

USA CEF: Every Shareholder Should Read This

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Important Update: USA "Rights Offering"

We have been getting a lot of questions about the [Rights Offering](#) from **Liberty All-Star Equity Fund (USA)**, so we want to take this opportunity to answer those. This is a layman's explanation of the most important terms and considerations, but the [Prospectus](#) should be referred to for exact details.

These rights are available only to shareholders of record on October

15th (you must have bought USA on or before October 13th).

What Is A "Rights Offering"

A rights offering is a way for CEFs (closed-end funds) to raise capital. They create new shares and sell them. Instead of just selling them on the market to anyone, **a rights offering gives current shareholders the "right" to buy more shares at a discount.** For each share for which you were the [owner of record on October 15th](#) **(if you bought the shares on or before October 13th)**, you will receive 1 right. These "rights" have likely already shown up in your brokerage account and will carry a \$0 value since they are not transferable. You have the option to buy one new share of the fund for every 10 rights you have.

Why Exercise the Rights? How Much Will I Pay?

Obviously, you can buy shares of USA whenever you want to, so why exercise the rights? For the discount of course! That discounted price will not be determined until the expiration of the rights offering on November 22nd. The price you pay for the new shares will be 95% of NAV (net asset value) **or** 95% of Market Price, **whichever is lower.** The 5-day closing average will determine the market price as of November 22nd.

So the obvious benefit is that you are getting a price that is an immediate discount on November 22nd. Currently, USA trades at a slight premium, so 95% of NAV would be the lower price right now, and if the offering expired today, you would pay \$7.92/share, a nice discount to the \$8.40 the shares are trading at recently.

When you exercise your rights, your broker will hold an estimate of how much you will have to pay. Note, since NAV and the market price

of USA will be changing between now and November 22nd, this is only an estimate. **The actual amount you pay could be higher or lower, and you are responsible for ensuring there is enough cash in your account to cover the transaction.**

I Am Overallocated, Should I Exercise My Rights?

Perhaps you are already overallocated with your USA holding. As a result of the rights offering, you will be increasing your exposure by 10% if you fully exercise, which might be enough to tip you over your allocation limits. This solution can be solved by selling shares now. Since you already have your rights, you can still exercise them and buy more shares even if you sell today. If the shares are in a taxable account, be mindful of the potential cost of tax consequences. Also, note that USA will go ex-dividend in November (around the 12th) before the rights offering, so selling any shares before then will cause you to miss some dividends.

Alternatively, unless you are substantially overallocated, picking up an extra 10% in shares is not a huge risk. If you have a 3% allocation, adding 10% will bring you around 3.3%, which you can then taper off over time by redirecting dividends elsewhere or selling opportunistically on the bumps.

What Are The Risks?

By exercising your rights, you guarantee that you are getting an attractive price as of November 22nd. Exercising your rights will always be better than buying on November 22nd. However, there is no guarantee about what happens on November 23rd. Like any other stock price, it could come down immediately after you buy.

The second risk is that NAV might go up. Once you subscribe to the

rights offering, your broker will take an estimate of the cash requirement right away. By November 22nd, 95% of NAV might be higher than today's market price! That would require NAV to go up a bit over 10%, which would be a very good month, but not impossible. Of course, if that happens, we will certainly be happy with the rest of our shares!

How Do I Exercise My Rights?

Your brokerage will provide you the option to exercise your rights. How they handle that will vary by brokerage. Your brokerages should have the option available already - you may have gotten an e-mail from your broker, and you will want to check the "corporate actions" section of your account.

With most brokerages, you will be able to do this online. If you are unfamiliar with how your brokerage handles corporate actions, don't hesitate to contact their customer service and have them direct you. There might be other stocks you have with important events you are missing!

When you exercise, you will be asked how many shares you want to buy. If you exercise 100% of your rights, you will have the option to "oversubscribe" and buy shares at a discount beyond those your rights guarantee. If you oversubscribe, you will receive additional shares if other shareholders fail to exercise their rights and/or if the fund opts to issue additional shares. The fund can issue an additional 25% more shares if there is enough demand for oversubscriptions. So if you have 1,000 shares, you can exercise your rights and be guaranteed to buy 100 new shares. You might want to oversubscribe for a total of 125 shares, you are not guaranteed those additional 25 shares, but there is a good chance that you get them.

While the rights offering expires November 22nd, your broker will have an earlier deadline to ensure they have time to process the requests. **Check with your broker for the deadline** - there is no urgency, but make sure you make your selection before then! As a reminder, the amount the broker withholds initially is an estimate. **The actual price of the offering will not be determined until after the market closes on November 22nd, so it is important to ensure you have enough cash available in your account.**



Source: Dreamstime

Conclusion

"Should" you exercise your rights offering? Well, we see it as a great opportunity, and personally, I will be oversubscribing. Several other members of the HDO team I have spoken with intend to do so as well. As always, consider your goals, allocations, and your personal investment needs.

When I have a coupon to buy something I want anyway, I like to use the coupon. You can think of a rights offering as a "Black Friday" sale

advertised on a flyer. You know it is coming, you know you will get a discount on November 22nd, why not take advantage of it?