Seeking Alpha α

Closed End Funds

5 Best CEFs To Buy This Month (December 2021)

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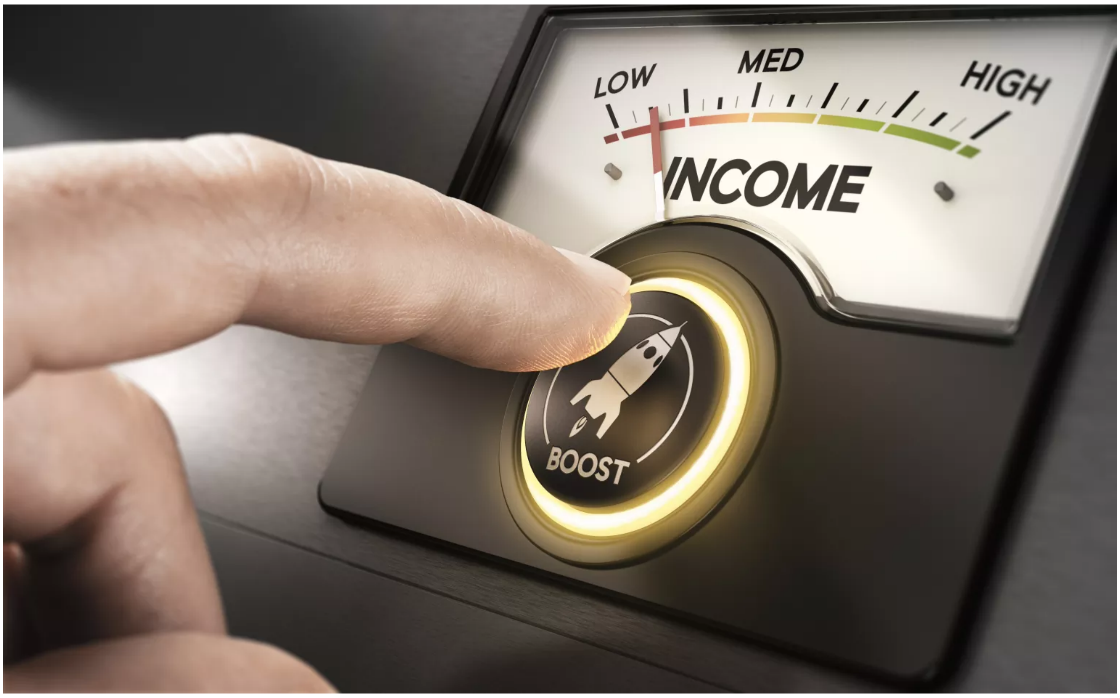
Summary

- For income investors, closed-end funds remain an attractive investment class that covers a variety of asset classes and promise high distributions and reasonable total returns.
- Closed-end funds are generally characterized by higher volatility and deeper drawdowns than the broad market. For these reasons, they are not suited for everyone.
- In this monthly series, we highlight five CEFs that have solid track records, pay high distributions, and are offering "excess" discounts. We try to separate the wheat from the chaff using our filtering process to select just five CEFs every month from around 500 closed-end funds.
- Looking for a portfolio of ideas like this one? Members of High Income DIY Portfolios get exclusive access to our model portfolio. Learn More »



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In this monthly article, we try to identify five closed-end funds (CEFs) that have a solid past history, pay high-enough distribution and offer reasonable valuations. In the first half of this year, CEFs and other high-income securities had performed very well. Even though the gains have slowed quite a bit in the second half of the year, the average CEF yields are much lower compared to where they were a couple of years ago. At this point, it's still a bit difficult to form a brand-new portfolio that is conservative and relatively safe and still yields 8%. Nonetheless, if you were to start a new portfolio today, our recommendation would be to start small and build the positions over time.

Obviously, the CEFs do not exist in a vacuum. For the most part, they move along with the broader market. This is especially true for equity funds. However, there are many funds with underlying asset classes that are known to provide divergence from the market. The market continues to move higher, though it had some jitters in September, and now more recently in early December. Even though the market appears to be doing well, the rise in inflation levels is a real cause for concern. In fact, the prices rose 6.8% in November on a year-over-year basis, the highest pace recorded since 1982. Obviously, everyone is looking at the actions that the Fed would take in the coming months. In fact, markets went up after the Feds meeting on Wednesday as there were no surprises in the Fed's announcement of faster tapering ($30 billion instead of $15B) and possibly three interest rate hikes in 2022. Nonetheless, we still seem to have quite a bit of time (possibly a year) before we will see the interest rates rise to a level that could cause a future recession.

All that said, we can't stand still in fear of market uncertainties, as they would always be there with us. We should rather think in terms of long-term investing. It's best to keep the focus on our long-term goals and strategies that have proven to work in good times and bad. If you are a new investor and/or starting a brand new CEF portfolio, our recommendation would be to start small and build the positions over time. We believe, for most investors, a 20%-25% allocation to closed-end and high-income funds should be enough. In that spirit, we keep looking for good investment opportunities and try to separate the wheat from the chaff on a regular basis.

Why Invest In CEFs?

For income-focused investors, closed-end funds remain an attractive investment class that offers high income (generally in the range of 6%-10%, often 8% plus), broad diversification (in terms of variety of asset classes), and market-matching total returns in the long term, if selected carefully and acquired at reasonable price points. A $500K CEF portfolio can generate nearly $40,000 a year, compared to a paltry $6,500 from the S&P 500. Now, if you were a retiree and needed to use all of that income, the portfolio would probably not grow much, but it may still grow enough to beat the rate of inflation. That certainly beats investment vehicles like annuities. However, if you are in a position to withdraw 5% (or under 6%), the rest of the yield can be reinvested in the original fund or a new fund to ensure reasonable growth of the capital.

Ideally, if you have a large enough pool of retirement funds or you have other sources of income like pension or rental income, there's may not be a need to invest in CEFs altogether or just invest no more than 20% into CEFs, but these are decisions that can only be made on a personal level based on individual situations.

However, it's important to be aware of the risks and challenges that come with investing in CEFs. We list various risk factors at the end of this article. They are not suitable for everyone, so please consider your goals, income needs, and risk tolerance carefully before you invest in CEFs.

CEFs had taken a serious beating in the early stages of the pandemic last year, and their recovery had been much weaker than the broader market. But that has changed this year in 2021. As a result, we no longer have the kind of discounts that were being offered until the end of last year. In fact, just the opposite, most of the CEFs are probably overvalued today.

With that in view, one should buy selectively and in small and multiple lots. No one can predict the future direction of the market with any degree of certainty. So, we continue to be on the lookout for good investment candidates that have a solid track record, offer good yields, and are offering great discounts.

Five Best CEFs To Consider Every Month

This series of articles attempts to separate the wheat from the chaff by applying a broad-based screening process to 500 CEF funds followed by an eight-criteria weighting system. In the end, we're presented with about 30-40 of the most attractive funds in order to select the best five. However, please note that we do not consider funds that have a history of fewer than five years.

This is our regular series on CEFs, where we highlight five CEFs that are relatively cheap, offer "excess" discounts to their NAVs, pay reasonably high distributions, and have a solid track record. We also write a monthly series to identify "5 Safe and Cheap DGI" stocks. You can read our most recent article here.

We use our multi-step filtering process to select just five CEFs from around 500 available funds.

The selected five CEFs this month, as a group, are offering an average distribution rate of nearly 7.85% (as of 12/09/2021). Besides, these five funds have an excellent past record and collectively returned 18.52%, 17.79%, and 13.29% in the last three, five, and ten years. Since this is a monthly series, there may be some selections that could overlap from month to month. This month the yield is quite reasonable at 7.85%, and the average leverage is very low with an excess discount of -3.65%. That said, most CEFs are trading a bit expensive, and an investor may be well served to buy in small and multiple lots.

Please note that these are not recommendations to buy but should be considered as a starting point for further research.

Author's Note: This article is part of our monthly series that tries to discover the five best buys in the CEF arena at that point in time. Certain parts of the introduction, definitions, and the section describing selection criteria/process may have some commonality and repetitiveness with our other articles in the series. This is unavoidable as well as intentional to keep the entire series consistent and easy to follow for the new readers. Regular readers who follow the series from month to month could skip the general introduction and sections describing the selection process. Further, a version of this article is made available a few days early to the subscribers of the HIDIY Marketplace service.

Goals For The Selection Process

Our goals are simple and are aligned with most conservative income investors, including retirees who wish to dabble in CEFs. We want to shortlist five closed-end funds that are relatively cheap, offer good discounts to their NAVs, pay relatively high distributions, and have a solid and substantial past track record in maintaining and growing their NAVs. Please note that we are not necessarily going for the cheapest funds (in terms of discounts or highest yields), but we also require our funds to stand out qualitatively. We adopt a systematic approach to filter down the 500-plus funds into a small subset.

Here's a summary of our primary goals:

- High income/distributions.
- Reasonable long-term performance in terms of total return on NAV: We also try to measure if there has been an excess NAV return over and above the distribution rate.
- Cheaper valuation at the time of buy, determined by the absolute discount to NAV and the "excess" discount offered compared to their history.
- Coverage ratio: We try to measure to what extent the income generated by the fund covers the distribution. Not all CEFs fully cover the distribution, especially the equity, and specialty funds, as they depend on the capital gains to cover their distributions. We adjust this weight according to the type and nature of the fund.

We believe that a well-diversified CEF portfolio should at least consist of 10 CEFs or more, preferably from different asset classes. It's also advisable to build the portfolio over a period rather than invest in one lump sum. If you were to invest in one CEF every month in a year, you would have a well-diversified CEF portfolio. What we provide here every month is a list of five probable candidates for further research. We think a CEF portfolio can be an important component in the overall portfolio strategy. One should preferably have a DGI portfolio as the foundation, and the CEF portfolio could be used to boost the income level to the desired level. How much should one allocate to CEFs? Each investor needs to answer this question himself/herself based on the personal situation and factors like the size of the portfolio, income needs, risk appetite, or risk tolerance.

Selection Process

We have more than 500 CEF funds to choose from, which come from different asset classes like equity, preferred stocks, mortgage bonds, government and corporate bonds, energy MLPs, utilities, infrastructure, and municipal income. Just like in other life situations, even though the broader choice always is good, it does make it more difficult to make a final selection. The first thing we want to do is to shorten this list of 500 CEFs to a more manageable subset of around 75-100 funds. We can apply some criteria to shorten our list, but the criteria need to be broad and loose enough at this stage to keep all the potentially good candidates. Also, the criteria that we build should revolve around our original goals. We also demand at least a five-year history for the funds that we consider. However, we do take into account the 10-year history, if available.

Criteria to Shortlist:

Criteria	Brings down the number of funds to...	Reason for the Criteria
Baseline expense < 2.5% and Avg. Daily Volume > 10,000	Approx. 435 Funds	We do not want funds that charge excessive fees. Also, we want funds that have fair liquidity.
Market-capitalization > 100 Million	Approx. 400 Funds	We do not want funds that are too small.
Track record/ History longer than five years (inception date 2016 or earlier)	Approx. 375 Funds	We want funds that have a reasonably long track record.
Discount/Premium < +6%	Approx. 350 Funds	We do not want to pay too high a premium; in fact, we want bigger discounts.
Distribution (dividend) Rate > 5%	Approx. 250-275 Funds	The current distribution (income) to be reasonably high.
5-Year Annualized Return on NAV > 0% AND 3-Year Annualized Return on NAV >0%	Approx. 200-210 Funds	We want funds that have a reasonably good past track record in maintaining their NAVs.

After we applied the above criteria this month, we were left with 219 funds on our list, just above our target of 200 funds at this stage. But it's still too long a list to present here or meaningfully select five funds.

Note: All tables in this article have been created by the author (unless explicitly specified). Most of the data in this article are sourced from Cefconnect.com, Cefa.com, and Morningstar.com.

Narrowing Down To 50-60 Funds

To bring down the number of funds to a more manageable count, we will shortlist ten funds based on each of the following criteria. After that, we will apply certain qualitative criteria to each fund and rank them to select the top five.

At this stage, we also eliminate certain funds that have had substantial negative NAV returns for both three-year and five-year periods.

Seven broad criteria:

- Excess discount/premium (explained below).
- Distribution rate.
- Return on NAV, last three years (medium-term).
- Return on NAV, last five years (long term).
- Coverage ratio.
- Excess return over distributions.
- The total weight (calculated up to this point).

Excess Discount/Premium:

We certainly like funds that are offering large discounts (not premiums) to their NAVs. But sometimes, we may consider paying near zero or a small premium if the fund is great otherwise. So, what's important is to see the "excess discount/premium" and may not be the absolute value. We want to see the discount (or premium) on a relative basis to their record, say 52-week average.

Subtracting the 52-week average discount/premium from the current discount/premium will give us the excess discount/premium. For example, if the fund has the current discount of -5%, but the 52-week average was +1.5% (premium), the excess discount/premium would be -6.5%.

Excess Discount/Premium = Current Discount/Premium (Minus) 52-Wk Avg. Discount/ Premium

So, what's the difference between the 12-month Z-score and this measurement of Excess Discount/Premium? The two measurements are quite similar, maybe with a subtle difference. The 12-month Z-score would indicate how expensive (or cheap) the CEF is in comparison to the 12 months. Z-score also takes into account the standard deviation of the discount/premium. Our measurement (excess discount/premium) compares the current valuation with the last 12-month average.

We sort our list (of 219 funds) on the "excess discount/premium" in descending order. For this criterion, the lower the value, the better it is. So, we select the top 10 funds (most negative values) from this sorted list.

(All data as of 12/09/2021)

Ticker	Name	Sector	Leverage %	Base Exp.	Distrib. Rate	Disc./ Premium	Excess Disc.	52 WK AVG Disc/ Premium	3YR Ann. NAV Return	5YR Ann. NAV Return	Inception Date	Distrib. Coverage
EDF	Stone Harbor Emerg. Mkts I	Emerging Market Ir	30.19%	1.59%	10.94%	1.86%	-14.69%	16.55%	0.44%	1.35%	12/23/2010	84.64%
BST	BlackRock Science and Tech	Sector Equity	0.00%	1.08%	5.88%	-6.61%	-7.75%	1.14%	34.53%	30.59%	10/29/2014	0.00%
PDI	PIMCO Dynamic Income Fu	Multi-Sector	41.35%	1.90%	10.53%	3.76%	-7.20%	10.96%	6.54%	9.77%	5/25/2012	91.50%
PFL	PIMCO Income Strategy	Multi-Sector	39.11%	1.19%	9.00%	5.96%	-6.90%	12.86%	9.54%	9.67%	8/26/2003	87.98%
PKO	PIMCO Income Opportunity	Multi-Sector	43.38%	1.56%	9.59%	3.39%	-6.02%	9.41%	8.72%	10.34%	11/30/2007	85.18%
PFN	PIMCO Income Strategy II	Multi-Sector	37.20%	1.13%	9.06%	5.20%	-5.64%	10.84%	8.81%	9.33%	10/29/2004	86.49%
GBAB	Guggenheim Tax Muni & Inv	Taxable Muni	28.98%	0.90%	6.49%	0.56%	-4.83%	5.39%	8.70%	7.05%	10/27/2010	78.18%
ETJ	Eaton Vance Risk-Mgd Dive	Covered Call	--	1.10%	8.59%	1.63%	-4.66%	6.29%	12.50%	10.61%	7/31/2007	5.20%
UTF	Cohen & Steers Infrastructu	Sector Equity	27.03%	1.39%	6.72%	1.17%	-4.60%	5.77%	11.67%	12.22%	3/30/2004	25.83%
NEV	Nuveen Enhanced Municipa	Municipal	24.90%	1.00%	5.87%	-1.75%	-4.33%	2.58%	8.73%	7.07%	9/25/2009	77.16%

High Current Distribution Rate:

After all, most investors invest in CEF funds for their juicy distributions. We sort our list (of 219 funds) on the current distribution rate (descending order, highest at the top) and select the top 10 funds from this sorted list.

Ticker	Name	Sector	Leverage %	Base Exp.	Distrib. Rate	Disc./ Premium	Excess Disc.	52 WK AVG Disc/ Premium	3YR Ann. NAV Return	5YR Ann. NAV Return	Inception Date	Distrib. Coverage
RIV	RiverNorth Opportunities Fu	US Allocation	8.28%	2.07%	12.11%	1.88%	-1.36%	3.24%	12.18%	10.10%	12/23/2015	1.87%
ACP	Aberdeen Income Credit Str	Senior Loans	39.58%	2.33%	11.67%	-0.87%	-2.44%	1.57%	1.97%	4.31%	1/27/2011	82.33%
IFN	The India Fund Inc	Asia Equity	0.28%	1.32%	11.48%	-9.79%	0.28%	-10.07%	10.75%	11.69%	2/23/1994	0.00%
GLO	Clough Global Opportunitie	Global Allocation	37.13%	2.26%	11.30%	0.35%	4.39%	-4.04%	13.84%	11.71%	4/25/2006	0.00%
TEI	Templeton Emerg Mkts Inco	Emerging Market Ir	--	1.11%	11.10%	-6.64%	0.50%	-7.14%	-4.84%	-2.02%	9/23/1993	65.79%
IAF	Aberdeen Australia Equity F	Single Country Equi	5.13%	1.45%	10.96%	-3.95%	-1.33%	-2.62%	15.14%	11.11%	12/12/1985	11.56%
EDF	Stone Harbor Emerg. Mkts I	Emerging Market Ir	30.19%	1.59%	10.94%	1.86%	-14.69%	16.55%	0.44%	1.35%	12/23/2010	84.64%
GLV	Clough Global Dividend and	Global Allocation	34.04%	1.84%	10.63%	-0.82%	0.56%	-1.38%	4.98%	5.64%	7/28/2004	13.51%
PDI	PIMCO Dynamic Income Fu	Multi-Sector	41.35%	1.90%	10.53%	3.76%	-7.20%	10.96%	6.54%	9.77%	5/25/2012	91.50%
FTF	Franklin Limited Duration In	Limited Duration	30.57%	1.22%	10.40%	-2.00%	-1.05%	-0.95%	5.22%	3.69%	8/27/2003	56.47%

Medium-Term Return on NAV (last three years):

We then sort our list (of 219 funds) on a three-year return on NAV (in descending order, highest at the top) and select the top 10 funds.

Ticker	Name	Sector	Leverage %	Base Exp.	Distrib. Rate	Disc./ Premium	Excess Disc.	52 WK AVG Disc/ Premium	3YR Ann. NAV Return	5YR Ann. NAV Return	Inception Date	Distrib. Coverage
TWN	Taiwan Fund	Asia Equity	--	1.70%	8.58%	-15.30%	-0.73%	-14.57%	44.30%	26.49%	12/23/1986	1.97%
BST	BlackRock Science and Technolog	Sector Equity	0.00%	1.08%	5.88%	-6.61%	-7.75%	1.14%	34.53%	30.59%	10/29/2014	0.00%
ACV	AllianzGI Diversified Income & Co	US Allocation	21.90%	2.27%	5.86%	-5.48%	-0.30%	-5.18%	27.95%	21.31%	5/27/2015	0.00%
CCD	Calamos Dynamic Convertible and	Convertibles	47.26%	2.16%	7.70%	0.00%	-0.88%	0.88%	26.51%	19.73%	3/26/2015	64.47%
CSQ	Calamos Strategic Total Return	US Allocation	26.77%	1.53%	6.44%	1.17%	-0.58%	1.75%	23.03%	18.83%	3/26/2004	14.31%
CHY	Calamos Convertible & High Incor	Convertibles	31.99%	1.28%	7.53%	0.76%	2.94%	-2.18%	22.55%	16.93%	5/30/2003	44.23%
CHI	Calamos Convertible Opp Inc	Convertibles	31.98%	1.29%	7.47%	2.01%	3.87%	-1.86%	22.37%	16.89%	6/28/2002	43.56%
EOS	Eaton Vance Enhanced Equity Inc	Covered Call	--	1.09%	6.88%	0.55%	-0.50%	1.05%	20.81%	18.73%	1/26/2005	0.00%
ETO	Eaton Vance Tax-Advantaged Glbl	Global Allocation	17.27%	1.26%	6.88%	-0.64%	1.82%	-2.46%	20.66%	16.65%	4/30/2004	20.21%
CGO	Calamos Global Total Return	Global Allocation	31.00%	1.70%	7.65%	1.36%	-2.15%	3.51%	20.31%	15.56%	10/27/2005	3.58%

Five-Year Annualized Return on NAV:

We then sort our list (of 219 funds) on the five-year return on NAV (in descending order, highest at the top) and select the top 10 funds.

Ticker	Name	Sector	Leverage %	Base Exp.	Distrib. Rate	Disc./ Premium	Excess Disc.	52 WK AVG Disc/ Premium	3YR Ann. NAV Return	5YR Ann. NAV Return	Inception Date	Distrib. Coverage
BST	BlackRock Science and Technolog	Sector Equity	0.00%	1.08%	5.88%	-6.61%	-7.75%	1.14%	34.53%	30.59%	10/29/2014	0.00%
TWN	Taiwan Fund	Asia Equity	--	1.70%	8.58%	-15.30%	-0.73%	-14.57%	44.30%	26.49%	12/23/1986	1.97%
ACV	AllianzGI Diversified Income & Co	US Allocation	21.90%	2.27%	5.86%	-5.48%	-0.30%	-5.18%	27.95%	21.31%	5/27/2015	0.00%
CCD	Calamos Dynamic Convertible anc	Convertibles	47.26%	2.16%	7.70%	0.00%	-0.88%	0.88%	26.51%	19.73%	3/26/2015	64.47%
CSQ	Calamos Strategic Total Return	US Allocation	26.77%	1.53%	6.44%	1.17%	-0.58%	1.75%	23.03%	18.83%	3/26/2004	14.31%
EOS	Eaton Vance Enhanced Equity Inc	Covered Call	--	1.09%	6.88%	0.55%	-0.50%	1.05%	20.81%	18.73%	1/26/2005	0.00%
GF	New Germany	Single Country Equi	0.00%	1.16%	9.86%	-10.55%	1.02%	-11.57%	19.61%	17.65%	1/30/1990	2.70%
CET	Central Securities Corporation	US Equity	0.32%	0.60%	9.24%	-17.12%	-0.72%	-16.40%	19.07%	17.63%	7/28/1980	13.99%
CHY	Calamos Convertible & High Incor	Convertibles	31.99%	1.28%	7.53%	0.76%	2.94%	-2.18%	22.55%	16.93%	5/30/2003	44.23%
CHI	Calamos Convertible Opp Inc	Convertibles	31.98%	1.29%	7.47%	2.01%	3.87%	-1.86%	22.37%	16.89%	6/28/2002	43.56%

Coverage Ratio (Distributions vs. Earnings):

We then sort our list (of 219 funds) on the coverage ratio and select the top 10 funds. The coverage ratio is derived by dividing the earnings per share by the distribution amount for a specific period. Please note that in some cases, the coverage ratio may not be very accurate since the "earnings per share" maybe three to six months old. But in most cases, it's fairly accurate.

Ticker	Name	Sector	Leverage %	Base Exp.	Distrib. Rate	Disc./ Premium	Excess Disc.	52 WK AVG Disc/ Premium	3YR Ann. NAV Return	5YR Ann. NAV Return	Inception Date	Distrib. Coverage
AGD	Aberdeen Global Dynamic Dividen	Global Equity	3.05%	1.15%	6.52%	-7.85%	1.19%	-9.04%	12.16%	11.85%	7/26/2006	145.33%
AOD	Aberdeen Total Dynamic Dividend	Global Equity	0.09%	1.14%	6.76%	-7.52%	2.42%	-9.94%	11.65%	11.29%	1/26/2007	128.20%
DSL	DoubleLine Income Solutions Fun	Global Income	29.83%	1.68%	7.72%	-3.72%	-0.56%	-3.16%	5.63%	6.31%	4/26/2013	122.76%
BGH	Barings Global Short Duration Hig	High Yield	29.53%	1.65%	7.62%	-6.78%	-0.14%	-6.64%	6.20%	6.12%	10/26/2012	121.64%
BSL	Blackstone Senior Floating Rate T	Senior Loans	32.75%	1.76%	5.69%	0.31%	3.63%	-3.32%	5.43%	5.77%	5/26/2010	115.28%
BGB	Blackstone Strategic Credit	Senior Loans	36.49%	2.18%	6.27%	-5.29%	2.01%	-7.30%	4.20%	5.30%	9/26/2012	114.24%
FDEU	First Trust Dynamic Europe Equity	Global Equity	23.64%	1.04%	5.75%	-14.06%	-2.37%	-11.69%	3.96%	4.55%	9/24/2015	113.61%
KIO	KKR Income Opportunities Fund	High Yield	36.46%	2.02%	7.90%	-4.03%	0.24%	-4.27%	8.80%	9.16%	7/26/2013	113.29%
DHF	BNY Mellon High Yield Strategies I	High Yield	28.88%	1.26%	7.14%	-4.31%	-1.13%	-3.18%	8.13%	6.97%	4/29/1998	109.91%
HYB	New America High-Income	High Yield	26.94%	1.18%	6.47%	-4.21%	2.30%	-6.51%	8.36%	6.92%	2/26/1988	109.17%

Excess Return Over Distribution:

This is the "excess return" provided by the fund over the distribution rate. It's calculated by subtracting the distribution rate from the three-year NAV return.

Ticker	Name	Sector	Leverage %	Base Exp.	Distrib. Rate	Disc./ Premium	Excess Disc.	52 WK AVG Disc/ Premium	3YR Ann. NAV Return	5YR Ann. NAV Return	Inception Date	Distrib. Coverage	Excess Return
TWN	Taiwan Fund	Asia Equity	--	1.70%	8.58%	-15.30%	-0.73%	-14.57%	44.30%	26.49%	12/23/1986	1.97%	35.72%
BST	BlackRock Science and Technolog	Sector Equity	0.00%	1.08%	5.88%	-6.61%	-7.75%	1.14%	34.53%	30.59%	10/29/2014	0.00%	28.65%
ACV	AllianzGI Diversified Income & Co	US Allocation	21.90%	2.27%	5.86%	-5.48%	-0.30%	-5.18%	27.95%	21.31%	5/27/2015	0.00%	22.09%
CCD	Calamos Dynamic Convertible an	Convertibles	47.26%	2.16%	7.70%	0.00%	-0.88%	0.88%	26.51%	19.73%	3/26/2015	64.47%	18.81%
CSQ	Calamos Strategic Total Return	US Allocation	26.77%	1.53%	6.44%	1.17%	-0.58%	1.75%	23.03%	18.83%	3/26/2004	14.31%	16.59%
CHY	Calamos Convertible & High Incor	Convertibles	31.99%	1.28%	7.53%	0.76%	2.94%	-2.18%	22.55%	16.93%	5/30/2003	44.23%	15.02%
CHI	Calamos Convertible Opp Inc	Convertibles	31.98%	1.29%	7.47%	2.01%	3.87%	-1.86%	22.37%	16.89%	6/28/2002	43.56%	14.90%
EOS	Eaton Vance Enhanced Equity Inc	Covered Call	--	1.09%	6.88%	0.55%	-0.50%	1.05%	20.81%	18.73%	1/26/2005	0.00%	13.93%
ETO	Eaton Vance Tax-Advantaged Glbl	Global Allocation	17.27%	1.26%	6.88%	-0.64%	1.82%	-2.46%	20.66%	16.65%	4/30/2004	20.21%	13.78%
CGO	Calamos Global Total Return	Global Allocation	31.00%	1.70%	7.65%	1.36%	-2.15%	3.51%	20.31%	15.56%	10/27/2005	3.58%	12.66%

Total Weight (Quality Score) calculated up to this point:

Note: The Total Weight calculation is not fully completed at this point since we have not taken into account the 10-year NAV return. Also, we would adjust the weight for the coverage ratio at a later stage. However, we select the top 15 names on this basis (instead of 10 for other criteria).

Ticker	Name	Sector	Leverage %	Base Exp.	Distrib. Rate	Disc./ Premium	Excess Disc.	52 WK AVG Disc/ Premium	3YR Ann. NAV Return	5YR Ann. NAV Return	Inception Date	Distrib. Coverage	Total Combined Weight
BST	BlackRock Science and Technolog	Sector Equity	0.00%	1.08%	5.88%	-6.61%	-7.75%	1.14%	34.53%	30.59%	10/29/2014	0.00%	33.90
CET	Central Securities Corporation	US Equity	0.32%	0.60%	9.24%	-17.12%	-0.72%	-16.40%	19.07%	17.63%	7/28/1980	13.99%	31.28
RMT	Royce Micro-Cap Trust	US Equity	3.73%	1.07%	10.04%	-12.88%	-0.35%	-12.53%	17.60%	13.71%	12/14/1993	0.00%	30.95
CHN	China Fund	Asia Equity	0.00%	0.90%	8.95%	-10.95%	-0.81%	-10.14%	19.03%	14.00%	7/10/1992	0.00%	30.88
GF	New Germany	Single Country Equi	0.00%	1.16%	9.86%	-10.55%	1.02%	-11.57%	19.61%	17.65%	1/30/1990	2.70%	30.41
LGI	Lazard Global Total Return and In	Global Equity	8.08%	1.45%	6.92%	-7.72%	-3.01%	-4.71%	16.07%	15.68%	4/28/2004	8.34%	30.03
TWN	Taiwan Fund	Asia Equity	--	1.70%	8.58%	-15.30%	-0.73%	-14.57%	44.30%	26.49%	12/23/1986	1.97%	29.75
GAM	General American Investors	US Equity	13.23%	1.75%	7.09%	-16.52%	-1.27%	-15.25%	13.21%	10.50%	2/1/1927	0.00%	29.25
RVT	Royce Value Trust	US Equity	3.17%	0.52%	9.13%	-7.25%	3.52%	-10.77%	15.88%	12.64%	11/19/1986	5.38%	29.19
SCD	LMP Capital and Income	Global Allocation	16.54%	1.25%	7.17%	-11.20%	-0.50%	-10.70%	13.62%	9.93%	2/24/2004	32.92%	29.00
IGR	CBRE Global Real Estate Income	Real Estate	19.40%	1.16%	9.92%	-6.99%	2.41%	-9.40%	14.61%	10.28%	2/18/2004	21.43%	28.64
DNIF	Dividend and Income Fund	US Allocation	0.00%	1.46%	6.88%	-27.96%	-0.39%	-27.57%	16.27%	13.90%	6/29/1998	0.42%	28.52
NFJ	AllianzGI Div Interest & Prem Com	Covered Call	--	0.95%	5.74%	-10.92%	-0.46%	-10.46%	14.34%	10.43%	2/23/2005	5.56%	28.34
IIF	Morgan Stanley India Investment	Asia Equity	--	1.35%	7.59%	-17.01%	-2.71%	-14.30%	10.11%	8.63%	2/25/1994	0.00%	28.26
SWZ	Swiss Helvetia	Single Country Equi	--	1.80%	5.70%	-14.60%	-1.13%	-13.47%	13.21%	11.65%	8/27/1987	42.59%	28.13

Now we have 75 funds in total from the above selections. We will see if there are any duplicates. In our current list of 75 funds, there were 25 duplicates, meaning there are funds that appeared more than once. The following names appear twice (or more):

Appeared two times: CET, CGO, EDF, ETO, GF, PDI (6 duplicates)

Appeared three times: ACV, CCD, CHI, CHY, CSQ, EOS (12 duplicates)

Appeared four times: TWN (3 duplicates)

Appeared five times: BST (4 duplicates)

So, once we remove 25 duplicate rows, we are left with 50 (75-25) funds. We also remove two MPL funds that have low ratings due to negative performance over three and five-year periods and other factors, leaving us 48 funds.

Note: It may be worthwhile to mention here that just because a fund has appeared multiple times does not necessarily make it an attractive candidate. Sometimes, a fund may appear multiple times simply for wrong reasons, like a high current discount, high excess discount, or a very high distribution rate that may not be sustainable. But during the second stage of filtering, it may not score well on the overall quality score due to other factors like poor track record. That said, if a fund has appeared four times or more, it may be worth a second look.

Narrowing Down To Just 10-12 Funds

In our list of funds, we already may have some of the best probable candidates. However, so far, they have been selected based on one single criterion that each of them may be good at. That's not nearly enough. So, we will apply a combination of criteria by applying weights to eight factors to calculate the total quality score and filter out the best ones.

We will apply weights to each of the eight criteria:

- Baseline expense (Max weight 5)
- Current distribution rate (Max weight 7.5)
- Excess discount/premium (Max weight 5)
- 3-YR NAV return (Max weight 5)
- 5-YR NAV return (Max weight 5)
- 10-YR NAV return (Max weight 5, if less than ten years history, an average of three-year and five-year)
- Excess NAV return over distribution rate (Max weight 5)
- Adjusted Coverage Ratio (Max weight 5): This weight is adjusted based on the type of fund to provide fair treatment to certain types like equity and sector funds. We assign some bonus points to certain types of funds, which by their make-up depend on capital gains to fund their distributions, to bring them at par with fixed-income funds. These fund types include Equity/ Sector equity (three bonus points), real estate (three points), covered call (two points), and MLP funds (variable). However, please note that this is just one of nine criteria that are being used to calculate the total quality score.

Once we have calculated the weights, we combine them to calculate "Total Combined Weight," also called the "Quality Score." The sorted list (spreadsheet) of 48 funds on the "combined total weight" is attached here: File-for-export_-_5_Best_CEFs_-_DEC21.xlsx

The top 30 funds (out of 48) based on the quality score also are listed below. Please note that the quality score only indicates the likeliness of a good candidate, but investors should do further research and due diligence on individual names. Also, an otherwise good fund may not make it to the top because it may have become expensive and may not offer value at the current pricing. Further, you will see in the following section that we should diversify in many asset classes. For example, there may be more than one fund in a specific asset class in the top 30, but we should just choose one or two from a specific asset class.

(CET), (BST), (AGD), (AOD), (CHN), (GF), (LGI), (SCD), (TWN), (SWZ), (GAM), (RVT), (IGR), (UTF), (NFJ), (RMT), (IAF), (OTCPK:DNIF), (ETJ), (PFL), (IFN), (CGO), (EOS), (ETO), (NEV), (PFN), (CHY), (CCD), (GBAB), (CHI).

Sector-Wise (Asset-Class) Diversification:

In order to structure a CEF portfolio, it's highly recommended to diversify in funds that invest in different types of asset classes. In our list of 48, if we were to look at first on the basis of asset type (sector) and then based on the total quality score/weight, below is the list of top funds. However, if we had two similar funds from the same fund family, we would have ignored the second one to avoid duplicity. Please note that some asset classes may not make it to the top due to the fact that these ratings are dynamic and time-sensitive and change from month to month.

Sr. no.	Strategy / Asset-class/ Sector	Position-1	Position-2	Position-3
1	**Covered Call**	(NFJ)	(ETJ)	(EOS)
2	**Global Equity**	(AGD)	(AOD)	(LGI)
2A.	**Global Allocation**	(SCD)	(CGO)	(ETO)
3	**US Equity**	(CET)	(GAM)	(RVT)
3A.	**US Allocation**	(DNIF)	(CSQ)	(ACV)
4	**High Yield (Convertibles/ Senior Loans/ High-Yield/ Credit Income/ Mortgage securities)**			
	4a. Convertible	(CHY)	(CCD)	(CHI)
	4b. High Yield	(DHF)	(HYB)	(KIO)
	4c. Senior Loans			
	4d. Misc Bond/ Mult-sector	(PFL)	(PFN)	(PDO)
5	**Municipal – Taxable**	(GBAB)		
5A.	**Municipal – Tax Exempt**	(NEV)		
6	**Preferreds**			
7	**Real Estate**	(IGR)		
8	**Utilities and Infrastructure**	(UTF)		
9	**CEF Sector Equity (Financial, Tech, Healthcare, etc.)**	(BST)		
10	**Emerging Mkt. Equity/Single country**	(CHN)	(GF)	(TWN)
11	**MLP**			

If you were to select ten picks, we could simply pick the top one from each of the above categories. That said, due diligence on each name is still recommended. Please note that some of these funds have cut their distributions recently, and for some folks, that may be a good enough reason not to consider them. Also, in our final selection of five funds, we tend to give priority to funds that pay regular and consistent distributions on a monthly or quarterly basis. This month at least five international single country funds (CHN, TWN, GF, IFN, and IAF) emerged as top funds. But they don't make it to our top five due to two factors. First, nearly all of them (except IFN) have a very inconsistent dividend history, and that can be a serious issue for income investors. Secondly, being single-country funds, they are inherently riskier since their future returns are tied to just one country, be it economic, regulatory, or geopolitical factors. That said, some of them, like TWN, GF, and IFN, are worth a look, and that's why we picked TWN in our top-10 list but not in the final top-5 (due to inconsistent dividend).

Here's the list of the top 10 (some of the top candidates from 10 different asset classes):

Ticker	Name	Sector	Leverage %	Base Exp.	Distrib. Rate	Disc./ Premium	Excess Disc.	52 WK AVG Disc/ Premium	3YR Ann. NAV Return	5YR Ann. NAV Return	10YR Ann. NAV Return	Inception Date	Distrib. Coverage	Total Combined Weight
CET	Central Securities Corporation	US Equity	0.32%	0.60%	9.24%	-17.12%	-0.72%	-16.40%	19.07%	17.63%	13.10%	7/28/1980	13.99%	40.28
BST	BlackRock Science and Technology Trust	Sector Equity	0.00%	1.08%	5.88%	-6.61%	-7.75%	1.14%	34.53%	30.59%	n/a	10/29/2014	0.00%	40.23
GF	New Germany	Single Country Equity	0.00%	1.16%	9.86%	-10.55%	1.02%	-11.57%	19.61%	17.65%	15.13%	1/30/1990	2.70%	38.41
LGI	Lazard Global Total Return and Income	Global Equity	8.08%	1.45%	6.92%	-7.72%	-3.01%	-4.71%	16.07%	15.68%	10.83%	4/28/2004	8.34%	38.03
UTF	Cohen & Steers Infrastructure	Sector Equity	27.03%	1.39%	6.72%	1.17%	-4.60%	5.77%	11.67%	12.22%	11.85%	3/30/2004	25.83%	36.06
CGO	Calamos Global Total Return	Global Allocation	31.00%	1.70%	7.65%	1.36%	-2.15%	3.51%	20.31%	15.56%	10.19%	10/27/2005	3.58%	31.87
EOS	Eaton Vance Enhanced Equity	Covered Call	--	1.09%	6.88%	0.55%	-0.50%	1.05%	20.81%	18.73%	14.92%	1/26/2005	0.00%	31.72
CCD	Calamos Dynamic Convertible and	Convertibles	47.26%	2.16%	7.70%	0.00%	-0.88%	0.88%	26.51%	19.73%	n/a	3/26/2015	64.47%	31.19
PDI	PIMCO Dynamic Income Fund	Multi-Sector	41.35%	1.90%	10.53%	3.76%	-7.20%	10.96%	6.54%	9.77%	n/a	5/25/2012	91.50%	30.46
CSQ	Calamos Strategic Total Return	US Allocation	26.77%	1.53%	6.44%	1.17%	-0.58%	1.75%	23.03%	18.83%	15.01%	3/26/2004	14.31%	29.76
AVERAGE ===>			18.18%		7.78%	-3.40%	-2.64%		19.82%	17.64%	13.00%			34.80

Final Selection: Our List Of Final Top 5

Now, if we had only five slots for investment and needed to select just five funds, we would need to make some subjective selections. However, we should be careful to select from different sectors (or asset classes). Since this step is mostly subjective, the choice will differ from person to person. Here are the selections for this month, based on our perspective:

- (CET)
- (BST)
- (UTF)
- (EOS)
- (PDI)

Some information about the selections:

- CET is our US equity fund selection for this month. Even though it distributes semi-annually, most of the distribution comes at the year-end, which includes a special distribution from capital gains. So, distribution is uneven from year to year, as its core objective is capital appreciation. So, this fund is not for everyone, especially if you are looking for consistent distribution. That said, CET has a very long history, and uses almost no leverage, and generally trades at a large discount to NAV. Nevertheless, its history is pretty impressive. It would beat or nearly match the performance of S&P500, whichever year you began the investment. We checked with starting years of 1985, 1995, 2000, 2005, 2008, 2010, 2012, 2014, 2016, 2018, and 2020.

Annualized gains for CET vs. S&P500:

Starting Year (Jan. 1st)	CET (NAV)	S&P500
1985	12.85%	11.74%
1995	12.00%	10.89%
2000	10.02%	7.23%
2005	11.66%	10.24%
2008	10.99%	10.62%
2010	15.06%	14.68%
2012	15.78%	16.02%
2014	16.10%	14.16%
2016	21.22%	16.61%
2018	19.23%	16.59%
2020	23.48%	21.61%
Note: Performance is until Nov 30, 2021.		

Below is CET's long-term performance (annualized gains) in comparison to S&P500 (as of 31st Dec. 2020, as per the fund's website):

Years		CET (NAV)		S&P500
10 Years		11.20%		13.90%
20 years		8.20%		7.50%
30 years		13.10%		10.70%
40 years		12.70%		11.50%

Note: At times, CET can trade with larger than the normal bid/ask spread (due to low volume), so it is recommended to use limit orders.

- BST is our Science & Technology pick this month, as it was last month. It's also trading at a decent discount of over -6%, compared to a slight premium usually. The yield is a bit low at 5.88%, but this is a growth fund, and the total return should compensate much more. The fund has raised the distribution payout twice in the last year.

- EOS is the Equity fund with Covered calls from the Eaton Vance family. The fund writes covered calls on its equity positions to earn income. The fund has a decent yield of 6.88% (which was recently raised by 39%).

- Another selection this month is UTF and infrastructure fund from Cohen & Steers fund family. This is one of the best funds in its sector and has a pretty good historical record. With a $1 trillion infrastructure bill already passed and signed, this fund should perform well into the future. The yield is a bit low but decent at 6.72%.

- PDI is one of the popular funds from the PIMCO family. It is a multi-sector fund invested in many types of fixed-income securities, including mortgage-backed securities. The fund has recently closed the merger of two other PIMCO funds

(PCI and PKO) into PDI. However, the merger does not change much materially for PDI in terms of its investment objectives or expected performance. The premium has come down quite a bit to 3.75% compared with a 52-WK average of roughly 11%.

Table: The Final 5 Funds:

Ticker	Name	Sector	Leverage %	Base Exp.	Distrib. Rate	Disc./ Premium	Excess Disc.	52 WK AVG Disc/ Premium	3YR Ann. NAV Return	5YR Ann. NAV Return	10YR Ann. NAV Return	Inception Date	Distrib. Coverage	Total Combined Weight
CET	Central Securities Corporation	US Equity	0.32%	0.60%	9.24%	-17.12%	-0.72%	-16.40%	19.07%	17.63%	13.10%	7/28/1980	13.99%	40.28
BST	BlackRock Science and Technology Trust	Sector Equity	0.00%	1.08%	5.88%	-6.61%	-7.75%	1.14%	34.53%	30.59%	n/a	10/29/2014	0.00%	40.23
UTF	Cohen & Steers Infrastructure	Sector Equity	27.03%	1.39%	6.72%	1.17%	-4.60%	5.77%	11.67%	12.22%	11.85%	3/30/2004	25.83%	36.06
EOS	Eaton Vance Enhanced Equity	Covered Call	--	1.09%	6.88%	0.55%	-0.50%	1.05%	20.81%	18.73%	14.92%	1/26/2005	0.00%	31.72
PDI	PIMCO Dynamic Income Fund	Multi-Sector	41.35%	1.90%	10.53%	3.76%	-7.20%	10.96%	6.54%	9.77%	n/a	5/25/2012	91.50%	30.46
AVERAGE ===>			13.74%		7.85%	-3.65%	-4.15%	0.50%	18.52%	17.79%	13.29%		43.77%	35.75

CEF-Specific Investment Risks

It goes without saying that CEFs, in general, have some additional risks. This section is specifically relevant for investors who are new to CEF investing, but in general, all CEF investors should be aware of it.

- Leverage and high fees:

They generally use some amount of leverage, which adds to the risk. The leverage can be hugely beneficial in good times but can be detrimental during tough times. The leverage also causes higher fees because of the interest expense in addition to the baseline expense. In the tables above, we have used the baseline expense only. If a fund is using significant leverage, we want to make sure that the leverage is used effectively by the management team - the best way to know this is to look at the long-term returns on the NAV. NAV is the "net asset value" of the fund after counting all expenses and after paying the distributions. So, if a fund is paying high distributions and maintaining or growing its NAV over time, it should bode well for its investors.

- Volatility:

Due to leverage, the market prices of CEFs can be more volatile as they can go from premium pricing to discount pricing (and vice versa) in a relatively short period. Especially during corrections, the market prices can drop much faster than the NAV (the underlying assets). Investors who do not have an appetite for higher volatility should generally stay away from CEFs or at least avoid the leveraged CEFs.

- Premium over NAVs:

CEFs have market prices that are different from their NAVs (net asset values). They can trade either at discounts or at premiums to their NAVs. Generally, we should stay away from paying any significant premiums over the NAV prices unless there are some very compelling reasons.

- Asset-specific risk:

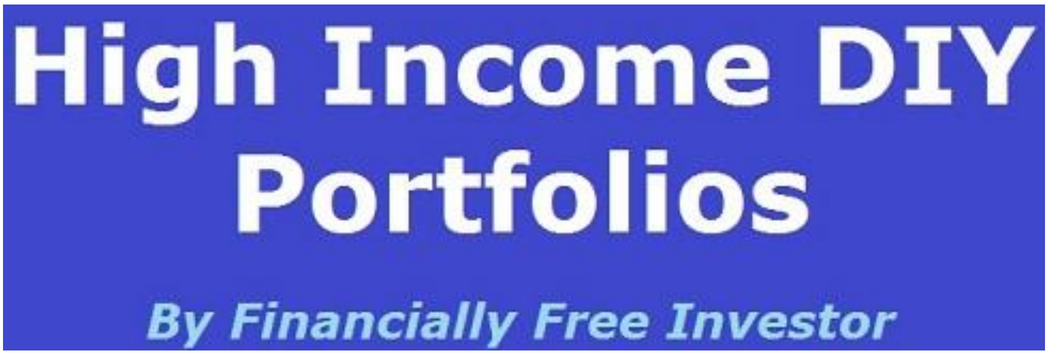
Another risk factor may come from asset concentration risk. Many funds may hold similar underlying assets. However, this is easy to mitigate by diversifying into different types of CEFs ranging from equity, equity covered calls, preferred stocks, mortgage bonds, government and corporate bonds, energy MLPs, utilities, and municipal income.

Concluding Thoughts

We use our screening process to highlight five likely best closed-end funds for investment each month. We also provide a larger list of 10 CEFs, with some of the top candidates from each of the asset classes. As always, our filtering process demands that our selections have an excellent long-term record, maintain decent earnings to cover the distributions (in certain categories), offer an average of 7%-8% distributions, and are cheaper on a relative basis, and offer a reasonable discount. Also, we ensure that the selected five funds are from a diverse group in terms of the types of assets. Please note that these selections are based on our rating system and are dynamic in nature. So, they can change from month to month (or even week to week). At the same time, some of the funds can repeat from month to month if they remain attractive over an extended period.

The selected five CEFs this month, as a group, are offering an average distribution rate of nearly 7.85% (as of 12/09/2021). Besides, these five funds have an excellent past record and collectively returned 18.52%, 17.79%, and 13.29% in the last three, five, and ten years. Since this is a monthly series, there may be some selections that could overlap from month to month. This month the yield is quite reasonable at 7.85%, and the average leverage is very low with an excess discount of -3.65%.

When it comes to CEF investing, we always recommend that it's best to be a bit conservative and build our positions by adding in small and multiple lots to take advantage of dollar-cost averaging. We believe that the above group of CEFs makes a great watch list for further research.



High Income DIY Portfolios: The primary goal of our "High Income DIY Portfolios" Marketplace service is high income with low risk and preservation of capital. It provides DIY investors with vital information and portfolio/asset allocation strategies to help create stable, long-term passive income with sustainable yields. We believe it's appropriate for income-seeking investors including retirees or near-retirees. We provide ten portfolios: 3 buy-and-hold and 7 Rotational portfolios. This includes two High-Income portfolios, a DGI portfolio, a conservative strategy for 401K accounts, and a few High-Growth portfolios. For more details or a two-week free trial, please click here.

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High-income, lower-risk portfolios suited for income-seeking investors.

I am an individual investor, an SA Author/Contributor, and manage tl