

Bulldog CEF Update- February 24, 2022

A little-noticed court decision on February 17, 2022, could have a massive impact on closed-end funds, bolstering the prospects for activist investors and forcing managers of closed-end funds to take shareholder friendly actions to narrow price discounts to NAV. The decision is timely as we are seeing discounts gap out on fears of multiple fed rate hikes, a spike in inflation and the increasingly messy and serious geo-political situation in Ukraine. Widening discounts combined with more firepower in the hands of activist investors make for a very compelling opportunity set.

On February 17, 2022, the United States District Court for the Southern District of New York ruled that Nuveen and its fund trustees violated federal law by stripping shareholders voting rights. About a year earlier, Saba Capital Management, L.P., a New York-based global alternative asset firm, sued a collection of closed-end Massachusetts business trusts, alleging that their adoption of certain “control share” Bylaw amendments violated the Investment Company Act of 1940. The control share Bylaw amendment at issue defined a “control share acquisition” as a shareholder’s acquisition of shares after the date of the Bylaws’ enactment which, taken together with shares already owned by that shareholder, would result in such shareholder owning 10% or more of the total shares of a trust. Under the control share amendment, such “control shareholder” would be restricted from voting stock acquired after the Bylaws’ enactment unless authorized by an “affirmative vote of the holders of a majority of all of the Shares entitled to vote . . . excluding [any shares owned by a control shareholder].”

In plain language, if a closed-end fund adopted a control share provision Bylaw, a shareholder owning more than 10% of the closed-end fund’s shares would be restricted from voting more than 10% of the outstanding shares. This hinders the effectiveness of activist campaigns and reduces the leverage necessary to force management to take actions that are in the best interest of shareholders. With this impediment removed, we foresee activist shareholders building larger stakes in closed-end funds and using their heft to score gains for shareholders.

The court decision could not have come at a better time. The S&P 500 has declined 11% this year. Bonds have not held up either, with the iShares Core U.S. Aggregate Bond ETF losing 4%. In addition, discounts on closed-end funds have been steadily widening. Panicked retail investors, that often buy closed-end funds at IPOs or at premiums to NAV, have begun selling. This has created several opportunities for sophisticated shareholders. Please reach out to Bulldog Investors for more details on some very exciting opportunities in this quite often ignored segment of the markets.

Rajeev Das, CFA
Principal / Portfolio Manager
Bulldog Investors, LLC
201-881-7103 - Direct
201-556-0092 - Main Office
201-556-0097 - Fax
www.bulldoginvestors.com
E-mail: rdas@bulldoginvestors.com