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Investment Management Alert

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Closed-End Fund Activists Seeking Above-NAV 'Liquidity Event' Terms

On October 13, 2021, Templeton Global Income Fund (GIM) announced that its Board of Trustees (Board) approved an issuer tender offer for 70% of its issued and outstanding common shares at a price per share equal to 99% of GIM's net asset value (NAV) as of the close of trading on the first business day after the expiration of the offer. The tender offer commenced on November 8, 2021, and expired on December 7, 2021, with only approximately 23% of shares having been tendered, despite Saba Capital Management, L.P. (Saba) owning over 22% of GIM's outstanding common shares.

On November 26, 2021, Saba published a letter to the Board informing the Board of Saba's intention to withhold its participation in the tender offer because Saba did not believe the offer, at 99% of NAV and for 70% of GIM's outstanding common shares, was an attractive liquidity option for its clients. The letter also stated that the average closed-end fund that primarily invests in bonds was trading at a 3% premium to NAV, and that nearly 200 closed-ends funds were trading at a premium, with two dozen of the funds trading at premiums greater than 10%.

The letter asserted two options for GIM's Board to consider: (i) a strategic merger with a closed-end fund that is more desirable by its shareholders (which the letter suggests could result in the combined fund trading at a premium); or (ii) changes to GIM's investment strategy or investment team in order to target better ways to fulfill GIM's objective of high-income returns.

We now appear to be at a point in the development of highly sophisticated and professionally run closed-end fund arbitrage strategies where closed-end fund activists are positioning themselves to demand "liquidity events" in excess of NAV in order to stand down from their hostile board nominations, potential proxy fights, forced liquidations, advisory contract termination proposals or other action.

Activist closed-end fund investors are continuing to escalate, and in some cases accelerate, their campaigns against many closed-end funds. Closed-end fund boards should continue to improve corporate defense strategies, including the use of state control share statutes and other available options when they believe doing so is desirable, to preserve retail investors' access to closed-end funds and the unique exposure the funds provide to asset classes and strategies that retail investors may not be able obtain elsewhere.

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