Seeking Alpha α

Closed End Funds

8 Closed-End Funds Bought During January's Rocky Start

Feb. 15, 2022 3:05 PM ET | ACV, BIGZ, BMEZ... | 38 Comments | 36 Likes

Summary

- It has been a rocky start to a new year, but with ~11 months to go, just about anything could happen.
- It is impossible to know if the bottom is in, but the last two trading days of the month provided some optimism.
- If an investor was sitting on some cash, January seemed like a fine month to put some of that capital to work.
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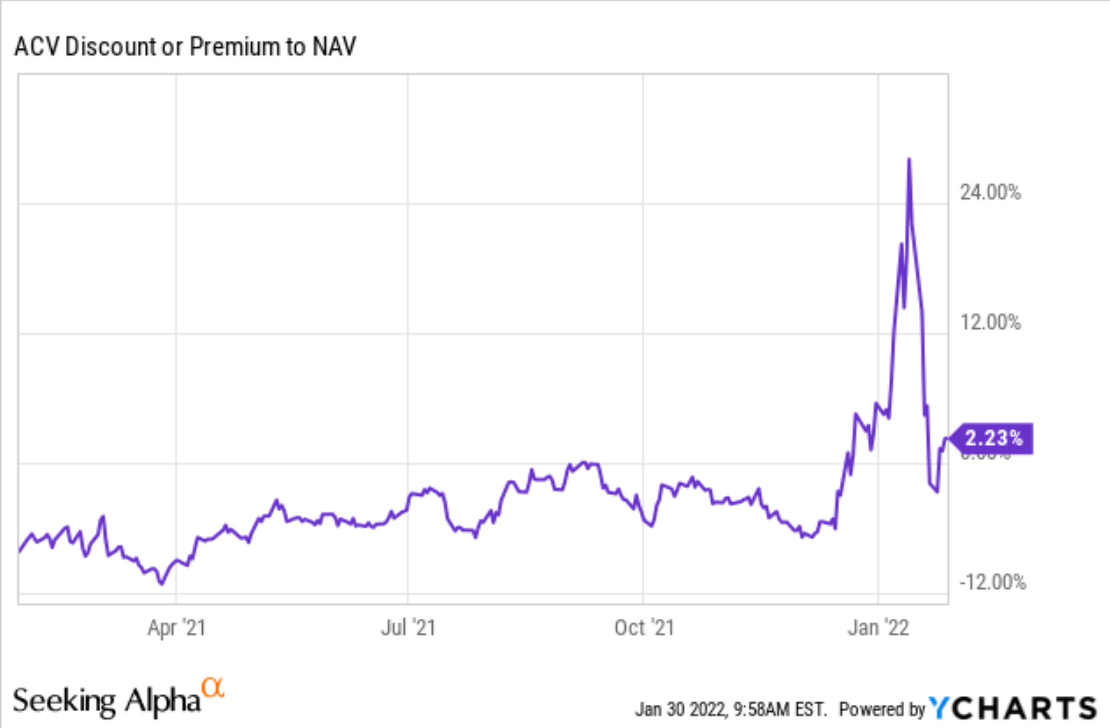
It was a busy month as we have finally been given a dip that we have enough time to exploit. We entered full-on into correction territory for the month. While my expectations for 2022 were overall more tempered, I certainly didn't expect to start it off with a correction. That's normally how corrections work too. No one can really predict them; they are often brought on through some sort of event. In this case, it is just simply the Fed giving the market the nudge it needed to deflate the market from overvaluations.

The good news is that we have basically a whole year left before 2022 is over. Anything can still happen, and it wouldn't be surprising at all to see a few more months of declines or staying neutral before a rally takes us higher for the year. Of course, anything can happen, and anyone that says they can predict it with certainty is probably lying. We don't know when this will reverse or how long recovery might take. However, I suspect that just as with any other correction or bear market before this one, we will see new highs at some point in the future.

I look for opportunities to invest some capital every month. Some months it includes putting more dollars to work than others when the market provides us with the chance to snag lower prices. January 2022 was certainly one of those months I reduced my cash pile. Putting capital to work every month means my income is typically growing every single quarter.

Before touching on what I was buying. Here are two funds that I sold. The first was Credit Suisse High Yield Bond Fund (DHY). This is a fund I've never got around to writing a full analysis on. I sold this position early in the month, on January 6th. The fund's discount had narrowed. It actually had narrowed on several occasions throughout 2021, but there wasn't a clear place to put this capital back to work, so I continued to hang onto the position.

After that, I sold AllianzGI Diversified Income & Convertible Fund (ACV). This was a truly wild scenario that played out with this fund. The fund had a massive special distribution at the end of 2021, this could have created some confusion, but the fund inexplicably jumped to an over 25% premium. To be honest, I sold before that on January 10th. I didn't get to harvest that additional premium but still sold out at around a 20% premium. The fund's premium is back down to a more realistic 2.23% at this time.



Ycharts

With that, here is what I was buying through this tumultuous starting month of 2022.

Invesco Senior Income Trust (VVR)

VVR is a fund I've written about quite recently. This fund also has been holding up fairly well, relatively speaking. This has to do with the fact that it is a senior loan fund - senior loans are floating-rate securities that can do well in a rising rate environment. This is a bit of a hedge or plays on the rising interest rates we might see this year. I don't typically hedge my portfolio, and I remain broadly diversified, but adding a couple of funds here and there to participate in a current trend doesn't hurt either.

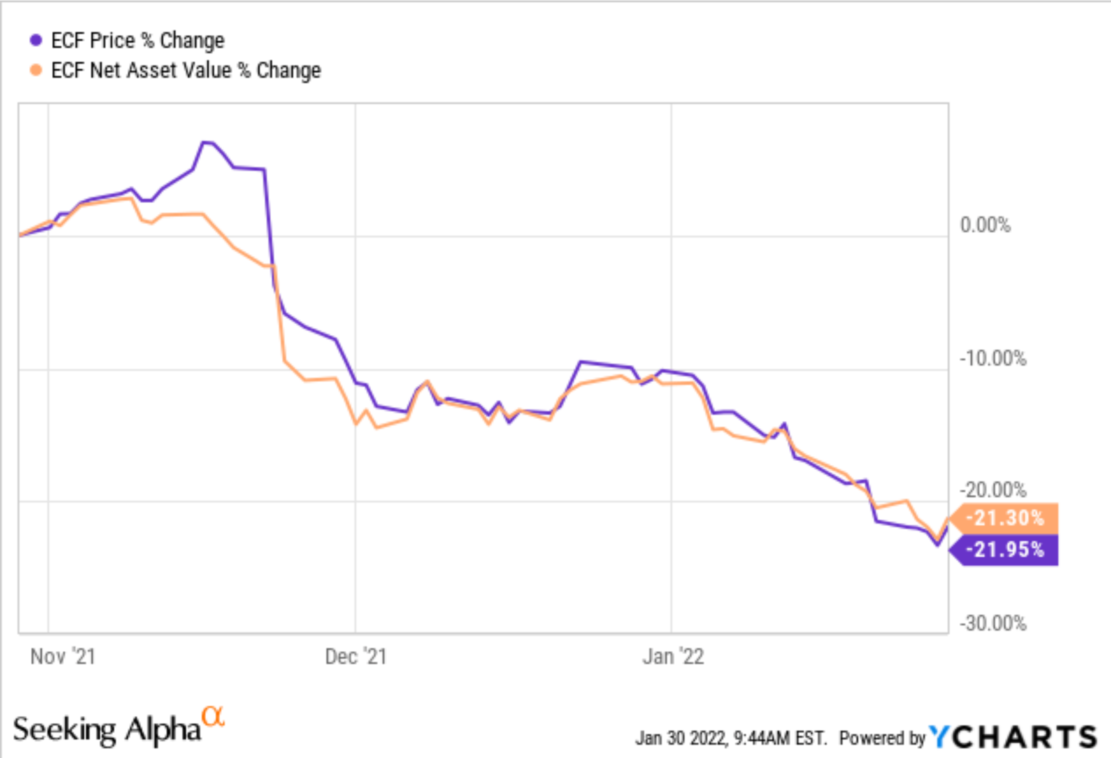
The fund still remains an attractive buy with the fund's discount at 4.33%. The current distribution yield for the fund comes to 5.71% for the share price. On a NAV basis, it comes to 5.45%. It is a leveraged fund so that can add significant risks. The leverage utilized will negate some of the benefits of higher rates as their interest expenses will also rise.

Ellsworth Fund (ECF)

ECF is another fund that I've covered recently. It has fallen to a deep discount, making it an attractive buy once again. Not only has the fund's valuation widened out, but the fund itself has been declining quite rapidly with the market correction. Their convertible and equity positions are tied up in many tech stocks. These have been hit particularly hard and is reflected by the fact that the Nasdaq was the first major index to hit correction territory.

The distribution for this fund is a bit unusual. They have a 5% annual minimum policy. It is achieved by paying a fairly regular quarterly distribution, currently at $0.13 per quarter. They then top this off at the end of the year with a sizeable year-end special.

Last year was the highest in years at a payout of $1.11 - including the regular $0.13 in that figure. That makes the declines look worse over the last few months as that amount adjusted the NAV and price near the end of November. To be fair, some years, they don't pay out a special at all as their regular amount meets their minimum.



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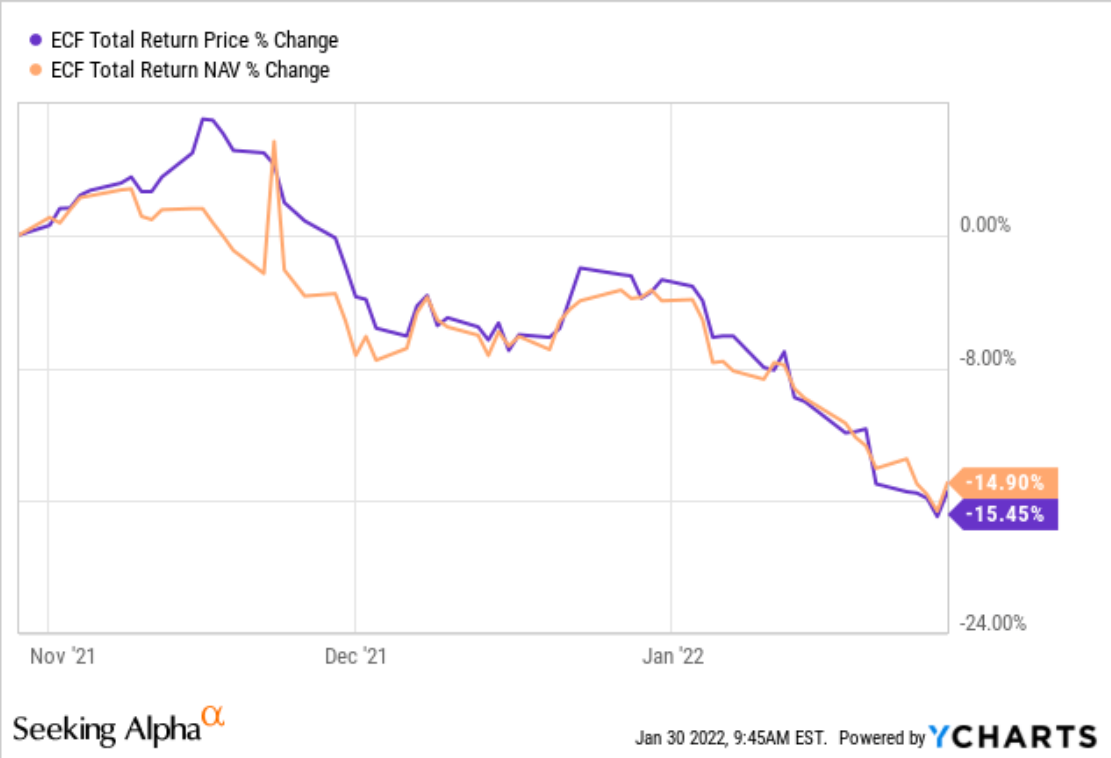
The above is price and NAV change only over the last three months. While there have certainly been declines in the name, here is what the previous three-month returns look like on a total return basis. The total return is factoring in the distribution paid out. It's important to remember how much distributions matter for CEFs, as that is the only form of return that will be shown in some cases. In ECF's case, it simply meant the declines weren't as bad as they might first appear.



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New America High Income Fund (HYB)

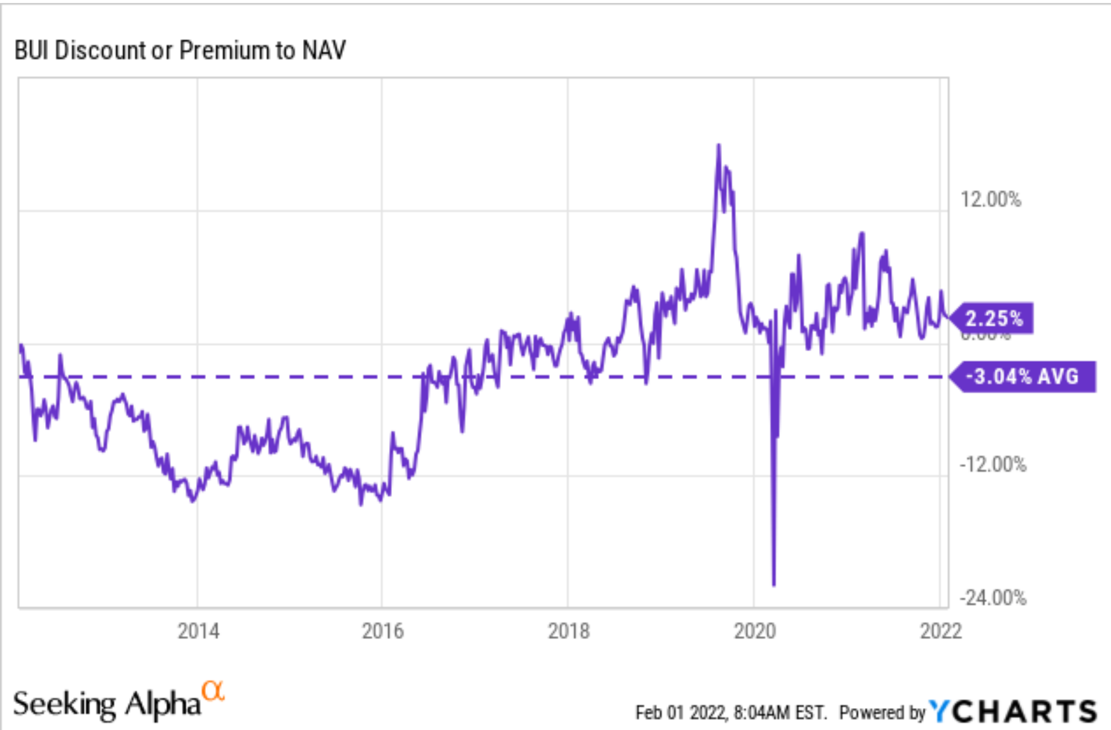
As I mentioned above, there weren't many great deals at the time of selling DHY. Well, then the similar high yield focus HYB had popped up at an attractive discount. As noted above, I had sold DHY and basically moved that capital the same day buying VVR. However, when HYB became attractively priced again, I was happy to put some more high-yield exposure back into my portfolio. I've covered HYB in the past, but it was a while ago, especially considering how rapidly this market is moving.

The fund's discount currently stands at 7.32%. It offers a 6.84% distribution rate on a share price basis; a 6.36% on a NAV basis. The fund paid out a year-end special of $0.1275. Although, that also appears to include the regular $0.05 monthly amount that they have been paying out as well. Still, a bit more doesn't hurt especially when we can put this capital back to work now in a market that's providing us with better prices.

BlackRock Utility & Infrastructure Trust (BUI)

BUI has been a long-term winner for me. I was happy to add to my position in this fund while the price has declined rapidly. This fund has often traded at a premium over the last few years, and it continues to do so even at this time. However, that premium has been coming down from prior levels. Over the last 1-year, the fund's average premium was 3.58%. That puts the fund's latest 2.25% premium at a 1-year z-score of -0.55. Definitely not a screaming buy but on the lower end of where it has been trading.

Prior to around 2016, the fund consistently traded at a discount. So that is something to be mindful of as well. There isn't anything to say that it doesn't return back to that consistent and deep discount.



Ycharts

The fund has paid the same or quarterly equivalent since it launched in 2011. I'm not sure how impressive that is, considering it missed out on the GFC of 2008/09. Still, it would seem that it is worth mentioning considering it still went through the 2020's market collapse. At the current distribution rate, it appears quite sustainable too. It comes to a more modest 5.96% on a share basis and 6.07% on a NAV basis.

Cohen & Steers Infrastructure Fund (UTF)

I added to this position through a series of three different purchases. As it continued to decline, I continued to buy more. I left enough capacity to continue adding if we see further declines. This is a fund that I've written about extensively in the past, as it was a core holding for me before it became too expensive early in 2021.

I recapped my entire reasoning for selling UTF recently and touched on what I did with that cash while it wasn't being invested in the fund. In retrospect, it ended up working out quite well - as is often the case when you sell an overvalued position in favor of a cheaper one. It generally just comes down to a question of how long such a move can take to play out. The fund continues to flirt between a premium and discount at this time. However, the sheer drop in the fund also made it seem a fairly attractive deal.

Eaton Vance Tax-Managed Global Buy-Write Opportunities Fund (ETW)

Similar to BUI and UTF, ETW isn't showing a deep discount or anything. It was more of an "entire market is collapsing, so I'm putting capital to work in an equity fund that should benefit from a rebound" type of addition. Though do note that the fund utilizes an options writing strategy where it writes against indexes. That will slow the fund's rebounding when it starts heading higher.

At the same time, it is also a play on investing more globally too, where valuations are better. ~55% is invested in North America, and the remainder is split between Europe and Asia. For more of the details, I recently updated my look at ETW. At the same time, I compared it to its U.S. counterpart, Eaton Vance Tax-Managed Buy-Write Opportunities Fund (ETV). ETW was one of my smaller positions, so taking the opportunity to add at this time makes a lot of sense.

Currently, the fund's distribution rate is 8.48% on a share price basis. The NAV distribution rate at the time of writing is exactly the same as the fund is trading exactly at NAV. This is quite attractive, and while I suspect the distribution shouldn't need to be trimmed now, Eaton Vance generally keeps their funds lower-yielding and is the first group to cut. ETW has had several cuts in its history, including the last few years having a couple.

BlackRock Health Sciences Trust II (BMEZ)

BMEZ is exactly where I thought I had enough exposure. The type of innovation/growth that was directly in the crosshairs of this sell-off. In fact, this fund hadn't even done particularly well through 2021 either. It was one of the few funds that showed a decline for the year.

Still, since this has been the area of the market selling off so drastically, that was one way to reduce my exposure. Since I put capital to work in all these other types of funds, it also reduced my exposure to these BlackRock innovation funds that I hold so much exposure to. As some might recall, BlackRock Science and Technology Trust II (BSTZ) remains my largest position. I also hold BlackRock Innovation & Growth Trust (BIGZ), where I had previously been increasing my position too. It basically covers all my basis to this area of the market.

The fund remains attractively discounted at 5.42% but is shifting rapidly due to all the volatility. The fund's distribution is quite attractive at a rate of 8.45%. However, I would caution that this distribution could have to come down if it remains depressed for too long. They rely entirely on capital gains to fund their distribution.

Cohen & Steers Quality Income Realty Fund (RQI)

RQI has been my long-standing go-to REIT CEF to invest in. Besides when they went through a rights offering which I had sidestepped in early 2020. This latest decline presented an opportunity to add more to the position that is already fairly overweight in my portfolio. I hold it in two separate accounts. The 52-week high of RQI is $18.45. Today it trades at $16.31. This one has been quite volatile as it swung to a greater than 5% discount from a slight premium, note it has reduced that discount once again.

I covered RQI back in October when the valuation was starting to get a bit better, and one could potentially add. While the latest declines might have one thinking it was too early, the fund blasted higher after that point. The latest declines haven't been enough to snub those gains either. Which I thought was quite interesting to note. That isn't to say that it doesn't decline further from here. As I mentioned above, anything can happen from here.

About This Article

Ticker Covered	RQI
Author's rating at publication	Hold
Price at publication	$15.27
Change	6.81%
Total Return	8.33%
S&P 500 change	1.45%

Author's Rating History

RQI Author Rating (Seeking Alpha)

Conclusion

There was no singular theme amongst what I was buying this last month. It was a mixture of different asset classes and various sector exposures. It also wasn't consistent in picking up just funds with deep discounts. Though certainly, there were a couple of those we touched on, such as ECF and HYB. BUI, UTF and ETW are all fairly valued based on premiums/discounts. It was more a function of just buying some quality funds at a better price than they were just a month or two ago. Overall, these were funds bought to take advantage of the market correction we've been given by the start of 2022.

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This article was written by

Nick Ackerman
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Author of **CEF/ETF Income Laboratory**
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Nick Ackerman is an avid student of the markets and has been inves

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Disclosure: I/we have a beneficial long position in the shares of BIGZ, BMEZ, BSTZ, BUI, ECF, ETW, HYB, RQI, UTF, VVR either through stock ownership, options, or other derivatives. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

Additional disclosure: This article was originally published to members of the CEF/ETF Income Laboratory on February 1st, 2022.

Comments (38)

mysonchino

Yesterday, 12:47 PM

Comments (952)

Nick, thanks for the update. I have and still am in CEFs as the majority of my investments. But in a possible sideways to down market I decided to increase exposure to BDCs that are paying and earning their high yields. I kind of created my own fund with 19 BDCs totalling 14% of my portfolio. Blended yield is ~ 8.65%.

Another 7% in 8 individual REITs (equity and commercial rem) also earning their ~ 8.5% blended yield.
5% of portfolio is in CLOs yielding over 10%.

The remaining 75% evenly distributed between general equity, REIT and utility funds.

With the plunge in preferred fund values I plan to put all incoming dividends in preferreds. Initially FFC up to 7% of portfolio value.

Mine is a but and hold portfolio that is designed for income which is reinvested into the best opportunity at the time rather than trading in and out. So far so good.

Good luck to all.

Reply Like (3)

Nick Ackerman

Yesterday, 12:52 PM

Contributor Premium Marketplace Comments (12.73K)

Author's Reply @mysonchino thank you for sharing and good luck!

Reply Like

jazznut

Yesterday, 10:30 AM

Comments (1.58K)

Besides "anything can happen from here," the words "don't fight the Fed" keep ringing in my head. Good luck.

Reply Like (1)

Nick Ackerman Yesterday, 10:49 AM

Contributor Premium Marketplace Comments (12.73K)

Author's Reply @jazznut indeed! Thank you for your thoughts!

Reply Like

Sane Man 15 Feb. 2022

Premium Comments (239)

Thanks as always Nick!! I don't know, I keep adding on to PDO and PTA and no sooner do I get the confirm they're another leg lower—and the discounts keep enlarging! And I keep buying more supposedly cheaper but the share price losses are now 6-12 months of distributions to break even! Yet I keep dripping. Am I missing something here?

Reply Like (1)

Eileen Dover 15 Feb. 2022

Comments (4.02K)

@Sane Man I think whatever we've been buying in the past few weeks has gone down. lol

Reply Like (5)

Nick Ackerman 15 Feb. 2022

Contributor Premium Marketplace Comments (12.73K)

Author's Reply @Sane Man it's been tough holding them! Rates continue to keep these funds under pressure for the time being. I'm still believing that longer-term they still make sense.

Reply Like (1)

Nick Ackerman

15 Feb. 2022

Contributor Premium Marketplace Comments (12.73K)

Author's Reply @Eileen Dover that's what it has felt like for me!

Reply Like

See More Replies

Truebluealpha

15 Feb. 2022

Comments (1.09K)

Hey Nick, minor editing matter: In your writing >" the fund inexplicitly jumped to an over 25% premium...." I believe the word you wanted there was "inexplicably."

Meanwhile, no BST/BSTZ added yet? I've been taking big breaths and nibbling occasionally as they just sink & sink, figuring it has to turn around at some point and I'm bringing my average cost down in big swaths while collecting the divvies. But man, it almost never gets easier buying into a market heading south—kind of just have to close my eyes and pretend it's Monopoly money...

Reply Like (2)

Nick Ackerman

15 Feb. 2022

Contributor Premium Marketplace Comments (12.73K)

Author's Reply @Truebluealpha thank you for that! That's exactly what I meant.

I am overweight both of those funds but see them as a buy, definitely!

Reply Like

EnigmaDude

15 Feb. 2022

Contributor Premium Comments (1.01K)

I started buying UTF back in September when the price dropped down into the low 27 range. Wish I had waited, I have nearly a full position now at an average price of about 27.50. Guess that I expected it to be more inflation-defensive than it has been so far in 2022.

Reply Like (1)

Nick Ackerman

15 Feb. 2022

Contributor Premium Marketplace Comments (12.73K)

Author's Reply @EnigmaDude thanks for your thoughts! Hindsight is always easy to say when we should or shouldn't have invested. Long term this fund will do absolutely fine!

Reply Like (2)

Eileen Dover

15 Feb. 2022

Comments (4.02K)

@Nick Ackerman UTF getting closer to my watch price to get back in. Missed it the last week of Jan when it dropped into the 24's for a couple of days.

Reply Like

Nick Ackerman

15 Feb. 2022

Contributor Premium Marketplace Comments (12.73K)

Author's Reply @Eileen Dover I ended up buying a bit too early in January.

Reply Like

See More Replies

VoiceofSanitySometimes 15 Feb. 2022

Marketplace Comments (4.26K)

Nice list.

I continue to add to RQI.

Got some at $14.83 in Sept, and added more at $15.13 on Jan 24

Reply Like (2)

Nick Ackerman 15 Feb. 2022

Contributor Premium Marketplace Comments (12.73K)

Author's Reply @VoiceofSanitySometimes thats excellent! Thank you for sharing.

Reply Like

Income4ever aka Cyclenut 15 Feb. 2022

Premium Comments (3.25K)

Nicely done Nick... HYB nice YE special again...I trimed ACV back a bit to raise cash...

Durning the recent volatility I added ADC, as you eloquently described as O-lite to my portfolio, added a bit to PTY, EPD and trimed half of my rather hefty stake in AGNC and put the proceeds into Dx, which is a bit more diversified. Added to EFC as well.
I think I'm done for a while... the plan is now to hold onto every dividend and build a small bank for potential future deployment
Cheers *(edited)*

Reply Like (5)

Nick Ackerman 15 Feb. 2022

Contributor Premium Marketplace Comments (12.73K)

Author's Reply @Income4ever aka Cyclenut thank you for sharing your thoughts! I'm waiting for further declines if it happens to reduce my cash position too. But as you know, I'm always buying at least something.

Reply Like (1)

Income4ever aka Cyclenut 15 Feb. 2022

Premium Comments (3.25K)

@Nick Ackerman
Catch the latest... O enters gaming with 1.8B deal with Wynn
Wow

Reply Like

Nick Ackerman 15 Feb. 2022

Contributor Premium Marketplace Comments (12.73K)

Author's Reply @Income4ever aka Cyclenut I just saw the headline. I need to read more!

Reply Like

See More Replies

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kjseagle1 15 Feb. 2022

Comments (1.1K)

nice write-up; i forgot about ETW-- will remedy that today

Reply Like (1)

Nick Ackerman 15 Feb. 2022

Contributor Premium Marketplace Comments (12.73K)

Author's Reply @kjseagle1 thank you! I'd check out EXG too, it has been getting a bit better valuation lately too.

Reply Like (4)

Eileen Dover 15 Feb. 2022

Comments (4.02K)

@Nick Ackerman @kjseagle1 EXG disc about 4%, 3% below 52 week mid point. EXG monthly Ex-date is Thurs so if you get in tomorrow you still get it this month. SA always seems to show (incorrectly) the day before Ex as the actual Ex date. That causes much confusion. I will be watching it tomorrow Nick ! Thanks

Reply Like (6)

Nick Ackerman 15 Feb. 2022

Contributor Premium Marketplace Comments (12.73K)

Author's Reply @Eileen Dover they were informed that the data has been wrong. They are passing it on to their data provider.

Reply Like (1)

See More Replies