

# FUNDMARKET INSIGHT REPORT

REFINITIV LIPPER RESEARCH SERIES

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## The Month in Closed-End Funds: February 2021

### Performance

For the fourth month in a row, equity CEFs on average witnessed plus-side performance on a NAV and market basis, rising 2.42% and 4.85%, respectively. However, for the first month in 11 their fixed income CEF counterparts posted returns in the red on a NAV basis (-0.52%) and for the first month in four on a market basis (-0.01%). For the three-month period ended February 28, the average equity CEF gained 7.35%, while the average fixed income CEF rose 2.54%.

Despite a disappointing January nonfarm payrolls report at the beginning of the month, U.S. stock indices posted their strongest weekly gains since November, rising to new record highs, as investors appeared upbeat with Q4 corporate earnings reports and prospects that Congress will pass President Joe Biden's \$1.9 trillion COVID-19 relief package. The Department of Labor announced the U.S. economy had added just 49,000 jobs for January, perhaps indicating the labor market recovery was stalling. Nonetheless, an improvement in vaccine distribution and a decline in COVID-19 hospitalizations kept investors in the game. The 10-year Treasury yield continued to rise, closing the week out at 1.17% and near-month crude oil futures rose to \$56.85 per barrel.

The following week, all three major U.S. indices closed at record highs once again as investors anticipated more financial stimulus from Capitol Hill to aid in economic recovery. The rally was led by energy and financial issues after oil rose to a 12-month high and the 10-year Treasury yield rose to 1.20%.

However, the markets struggled mid-month as investors looked for reasons for the market to continue its advance in the face of weakness in the labor market and the prospect of higher borrowing costs that could impact corporations' profitability. A decline in new coronavirus cases and an upbeat reading of IHS Markit's flash purchasing managers index for services and manufacturing helped cap market declines. Anticipation that the vaccine rollout will help the economic recovery in the second half of the year led to additional gains in both oil prices and the 10-year yield.

At month end the broad market indices took another drubbing as investors eyed the large jump in the 10-year Treasury yield, which hit a high of 1.51% before closing the month out at 1.43%. Despite increased inflationary concerns, U.S. markets still experienced a winning month with the New York AMEX Composite (+7.68%) and Russell 2000 (+6.14%) posting the strongest returns of the often followed broad-based indices, while the NASDAQ Composite (+0.93%) was the relative laggard.

### The Month in Closed-End Funds: February 2021

- For the fourth month in a row, equity closed-end funds (CEFs) on average posted positive returns, rising 2.42% on a net-asset-value (NAV) basis for February, while for the first month in 11 fixed income CEFs witnessed losses (-0.52%).
- Nineteen percent of all CEFs traded at a premium to their NAV, with 18% of equity CEFs and 20% of fixed income CEFs trading in premium territory. The equity CEFs macro-classification witnessed the largest narrowing of discounts for the month among Lipper's CEF macro-groups—202 basis points (bps) to 8.11%.
- Energy MLP CEFs (+6.91%) for the second month in a row posted the strongest one-month returns of the equity classifications in the CEF universe for February.
- For the first month in seven, the High Yield CEFs (Leveraged) (+1.02%) classification posted the strongest plus-side returns in the fixed income CEF universe for February.
- The municipal bond CEF macro-group (-2.22%) posted losses for the first month in four, with all nine classifications posting negative returns.



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The Treasury yield curve steepened during the month as investors evaluated what a second round of stimulus and the continuation of loose monetary policy might have on the economy. The Treasury yield curve witnessed declines at the short end, while at the long end, the 20-year yield witnessed the largest gain for the month, rising 40 bps to close the month at 2.08%. The two- and 10-year Treasury yield spread (130 bps) widened 30 bps for the month.

During the month, the dollar strengthened against the yen (+1.10%) but weakened against the euro (-0.22%) and the pound (-1.38%). Commodity prices were mixed for the month, with near-month gold prices declining 6.18% to close the month at \$1,733.10 per ounce and front-month crude oil prices gaining 14.46% to close at \$59.75 per barrel.

For the month, 62% of all CEFs posted NAV-based returns in the black, with 82% of equity CEFs and just 47% of fixed income CEFs chalking up returns in the plus column. For the second consecutive month, Lipper's domestic equity CEFs macro-group (+2.75%) outpaced its two equity-based brethren: world equity CEFs (+2.25%) and mixed-assets CEFs (+1.54%).

The Energy MLP CEFs classification (+6.91%) for the second month in a row outperformed all other equity classifications, followed by Natural Resources CEFs (+6.89%) and Diversified Equity CEFs (+4.24%). Utility CEFs (-1.94%) posted the only decline in the equity universe and was bettered by Sector Equity CEFs (+1.04%) and Developed Markets CEFs (+1.17%). For the remaining equity classifications, returns ranged from 1.20% (Emerging Markets CEFs) to 3.30% (Global CEFs).

Five of the 10 top performing CEFs for February were warehoused in Lipper's Energy MLP CEFs classification. At the top of the chart was **Fiduciary/Claymore Energy Infrastructure Fund (FMO)**, warehoused in Lipper's Energy MLP CEFs classification), rising 23.03% on a NAV basis and traded at a 10.32% discount on February 26. Following FMO, were **John Hancock Financial Opportunities Fund (BTO)**, housed in the Sector Equity CEFs classification), gaining 17.36% and traded at a 3.36% premium at month end; **Adams Natural Resources Fund (PEO)**, housed in the Natural Resources CEFs classification), rising 17.32% and traded at a 14.27% discount on February 26; **BlackRock Energy & Resources Trust (BGR)**, also housed in the Natural Resources CEFs classification), posting a 13.57% return and traded at a 10.18% discount at month end; and **Herzfeld Caribbean Basin Fund Inc. (CUBA)**, housed in the Emerging Markets CEFs classification), gaining 12.50% and traded at a 14.86% discount on February 26.

For the month, the dispersion of performance in individual equity CEFs—ranging from negative 18.39% to positive 23.03%—was wider than January's spread and more skewed to the positive side. The 20 top-

## CLOSED-END FUNDS LAB

**TABLE 1**
**CURRENT-MONTH PERFORMANCE, P&D, P&D SHIFTS (% OF UNIVERSE)**

	NAV RETURNS POSITIVE	PREMIUM/DISCOUNT		NOW TRADING AT	
		BETTER	WORSE	PREMIUM	DISCOUNT
Equity CEFs	82	76	24	18	82
Bond CEFs	47	72	28	20	80
<b>ALL CEFs</b>	<b>62</b>	<b>74</b>	<b>26</b>	<b>19</b>	<b>81</b>

**TABLE 2**
**AVERAGE NAV RETURNS, SELECTED PERIODS (%)**

	FEBRUARY	YTD	3-MONTH	CALENDAR-2020
Equity CEFs	2.43	3.38	7.35	2.34
Bond CEFs	-0.52	0.61	2.54	4.33
<b>ALL CEFs</b>	<b>0.72</b>	<b>1.76</b>	<b>4.56</b>	<b>3.48</b>

**TABLE 3**
**NUMBER OF IPOs, YTD VERSUS PRIOR YEAR**

	FEBRUARY 2021	CALENDAR-2020
Conventional CEFs	3	10
Interval CEFs	1	19

**TABLE 4**
**AVERAGE SIZE OF IPOs, SELECTED PERIODS, \$MIL**

THREE MONTHS THROUGH 1/31/2021	1,238
COMPARABLE YEAR-EARLIER THREE MONTHS	1205
CALENDAR 2020 AVERAGE	848

**TABLE 5**
**NUMBER OF MERGERS & LIQUIDATIONS, YTD VERSUS PRIOR YEAR**

	FEBRUARY 2021	CALENDAR-2020
<b>ALL CEFs</b>	<b>1</b>	<b>30</b>

**TABLE 6**
**MEDIAN PREMIUMS AND DISCOUNTS (%)**

	30-NOV	31-DEC	29-JAN	26-FEB
Equity CEFs	-11.16	-10.34	-10.13	-8.11
Bond CEFs	-6.45	-5.79	-6.13	-4.94
<b>ALL CEFs</b>	<b>-7.41</b>	<b>-6.91</b>	<b>-7.29</b>	<b>-5.60</b>

Source: Refinitiv Lipper, an LSEG Business

performing equity CEFs posted returns at or above 8.75%, while the 20 lagging equity CEFs were at or below negative 1.58%.

For the month, 49 CEFs in the equity universe posted negative returns. Two of the four worst performing funds were housed in the Utility CEFs classification. However, at the bottom of the heap was **BMO LGM Frontier Markets Equity Fund, I Shares (BLGFX)**, an interval CEF warehoused in the Emerging Markets CEF classification, shedding 18.39% of its January-closing NAV. The second worst performing equity CEF was **ASA Gold & Precious Metals Limited (ASA)**, posting an 8.97% loss and traded at a 16.10% discount at month end.

Given the likelihood of an additional stimulus package under the Biden administration, the Treasury yield curve steepened for the month. The 10-year Treasury yield rose for the month by 33 bps to 1.44% after hitting a closing high of 1.54% on February 25. The one- and two-month Treasury yields witnessed the largest declines for the month, both falling three bps to 0.04%. The two- and 10-year Treasury yield spread (130 bps) widened 30 bps for February. For the first month in four, domestic taxable fixed income CEFs jumped to the top of the charts, posting a 0.76% return on average, followed by world income CEFs (-0.45%) and municipal bond CEFs (-2.22%).

Fixed income investors were a bit more aggressive during the month, rotating out of some of the quality issues. They pushed High Yield CEFs (Leveraged) (+1.02%) to the top of the domestic taxable fixed income leaderboard for the first month in three, followed by Loan Participation CEFs (+0.94%) and High Yield CEFs (+0.84%). Corporate Debt BBB-Rated CEFs (-1.18%) posted the weakest returns of the group and was bettered by Corporate Debt BBB-Rated CEFs (Leveraged) (-0.64%). On the world income side, poor performance from Emerging Markets Hard Currency Debt CEFs (-1.35%) and Global Income CEFs (-0.10%) weighed on the sub-group.

For the first month in four, the municipal debt CEFs macro-group posted a negative return (-2.22%) on average, with all nine of the classifications in the group experiencing losses for February. The General & Insured Municipal Debt CEFs (-1.62%), High Yield Municipal Debt CEFs (-1.77%), and Intermediate Municipal Debt CEFs (-1.81%) classifications mitigated losses better than the other classifications in the group, while California Municipal Debt CEFs (-2.71%) was the group laggard. National municipal debt CEFs (-2.15%) mitigated losses better than their single-state municipal debt CEF counterparts (-2.35%) for the month.

Four of the five top-performing individual fixed income CEFs were housed in either Lipper's Loan Participation or High Yield Leveraged CEFs classifications. However, at the top of the fixed income universe chart was **Invesco High Income 2024 Target Term Fund (IHTA)**, housed in the U.S. Mortgage CEFs classification, returning 4.27% and traded at a 3.21% discount on February 26. Following IHTA were **XAI Octagon Floating Rate & Alternative Income Term Trust (XFLT)**, warehoused in the Loan Participation CEFs classification, returning 4.24% and traded at a 6.06% premium at month end; **NexPoint Strategic Opportunities Fund (NHF)**, housed in the High Yield Municipal Debt CEFs [Leveraged] classification, returning 3.82% and traded at a 40.15% discount on February 26; **RiverNorth Specialty Finance**

**Corporation (RSF)**, also housed in the Loan Participation CEFs classification), posting a 3.19% return and traded at a 7.10% discount at month end; and **Aberdeen Income Credit Strategies Fund (ACP)**, also housed in the High Yield CEFs [Leveraged] classification), adding 3.01% to its January month-end value and traded at a 3.38% discount at month end.

For the remaining funds in the fixed income CEF universe, monthly NAV-based performance ranged from negative 4.11% for **PIMCO California Municipal Income Fund II (PCK)**, housed in Lipper's California Municipal Debt CEFs classification and traded at a 0.57% premium at month end) to positive 2.97% for **Lord Abbett Credit Opportunities Fund, Institutional Shares (LCRD)**, an interval hybrid CEF housed in the General Bond CEFs classification). The 20 top-performing fixed income CEFs posted returns at or above 1.73%, while the 20 lagging CEFs posted returns at or below negative 2.86% for the month. There were 193 fixed income CEFs that witnessed negative NAV-based performance for February.

## Premium and Discount Behavior

For February, the median discount of all CEFs narrowed 169 bps to 5.60%—narrower than the 12-month moving average median discount (8.46%). Equity CEFs' median discount narrowed 202 bps to 8.11%, while fixed income CEFs' median discount narrowed 119 bps to 4.94%. Single state municipal CEFs' median discounts witnessed the largest narrowing among the CEF macro-groups—186 bps to 6.13%—while the national municipal CEFs macro-group witnessed the smallest narrowing of discounts—80 bps to 4.38%.

**Gabelli Utility Trust (GUT)**, housed in the Utility CEFs classification) traded at the largest premium (+106.92%) in the CEF universe on February 26, while **NexPoint Strategic Opportunities Fund (NHF)**, housed in the High Yield CEFs [Leveraged] classification) traded at the largest discount (-40.15%) at month end.

For the month, 74% of all funds' discounts or premiums improved, while 26% worsened. In particular, 76% of equity CEFs and 72% of fixed income CEFs saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on February 26 (90) was five more than the number on January 29 (85).

## CEF Events and Corporate Actions IPOs

RiverNorth Capital Management, LLC, an investment management firm specializing in opportunistic strategies, announced the launch of the **RiverNorth Flexible Municipal Income Fund II, Inc. (RFMZ)**, a new municipal focused closed-end fund. RiverNorth will act as the investment advisor to the fund and MacKay Shields LLC (“MacKay Shields”) will act as subadvisor. This is the fourth fund co-managed by the investment firms. The fund will use the load waived pricing structure pioneered by RiverNorth. As a result, investors will not pay any upfront expenses, which allows the fund to be priced at its initial NAV of \$20 per share. Trading on the New York Stock Exchange (NYSE) began on February 24, 2021. The fund’s primary investment objective is current income exempt from regular U.S. federal income taxes (but which may be includable in taxable income for purposes of the federal alternative minimum tax). The fund’s secondary investment objective is total return. As the investment advisor, RiverNorth will strategically allocate the fund’s assets between two principal investment strategies: the Tactical Municipal Closed-End Fund Strategy, managed by RiverNorth, and the Municipal Bond Income Strategy, managed by MacKay Shields. The fund raised \$440 million in its initial public offering. Should the underwriters exercise the overallotment option in full, which may or may not occur, the fund will raise approximately \$506 million.

## Rights, Repurchases, Tender Offers

**First Trust/Aberdeen Global Opportunity Income Fund (FAM)** announced the final results of the tender offer it conducted. As previously announced, the fund conducted a tender offer for up to 20% of its outstanding common shares for cash at a price per share equal to 98% of the NAV per share as determined as of the close of the regular trading session of the NYSE on February 16, 2021. The fund’s tender offer, which expired on Friday, February 12, 2021, was oversubscribed. Since the fund’s tender offer was oversubscribed, the fund will purchase 20% of its outstanding common shares on a pro-rata basis based on the number of shares properly tendered. The final results of the tender offer are as follows: shares tendered: 5,450,859; shares to be repurchased: 2,534,207; pro-rata factor: 45.50%; number of shares outstanding after tender offer: 10,136,829.

## Mergers and Reorganizations

The reorganization of **Nuveen Michigan Quality Municipal Income Fund (NUM)** into **Nuveen AMT-Free Quality Municipal Income Fund (NEA)** was completed prior to the open of the NYSE on February 8, 2021. In the reorganization, NEA acquired substantially all of the

assets and liabilities of NUM in a tax-free transaction in exchange for newly issued common shares in an aggregate amount equal in value to the net assets transferred. The exchange was based upon the values of the funds’ net assets as of the close of trading on February 5, 2021. The exchange ratio at which common shares of NUM were exchanged for common shares of NEA was as follows: 1.01088836.

BlackRock Advisors, LLC announced that, at a joint special meeting of shareholders of **BlackRock Massachusetts Tax-Exempt Trust (MHE)**, **BlackRock MuniYield Arizona Fund, Inc. (MZA)**, and **BlackRock MuniYield Quality Fund, Inc. (MQY)**, the requisite votes of shareholders of MQY have approved the reorganization of each of MHE, MZA, **BlackRock Maryland Municipal Bond Trust (BZM)**, **BlackRock MuniYield Investment Fund (MYF)**, and **BlackRock MuniEnhanced Fund, Inc. (MEN)** with and into MQY, with MQY continuing as the surviving fund, and the transactions contemplated thereby, and the requisite votes of shareholders of MHE and MZA have approved the applicable reorganization. Shareholders of each of BZM, MYF, and MEN previously approved the applicable reorganization at a joint special meeting of shareholders. It is currently expected that the reorganizations will be completed in the beginning of the second quarter of 2021, subject to the satisfaction of customary closing conditions. Each reorganization, if completed, would occur based on the relative NAVs of the common shares of the applicable funds.

The following four Wells Fargo closed-end funds announced a transaction involving each fund’s investment advisor and subadvisor(s): **Wells Fargo Global Dividend Opportunity Fund (EOD)**, **Wells Fargo Income Opportunities Fund (EAD)**, **Wells Fargo Multi-Sector Income Fund (ERC)**, and **Wells Fargo Utilities and High Income Fund (ERH)**. Wells Fargo & Company announced that it has entered into a definitive agreement to sell Wells Fargo Asset Management (WFAM) to GTCR LLC and Reverence Capital Partners, L.P. WFAM is the trade name used by the asset management businesses of Wells Fargo and includes Wells Fargo Funds Management, LLC, the investment advisor to the funds, Wells Capital Management Incorporated and Wells Fargo Asset Management (International) Limited, both registered investment advisors providing subadvisory services to certain funds. Under the terms of the agreement, the purchase price is \$2.1 billion. As part of the transaction, Wells Fargo will own a 9.9% equity interest and will continue to serve as an important client and distribution partner.

Consummation of the transaction will result in the automatic termination of each fund’s investment advisory agreement and subadvisory agreement(s). The funds’ boards of trustees will be asked to approve new investment advisory arrangements with the new company. If approved by the boards, and



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to the extent required by applicable law, the new investment advisory arrangements with the new company will be presented to the shareholders of each fund for approval, and, if approved by shareholders, would take effect upon the closing of the transaction. The transaction is expected to close in the second half of 2021, subject to customary closing conditions.

The board of directors of **Apollo Senior Floating Rate Fund Inc. (AFT)** and **Apollo Tactical Income Fund Inc. (AIF)** announced that they have approved the reorganization of AFT with and into AIF, with AIF continuing as the surviving fund. It is currently expected that the reorganization will be completed in or around the end of the second quarter of 2021, subject to the requisite approvals by each fund's shareholders and the satisfaction of customary closing conditions.

## Other

In connection with the proposed acquisition of Eaton Vance Corp. (EV) by Morgan Stanley (MS) announced on October 8, 2020, shareholders of certain Eaton Vance closed-end funds were asked to approve new investment advisory agreements and, where applicable, new investment subadvisory agreements for the funds at a joint special meeting of shareholders held on February 12, 2021. At the meeting, shareholders of the following listed funds approved new investment advisory agreements and, where applicable, new investment subadvisory agreements: **Eaton Vance 2021 Target Term Trust (EHT)**, **Eaton Vance Municipal Income 2028 Term Trust (ETX)**, **Eaton Vance National Municipal Opportunities Trust (EOT)**, and **Eaton Vance Tax-Advantaged Global Dividend Income Fund (ETG)**.

BlackRock Advisors, LLC announced the declaration of a special distribution for **BlackRock Municipal Income Investment Quality Trust (BAF)**, **BlackRock Municipal Bond Trust (BBK)**, **BlackRock MuniHoldings Fund II, Inc. (MUH)**, **BlackRock MuniHoldings Quality Fund, Inc. (MUS)**, and **BlackRock MuniHoldings Fund, Inc. (MHD)** in connection with the reorganizations of BAF, BBK, MUH, and MUS into MHD, with MHD continuing as the surviving fund.

With respect to each of the funds, the special distribution declared represents undistributed net investment income earned through the effective date of the reorganizations. In order to maintain status as a regulated investment company and to avoid the imposition of a corporate level income tax, each of BAF, BBK, MUH, and MUS are required to declare a distribution of all net investment income prior to the consummation of the reorganizations. Other than the special distribution announced, BAF, BBK, MUH, and MUS will declare no further distributions prior to or following the reorganizations. As this special distribution includes all net investment income earned by each fund in earlier periods and not previously distributed, it is not indicative of the amount of the combined fund's future monthly distributions.

BAF, BBK, MUH, and MUS are declaring a special distribution that will be payable on April 1, 2021. The ex-dividend date for the distribution is March 2, 2021, and the record date is March 3, 2021. Accordingly, persons who are holders of record of BAF, BBK, MUH, or MUS common shares on March 3, 2021, should expect to receive the distribution. The distribution payable to shareholders

of BAF, BBK, MUH, and MUS will be paid in cash. Common shares of BAF, BBK, MUH, or MUS acquired after March 1, 2021, will not be entitled to the distribution.

MHD is declaring a special distribution that will be payable on April 1, 2021. The ex-dividend date for the distribution is March 2, 2021, and the record date is March 3, 2021. Accordingly, persons who are holders of record of MHD common shares on March 3, 2021, should expect to receive the distribution. Common shares of MHD acquired after March 1, 2021, will not be entitled to the distribution.

Common shares of BAF, BBK, MUH, MUS, or MHD acquired after March 1, 2021, will not be entitled to their respective special distributions and will not be eligible to receive a distribution until an initial distribution is declared on the combined fund after the closing of the reorganizations. It is expected that on April 1, 2021, the combined fund will declare its first monthly distribution payable on May 3, 2021.

It is currently expected that the reorganizations will be completed by the open of business on the NYSE on March 8, 2021, subject to the satisfaction of customary closing conditions. To facilitate the merger, all shares of BAF, BBK, MUH, and MUS will cease trading on the NYSE as of market close on Friday, March 5, 2021.

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