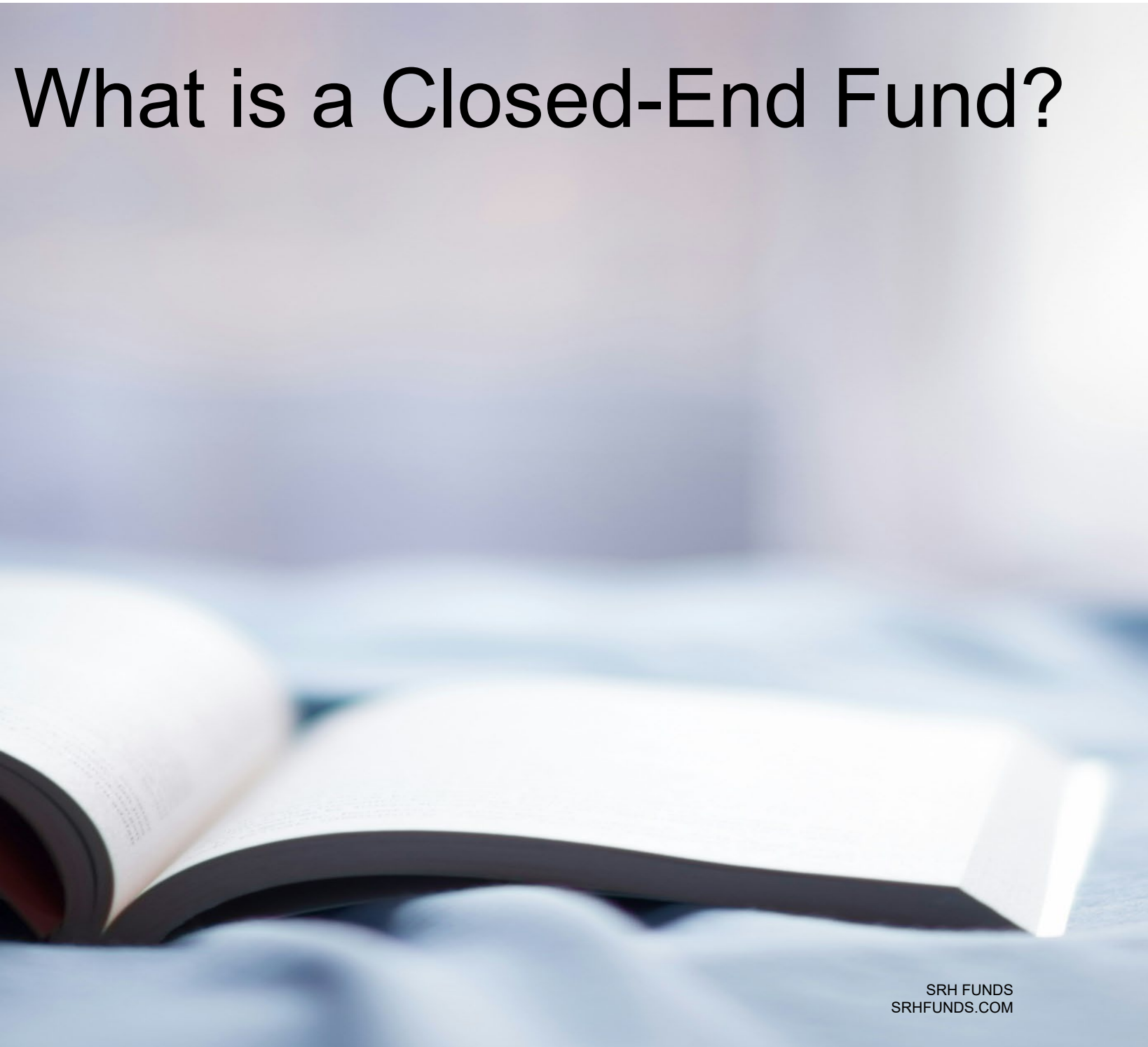
CEF Education:

What is a Closed-End Fund?



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What is a Closed-End Fund?

A closed-end fund ("CEF") is a type of investment fund that raises capital by issuing a fixed number of shares through an initial public offering ("IPO"). CEFs are a unique investment vehicle with a handful of important differentiators, described below:

- **Stable Capital Base:** Following the IPO, shares of a CEF trade on a national stock exchange, like stocks. This structure is unique compared to open-end mutual funds ("OEF"). OEFs continuously create new shares when investors purchase them, bringing additional capital into the fund, and redeem existing shares when investors sell them, removing capital from the fund. In contrast, the capital in a closed-end fund remains stable because the number of shares does not generally change after the IPO. This stability can benefit CEF investors, as it allows the fund manager to adhere to core investment principles and make opportunistic investments without being forced to buy or sell assets to accommodate fund flows from purchases and sales.
    - We take a deeper dive into the benefits of a stable capital base here.
- **Trade at a Discount/Premium:** For CEFs, there are two key measures of value: the market price and the net asset value ("NAV"). The market price is the price that a fund's shares trade at on a national exchange. This price is determined by supply and demand, with the supply of shares remaining largely static for CEFs. The NAV represents the value of the fund's underlying assets minus any liabilities. Because CEF shares trade based on market price and the number of available shares is fixed, the market price can significantly diverge from the NAV. When the market price is higher than the NAV, the fund is said to be trading at a premium. Conversely, when the market price is lower than the NAV, the fund is trading at a discount.
    - Closed-end fund discounts, in particular, present multiple potential benefits to investors that we explain further here.
- **Discount Impact on Distributions and Share Repurchases:** Distributions are simply capital dispersed from the fund to shareholders, typically on a quarterly or annual basis, although some funds pay distributions monthly. A share repurchase is when a fund buys its own shares and then retires the share, thereby reducing the overall shares outstanding. If the shares are repurchased at a discount to NAV, then the NAV per share will increase (as assets are spread over fewer shares). While distributions and share repurchases are common with individual stocks and other types of investment vehicles, the discount dynamic of CEFs makes these tools particularly beneficial for CEF managers and investors alike.
    - Read further about how fund distributions and share repurchases are impacted by discounts here.
- **Leverage Access:** The closed-end fund vehicle allows for expanded access to borrowing capital, also known as "leverage," relative to OEFs. This is due to lenders typically being more willing to lend against the stable capital base of CEFs. Leverage typically amplifies the performance of the fund positively or negatively, depending on the performance of the underlying holdings. The fund must also pay a borrowing cost associated with its leverage. Ultimately, the ability to utilize leverage provides CEFs with an additional tool with the potential to enhance returns.
    - We further explore the benefits and hurdles of leverage in CEFs here.

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