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Pimco Cuts Payouts as Much as 45% on Muni Closed-End Fund Shares.

- **Asset manager cuts monthly payouts on 9 muni closed-end funds**
- **Distribution cuts range from 20% to 45% as leverage costs soar**

Pacific Investment Management Co. cut monthly payouts on nine municipal bond closed-end funds by as much as 45% after a sharp jump in short-term rates increased borrowing costs.

The money manager cut the distributions on the \$199 million Pimco California Municipal Income Fund to 3.6 cents per share from 6.5 cents per share, according to a statement Tuesday. Short term-borrowing costs on the fund surged as high as 8.25% in December. The fund trades at a 29% premium to its net asset value while the yield on the closed-end fund's portfolio is about 4%, according to data compiled by Bloomberg.

Shares of the California fund fell as much as 15% to \$12.97 in Wednesday trading, the biggest intraday drop since 2008.

The Newport Beach, California-based asset manager also cut distributions on two other California funds, three New York funds and three national funds. Agnes Crane, a Pimco spokeswoman, declined to comment.

Dividend cuts by closed-end funds can punish fund shares, particularly if they trade at a premium. Muni closed-end funds borrow in the floating-rate tax-exempt market to finance the purchases of higher-yielding long-term bonds, seeking to profit from the difference. However, with the cost of leverage surging, that spread has disappeared or turned negative, which have led to distribution cuts.

Closed-end funds raise a fixed amount of money from shareholders in a public offering, unlike mutual funds, which continually sell and redeem shares. Closed-end funds are traded on stock exchanges and can trade at premiums or discounts to their net asset value.

Invesco Ltd, BlackRock Inc., Nuveen LLC and Eaton Vance Corp. all cut distributions on their muni closed-end funds last year.

In contrast to most muni-closed end funds, Pimco uses preferred shares for leverage. Yields on the shares, set by weekly auctions rather than by dealers, are even higher than variable-rate bonds.

Weekly benchmark yields in the variable-rate tax-exempt bond market surged to 3.8% last month as dealers sought to offload inventory amid heavy outflows from tax-exempt money market funds. Yields have since fallen to 3.66%.

Yields on preferred shares for Pimco's muni closed-end funds currently range from 5.82% to 6.05%, according to data compiled by Bloomberg.

Leveraged municipal-bond closed-end funds, which purchase long-duration bonds, were crushed in 2022 as rising inflation sparked a rise in yields and a drop in prices. VanEck's CEF Muni Income ETF, which seeks to track the performance of a muni-bond closed-end fund index lost 24% in 2022, compared with 8.5% for the broader muni market.

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