

STRATEGY SUMMARY

9/30/2020




Investment Strategy Design:

Sommers Financial Management believes that there are often valuation inefficiencies in the \$225 billion closed-end-fund (CEF) market. We aim to identify mis-priced CEFs based on **three potential sources of out-performance**.

- 2.2%** 1. **"Discount To Termination"** If a fund's directors have decided to liquidate a fund on a certain date, the market price of the fund shares should coalesce with the "Net Asset Value" per share by the stated termination date.
- 0.4%** 2. **"Tax-Free Return of Capital"** If you pay \$0.85 for a \$1.00 worth of assets, and then the fund distributes capital over and above dividends and interest, you will earn a 15% return on the capital returned to you, tax-free.
- 5.2%** 3. **"Unreasonable Discount"** Some funds that have large yields, large discounts, and low expense ratios occasionally become overly discounted. We calculate an appropriate discount, and invest until the market re-prices the shares.

Because closed-end funds can invest in any asset class, in our Balanced Strategy we target a 60% Stock, 40% Bond allocation, similar to a "balanced fund" from a typical mutual fund company. Many investors consider a 60/40 portfolio the "ideal asset allocation", and the "center of gravity" on the risk/return spectrum. We re-balance quarterly.

Statistics:		
SFM Out-performance potential:	7.6%	(+/- vs. the Vanguard Balanced Index Fund - over the next year)
Current Portfolio Yield:	7.7%	(Taxable Equivalent Yield)
Wtd. Average Discount to NAV:	14.8%	
SFM Expected Monthly Range:	-4.7%	to 6.6% (68% certainty)
Riskalyze Expected 6-mo. Range:	-11.9%	to 19.7% (95% certainty)
SFM Expected Worst Month:	-13.7%	(99% certainty)
SFM Strategy Capacity:	\$271,000,000	(without taking more than a 10% stake in any one holding)
SFM Expected Beta (vs. S&P 500)	1.2	(this portfolio is expected to move X times the direction of the S&P 500)

Historical Returns:		Yield	3-mo.	1-Year	3-Year	Risk Number	Exp. Ratio
	SFM's CEF-Arb Balanced Strategy:	7.7%	0.0%	-7.3%	2.8%	59	1.32%
VBIAX	Vanguard Balanced Index Fund:	2.2%	6.3%	12.5%	9.4%	54	0.07%
PCEF	Invesco CEF Income Composite ETF	8.5%	4.6%	-2.6%	1.9%	30	2.25%
MDCEX	Matisse Discounted CEF Strategy Fund:	13.9%	4.6%	-17.9%	-2.8%	87	3.35%
YYY	Amplify High Income ETF	11.1%	5.5%	-8.7%	-0.9%	76	2.28%
FCEF	First Trust CEF Income Opportunity ETF	5.9%	6.2%	-6.6%	1.3%	86	2.96%

Top CEF Holdings		Yield	Discount	Exp.	+/-
MTT	Western Asset Muni Defined Opp	3.3%	2.6%	0.7%	4%
ADX	Adams Diversified Equity Fund	8.7%	14.2%	0.7%	5%
FIV	First Trust Senior FR 2022 Target Term	3.0%	7.5%	2.4%	3%
CET	Central Securities Corporation	5.0%	18.5%	0.7%	4%
HGLB	Highland Global Allocation Fund	16.7%	34.6%	2.5%	21%
TY	Tri-Continental Corporation	5.6%	13.7%	0.5%	1%
EHT	Eaton Vance High Income 2021 Target Term	3.3%	4.6%	1.4%	5%
NHA	Nuveen Municipal 2021 Target Term	1.2%	1.1%	0.7%	2%
JHB	Nuveen Corporate Income November 2021	4.1%	5.6%	2.0%	4%
TEAF	Tortoise Essential Assets Income Term	9.9%	28.3%	1.5%	13%

