



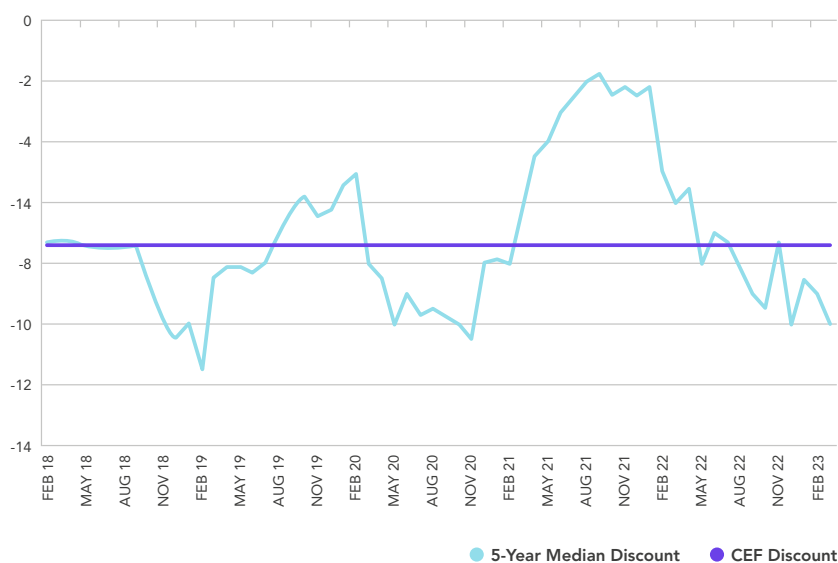
Understanding Ownership Data Can Help Defend Against Closed-End Fund Activism

As of mid-2023, Closed-end Fund market price discounts to Net Asset Value (NAV) have come close to historic highs. Market disruptions following COVID-19, as well as the current inflationary and interest rate environment have helped increase shareholder activism at Closed-end Funds (CEF) considerably.^[1] The median CEF discount is now -10.2%, wider than the 5-year median of -7.4%. Discounts currently remain significant relative to historical levels.^[2] Some major closed-end funds currently trade at much greater discounts.^[3]

In these situations, a fund becomes very attractive to activists and followers. Any fund with a discount of 8% or greater becomes a target of the activist and followers. The basic strategy activists deploy is to buy large numbers of shares at a discount and then pressure fund management into some type of liquidity event, in order to capture the spread between their purchase price and the liquidity event price, which can be substantial.^[5] Tactics such as:

- a tender offer as close to NAV as possible,
- open ending, or
- liquidation at NAV.

Close-End Fund Discount



Source: BlackRock^[4]

^[1] Keith E. Gottfried, *Shareholder Activism at Closed-End Funds in the Wake of Covid-19*, Harvard Law School Forum on Corporate Governance, January 3, 2021.

^[2] BlackRock, *Closed-end fund Market Commentary, First Quarter 2023*, PowerPoint Presentation (blackrock.com)

^[3] Rob Mannix, *Boaz versus Blackrock: the fight over closed-end funds*, Risk.net, June 21, 2023, *Boaz versus BlackRock: the fight over closed-end funds* – Risk.net

^[4] BlackRock, *Closed-end fund Market Commentary, First Quarter 2023*, PowerPoint Presentation (blackrock.com)

^[5] *ibid.*

CEF Activism Up 63% in Recent Years

As activists and followers' opportunity for upside becomes greater and more arbitrage situations present themselves, the market inefficiencies will eventually be discovered and taken advantage of by the "opportunists."

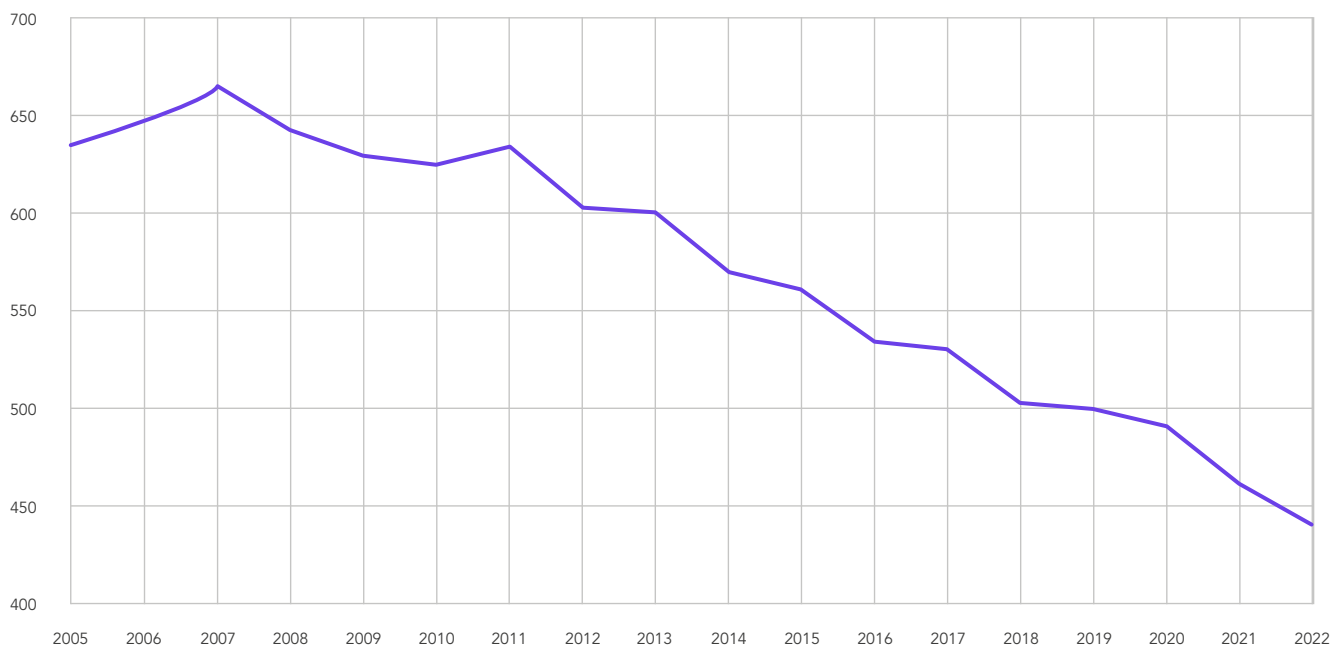
In recent years, CEF activist efforts have become much more common and more concentrated.^[6] Compared with the prior four-year period, the number of beneficial ownership and contested proxy solicitation filings indicating shareholder activism increased from 2018-2022—despite fewer exchange-listed CEFs. Activist shareholders targeted 93 closed-end funds between 2018 and 2022, up 63% from the 1998 to 2002 period.^[7] 95% of filings were concentrated among just five activists, compared to 53% for the top-five activist shareholders from 1998-2002.^[8]

Activist Shareholder Involvement in Closed-End Funds

Period	Number of Filings	Number of CEF w/ Filings	Top-five Activists Percentage of Filings
1998-2002	80	57	53%
2003-2007	124	77	60%
2008-2012	132	107	90%
2013-2017	128	105	73%
2018-2022	129	93	95%

Source: ICI

Number of Closed-End Funds by Year



Source: ICI, Statista: Number of U.S. closed-end funds 2022 | Statista

^[6] ICI Research Perspective, The Closed End Fund Market 2022, Vol. 29, No. 5, May 2023, [The Closed-End Fund Market, 2022 \(ici.org\)](#)

^[7] *ibid.*

^[8] Kenneth Fang, Shareholder Activism Threatens Closed-End Funds and Their Investors, ICI Viewpoints, May 2023, [Shareholder Activism Threatens Closed-End Funds and Their Investors | Investment Company Institute \(ici.org\)](#)



What's Ahead - CEF Trends We're Tracking

At EQ, we keep abreast of possible future trends that can help with setting a corporate governance agenda. A few notable patterns have emerged in some of the key themes we're tracking. With equity valuations still recovering, legal rulings, and additional economic headwinds, opportunities to realize gains from CEF discounts should persist.

It's possible that the success activist investors have had during the past few years will continue, especially with current NAV discounts. We may see more activism from investors that have not focused on closed-end funds before, given the success of the handful of specialists out there. Concurrently, there is more activity from CEF to protect themselves against activism, making it more difficult for activists to take control and press for large changes.^[9]

The Investment Company Institute recently identified a link between the current closed-end fund activism and a drop in new closed-end fund issuances.^[10] According to ICI data, just five new closed-end funds were launched in 2022, down from 16 launches the year prior—the lowest since 2018. Kenneth Fang, associate general counsel at the ICI, believes these recent trends will continue. "A number of our members who are sponsoring closed-end funds or who have sponsored closed-end funds in the past are really thinking twice about launching new closed-end funds."^[11]

Why Ownership Intelligence is Key

Publicly traded companies regularly review shareholder activities, including ownership changes, other investor activities. Most data is collected via SEC Form 13F, which lags by months, and 13G and 13D filings that lag by up to a week. Closed-end funds do not typically use real-time analytics and engagement to help protect against activist events, and until they take proactive steps to look at the data and work with an analyst who understands what is happening, activist opportunities will continue.

Ownership intelligence (OI) is essential for determining the holdings of certain investors. The only public information available for CEFs are quarterly 13f filings rather than real-time data. OI monitors the activity within custodians and can determine if these investors are continuing to accumulate or decrease their holdings. In many instances, we can determine if these investors are starting to establish a position before any quarterly filing is available. If a 13D or 13G is filed, we leverage this information to determine the custodian activity and then monitor these custodians. OI can provide extensive knowledge of where these investors tend to hold their shares, used to help determine their buying/selling positions and patterns.

Understanding a fund's ownership data and trends can help defend against CEF activism. EQ's Ownership Intelligence and Activist Advisory Programs provide real-time insights on CEF current ownership, as well as shareholders' tendencies and objectives. Leveraging public and proprietary data sources, combined with unmatched shareholder tracking expertise, EQ can identify which investors purchased or sold shares over a given period. This information provides actionable intelligence for fund managers and boards to know who is acquiring stock well ahead of any public information (Form 13F), why they may be purchasing, and expert advice on how to prepare for any possible activist challenges. The sooner you know, the better prepared you'll be.

EQ provides a customizable, comprehensive, and up-to-date understanding of CEF shareholders in advance of receiving public filing data. The breakdown of retail vs. institutional as well as long-term investors vs. short-term opportunists. A greater general understanding of the CEF marketplace shareholder ownership and activist/follower activities, tracking recent industry-wide corporate actions or aggressive movements by the activists. Any changes/impact of ISS and Glass Lewis vote recommendations policies.

^[9] Keith E. Gottfried, Shareholder Activism at Closed-End Funds in the Wake of Covid-19, Harvard Law School Forum on Corporate Governance, January 3, 2021. [Shareholder Activism at Closed-End Funds in the Wake of Covid-19 \(harvard.edu\)](#)

^[10] Bela Kirpalani, Activist Takes Aim at Governance in CEF Fights, Board IQ, June 27, 2023.

^[11] Bela Kirpalani, Activist Takes Aim at Governance in CEF Fights, Board IQ, June 27, 2023.

Ownership intelligence and expert insights focus on:

01

Who exactly owns shares?

02

What are their objectives/intentions? Who are the investors that have been buying/selling the stock? Are there insights into reasons to buy/ sell?

03

What does this mean for board management, legal, and shareholder outreach?

04

What does this mean for my fund?

05

What proactive steps can be taken by the CEF?

Defense Strategies

One of the reasons why activists can take advantage of the fund discount is because management isn't aware of who is buying, when they are buying, and how much they own, until months later. In addition, most CEFs do not have a well-documented plan for dealing with this information and addressing activist's intent. Whether it is a tender offer, conditional tender offer, classified board, high-vote thresholds, managed distributions, control share provisions or an open market purchase, there are pros and cons to each strategy.

Currently, closed-end funds have adopted numerous defense tactics, including advance notice bylaws, classified board structures, higher voting threshold requirements for contested elections, and stricter board candidate questionnaires, in efforts to ward them off.^[12]

One key legal conflict involves control share provisions, a voting setup that allows closed-end funds to prevent shareholders that acquire more than ten percent of shares from voting those shares. One option for CEF managers is to move to a state with built-in applied control share statutes (Delaware or Maryland) to automatically incorporate this safeguard.

Activists are currently suing CEFs over adoption of these control share provisions. For instance, Saba Capital filed a lawsuit over the use of control share provisions against 16 closed-end funds. Recently, Saba Capital has launched more proxy fights at closed-end funds than any other activist.

Some CEFs have adopted control share provisions via specific control share bylaws, although these have been successfully challenged by activist investors in court.

Additionally, ISS recently sided with activist Saba on its arguments against control shares, and the ISS recommendations could sway votes. CEF managers and boards should consider this as part of their communication strategies and preparation for shareholder meetings.

Being Prepared — CEF Best Practices

To stay ahead of CEF activists and current legal strategies, EQ recommends using a set of best practices that focus on specific ownership intelligence data to stay ahead of activists and how to deal with situations that may present issues for fund management. Having an experienced advisor knowledgeable in mutual fund proxy would be beneficial. EQ's Mutual Fund Proxy Campaign Services provide specialized advisory services and technologies that drive customized proxy solutions and enhance shareholder engagement. Our experience and expertise have created invaluable ownership insights into shareholder behavior and vote outcomes.

^[12] Bela Kirpalani, Activist Takes Aim at Governance in CEF Fights, Board IQ, June 27, 2023.

Real-time insights into trading activity and potential volatility: EQ produces a “High Volume Daily Trading Summary.” The report details key stocks and identifies buyers and sellers. No other company provides these real-time analytics, vital for staying in front of activists.

Better preparation for activist defense planning by identifying potential threats: Continuously monitoring shareholder activity enables early warning ahead of activist position build ups. EQ reports any accumulation and changes in ownership by known activists, followers, hedge funds, high net-worth investors, etc.

Customizable and comprehensive program offering: Bundling EQ’s shareholder identification, activist advisory, and proxy knowledge we can offer our clients the most comprehensive CEF support to our clients. With more than 35 years of experience in each discipline, we provide best in class advisory services and have done so in some of the industry’s most challenging activist situations.

Proprietary database: With more than 35 years of proxy solicitation experience, EQ Fund Solutions is a leading provider of proxy services. EQ has built and maintained a database that contains 120+ million retail and institutional voting records. The database allows our shareholder identification team unique insights into investor’s voting positions, voting trends, and brokerage relationships. When we conduct a shareholder analysis, and vote projections we use this database to pinpoint ownership changes and to provide detail on activist tendencies.

Experience: We recognize the two key components that make up any successful shareholder surveillance and advisory program: the data and the analyst. We have access to the most in-depth and longest data history in the industry. We’ve married that with the most tenured team in the industry (average tenure 25 years), who specialize in knowing the latest trends, defenses, and expectations, because the data is only as good as the person analyzing it.

Approach: We do not distinguish between shareholder identification and shareholder targeting in our service—our goal is to provide actionable intelligence, which goes beyond basic lists of investors. We believe that any analysis should be actionable by compiling past, present, and predictive future data.

Flexibility: We know that no two CEF’s are alike. For that reason, we pride ourselves on being able to customize everything from the look and feel of the reports, the content included, and the delivery frequency, depending on needs.

As part of our Activist Advisory service, we also provide board-level updates to CEF senior management teams and boards regularly. These updates include, but are not limited to, current holdings with the board’s CEF, current overall CEF market, and activists’ and followers’ trends.

About EQ Proxy Services & Support



- **Proxy solicitation services:** We help you develop the optimal, cost-effective plan to reach your shareholders and motivate them to vote. The analytics of our ProxyIQ platform provide transparent voting data that supports nimble campaign strategy adjustments.
- **Shareholder meeting services:** Our services can support you across the entire shareholder meeting process. With analytics-enabled insights, we’ll assist you with all aspects of the event, from planning, printing, mailing, tabulation, solicitation, reporting, and vote certification.
- **Contested proxy solicitation services:** Closed-end fund and BDC contests can take various forms and involve a range of issues, from board election challenges to advisory agreement terminations. The stakes are high, as the outcome can redefine control of your fund, its strategic direction and shareholder value. We help you control for these issues by organizing and managing the process

ABOUT EQ

EQ are specialists in helping you better understand and manage the ownership of your company through critical events across the corporate lifecycle. As trusted advisors, we provide strategic insight and operations expertise through our core business units in Private Company Services, Transfer Agent Services, Employee Plan Solutions, Proxy Services, and Bankruptcy. Globally we serve 6,700 clients (49% of the FTSE 100 UK and 35% of the S&P 500), with over 30 million shareholders, through 6,500 employees in 5 markets around the world.

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