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Muni-Junk Titan Nuveen Starts Fund to Take Advantage of Defaults.

- **Nuveen is among the biggest investors in high-yield muni bonds**
- **Closed-end fund prospectus registered Thursday with the SEC**

Nuveen, a perennial bull on risky municipal debt, is planning a new fund to invest in state and local government bonds in distress, default or in bankruptcy, according to a securities filing.

Nuveen's Municipal High Yield & Special Situations Fund, a closed-end fund, will also invest in securities with complex structures that would render them unsuitable for certain investors, according to a preliminary prospectus filed Thursday with the U.S. Securities and Exchange Commission.

"Special situations municipal securities, in particular, offer complexity risk premiums (stemming from the work-out expertise required to negotiate security improvements, including rate covenants, reserve funds and other security structure enhancements), which in turn may create significant investment opportunity for the Fund," Nuveen said in the filing.

Nuveen's move comes as investors including Goldman Sachs Group Inc. and Knighthead Capital Management are wagering there's a coming wave of defaults in the municipal-bond market as the economic cycle turns and distressed cities and speculative projects have trouble paying back loans.

Nuveen has led a charge of investors into riskier municipal bonds to finance shopping malls, refineries, charter schools, assisted living centers and waste-to-energy facilities. Nuveen, which runs a $19.5 billion high-yield municipal bond fund, is the largest investor in Virgin Trains USA — a new privately-operated railroad that runs from Miami to West Palm Beach and is expanding to Orlando. It also owns debt sold for the American Dream shopping mall and indoor amusement park in New Jersey's Meadowlands.

Demand for high-yield muni debt, coupled with a lack of new supply, has driven the sector to a 5.5% return this year, according to the Bloomberg Barclays index.

Nuveen spokeswoman Kristyna Munoz declined to comment, citing a quiet period between the filing of the registration and the initial public offering of the shares.

The fund will invest 65% of assets in unrated bonds or those with grades of BBB or lower and will use borrowed money to buy bonds. The fund will be operated as an "interval fund," a type of investment company that periodically offers to repurchase its shares from shareholders rather than trading in the secondary market.

Still, it may be hard for the fund to put money to work as default rates are much lower than the corporate or sovereign bond markets. From 2007 through 2016, a key default rate on municipal bonds graded by Moody's Investors Service was 0.15%, compared with 6.92% for corporate debt.

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