CHAPTER 5

US Closed-End Funds

There are four types of closed-end funds (CEFs): traditional funds, interval funds, tender offer funds, and business development companies (BDCs). Traditional CEFs (and some interval funds and BDCs) issue a fixed number of shares that are listed on a stock exchange or traded in the over-the-counter (OTC) market. Other CEFs—like most interval funds, tender offer funds, and BDCs—are not listed on stock exchanges and are permitted to continuously offer their shares at net asset value. The assets of a CEF are professionally managed in accordance with the fund's investment objectives and policies and may be invested in stocks, bonds, and other securities. Since most CEFs do not need to maintain cash reserves or sell securities to meet redemptions, they may fully invest their assets according to their strategies and invest in less-liquid portfolio securities. Total assets of traditional CEFs were $249 billion at year-end 2024, while total assets of interval funds, tender offer funds, and BDCs were $403 billion.

IN THIS CHAPTER

What Is a Closed-End Fund?

Closed-end funds (CEFs) are one of four main types of investment companies, along with mutual funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). Historically, the vast majority of CEFs have been "listed" CEFs—investment companies that issue a fixed number of common shares in an initial public offering (IPO) that are publicly traded on an exchange or in the over-the-counter (OTC) market, like traditional stocks. Once issued, shareholders may not redeem those shares directly to the fund (though some CEFs may repurchase shares through stock repurchase programs or through a tender for shares). Subsequent issuance of common shares generally only occurs through secondary or follow-on offerings, at-the-market offerings, rights offerings, or dividend reinvestments. Listed CEFs primarily include traditional funds but may also include interval funds and business development companies (BDCs) that are listed on exchanges.

There are also "unlisted" CEFs, which have recently seen steady asset growth. Unlisted CEFs are not listed on an exchange but sold publicly to retail investors, mainly through intermediaries, or to certain qualified investors through private placement offerings. Unlike listed CEFs, unlisted CEFs do not issue a fixed number of shares but are permitted to continuously offer their shares at net asset value (NAV) following their IPO. As they are not traded on an exchange, unlisted CEFs engage in scheduled repurchases or tender offers for a certain percentage of the CEF's shares to allow shareholders to exit the fund. The ability of a shareholder to exit the CEF is dependent on the timing of the scheduled repurchase or tender offer and whether the repurchase or tender is "over-subscribed." Unlisted CEFs include tender offer funds, most interval funds, and BDCs.

A CEF's assets are professionally managed in accordance with the fund's investment objectives and policies and may be invested in stocks, bonds, and other assets. Because CEFs do not face daily redemptions, there is little need to maintain cash reserves and they can typically be fully invested according to their strategies. Also, other than for any upcoming repurchase or tender offer, CEFs do not sell securities daily and have the flexibility to invest in less-liquid portfolio securities. For example, a CEF may invest in securities of very small companies, municipal bonds that are not widely traded, or securities traded in countries that do not have fully developed securities markets.

CEFs also are permitted to issue one class of preferred shares in addition to common shares. Holders of preferred shares are paid dividends but do not participate in the gains and losses on the fund's investments. Issuing preferred shares allows a CEF to raise additional capital, which it can use to purchase more assets for its portfolio.

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Traditional CEFs

Traditional CEFs issue a fixed number of shares during an IPO that are then listed on an exchange or traded in the OTC market where investors buy and sell them in the open market (i.e., all traditional CEFs are listed CEFs). The market price of a traditional CEF fluctuates like that of other publicly traded securities and is determined by supply and demand in the marketplace.

Total Assets and Net Issuance of Traditional CEFs

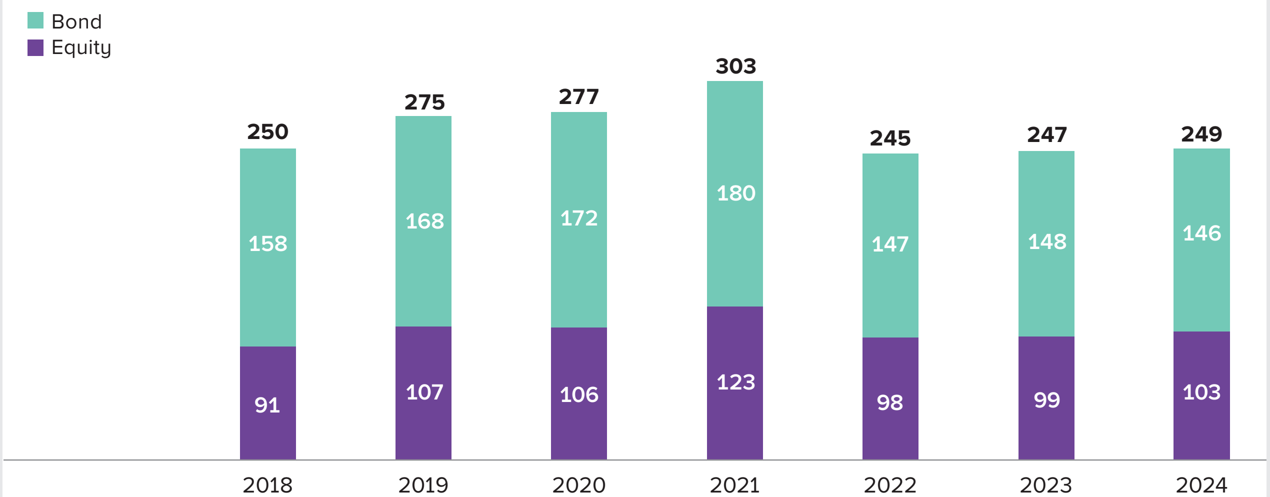
At year-end 2024, there were 382 traditional CEFs with total assets of $249 billion (Figure 5.1). At year-end 2024, bond CEFs accounted for the majority of traditional CEF assets (59 percent) with the remainder held by equity CEFs.

The number of traditional CEFs available to investors continued to decrease in 2024 (Figure 5.1). In recent years, more traditional CEFs were liquidated, merged, or converted into open-end mutual funds or ETFs than were launched.

FIGURE 5.1

Total Assets of Traditional CEFs Have Stagnated in Recent Years and the Number of Traditional CEFs Has Significantly Decreased

Billions of dollars, year-end



	2018	2019	2020	2021	2022	2023	2024
Number of CEFs	**493**	**486**	**479**	**448**	**426**	**401**	**382**
Bond	316	309	306	282	266	249	241
Equity	177	177	173	166	160	152	141

Note: *Total assets* is the fair value of assets held in CEF portfolios funded by common and preferred shares less any liabilities (not including liabilities attributed to preferred shares).

Source: *ICI Research Perspective*, "The Closed-End Fund Market, 2024"

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The Closed-End Fund Market, 2024

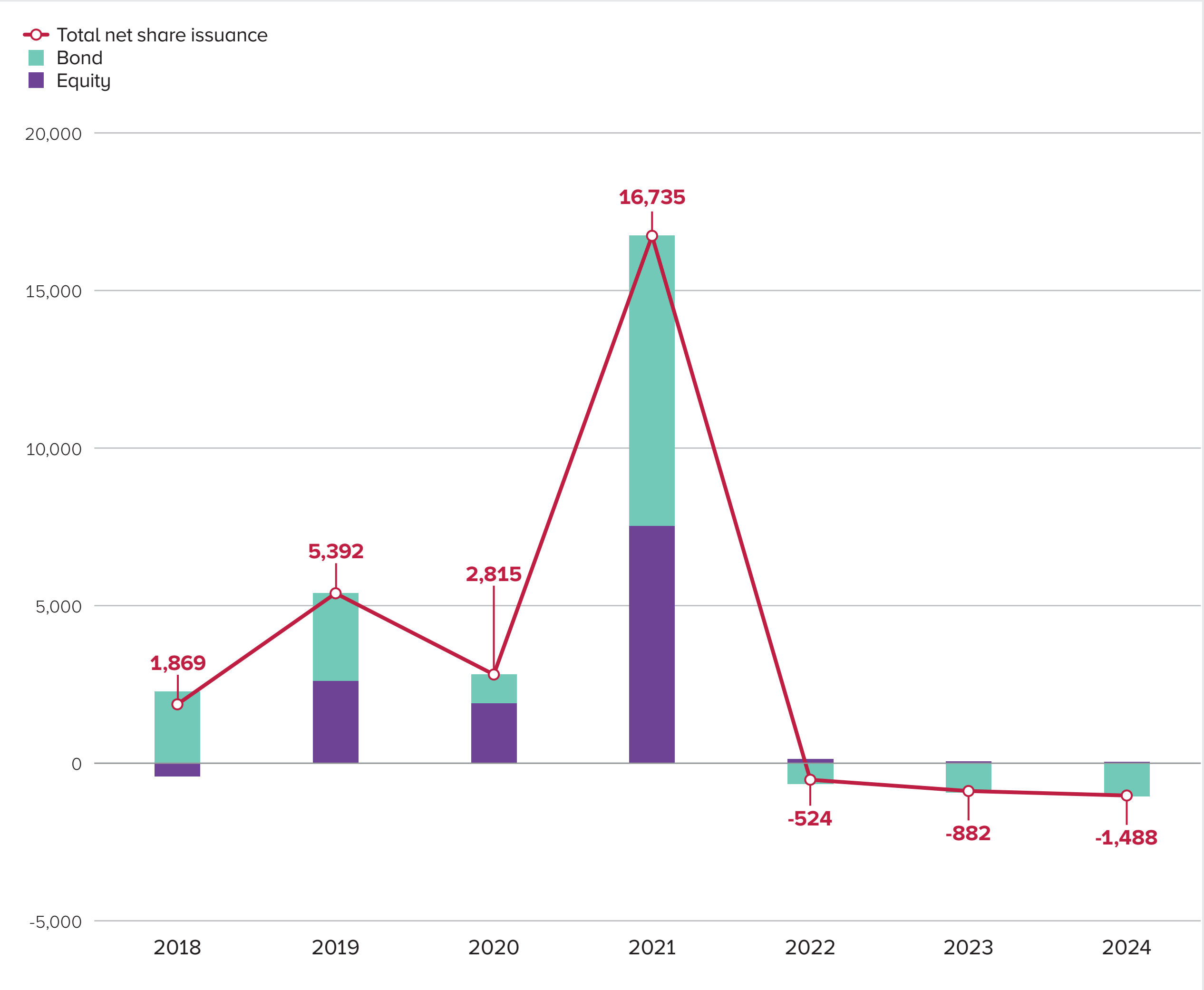
www.ici.org/files/2025/per31-04.pdf

Traditional CEFs had negative net share issuance of $1.5 billion in 2024, which follows negative net issuance of $882 million in 2023 (Figure 5.2). In 2024, equity CEFs had negative net issuance of $162 million, while bond CEFs had negative net issuance of $1.3 billion. Despite positive returns on stocks and bonds around the world in 2024, demand for traditional CEFs remained low.

FIGURE 5.2

Traditional CEF Net Share Issuance Remained Negative in 2024

Millions of dollars, annual



Note: Net share issuance is the dollar value of gross issuance (proceeds from initial and additional public offerings of shares) minus gross redemptions of shares (share repurchases and fund liquidations).

Source: *ICI Research Perspective*, "The Closed-End Fund Market, 2024"

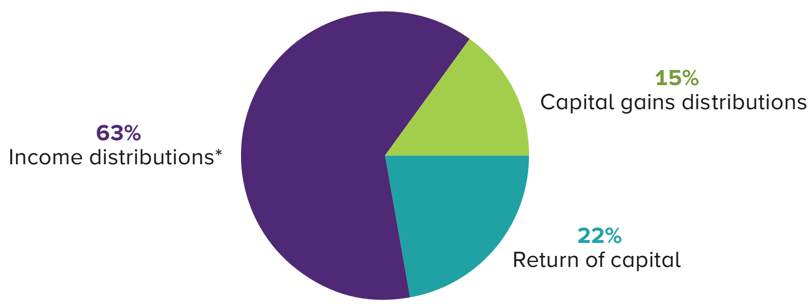
Traditional CEF Distributions

In 2024, traditional CEFs distributed an estimated $18.3 billion to shareholders (Figure 5.3). CEFs may make distributions to shareholders from three possible sources: income distributions, which are payments from interest and dividends that the fund earns on its investments in securities; realized capital gains distributions; and return of capital. Income distributions accounted for the majority (63 percent) of CEF distributions. Capital gains distributions accounted for 15 percent of CEF distributions and return of capital for 22 percent.

FIGURE 5.3

Income Distributions Represent Bulk of Total Traditional CEF Distributions

Percentage of traditional CEF distributions, 2024



Total traditional CEF distributions: $18.3 billion

* Income distributions are paid from interest and dividends that the fund earns on its investments in securities.

Source: *ICI Research Perspective*, “The Closed-End Fund Market, 2024”

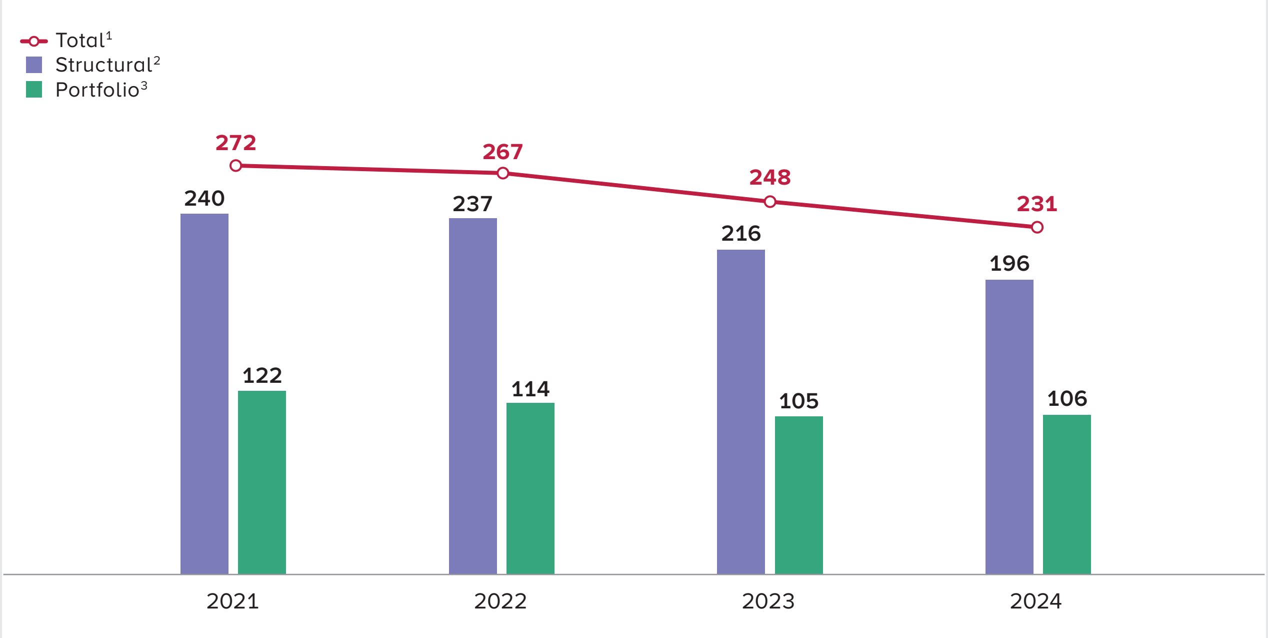
Traditional CEF Leverage

CEFs have the ability—subject to strict regulatory limits—to use leverage as part of their investment strategy. The use of leverage by a CEF can allow it to achieve higher long-term returns but also increases risk and the likelihood of share price volatility. CEF leverage can be classified as either structural leverage or portfolio leverage. At year-end 2024, 231 traditional CEFs, accounting for 60 percent of the total, used structural leverage, some types of portfolio leverage (i.e., tender option bonds or reverse repurchase agreements), or both as a part of their investment strategy (Figure 5.4).

FIGURE 5.4

Traditional CEFs Are Employing Structural Leverage and Some Types of Portfolio Leverage

Number of traditional CEFs, year-end



[1] Components do not add to the total because CEFs may employ both structural and portfolio leverage.

[2] Structural leverage affects the CEF's capital structure by increasing the fund's portfolio assets through borrowing and issuing debt and preferred shares.

[3] Portfolio leverage is leverage that results from particular types of portfolio investments, including certain types of derivatives, reverse repurchase agreements, tender option bonds, and other investments or types of transactions. Data are only available for reverse repurchase agreements and tender option bonds. Given data collection constraints and the continuing development of types of investments/transactions with a leverage characteristic (and the use of different definitions of *leverage*), actual portfolio leverage may be materially different from what is reflected above.

Source: *ICI Research Perspective*, "The Closed-End Fund Market, 2024"

Frequently Asked Questions About Closed-End Funds and Their Use of Leverage

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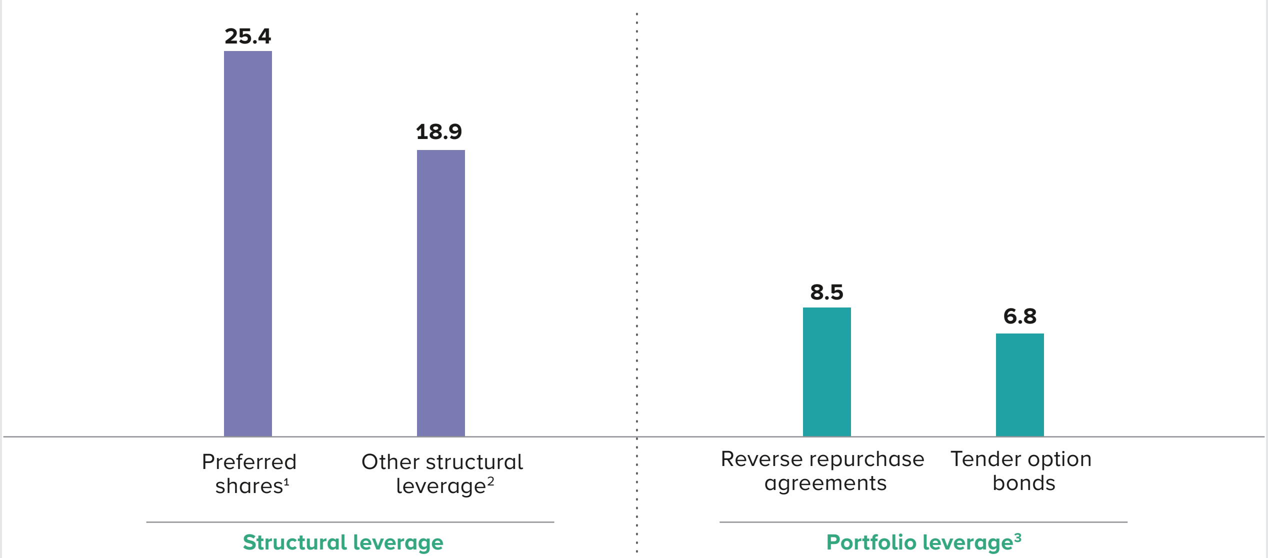
Structural leverage affects the CEF's capital structure by increasing the fund's portfolio assets. Types of CEF structural leverage include borrowing capital and issuing debt and preferred shares. At the end of 2024, 196 traditional CEFs had a total of $44.4 billion in structural leverage, with $25.4 billion from preferred shares and $18.9 billion from other structural leverage, which includes bank borrowing and other forms of debt (Figures 5.4 and 5.5). The average leverage ratio* across those traditional CEFs employing structural leverage was 28 percent at year-end 2024. Among CEFs employing structural leverage, the average leverage ratio for bond funds was somewhat higher (29 percent) than that of equity funds (26 percent).

Portfolio leverage is leverage that results from particular portfolio investments, such as certain types of derivatives, reverse repurchase agreements, and tender option bonds. At the end of 2024, 106 traditional CEFs had $15.3 billion outstanding in reverse repurchase agreements and tender option bonds (Figures 5.4 and 5.5).

FIGURE 5.5

Majority of Traditional CEF Leverage Is Structural

Billions of dollars, 2024



[1] A CEF may issue preferred shares to raise additional capital, which can be used to purchase more securities for its portfolio. Holders of preferred shares are paid dividends, but do not participate in the gains and losses on the fund's investments.

[2] *Other structural leverage* includes bank borrowing and other forms of debt.

[3] Portfolio leverage is leverage that results from particular types of portfolio investments, including certain types of derivatives, reverse repurchase agreements, tender option bonds, and other investments or types of transactions. Data are only available for reverse repurchase agreements and tender option bonds. Given data collection constraints and the continuing development of types of investments/transactions with a leverage characteristic (and the use of different definitions of *leverage*), actual portfolio leverage may be materially different from what is reflected above.

Source: *ICI Research Perspective*, "The Closed-End Fund Market, 2024"

* The *leverage ratio* is the ratio of the amount of structural leverage to the sum of the amount of common share assets and structural leverage.

Secondary Market Trading of Traditional CEFs

More than 95 percent of traditional CEFs calculate the value of their portfolios every business day, while the rest calculate their portfolio values weekly or on some other basis. The NAV of a CEF is calculated by subtracting the fund's liabilities (e.g., fund borrowing) from the current market value of its assets and dividing by the total number of shares outstanding. The NAV changes as the total value of the underlying portfolio securities rises or falls, or the fund's liabilities change.

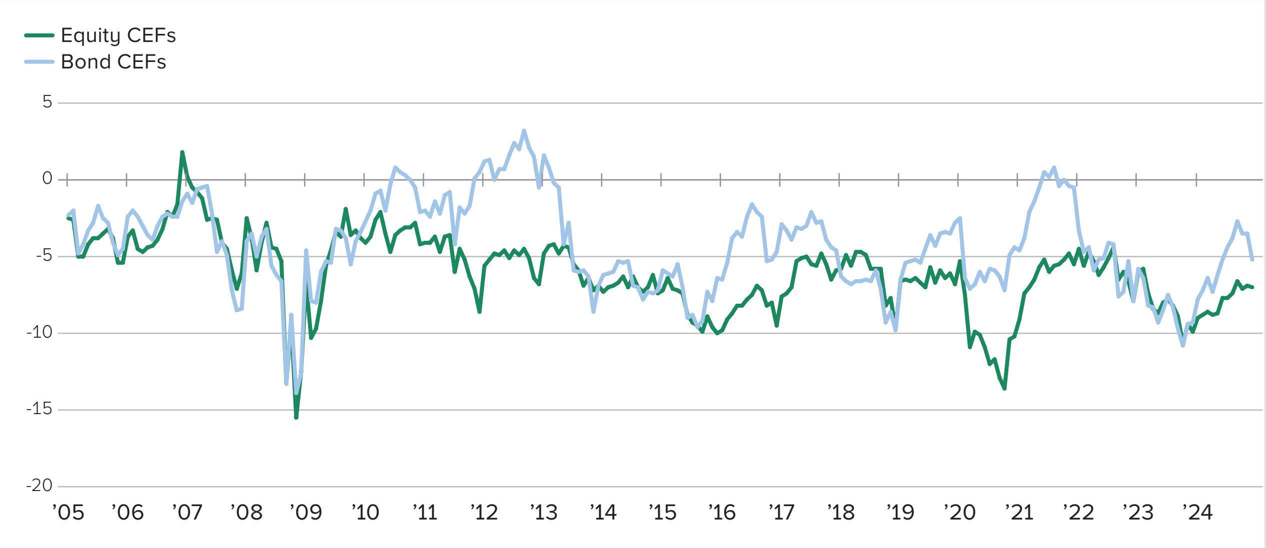
Because a traditional CEF's shares trade based on investor demand, the fund may trade at a price higher or lower than its NAV. A CEF trading at a share price higher than its NAV is said to be trading at a "premium" to the NAV, while a CEF trading at a share price lower than its NAV is said to be trading at a "discount." Funds may trade at premiums or discounts to the NAV for a number of potential reasons, such as market perceptions or investor sentiment. For example, a CEF that invests in securities that are anticipated to generate above-average future returns and are difficult for retail investors to obtain directly may trade at a premium because of a high level of market interest. By contrast, a CEF with large unrealized capital gains may trade at a discount because investors will have priced in any perceived tax liability.

Traditional CEF price deviations narrowed in 2024—equity fund discounts narrowed from 9.9 percent at year-end 2023 to 7.0 percent at year-end 2024, and bond fund discounts narrowed from 9.3 percent to 5.2 percent over the same period. Generally, the majority of traditional CEFs trade at a discount in any given month.

FIGURE 5.6

Traditional CEF Discounts Narrowed in 2024

Percent, month-end



Note: The premium/discount rate is the simple average of the percent difference between share price and NAV at month-end.
Source: Investment Company Institute calculations of data from Bloomberg and Refinitiv

Closed-End Fund Activism
www.ici.org/files/2025/cef-activism.pdf

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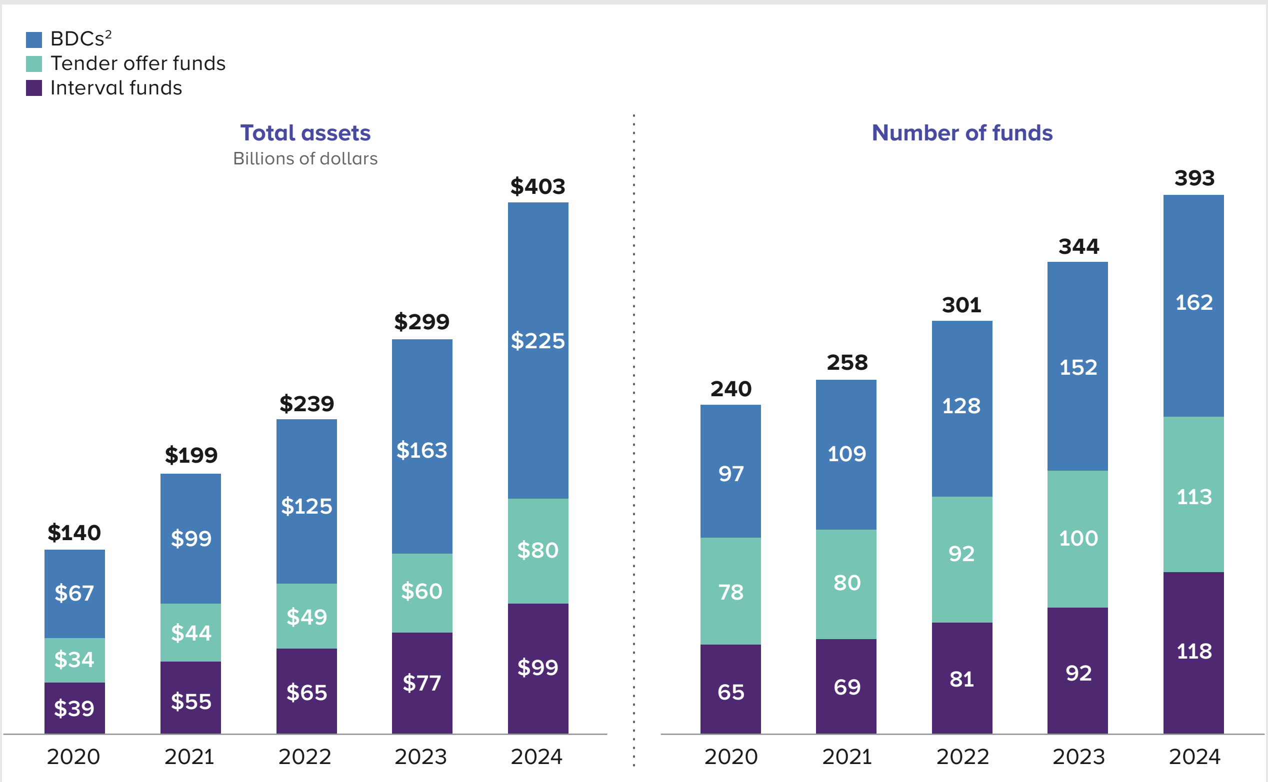
Interval Funds, Tender Offer Funds, and Business Development Companies

In addition to traditional CEFs, there are three other types of CEFs—interval funds, tender offer funds, and business development companies (BDCs). At year-end 2024, there were 393 interval funds, tender offer funds, and BDCs with total assets of $403 billion (Figure 5.7).

FIGURE **5.7**

Interval Funds, Tender Offer Funds, and BDCs Have Flourished in Recent Years

Year-end[1]



[1] Data are based on quarterly public filings between November and January.

[2] Total assets of BDCs are total net assets.

Note: Data for number of funds exclude feeder funds. Data include funds that do not report statistical information to the Investment Company Institute.

Source: Investment Company Institute calculations of data from publicly available SEC Form N-PORT, N-CEN, 10-Q, and 10-K filings

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A Guide to Closed-End Funds

www.ici.org/cef/background/bro_g2_ce

Interval funds, unlike traditional CEFs, are permitted to continuously offer their shares at NAV following their IPO. Most interval funds differ from traditional CEFs in that they do not offer regularly scheduled liquidity via the secondary market (i.e., they typically are not listed on an exchange). Instead, they buy back shares by making periodic repurchase offers at NAV in compliance with Securities and Exchange Commission (SEC) Rule 23c-3 under the 1940 Act. There are some interval funds, however, that are listed on an exchange and are bought and sold in the secondary market—and these funds continue to make periodic repurchases at NAV via Rule 23c-3. Certain unlisted interval funds are not available to the general public and are primarily held by qualified investors that meet income, wealth, and/or sizeable minimum investment thresholds. At year-end 2024, there were 118 interval funds with total assets of $99 billion (Figure 5.7).

For interval funds making continuous offerings, purchases resemble open-end mutual funds in that their shares typically are continuously offered and priced daily. However, unlike a mutual fund, shares are not continuously available for redemption but are repurchased by the fund at scheduled intervals (e.g., quarterly, semiannually, or annually). Further, the number of outstanding shares repurchased may vary, but must be between 5 percent and 25 percent of outstanding shares. In 2024, 91 percent of interval funds had policies to repurchase shares every three months, while the remainder had policies to repurchase shares monthly, semi-annually, or annually.

Tender offer funds are generally unlisted and permitted to continuously offer their shares at NAV. Like interval funds, certain tender offer funds are only sold to accredited investors or other types of qualified investors. Unlike interval funds, however, tender offer funds repurchase shares on a discretionary basis through a tender offer, which must comply with SEC Rule 13e-4 under the Securities Exchange Act of 1934 by filing a Schedule TO. There is no set schedule for when tender offer funds must conduct repurchases or how many shares they must tender. Some tender offer funds hold infrequent tender offers (e.g., one every 2 to 3 years), but many offer them more regularly (e.g., quarterly). In 2024, 50 percent of tender offer funds held tender offers four times during the year; 13 percent held between one and three tender offers; and the remaining 37 percent did not hold any tender offer during the year. At year-end 2024, there were 113 tender offer funds with total assets of $80 billion (Figure 5.7).

Business development companies (BDCs) differ from other CEFs in that they are not registered under the 1940 Act but instead elect to be subject to and regulated by certain provisions of the 1940 Act. BDCs primarily invest in small and medium-sized private companies, developing companies, and distressed companies that do not otherwise have access to lending. In particular, BDCs must invest at least 70 percent of their assets in domestic private companies or domestic public companies that have market capitalizations of $250 million or less. At year-end 2024, there were 162 BDCs with total net assets of $225 billion (Figure 5.7).

BDCs may be listed or unlisted. Listed BDCs are bought and sold on stock exchanges in the secondary market. Unlisted BDCs may either be non-traded or private. Non-traded BDCs are continuously offered (like most interval funds and tender offer funds), may be available to retail investors, and often conduct periodic repurchase offers for investors to redeem their shares. Private BDCs are sold through private placement offerings only to qualified investors. Private BDCs typically only offer those investors the chance to liquidate their shares by either going public (e.g., holding an IPO) or choosing to unwind the portfolio and liquidate the fund. These liquidity events often occur between five and 10 years following the initial private placement.

Characteristics of Households Owning CEFs

In 2024, 3.6 million US households indicated that they owned CEFs (see Figure 7.1). CEF-owning households tended to include investors who owned a range of equity and fixed-income investments. More than nine in 10 households owning CEFs also owned mutual funds, and nearly six in 10 also owned ETFs.

Because households that owned CEFs often also owned individual stocks and mutual funds, the characteristics of each group were similar in many respects. For instance, households that owned CEFs (like households owning individual stocks and mutual funds) tended to have household incomes and financial assets above the national median and were more likely to own retirement accounts (Figure 5.8). Nonetheless, households that owned CEFs also exhibited certain differences from mutual fund–owning households. For example, 42 percent of CEF-owning households were retired from their lifetime occupations, compared with 34 percent of households owning mutual funds. Households owning CEFs also expressed more willingness to take financial risk—49 percent were willing to take above-average or substantial risk, compared with 32 percent of mutual fund–owning households.

FIGURE 5.8

Closed-End Fund Investors Had Above-Average Household Incomes and Financial Assets

2024

	All US households	Households owning closed-end funds	Households owning mutual funds	Households owning individual stocks
Median				
Age of household survey respondent	52	52	55	54
Household income[1]	$80,000	$110,000	$115,000	$125,000
Household financial assets[2]	$90,000	$375,000	$300,000	$400,000
Percentage of households				
Household survey respondent				
Married or living with a partner	64	66	72	72
College or postgraduate degree	40	54	54	60
Employed (full- or part-time)	58	60	65	63
Retired from lifetime occupation	32	42	34	35
Household owns				
IRA(s)	44	71	68	72
DC retirement plan account(s)	59	78	82	78
Household's willingness to take financial risk				
Substantial risk for substantial gain	5	8	5	7
Above-average risk for above-average gain	19	41	27	33
Average risk for average gain	39	30	49	46
Below-average risk for below-average gain	11	11	11	9
Unwilling to take any risk	26	10	8	5

[1] Total reported is household income before taxes in 2023.

[2] Household financial assets include assets in employer-sponsored retirement plans but exclude the household's primary residence.

Source: *ICI Research Perspective*, "The Closed-End Fund Market, 2024"