



Closed-End Funds, Simply: Discounts, Permanent Capital, and What to Watch

Closed-end funds (CEFs) are a unique way to invest because their share price is set by the market, while the value of what they own is measured by net asset value (NAV). That difference is why CEFs can trade at a discount (price below NAV) or a premium (price above NAV).

For many CEF investors, the discount is part of the appeal. If the discount widens while the portfolio and strategy still look solid, you may be able to buy more underlying assets for each dollar you invest. Think of it like buying a quality item on sale: you care about the value of what you're getting, not just today's sticker price. Furthermore, when discounts are wide, the effective distribution rate increases; this allows investors to "get paid to wait" for the gap to close, collecting high dividend yields in the meantime. Of course, discounts can stay wide (or get wider), so the goal is not just "cheap," but "cheap for a reason that can improve."

The CEF structure can be especially attractive for long-term investing because the fund typically has a fixed pool of capital. That means the manager usually doesn't have to sell holdings just to meet daily investor redemptions, the way open-end

funds do. In practice, "permanent" or stable capital can give a manager more flexibility to hold less-liquid investments and to stay patient during volatile markets. This stable capital base also allows many CEFs to employ leverage-borrowing at low short-term rates to reinvest in higher yielding assets- to potentially enhance returns and income from shareholders.

A timely example is Pershing Square USA, a new closed-end fund associated with investor Bill Ackman. In filings and coverage around the offering, the fund structure is described as a way to take a long-term approach without the pressure of redemptions during market stress—investors who want out sell on the exchange instead.

One feature some investors like is that certain CEFs can hold (or gain economic exposure to) private companies and other less-traditional assets. A high-profile example is Destiny Tech100 (NYSE: DXYZ), which describes a strategy focused on venture-backed private technology companies. In its SEC filings, Destiny Tech100 discloses positions that include economic exposure to Space Exploration Technologies Corp. (SpaceX), among other private-company exposures.



Another notable example is the Fundrise Innovation Fund (NYSE: VCX), which recently highlighted its participation in a significant private funding round for OpenAI. This round featured prominent institutional backers such as Amazon, NVIDIA, and Softbank, underscoring the fund's high level access. By listing on the NYSE, this fund provides individual investors with the rare opportunity to gain exposure to leading-edge private enterprises alongside some of the largest technology companies in the world.

What to watch (even if you love CEFs): Discounts and premiums move for many reasons—market sentiment, changes in distribution policy, and how easy (or hard) it is to value the underlying holdings. Leverage can magnify gains and losses. And if a fund owns less-liquid assets (including private holdings), the reported NAV may be based on valuations that update less frequently than public market prices. That's why it helps to track the fund's portfolio quality, distribution coverage, fees, and discount history—not just today's yield or discount.

Sources

- *SEC (Investor.gov): "Investor Bulletin: Publicly Traded Closed-End Funds"*
- *SEC EDGAR: Destiny Tech100 Inc. (DXYZ) filings (e.g., prospectus/prospectus supplement and other incorporated reports)*
- *Fidelity Learning Center: "Closed-End Fund (CEF) Discounts and Premiums"*
- *BlackRock: "Understanding closed-end fund premiums and discounts" (investor education PDF)*
- *Nuveen: "What to know about buying closed-end funds at a discount"*
- *CNBC: coverage of Pershing Square's NYSE filing / PSUS structure and debut*
- *Renaissance Capital (IPO Center): profile/news on Pershing Square USA (PSUS) IPO pricing and structure*

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