

5 Best CEFs To Buy This Month (February 2022)

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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. If you liked CEFs at the end of 2021, you are sure to like them now. The market took a hit during January 2022, and CEFs are no exception. Sure, some funds like tech-heavy or growth funds took a bigger hit, but most are trading at lower prices and better discounts than just 45 days ago. However, in spite of the recent volatility and some modest declines, the prices of many funds are still a bit elevated, and it is best to buy in multiple lots.

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. So, it is of utmost importance that we make our CEF portfolio a diversified one in terms of underlying asset classes.

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 (but not all), 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 probably might not grow as 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. In our view, if managed with some due diligence and care, a CEF portfolio could deliver 10% (or better) long-term total returns.

All that said, 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.

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. We use our multi-step filtering process to select just five CEFs from around 500 available funds. For readers who are looking for a wider selection and diversification, we also include a list of top 10 funds.

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](#).

The selected five CEFs this month, as a group, are offering an average distribution rate of nearly 8.18% (as of 02/04/2022). Besides, these five funds have an excellent past record and collectively returned 15.18%, 13.06%, and 11.59% 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 average leverage is reasonable at about 20%, with an above-average excess discount of -5.90%.

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 consist of at least ten CEFs, 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 by the years' end. 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 < +7%	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. 200-225 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 230 funds on our list, a bit above our target of 200 funds at this stage. But it's 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 230 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 02/04/2022)

Ticker	Fund 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	Emerging Market Inc	30.75%	1.59%	10.99%	3.48%	-11.60%	15.08%	-1.05%	0.41%	12/23/2010	84.64%
PSF	Cohen & Steers Sele	Preferreds	30.06%	1.21%	6.74%	-3.68%	-11.20%	7.52%	8.99%	7.59%	11/24/2010	87.99%
PFL	PIMCO Income Strat	Multi-Sector	39.52%	1.19%	9.45%	3.09%	-9.25%	12.34%	8.92%	8.77%	8/26/2003	87.98%
PMM	Putnam Managed M	Municipal	26.38%	0.87%	5.22%	-7.89%	-9.07%	1.18%	5.31%	5.20%	2/24/1989	79.48%
BKN	BlackRock Invest Qu	Municipal	39.35%	0.94%	5.19%	-0.69%	-8.75%	8.06%	5.77%	5.63%	2/26/1993	91.89%
PFN	PIMCO Income Strat	Multi-Sector	37.56%	1.13%	9.49%	2.60%	-7.89%	10.49%	8.10%	8.49%	10/29/2004	86.49%
IDE	Voya Infrastructure	Global Equity	--	1.22%	8.29%	-12.37%	-7.87%	-4.50%	5.38%	4.73%	1/27/2010	30.87%
NBH	Neuberger Berman I	Municipal	38.44%	1.66%	5.31%	-2.69%	-7.52%	4.83%	5.45%	4.80%	9/27/2002	71.31%
BNY	BlackRock NY Munic	Municipal-NY	41.59%	1.21%	5.10%	-7.45%	-7.16%	-0.29%	3.88%	3.75%	7/27/2001	81.59%
PHT	Pioneer High Incom	High Yield	31.96%	0.98%	8.55%	-4.98%	-6.96%	1.96%	7.13%	5.76%	4/26/2002	106.88%

Author

High Current Distribution Rate:

After all, most investors invest in CEF funds for their juicy distributions. We sort our list (of 230 funds) on the current distribution rate (descending order, highest at the top) and select the top 11 funds from this sorted list.

Ticker	Fund 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
OPP	RiverNorth/Double	High Yield	28.47%	1.93%	12.68%	1.59%	0.14%	1.45%	4.37%	4.21%	9/27/2016	36.15%
IFN	The India Fund Inc	Asia Equity	0.28%	1.32%	12.61%	-10.89%	-1.26%	-9.63%	14.33%	12.23%	2/23/1994	0.00%
RIV	RiverNorth Opportu	US Allocation	11.76%	2.07%	12.53%	3.23%	-0.04%	3.27%	10.01%	8.26%	12/23/2015	1.87%
ACP	Aberdeen Income Ci	Senior Loans	40.79%	2.33%	11.85%	2.74%	0.65%	2.09%	3.68%	2.11%	1/27/2011	68.23%
GLQ	Clough Global Equit	Global Equity	43.55%	2.13%	11.59%	0.92%	4.06%	-3.14%	6.92%	9.13%	4/27/2005	0.00%
IAF	Aberdeen Australia	Single Country Equit	5.26%	1.45%	11.57%	-2.30%	-0.93%	-1.37%	11.70%	8.33%	12/12/1985	21.78%
GLO	Clough Global Oppo	Global Allocation	43.95%	2.26%	11.50%	0.93%	3.00%	-2.07%	8.40%	8.09%	4/25/2006	0.00%
FTF	Franklin Limited Dur	Limited Duration	31.69%	1.22%	11.26%	-6.42%	-5.58%	-0.84%	3.69%	2.72%	8/27/2003	57.44%
GCV	Gabelli Conv Inc Sec	Convertibles	23.94%	1.60%	11.20%	6.49%	9.66%	-3.17%	12.61%	10.66%	3/31/1995	0.00%
EDF	Stone Harbor Emerg	Emerging Market Inc	30.75%	1.59%	10.99%	3.48%	-11.60%	15.08%	-1.05%	0.41%	12/23/2010	84.64%
RMT	Royce Micro-Cap Tr	US Equity	4.15%	1.07%	10.85%	-9.87%	2.13%	-12.00%	15.41%	11.32%	12/14/1993	0.00%

Author

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

We then sort our list (of 230 funds) on a three-year return on NAV (in descending order, highest at the top) and select the top 10 funds.

Ticker	Fund 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
STK	Columbia Seligman	Covered Call	--	1.16%	5.58%	4.34%	1.47%	2.87%	29.88%	22.90%	11/25/2009	0.00%
BST	BlackRock Science ar	Sector Equity	0.00%	1.08%	6.64%	-1.85%	-2.13%	0.28%	26.91%	25.57%	10/29/2014	0.00%
CSQ	Calamos Strategic Tr	US Allocation	29.87%	1.53%	6.94%	0.45%	-1.53%	1.98%	22.74%	17.40%	3/26/2004	2.33%
ACV	AllianzGI Diversified	US Allocation	27.22%	2.27%	7.96%	1.83%	5.34%	-3.51%	22.73%	17.65%	5/27/2015	0.00%
ASG	Liberty All-Star Grow	US Equity	0.62%	1.28%	8.48%	0.85%	-4.10%	4.95%	22.28%	19.58%	3/14/1986	0.00%
CCD	Calamos Dynamic C	Convertibles	34.86%	2.16%	8.54%	0.81%	-1.42%	2.23%	21.25%	16.20%	3/26/2015	0.00%
ETO	Eaton Vance Tax-Ad	Global Allocation	17.74%	1.26%	7.18%	0.81%	2.12%	-1.31%	20.54%	15.10%	4/30/2004	23.15%
NIE	AllianzGI Equity & C	US Allocation	--	1.06%	7.38%	-9.88%	-0.09%	-9.79%	18.89%	14.97%	2/22/2007	0.00%
FFA	First Trust Enhanced	Covered Call	--	1.13%	6.26%	-0.89%	0.36%	-1.25%	18.77%	13.20%	8/26/2004	6.24%
CHY	Calamos Convertible	Convertibles	35.45%	1.28%	8.22%	1.89%	2.47%	-0.58%	18.46%	14.06%	5/30/2003	0.00%

Author

Five-Year Annualized Return on NAV:

We then sort our list (of 230 funds) on the five-year return on NAV (in descending order, highest at the top) and select the top 10 funds.

Ticker	Fund 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 ar Sector Equity		0.00%	1.08%	6.64%	-1.85%	-2.13%	0.28%	26.91%	25.57%	10/29/2014	0.00%
STK	Columbia Seligman I Covered Call		--	1.16%	5.58%	4.34%	1.47%	2.87%	29.88%	22.90%	11/25/2009	0.00%
ASG	Liberty All-Star Grow US Equity		0.62%	1.28%	8.46%	0.85%	-4.10%	4.95%	22.28%	19.58%	3/14/1986	0.00%
ACV	AllianzGI Diversified US Allocation		27.22%	2.27%	7.96%	1.83%	5.34%	-3.51%	22.73%	17.65%	5/27/2015	0.00%
CSQ	Calamos Strategic Tr US Allocation		29.87%	1.53%	6.94%	0.45%	-1.53%	1.98%	22.74%	17.40%	3/26/2004	2.33%
EOS	Eaton Vance Enhanc Covered Call		--	1.09%	7.59%	1.16%	-0.08%	1.24%	18.42%	16.46%	1/26/2005	0.00%
CCD	Calamos Dynamic C/ Convertibles		34.86%	2.16%	8.54%	0.81%	-1.42%	2.23%	21.25%	16.20%	3/26/2015	0.00%
ETO	Eaton Vance Tax-Ad Global Allocation		17.74%	1.26%	7.18%	0.81%	2.12%	-1.31%	20.54%	15.10%	4/30/2004	23.15%
USA	Liberty All-Star Equi US Equity		--	1.00%	10.43%	1.99%	-1.80%	3.79%	17.89%	15.06%	10/31/1986	2.68%
NIE	AllianzGI Equity & C US Allocation		--	1.06%	7.38%	-9.88%	-0.09%	-9.79%	18.89%	14.97%	2/22/2007	0.00%

Author

Coverage Ratio (Distributions vs. Earnings):

We then sort our list (of 230 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	Fund 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
BGB	Blackstone Strategic Senior Loans		36.73%	2.18%	5.91%	-6.94%	-0.39%	-6.55%	5.01%	4.67%	9/26/2012	124.62%
IHIT	Invesco High Income High Yield		26.43%	1.10%	5.85%	-2.27%	-4.81%	2.54%	3.40%	4.66%	11/23/2016	124.55%
DSL	DoubleLine Income I Global Income		31.36%	1.68%	8.38%	-4.66%	-1.71%	-2.95%	3.20%	4.18%	4/26/2013	122.76%
BGH	Barings Global Short High Yield		29.80%	1.65%	7.83%	-8.12%	-2.06%	-6.06%	6.49%	5.02%	10/26/2012	121.64%
BSL	Blackstone Senior FI Senior Loans		32.97%	1.76%	5.48%	1.05%	2.69%	-1.64%	6.11%	5.48%	5/26/2010	119.89%
FDEU	First Trust Dynamic I Global Equity		22.89%	1.04%	5.35%	-11.51%	-0.05%	-11.46%	6.62%	5.15%	9/24/2015	113.61%
BGX	Blackstone Long-Shr Senior Loans		38.28%	1.70%	6.49%	-5.07%	-0.11%	-4.96%	6.65%	6.00%	1/27/2011	113.03%
DHF	BNY Mellon High Yie High Yield		29.46%	1.26%	7.58%	-7.28%	-4.68%	-2.60%	7.01%	5.77%	4/29/1998	109.91%
HYB	New America High-Ir High Yield		27.56%	1.18%	6.96%	-7.83%	-1.91%	-5.92%	7.03%	5.68%	2/26/1988	109.17%
KIO	KKR Income Opports High Yield		35.50%	2.02%	8.01%	-3.91%	-0.79%	-3.12%	9.32%	8.23%	7/26/2013	109.03%

Author

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	Fund 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
STK	Columbia Seligman I Covered Call		--	1.16%	5.58%	4.34%	1.47%	2.87%	29.88%	22.90%	11/25/2009	0.00%	24.30%
BST	BlackRock Science ar Sector Equity		0.00%	1.08%	6.64%	-1.85%	-2.13%	0.28%	26.91%	25.57%	10/29/2014	0.00%	20.27%
CSQ	Calamos Strategic Tr US Allocation		29.87%	1.53%	6.94%	0.45%	-1.53%	1.98%	22.74%	17.40%	3/26/2004	2.33%	15.80%
ACV	AllianzGI Diversified US Allocation		27.22%	2.27%	7.96%	1.83%	5.34%	-3.51%	22.73%	17.65%	5/27/2015	0.00%	14.77%
ASG	Liberty All-Star Grow US Equity		0.62%	1.28%	8.46%	0.85%	-4.10%	4.95%	22.28%	19.58%	3/14/1986	0.00%	13.82%
ETO	Eaton Vance Tax-Ad Global Allocation		17.74%	1.26%	7.18%	0.81%	2.12%	-1.31%	20.54%	15.10%	4/30/2004	23.15%	13.36%
CCD	Calamos Dynamic C/ Convertibles		34.86%	2.16%	8.54%	0.81%	-1.42%	2.23%	21.25%	16.20%	3/26/2015	0.00%	12.71%
FFA	First Trust Enhanced Covered Call		--	1.13%	6.26%	-0.89%	0.36%	-1.25%	18.77%	13.20%	8/26/2004	6.24%	12.51%
NIE	AllianzGI Equity & C US Allocation		--	1.06%	7.38%	-9.88%	-0.09%	-9.79%	18.89%	14.97%	2/22/2007	0.00%	11.51%
EOS	Eaton Vance Enhanc Covered Call		--	1.09%	7.59%	1.16%	-0.08%	1.24%	18.42%	16.46%	1/26/2005	0.00%	10.83%

Author

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	Fund 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
AGD	Aberdeen Global Dy	Global Equity	0.19%	1.15%	6.78%	-9.80%	-1.47%	-8.33%	13.15%	11.55%	7/26/2006	66.08%	33.74
IGR	CBRE Global Real Es	Real Estate	20.39%	1.16%	7.05%	-9.56%	-1.18%	-8.38%	12.35%	9.58%	2/18/2004	33.00%	32.29
AOD	Aberdeen Total Dyn	Global Equity	0.36%	1.14%	6.98%	-8.68%	0.39%	-9.07%	12.97%	11.01%	1/26/2007	62.43%	31.85
SCD	LMP Capital and Inco	Global Allocation	17.45%	1.25%	7.11%	-10.42%	-0.33%	-10.09%	14.87%	9.63%	2/24/2004	32.92%	31.64
BCV	Bancroft Fund	Convertibles	17.52%	1.00%	5.49%	-8.83%	-3.54%	-5.29%	14.63%	12.30%	10/4/1971	0.00%	31.62
FLC	Flah&Crum Total Re	Preferreds	33.67%	1.14%	7.21%	-0.44%	-5.43%	4.99%	10.69%	8.61%	8/29/2003	96.38%	31.60
FFC	Flah&Crum Preferre	Preferreds	33.18%	0.78%	7.37%	0.85%	-5.61%	6.46%	10.63%	8.78%	1/31/2003	97.35%	31.47
PFL	PIMCO Income Strat	Multi-Sector	39.52%	1.19%	9.45%	3.09%	-9.25%	12.34%	8.92%	8.77%	8/26/2003	87.98%	31.16
RMT	Royce Micro-Cap Tr	US Equity	4.15%	1.07%	10.85%	-9.87%	2.13%	-12.00%	15.41%	11.32%	12/14/1993	0.00%	31.09
BHK	BlackRock Core Boni	Investment Grade	37.08%	0.76%	6.44%	-5.12%	-6.39%	1.27%	8.16%	6.52%	11/30/2001	80.99%	31.04
EOD	Allspring Global Divi	Global Equity	15.63%	1.39%	9.63%	-8.26%	-2.82%	-5.44%	10.95%	9.18%	3/28/2007	43.70%	30.89
GDV	Gabelli Dividend & i	US Equity	10.58%	1.35%	5.29%	-11.46%	-1.58%	-9.88%	14.20%	10.68%	11/28/2003	16.09%	30.76
SWZ	Swiss Helvetia	Single Country Equit	--	1.80%	7.22%	-12.76%	0.65%	-13.41%	13.07%	9.41%	8/27/1987	35.20%	30.72
CGO	Calamos Global Tot	Global Allocation	33.76%	1.70%	8.66%	-1.56%	-4.86%	3.30%	17.27%	12.90%	10/27/2005	0.00%	30.71
PHT	Pioneer High Income	High Yield	31.96%	0.98%	8.55%	-4.98%	-6.96%	1.98%	7.13%	5.76%	4/26/2002	106.88%	30.62

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Now we have 76 funds in total from the above selections. We will see if there are any duplicates. In our current list of 76 funds, there were 22 duplicates, meaning there are funds that appeared more than once. The following names appear twice (or more):

Appeared two times: EDF, EOS, FFA, PFL, PHT, RMT (6 duplicates)

Appeared three times: ACV, ASG, BST, CCD, CSQ, ETO, NIE, STK (16 duplicates)

So, once we remove 22 duplicate rows, we are left with 54 (76-22) 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 (two bonus points), real estate (two 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 54 funds on the "combined total weight" is attached here:

[Excel_for_export_-_5_Best_CEFs_Feb_2022_-_V2.xlsx](#)

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. The top 30 funds (out of 54) selected based on the types of asset class, and quality scores are listed below. This list of 30 includes no more than three funds from any single asset class. Also, 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.

In our list of 54, 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 too many similar funds from the same fund family, we would generally ignore some of them to avoid duplicity. Please note that some asset classes may not show any names in a particular month due to the fact that these ratings are dynamic and time-sensitive and change from month to month.

(BCV), (CHY), (CCD), (FFA), (EOS), (SCD), (CGO), (ETO), (AGD), (AOD), (EOD), (PHT), (DHF), (KIO), (PFL), (PFN), (PMM), (BKN), (FLC), (FFC), (PSF), (IGR), (BST), (SWZ), (IFN), (NIE), (CSQ), (RMT), (ASG), (USA).

Sr. no.	Strategy / Asset-class/ Sector	Position-1	Position-2	Position-3
1	Covered Call	FFA	EOS	
2	Global Equity	AGD	AOD	EOD
2A.	Global Allocation	SCD	CGO	ETO
3	US Equity	RMT	ASG	USA
3A.	US Allocation	NIE	CSQ	
4	High Yield (Convertibles/ Senior Loans/ High-Yield/ Credit Income/ Mortgage securities)			
	4a. Convertible	BCV	CHY	CCD
	4b. High Yield	PHT	DHF	KIO
	4c. Senior Loans	BGX		
	4d. Misc Bond/ Mult-sector	PFL	PFN	
	4e. Hybrid			
5	Municipal – Taxable			
5A.	Municipal – Tax Exempt	PMM	BKN	
6	Preferreds	FLC	FFC	PSF
7	Real Estate	IGR		
8	Utilities and Infrastructure			
9	CEF Sector Equity (Financial, Tech, Healthcare, etc.)	BST		
10	Emerging Mkt. Equity/Single country	IFN	SWZ	
11	MLP			

Author

10-Positions Portfolio of the Month

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 selections, we tend to give priority to funds that pay regular and consistent distributions on a monthly or quarterly basis. Also, be aware that there are many single-country funds that appear on our lists. Some of them do not pay regular dividends. In addition, being single-country funds, they can be inherently riskier since their future returns are tied to just one country, be it economic, regulatory, or geopolitical factors.

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

Ticker	Fund 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 Weight (Quality Score)
AGD	Aberdeen Global Dynamic Dividend	Global Equity	0.19%	1.15%	6.78%	-9.80%	-1.47%	-8.33%	13.15%	11.55%	9.54%	7/26/2006	66.08%	38.51
PFL	PIMCO Income Strategy	Multi-Sector	39.52%	1.19%	9.45%	3.09%	-9.25%	12.34%	8.92%	8.77%	10.34%	8/26/2003	87.98%	36.16
CGO	Calamos Global Total Return	Global Allocation	33.76%	1.70%	8.66%	-1.56%	-4.86%	3.30%	17.27%	12.90%	9.15%	10/27/2005	0.00%	35.29
PSF	Cohen & Steers Select Preferred & Inc	Preferreds	30.06%	1.21%	6.74%	-3.68%	-11.20%	7.52%	8.99%	7.59%	9.54%	11/24/2010	87.99%	34.93
NIE	AllianzGI Equity & Conv Inc Common	US Allocation	--	1.06%	7.38%	-9.88%	-0.09%	-9.79%	18.89%	14.97%	11.95%	2/22/2007	0.00%	34.89
ASG	Liberty All-Star Growth	US Equity	0.62%	1.28%	8.46%	0.85%	-4.10%	4.95%	22.28%	19.58%	14.99%	3/14/1986	0.00%	34.04
BST	BlackRock Science and Technology Trust	Sector Equity	0.00%	1.08%	6.64%	-1.85%	-2.13%	0.28%	26.91%	25.57%	n/a	10/29/2014	0.00%	30.74
EOS	Eaton Vance Enhanced Equity Income II	Covered Call	--	1.09%	7.59%	1.16%	-0.08%	1.24%	18.42%	16.46%	13.95%	1/26/2005	0.00%	29.47
KIO	KKR Income Opportunities Fund	High Yield	35.50%	2.02%	8.01%	-3.91%	-0.79%	-3.12%	9.32%	8.23%	n/a	7/26/2013	109.03%	29.08
CCD	Calamos Dynamic Convertible and Income	Convertibles	34.86%	2.16%	8.54%	0.81%	-1.42%	2.23%	21.25%	16.20%	n/a	3/26/2015	0.00%	28.88
AVERAGE ==>			17.45%	1.39%	7.83%	-2.48%	-3.54%	1.06%	16.54%	14.18%	11.35%		35.11%	33.20

Author

Final Selection: Our List Of Final Top 5

5-Positions Portfolio of the Month:

Now, if we had only five slots for investment and needed to select just five funds, we would need to make some subjective choices. We think our list of 10 selections above is quite compelling, and there are certainly more than five names that we like. While we narrow down this list, we should be careful to keep the list as diversified as possible in terms of asset classes. Since this step is mostly subjective, the choice will differ from person to person. Nonetheless, here are the selections for this month, based on our perspective:

- (PFL)
- (CGO)
- (PSF)
- (ASG)
- (EOS)

Table: The Final 5 Funds:

Ticker	Fund 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 Weight (Quality Score)
PFL	PIMCO Income Strategy	Multi-Sector	39.52%	1.18%	9.45%	3.09%	-9.25%	12.34%	8.92%	8.77%	10.34%	8/26/2003	87.98%	36.16
CGO	Calamos Global Total Return	Global Allocatic	33.76%	1.70%	8.66%	-1.56%	-4.86%	3.30%	17.27%	12.90%	9.15%	10/27/2005	0.00%	35.29
PSF	Cohen & Steers Select Preferred & Inc	Preferreds	30.06%	1.21%	6.74%	-3.68%	-11.20%	7.52%	8.99%	7.59%	9.54%	11/24/2010	87.98%	34.93
ASG	Liberty All-Star Growth	US Equity	0.62%	1.28%	8.46%	0.85%	-4.10%	4.95%	22.28%	19.58%	14.99%	3/14/1986	0.00%	34.04
EOS	Eaton Vance Enhanced Equity Income II	Covered Call	--	1.09%	7.59%	1.16%	-0.08%	1.24%	18.42%	16.46%	13.95%	1/26/2005	0.00%	29.47
AVERAGE ==>>			20.79%	1.29%	8.18%	-0.03%	-5.90%	5.87%	15.18%	13.06%	11.59%		35.19%	33.98

Author

Some information about the selections:

- The fund PFL from the PIMCO family is making it to our list for the second month in a row. It is a multi-sector fund invested in many types of fixed-income securities. The premium has come down quite a lot recently to 3% from a high point of 23% last year and a 52-WK average of roughly

13%. The fund cut the distribution by about 10% in October last year, and that was one of the several reasons for the price decline. Even then, with the current prices, the monthly distribution yield is very nice at 9.45%.

- CGO is the global fund that has both equity (60%) and bonds and fixed income securities (40%). It is invested roughly 40% in the US securities and the rest globally. It has a very consistent distribution record and the current distribution rate is excellent at 8.5%.
- Similar to the previous month, we had quite a few "preferred" funds that scored very high in our ranking criteria. Though normally we like preferred funds from the 'Flaherty & Crumrine' fund family, and two of their funds (FLC and FFC) ranked high, we selected PSF from Cohen & Steers family, mainly because of the large excess discount that it is offering right now. The premium on this fund was as high as 18% during the summer of 2021, but it is being offered at a discount of about -4%. However, we could select FLC or FFC with similar results.
- ASG (Liberty All-Star growth) is our equity and growth fund this month. The fund focuses on small, mid, and large-capitalization growth stocks. Its portfolio includes common stocks, as well as short-term investments. The fund uses almost no leverage and has an excellent past record. It is being offered at almost zero-premium compared to 10% to 15% premium just a few months ago.
- EOS is the Equity fund with Covered calls from the Eaton Vance family. The fund writes covered option calls on its equity positions to earn income. The fund has a decent yield

(monthly distribution) of 7.6% (which was recently raised by 39%).

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 ten 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, 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 8.18% (as of 02/04/2022). Besides, these five funds have an excellent past record and collectively returned 15.18%, 13.06%, and 11.59% 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 average leverage is reasonable at about 20%, with an above-average excess discount of -5.90%.

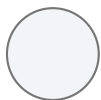
When it comes to CEF investing, we always recommend that it's best to be a bit conservative and build our positions by adding in small and multiple lots to take advantage of dollar-cost averaging. We believe that the above group of CEFs makes a great watch list for further research.

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