Closed-End Funds Are Becoming Increasingly Popular

(NAPSA)—Closed-end funds have become increasingly popular among investors in recent years. These funds are actually not new, but date to 1893. Closed-end funds are a basket of securities—typically equities, bonds or a mixture of both. Unlike a regular open-end mutual fund, whose share price is determined by calculating its net asset value (NAV); i.e., total Fund net assets divided by number of Fund shares outstanding, shares of closed-end funds must be purchased in the open market on an exchange, just like a common stock, and share price is influenced by any number of market forces. Currently there are more than 650 closed-end funds with more than $250 billion in total assets managed.

Closed-end funds have some similarities with their counterpart, open-end funds, as well as many differences. Similarities can include diversification, professional management, economies of scale, and monthly or quarterly distributions. However, there are numerous differences that make each unique. Open-end funds are continuously offered, meaning that new shares can always be issued and purchased, or sold, and total assets can increase or decrease accordingly. A closed-end fund is launched by a fund company by raising assets through an Initial Public Offering, with a finite number of shares, sold at a set price. These shares then trade at market price on an exchange, meaning the price is determined between a buyer and a seller.

Another key difference is that closed-end funds are often leveraged, while open-end funds are not. Leverage allows a fund to borrow money on behalf of shareholders and thus increase fund assets. A closed-end fund may borrow assets at a lower rate than the rate at which it can invest those assets, and use this “spread” to enhance its yield to shareholders. Therefore, closed-end funds have the opportunity for enhanced returns but at a higher risk.

One reason for the increased recent popularity of closed-end funds may be “Baby Boomers” and their thirst for yield. Closed-end funds can be appealing to people at this life stage because many funds provide a high level of income. As investors of this age head into retirement, they are looking to tap into their portfolios, rather than continuing to accumulate assets. Closed-end funds are predominantly income vehicles and can provide higher-than-average yields thanks to the leverage.

77 million Baby Boomers are entering retirement in the new century, looking to generate more income for retirement. Not surprisingly, there has been increasing demand for products like closed-end funds. In 2004, 51 new closed-end funds were introduced, into which $24 billion was invested. A major player in the closed-end fund sector is Eaton Vance, which has been the largest issuer of these funds the past two years. Eaton Vance’s closed-end fund specialist, Jonathan Isaac, explains: “Eaton Vance has been a dependable, successful money management firm over 80 years, which is attractive to investors. Eaton Vance is known for the ability to recognize how different management styles can be combined within a closed-end fund structure to best maximize trends and meet the needs of the marketplace.”

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