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INVESTMENT COMPANY INSTITUTE

NEWS RELEASE

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ICI Applauds New Bill Increasing Opportunities for American Retail Investors Through Closed-End Funds

Bill would give retail investors access to private investments and close a loophole that activist investors exploit at the expense of long-term shareholders

Washington, DC; June 30, 2021—Investment Company Institute (ICI) President and CEO Eric J. Pan issued the following statement in support of the Increasing Investor Opportunities Act, introduced today by US Representatives Gregory Meeks (D-NY) and Anthony Gonzalez (R-OH):

"This bipartisan bill will help expand opportunities for Main Street investors to access private investments through closed-end funds, while maintaining the important protections for investors that only regulated funds provide pursuant to the Investment Company Act. This bill also will strengthen the closed-end fund structure by eliminating a loophole that activist investors have used to extract short-term profits at the expense of retail investors. ICI is grateful for Representatives Meeks and Gonzalez's leadership in providing retail investors greater access to these investment opportunities while strengthening investor safeguards."

Provisions in the legislation would:

- **Enhance investment opportunity for retail investors**. In recent years, the Securities and Exchange Commission (SEC) has sought to provide retail investors with greater access to private investments. Closed-end funds (CEFs) are highly suitable vehicles for achieving the SEC's goal because they offer retail investors exposure to a diverse class of investments—including private investments—while maintaining protections that publicly traded, regulated funds provide under the Investment Company Act of 1940.

  The SEC staff currently prohibits a CEF from investing more than 15 percent of its net assets in privately offered funds, unless the CEF sells shares to accredited investors who make minimum initial investments of at least $25,000.

  The Increasing Investor Opportunities Act would update those restrictions and enable

CEFs and their investors, including retail investors, to gain greater exposure to private investments and to act as long-term sources of capital, subject to stringent, appropriate investor protections.

- **Eliminate a loophole that allows activist investors to harm the interests of long-term shareholders.** In recent years, professional activist investors, often hedge funds, have been targeting CEFs. They acquire large positions in a fund at a discount to the fund's net asset value and subsequently try to force the fund to take actions that will allow the activists to sell their shares at prices at or near net asset value, such as conducting a tender offer, converting the fund to an open-end fund, or liquidating the fund. The activists, using this takeover strategy and concentrated voting power, may cause the portfolio manager to sell portfolio securities or take other measures to provide the liquidity necessary to cash them out. These actions hurt shareholders who choose to remain or want to remain in the fund, including long-term shareholders seeking exposure to the fund's investment strategy.

  The new legislation would restrict the amount of CEF shares activist investors and their affiliates could acquire to no more than 10 percent. This will put them in the same position as registered funds and their affiliates.
