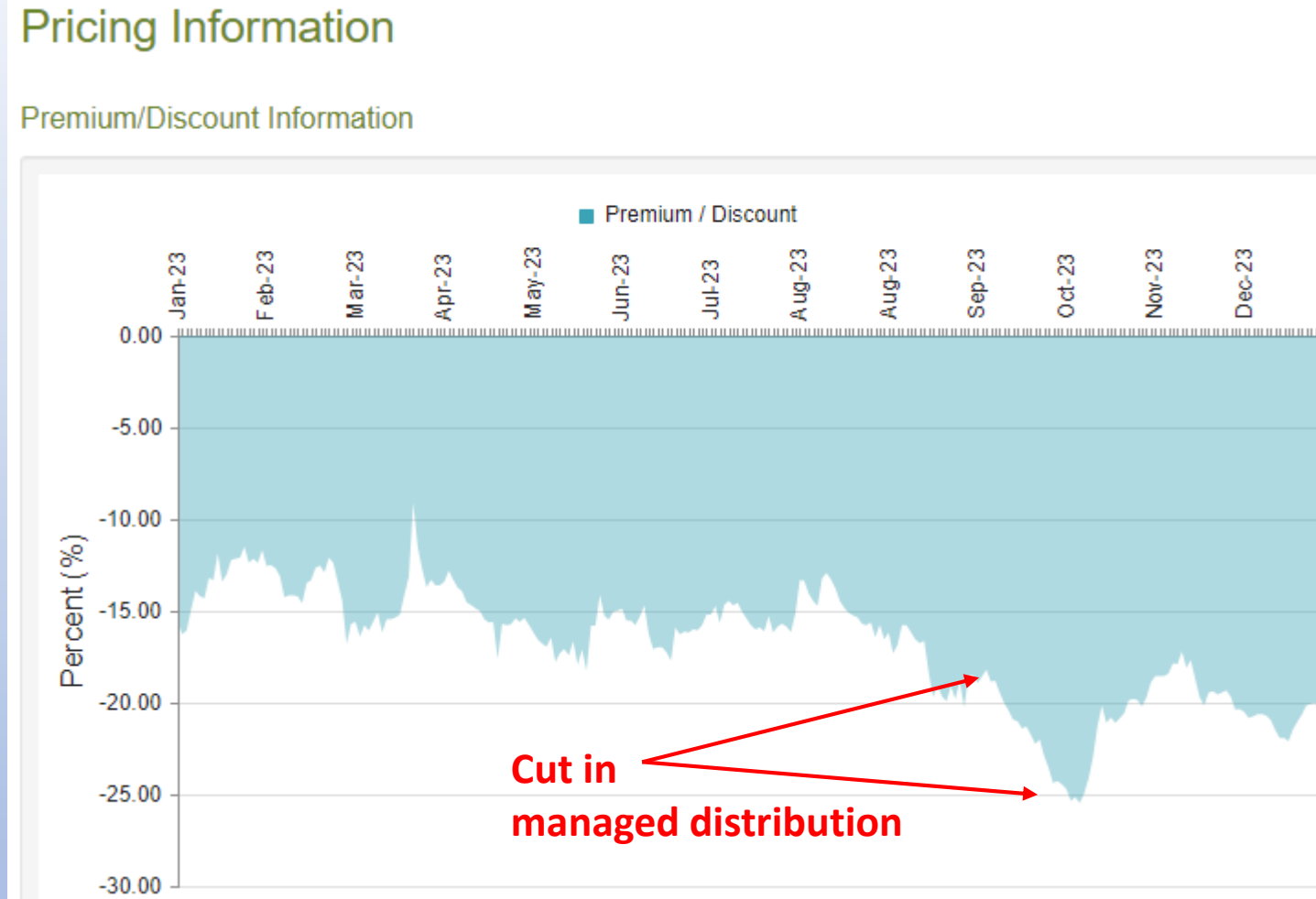
- **PDI data from N-CSR/Semi-annual report**

- Out of date (6/30/2023) but has capital gains info
- Current dividend is \$2.754 (0.2205 x 12) versus \$2.23 in income.
- Notice how NAV declines from \$32.11 in 2015 (currently \$17.07).
- The core dividend has not changed at 0.2205 per month.

Managed Dividends

- Several CEFs (including equity CEFs) have a “**managed dividend**” policy
 - They pay a fixed dollar amount or % of NAV out every year whether they earn it or not.
 - **This dividend payout is safe until it isn't.**
 - Cuts generally happen when the asset class in the CEF significantly underperforms.
- **Example: Blackrock Science & Technology Term Trust (BSTZ)**
 - **Fund had paid \$0.1613 fixed dividend per month.**
 - **Announced dividend cut to 6% of NAV per month (\$0.1032) September 2023.**

Blackrock Science & Technology Term Trust (BSTZ)



- Discount widened on dividend cut and gloomy October outlook

Trading Case Study: BSTZ

- After the dividend cut, the BSTZ discount widened to over a 22% discount.
- Such a high discount is uncommon for a CEF from a well-known manager (Blackrock), particularly as the CEF has a term ending June 2031.
 - The discount should disappear by the end of the term.
 - Funds with terms tend not to go to huge discounts.
- Thus, the CEF seemed worthy of investigation.
- I'll highlight plusses and minuses in the buy decision.

Minuses

- **High expense ratio of 1.33%.**
- **Complicated strategy**, including selling covered calls and owning 25% in private equity.
 - Covered call funds tend to underperform straight stock funds. (Extra income does not offset loss of upside.)
 - Private securities are hard to value and sell.
- **Poor NAV track record**, significantly underperforming tech sector.
 - Some underperformance I attributed to owning private equity during the bubble of low rates.
 - The other covered call during a volatile environment.
 - The third stock picking and a high expense ratio.
- **Lacked the activism of its sister funds** (ECAT, BMEZ, etc.) where SABA was a large holder.

Plusses

- **22%+ discount with less than 8-year term left.**
- **Highly negative z-score** (discount wider than normal)
- **Tech sector with some AI exposure**
 - NVIDIA is top holding.
 - Private investment includes some AI (see next page).
- **Blackrock buying back shares**
- **CEF discounts tend to narrow seasonally going into Q1**
 - Expected many investors selling to take tax losses.
- **6% NAV dividend payout** (7.5% payout based on market price)
- Despite negatives, I expected to make at least 5% on the discount narrowing in a sector I liked.

Private Holdings in Literature – Private Investments

BlackRock Science and Technology Term Trust (BSTZ) *

Private investing snapshot

\$546m currently invested **
\$634 invested since inception **

22 current companies
31 companies total

14 industries

AUTOMATTIC

 **databricks**

 **SambaNova**
 SYSTEMS

Invested Q3 2021

Technology

Software company providing open-source coding products and solutions

Application

Open source coding company as the tech backbone behind a number of different enterprises and applications – including WooCommerce, Jetpack, Simplenote, Longreads, Crowdsignal, and Tumblr.

Clients | Web-Based Enterprises

\$34m | Investment

Currently \$20m / 1.8%% of portfolio

Technology | Software

Invested Q4 2019

Technology

Cloud-based software that provides a unified platform for data, analytics, and artificial intelligence.

Application

Combines the best of data warehouses and data lakes – housing data in raw form – to offer an open and unified platform for data and artificial intelligence.

Clients | Global Enterprises

\$37m | Investment

Currently \$88m / 5.3% of portfolio

Technology | Software

Invested Q1 2020

Technology

Semiconductor technology that integrates artificial intelligence and machine learning capabilities directly into the hardware.

Application

Enables enterprises to accelerate and scale their AI capabilities across various applications including natural language processing, computer vision, and recommender systems.

Clients | Global Enterprises

\$41m | Investment

Currently \$59m / 3.6% of portfolio

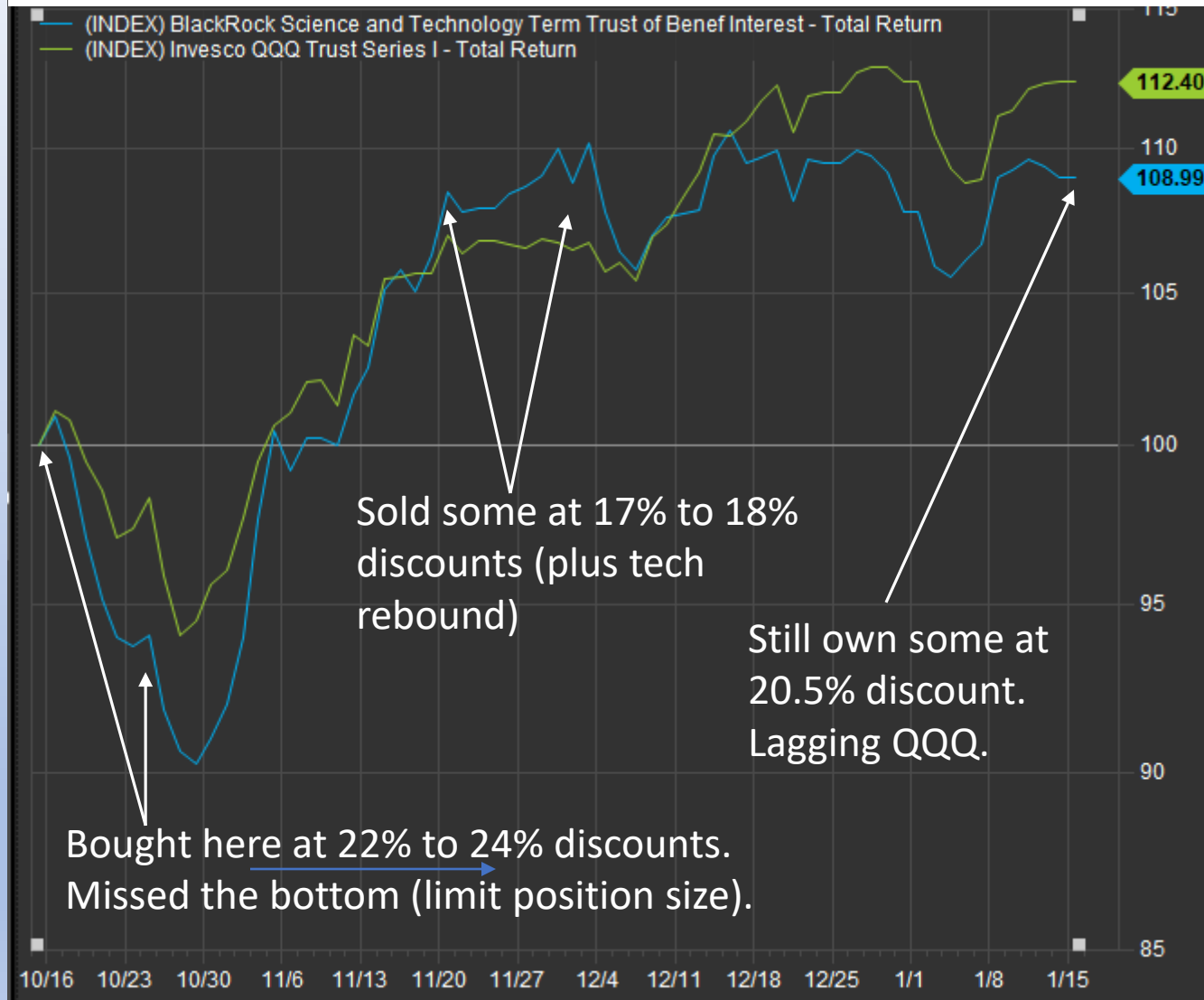
Technology | Semiconductors

* All companies held in BSTZ as of 6/30/23. Represent the largest private equity positions invested.

Past performance is no guarantee of future results

** Represents the total amount invested in private securities since inception (see Page 39 for inception dates) and the current amount invested in private securities as of 6/30/2023.

Market return of BSTZ (blue) vs. QQQ (green)



Recap

- I showed how to run the CEF screener.
- Environment is not great for leveraged bond CEFs since short-term rates > long-term rates, and most CEFs are underearning dividends.
 - Fed rate cuts could eventually change that.
 - Bond CEFs do offer a leveraged bet to profit from long-term rate declines.
(not a bet I'm making)
- Earnings/UNII report is a good tool to predict dividend cuts/raises and thus better time your CEF purchases and sales.
- I provided a case study of a recent BSTZ trade including factors that I look at when placing a trade.