Bond Case Briefs

Municipal Finance Law Since 1971

Closed-End Funds: Tax-Exempt Bonds

The funds buying municipal bonds have done well. All but two of the 133 that have been around for at least a decade delivered portfolio returns better than the 5.3% earned by the Vanguard Long-Term Tax-Exempt Fund (Admiral class shares).

Did the closed-ends accomplish this feat with brilliant bond selection? Perhaps a few did. But the explanation for the category's success lies elsewhere. Almost all of these funds use leverage.

Typical leverage in a closed-end muni fund is 35%. The fund buys $1,000 of long-term bonds, using $350 of borrowed money alongside $650 of money from the common shares whose performance is reported here. Funds borrow by issuing floating-rate preferred stock or its equivalent in some more complicated derivative. The preferred pays interest in the form of a tax-exempt dividend.

Continue reading.

Forbes

by William Baldwin
Senior Contributor

May 2, 2019

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com