

THE WALL STREET JOURNAL.

Pricing Oddity Has One Manager Advising Clients Not to Buy His Fund

Bets by investors who pay large premiums to net asset value can turn ugly fast

By Daisy Maxen and Ben Eisen – October 24, 2016, page C1

A growing number of closed-end funds are trading at prices above the value of their assets, a market distortion that could subject holders to sharp declines should interest rates pick up.

Eighty of the 539 closed-end funds listed in the U.S. traded at a premium to net asset value as of Oct. 19, according to research firm Morningstar Inc. At the start of the year, 57 traded at a premium.

Closed-end funds typically throw off sizable distributions, which look increasingly attractive in a low-rate world but less so as rates rise. While discrepancies between market prices and asset values on closed-end funds aren't uncommon, large premiums rarely last, investors say.

"I think you'll see these premiums disappear in a hurry," said Rajeev Das, a principal at Bulldog Investors, an activist money manager that targets closed-end funds and other investments. "I don't think it will be slow or gradual, especially if dividends are cut. It will be a crash and burn."

Closed-end funds have become increasingly popular in recent years, with nearly \$243 billion in assets at the end of September, up from about \$219 billion at the end of last year and \$128 billion at the end of 2008, according to Morningstar.

[SNIP]

The Gabelli Utility Trust commands a premium of about 21.9%, and a new fund, Gabelli Go Anywhere Trust Combo, trades at a premium of more than 45%.

"Big premiums make no sense, and big discounts make no sense," said Mario Gabelli, chairman and chief executive of Gamco Investors Inc., which runs the two funds. "That Go Anywhere fund should not sell at that premium. We are advising people not to buy it."

Investors who pay these large premiums are essentially betting that other investors will be willing to pay an even higher price, experts say, a mind-set common in markets that have experienced large gains over a period of years. It is a bet that can turn ugly fast.