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# Trends in Closed-End Fund Activism: Resetting the Baseline in 2022-2023

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Since the last time Morrow Sodali Fund Solutions (MSFS) published an overview of quantitative trends in closed-end fund (CEF) activism in early 2022, the market has continued to evolve. Both the number and type of activist challenges have changed over the last two years. Key takeaways from this period are:

- · A bounce-back in the total number of activist contests in 2023 following a relatively slow year in 2022;
- The establishment of Saba Capital Management as the predominant activist and the retreat of all other activists;
- A shift by Saba toward comprehensive governance strategies, such as amending fund policies and reshaping board compositions, while maintaining a balanced approach to operational and financial proposals.

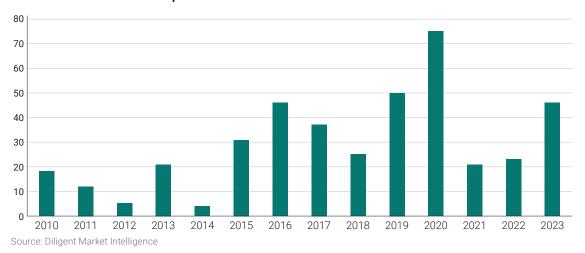
This analysis focuses on quantitative changes over the past two years but also acknowledges additional qualitative shifts in the CEF market that challenge operating models and constrain managers and boards. These include legal battles over control share provisions and Saba's assumption of control over the Templeton Global Income Fund (GIM). MSFS covers these ongoing developments in the CEF market through our periodic Views on the News publications.

Recent legal confrontations featuring Bulldog and Saba have heightened the stakes in the CEF arena, challenging traditional practices and control share agreements. This shift toward more intricate rules and regulations serves as a warning to industry insiders and highlights the need for proactive planning and heightened scrutiny.

Taken together, these multifaceted developments make it clear that CEF activism is not a static field but a dynamic and evolving landscape. Understanding its intricacies now demands a multidimensional approach integrating legal, financial, and strategic perspectives. This report aims to equip market watchers and stakeholders with the critical insights needed to navigate this complex and ever-changing terrain.

# **Number of Contested Proposals**

### **Closed-End Fund Activist Proposals**

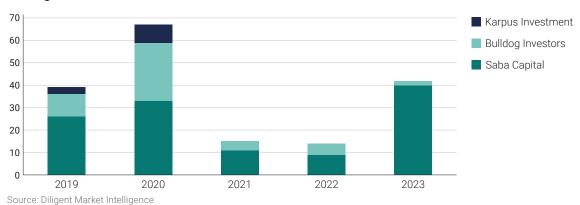


<sup>1.</sup> Trends in Closed-End Fund Activism: Heightened Risk Ahead, March 2022.
This white paper was published by Di Costa Partners, the prior name of MSFS.

While 2022 saw a modest increase to 23 proposals from 21 in 2021, 2023 is already proving to be a significant year, with 46 proposals through Oct. 26 —nearly doubling last year's count already. Although the numbers haven't yet reached the peak of 75 proposals seen in 2020, they indicate a significant rebound in the level of CEF activism. The year 2015 marked a sudden awakening in the CEF arena, with the number of proposals surging from just four in 2014 to 31. Although the years that followed have been volatile, the level of contested meetings has generally remained high. This is true even when considering the slower years of 2021 and 2022. It's crucial to understand this volatility in the context of major financial deals that had ripple effects throughout the industry, such as the Franklin/Legg Mason and Morgan Stanley/Eaton Vance deals in 2019 and 2020. Whether the resurgence in 2023 is signaling a new era of sustained activism, independent of M&A activity, remains to be seen.

# **Leading Activists**

### **Leading Closed-End Fund Activists**



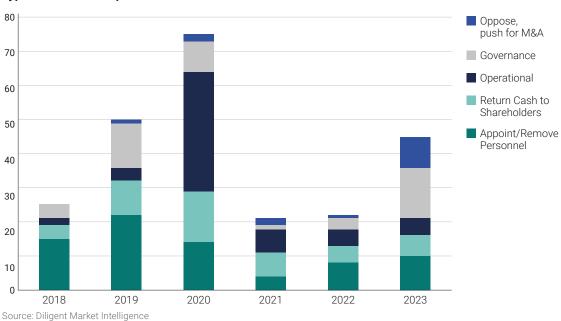
Saba has cemented its leadership role, particularly in 2023, by submitting an astounding 40 proposals. In contrast, Bulldog has scaled back dramatically, with only 2 proposals in 2023. Karpus Investment Management has remained quiet since being acquired by City of London with no proposals since 2020. As a reminder, if any activist just threatened a proxy contest without actually filing a proposal, then that event would not be captured in this data.

Saba's surge in proposals during 2019-2020 may have been influenced by significant M&A activity in the asset management sector. During that period, Saba was able to negotiate payouts in exchange for agreeing not to block these deals. However, M&A activity is not as prevalent in 2023, so it doesn't fully explain this year's increase—Franklin's acquisition of Putnam being the notable exception. Saba now has a much larger capital base to commit and a richer toolkit to bring to bear against the CEF industry.

While it's easier to explain Saba's growth, it's harder to understand the precipitous decline for Bulldog, Karpus and City of London since 2020. These have always been more focused activists who don't throw multiple darts in the same way as Saba, but there's not an obvious reason why this dramatic decline has occurred when their brethren, Saba, has been so successful and influential over the same time period. In fact, Saba's success should serve as a green light for new hedge funds interested in entering the CEF sector, an asset class that is not correlated with traditional markets. However, there have been no new entrants since Saba made its mark.

# **Mix of Activist Proposals**

### **Types of Activist Proposals**



So far in 2023, activist focus has been on changes in the realm of fund governance. More and more emphasis has been placed on amending fund policies, eliminating staggered board tenures and adopting majority vote standards. This direction has been clear with 15 initiatives within the Governance category pointing toward a concerted effort to redefine governance structures and practices — a pivotal step in determining a fund's trajectory. Meanwhile, efforts to gain board representation or even the removal of incumbent board members, including fund management, have seen a consistent focus, registering 10 proposals within the Appoint/Remove Personnel category.

Reflecting back to 2020, it's evident that there was a strategic move towards enhancing operations. Activists, sensing market disruptions, likely saw an opportunity to advocate for comprehensive business restructuring and cost-cutting measures. This highlights activists' adaptive approach, indicating that they don't just react to existing conditions but try to proactively set the stage for future moves.

The transition from an earlier concentration on operations and returning shareholder value to a contemporary focus on granular aspects of governance signifies the maturing landscape of CEF activism. As strategies evolve, driven perhaps by external stimuli like legal developments or internal shifts in corporate sentiment, it becomes imperative for CEF managers to not merely adapt but to proactively assess where activists may be headed next.

## Conclusion

While the resurgence of activism—evidenced by a nearly two-fold increase in proposals in 2023—may grab the headlines, it is the nuanced changes in tactics and focus by Saba, the leading activist, that suggest where this sector may be headed. The legal arena has become more prominent as lawsuits become another venue for activist attacks and fund defenses. Bulldog's lawsuit against First Trust Advisors aims to challenge actions allegedly designed to block board nominees, adding fuel to the debate around board governance. Similarly, Saba's legal confrontations over control share provisions challenge the ways different shareholders can be treated. These legal challenges may not be another chapter in CEF activism but could signify the opening of a whole new arena of engagement.

As the landscape continues to evolve, CEF managers need to remain close to their shareholders. Monitoring the trading activity of activists and those institutions that follow them can allow managers to avoid being caught flat-footed if one of their funds becomes a target. Regular communication with shareholders is crucial for highlighting the advantages of the fund and for reminding them that activists have their own agendas, which may not align with the interests of all shareholders.

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