

Opportunistic Value – Alpha Themes for 2026

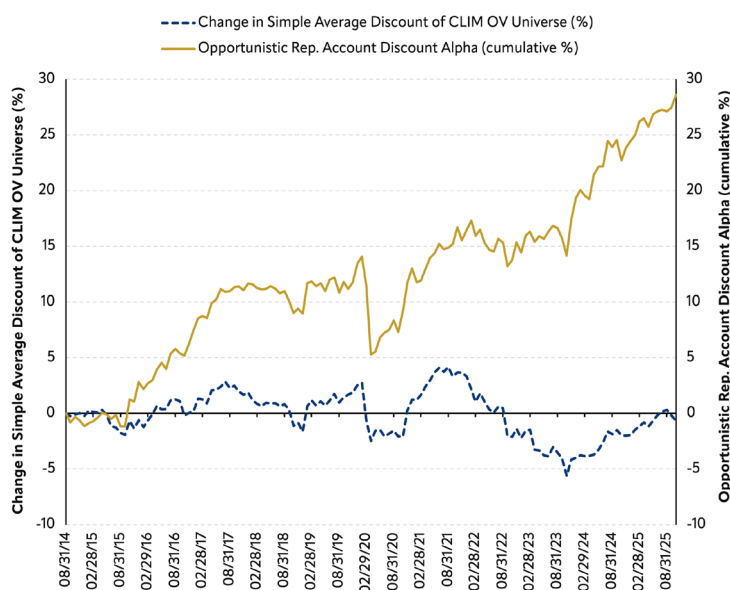
Interval funds confront price discovery

In December 2024 we observed that numerous secular factors presented asymmetric opportunities within the closed-end fund universe. Specifically, we suggested that the combination of stubborn deep value and hard catalysts would present concrete opportunities for alpha generation.

2025 mostly validated this view. Whilst they played out unevenly over the year, these themes generally provided solid excess returns.

- The UK listed closed-end universe continued to retire capital at an accelerating rate. Returns of capital at or near NAV from entry points at meaningful discounts provided double digit IRRs.
- Conversely, the US-listed universe exhibited strong mean reversion, allowing significant secondary issuance to take place. Further to this, Interval Fund conversions added substantial new AuM to the universe in Q4.

We elaborate below.



The CLIM Opportunistic Value Closed-End Fund Investment Universe consists of over 1,000 Securities with over a \$500bn market cap. Figures shown for a representative account in the Opportunistic Value Composite. Past performance is no guarantee of future results.

Source: CLIM

US CEF outlook – Interval Funds Now Converting to Exchange-Traded

The US listed CEF universe exhibited more typical cyclicity and has returned to a growth trajectory. Secondary rights offerings have raised more than \$2bn, part-replenishing capital lost to tender offers and liquidations over the previous two years.

Interval Fund Conversions are a new feature:

- Blue Owl Capital was recently in the news over a plan to merge its non-traded BDC with a parallel publicly traded BDC (at a substantial discount to NAV).
- Future Standard successfully converted a non-traded BDC into FS Specialty Lending Fund, a '40 Act CEF.
- Bluerock converted a non-Traded REIT (Total Income+ Real Estate Fund) into a CEF in December.

These add substantial assets to the CEF universe, logically eliminating the mismatch between the semi-liquid structure and the illiquid underlying. They represent the **natural endpoint of the interval fund model** once redemptions start to force disposals.

Investors late to recognise the “Hotel California” redemption terms of the non-traded vehicles are now accepting >20% haircuts to NAV to realise liquidity. This may ultimately be less costly than waiting for impairment through distressed asset sales.

Given the c.\$350bn in net assets in semi-liquid private markets funds (Source, Morningstar) and the cadence of recent launches, we suspect these conversions will not be the last.

With immediate discounts on listing, pre-existing overhangs of frustrated sellers and potential tax-losses to realise, at some point the rush for the exit is likely to create asymmetric entry points. **It also serves as a useful reminder that public markets are a powerful tool for price discovery.**

UK CEF Outlook

The discount issue in the UK has for some time appeared more structural and thus we expect corporate activity to continue. This remains an investable theme offering high-confidence alpha.

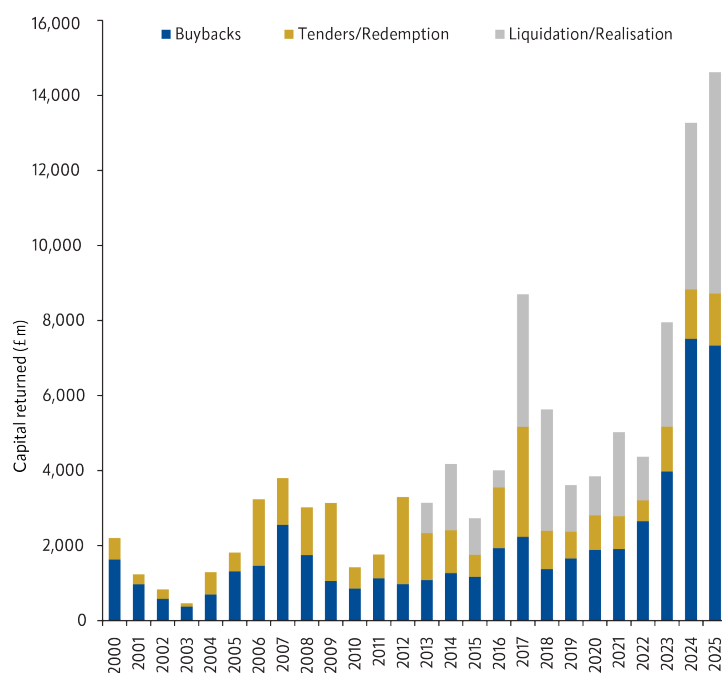
Meaningful M&A and take-private activity has occurred in the listed Real Estate and other “Alternative” subsectors. As such we have found an adaptable investment approach useful.

- **Activism** has forced the Boards of many equity CEFs to explicitly target narrower discounts with buyback policies, whilst returning capital to address oversupply. This has diminished the look-forward returns of the spread arbitrage to hedge funds. The steady-state volatility of discounts continues to offer repeatable alpha for long-only allocations.
- **Consolidation** in the Wealth Management / large RIA community is creating larger investment platforms with higher liquidity preferences. Relevance therefore requires scale; we expect mergers to continue and subscale CEFs to be wound-up.
- **Relevance** also applies to investment mandates – vehicles that were launched to satisfy the investment needs of the decade-long zero-interest rate environment now lack fundamental demand and will need to be repurposed or liquidate.

Listed Renewable Infrastructure funds are particularly vulnerable. Over \$10bn of market capitalisation is trading at a simple average of 65c on the dollar (source, Jefferies 12/9/25) yielding over >10%. With 4 of the 14 funds already under strategic review, and another 6 with looming continuation votes, it cannot be long before assets in this sector increasingly migrate to private hands.

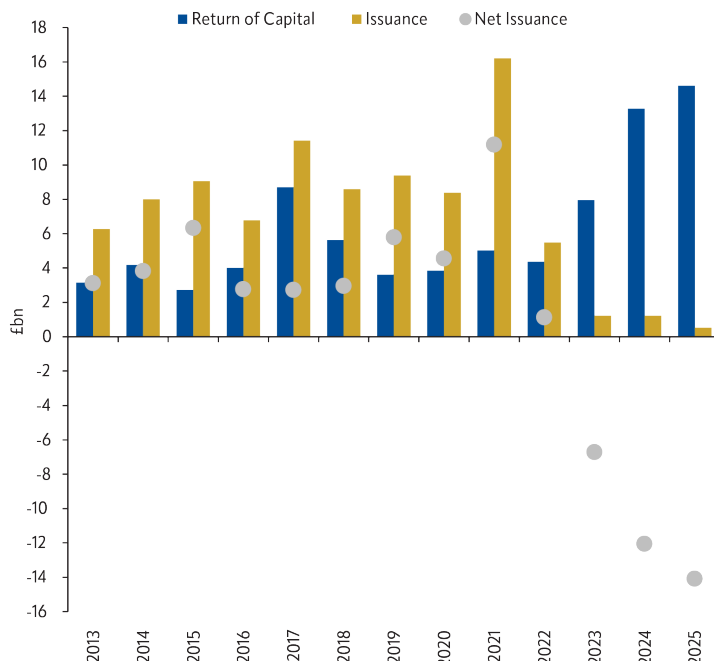
Listed Private Equity funds also pose a conundrum for sponsors. Large, diversified buyout portfolios from blue-chip sponsors trade as wide as 30% discounts to current NAV marks. There is an obvious gap between share prices and where selected LP participations would trade in the secondary market. There is equally a tension between these public prices and the evident willingness of sponsors to accept subscriptions at NAV to “Semi-Liquid” vehicles such as Interval Funds. The \$1bn take-private of Apax Global Alpha in July by secondaries funds backed by the sponsor and Ares Capital provides a blueprint others may choose to follow.

Capital Returned Since 2000



Source: Deutsche Numis Research. To 30 June 2025

Net Issuance by Year 2013



Source: Deutsche Numis Research. To 30 June 2025

Summary

Current positioning reflects the above. Our Opportunistic Value strategy gives exposure to a highly differentiated portfolio of idiosyncratic situations. Equity-like returns are available from positions with little to no exposure to equity beta.

The size-weighted average discount of Opportunistic Value portfolios has only been wider in March 2020, representing substantial embedded value.

- Discount relative value continues to favour the UK-listed universe.
- Consolidation and M&A will continue to be a tradeable theme.
- The aggressive tilt into event-driven “special situations” will be maintained.

The team are confident that the combination of deep value and catalysed situations will continue to offer differentiated returns in 2026. They continue to look across the full breadth of the CEF universe to exploit mispriced alpha opportunities.

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The Opportunistic Value Composite inceptioned and was created in September 2014, and is a multi-asset class composite focused on global markets managed by CLIM. The investment objective of the strategy is to outperform the benchmark index after fees, over a three year period, with a degree of risk consistent with this objective. It utilizes fundamental investment principles and quantitative approaches to build a portfolio of attractively valued closed end funds providing multi-asset class exposure. The Composite employs listed funds, including closed-end funds and ETFs. The strategy is measured against a blended index composed of 50% MSCI All Country World Index (net total return) and 50% Bloomberg Global Aggregate Bond Index (total return), rebalanced daily. Prior to June 1, 2018, the composite was named the GTAA CEF 50% ACWI 50% Global Aggregate Composite.

The portfolio's investment objective is to achieve long-term capital growth. The portfolio will invest primarily in listed closed-end funds whose assets are invested significantly in equity, fixed-income or other securities. CEFs often trade at significant discounts from underlying NAV, and these discounts can increase significantly during certain market conditions. Investing in non-U.S. securities involves special risks and considerations not typically associated with investing in U.S. securities. These include risks associated with political and economic developments, higher operating expenses, non-U.S. withholding and other taxes that may reduce investment return, reduced availability of public information concerning issuers and the fact that non-U.S. issuers are not generally subject to uniform accounting, auditing and financial reporting standards or to other regulatory practices and requirements comparable to those applicable to U.S. issuers. Non-U.S. securities may trade with less frequency and volume than U.S. securities and therefore may exhibit greater price volatility.

The 50/50 MSCI ACWI/Bloomberg Global Agg Bond index is a custom blended index calculated daily by CLIM by applying a 50% weighting to the MSCI ACWI (net total return) and 50% weighting to the Bloomberg Global Aggregate Bond Index (total return).

The MSCI ACWI Index is designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 24 emerging markets; the index covers approximately 85% of the free float-adjusted market capitalization in each market.

The Bloomberg Global Aggregate Index measures global investment grade debt from 24 local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

The Morningstar Global Allocation TR Index measures the performance of a multi-asset class portfolio of global equities, global bonds and cash. The index's portfolio is held in a static allocation that is appropriate for investors who seek average exposure to global equity market risk and returns. The index does not incorporate Environmental, Social, or Governance (ESG) criteria.

Each index is unmanaged and has no fees. One cannot invest directly in an index. The holdings of the portfolio differ significantly from the securities that comprise each index.

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