

All About Closed-End Funds



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Introduction

Over the past 10 years through December 2025, exchange-traded funds (ETFs) have attracted more than \$6.5tr of U.S. inflows and have accounted for roughly 4,600 launches, making them the investment company of choice for many investors. However, ETFs represent only one type of investment company, and are far younger than their older "cousins," closed-end funds (CEFs).

While closed-end funds have existed for more than a century, they are often less well understood than mutual funds or ETFs. Their unique structure can create both opportunities and risks, particularly around pricing, income, and liquidity, that make them worth a closer look for a wide range of investors.

Today we explore a perhaps lesser-known investment wrapper, the closed-end fund (CEF).

What is an investment company?

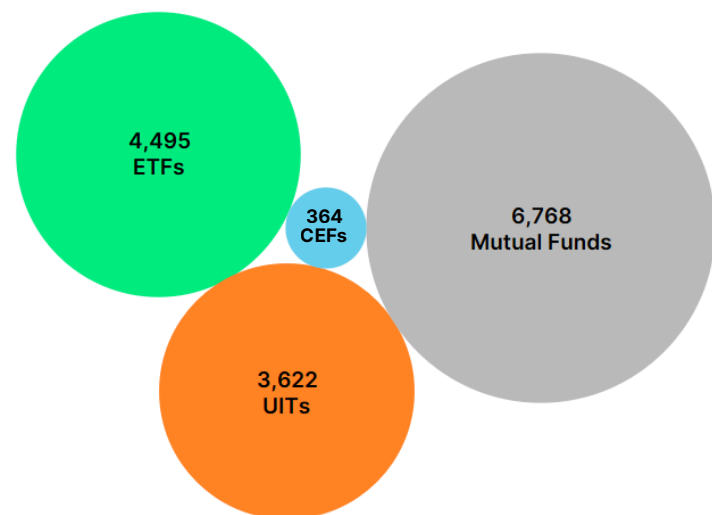
An investment company is a fund (or company) that receives money from investors and uses those assets to invest in financial securities. Thus, the performance of the investment company is driven by the performance of its underlying holdings. As of December 2025, there were over 15,000 U.S. investment companies, representing roughly \$45tr in net assets (**Chart 1**).

Chart 1: Breakdown of U.S. Investment Companies

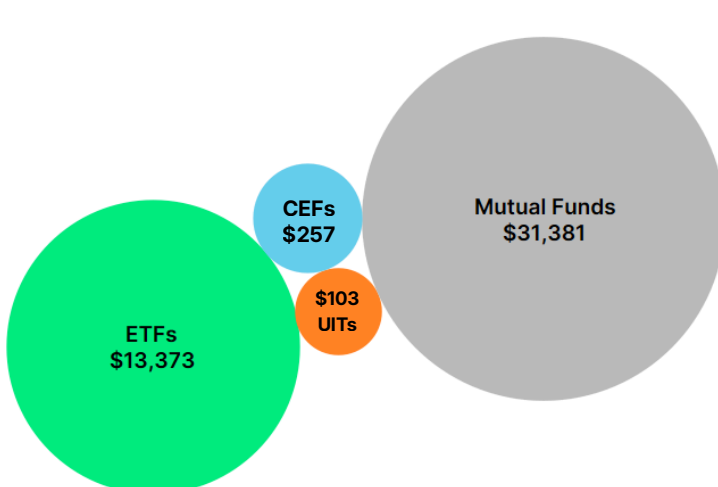
Investment Companies - Fund Count & AUM

Note: Chart shows total number of funds and net assets of U.S. Investment Companies. Based on data from Investment Company Institute (ICI). Data as of December 2025.

Number of funds



Total net assets (\$B)



Source: ICI, Nasdaq Index Research & Development

According to the SEC, there are three general categories of investment companies (open-end funds, closed-end funds, and unit investment trusts (UITs)), which have different characteristics. An open-end fund sells shares on a continuous basis, whereas a closed-end fund (CEF) issues a fixed number of shares - typically at IPO - that later trade on a secondary market. Unit investment trusts (UITs) are fixed portfolios that do not actively trade or rebalance, and have a prespecified termination date. While both mutual funds and ETFs are structured as open-ended funds (with the exception of some ETFs like State Street's SPY, which is both an ETF and a UIT), they differ due to trading, liquidity, and portfolio transparency.

Chart 2: Comparing Investment Companies

Category	ETFs	Mutual Funds	CEFs	UITs
Summary Stats				
Fund Count	4,495	6,678	364	3,622
(AUM)	\$13,373 B	\$31,381 B	\$257 B	\$103 B
Qualitative Comparison				
Capital Raising	Can raise capital daily through creation/redemption	Shares issued daily	Primarily raises capital at IPO	Primarily raises capital at IPO
Premium / Discount to NAV	Premium or discounts to NAV are limited by APs	Shares redeemed daily at NAV	Discounts or premiums to NAV occur regularly since no AP	Units are redeemed at NAV
Portfolio Transparency	Holdings disclosed daily	Holdings disclosed quarterly	Holdings typically disclosed monthly or quarterly	Holdings fixed and disclosed at inception

Note: For illustrative purposes only. Summary stats based on ICI data from 2025.

Source: Nasdaq Index Research & Development

ETFs and mutual funds typically exhibit strong capacity for absorbing new capital efficiently and trade closely in line with their net asset value (NAV) (**Chart 2**). In contrast, CEFs raise capital primarily through an initial public offering (IPO) and then are closed off to new capital - hence the term "closed-end." Since CEFs trade on exchanges, like open-end funds, but without creation and redemption, they often trade at a premium or discount to their NAV (to be discussed later on). Interestingly, there are even some ETFs which predominantly hold CEFs (for example, PCEF, YYY, FCEF, or XMPT, which collectively represent around \$1.8bn in AUM as of December 31, 2025), and new funds are still emerging in this space, with YYYM launching in March 2026.

How many CEFs are there?

According to ICI, in 2005 there were roughly 630 CEFs, around 70% of which were bond focused. At that time, in aggregate, these funds represented around \$275bn in assets under management (AUM). According to CEF Advisors, as of December 2025, while AUM has remained relatively stable at around \$280bn, the number of funds has contracted to 382, roughly a 40% decline.

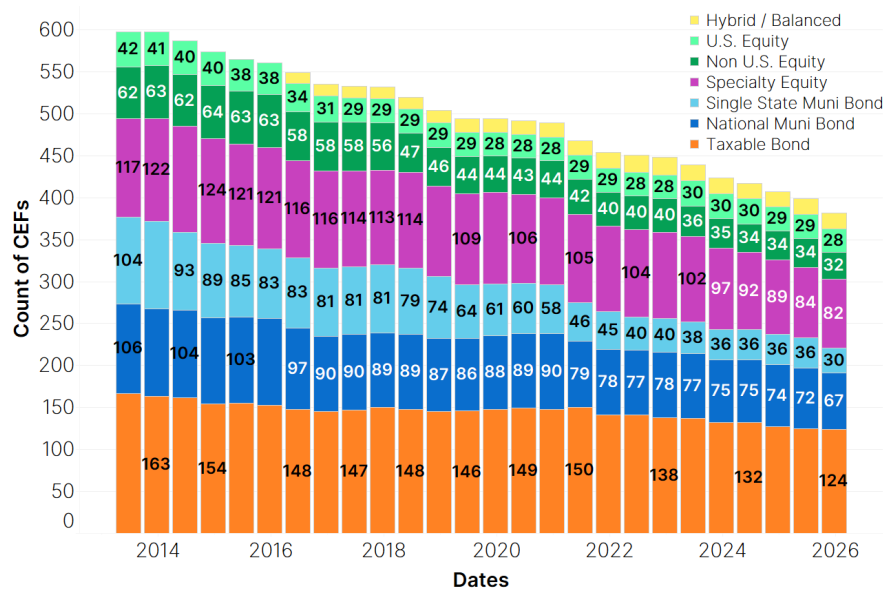
Historically we see that both taxable and municipal bond-focused funds have made up the majority of the CEF market in terms of the number of funds (**Chart 3**), with some of the largest issuers including BlackRock, Nuveen, Franklin Templeton, and Eaton Vance. We also note a sizeable number of specialty equity funds, which include funds that focus on commodities, natural resources, preferred shares, and option-based strategies.

Similar to other sources, we note the reduction in the total number of CEFs is due to more funds delisting (through liquidations and mergers) than new funds launching. Over the past 3 years, only six CEFs have come to market (**Chart 4**), while 72 have delisted or merged. As deletions have outpaced additions, the CEF universe has contracted by a cumulative 248 funds over the past 13 years.

Chart 3: CEFs Over Time

Count of U.S. Listed Traditional CEFs.

Note: Based on data provided by CEFA (as of June & December, 2012 through 2025).

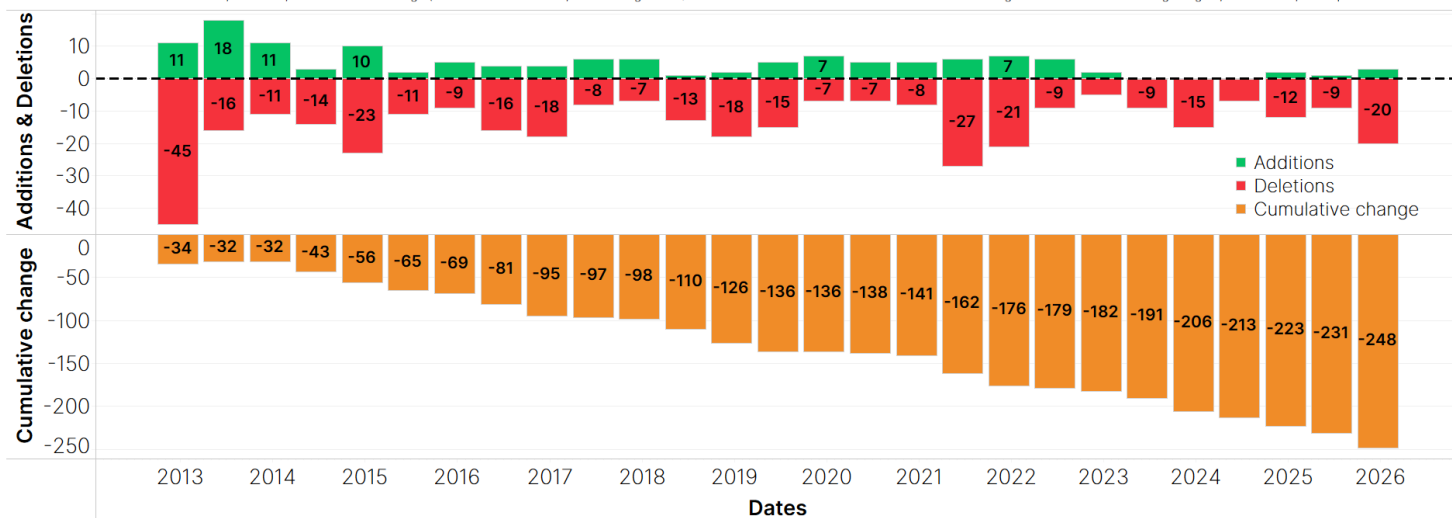


Source: CEFA, Nasdaq Index Research & Development

Chart 4: CEF Additions & Deletions

U.S. Listed CEFs:

Note: Chart shows U.S. CEF additions, deletions, and cumulative change (as of June & December, 2012 through 2025). Deletions include all events that result in a fund ceasing to trade as a CEF including mergers, conversions, and liquidations.



Source: CEFA, Nasdaq Index Research & Development

What are the characteristics of CEFs?

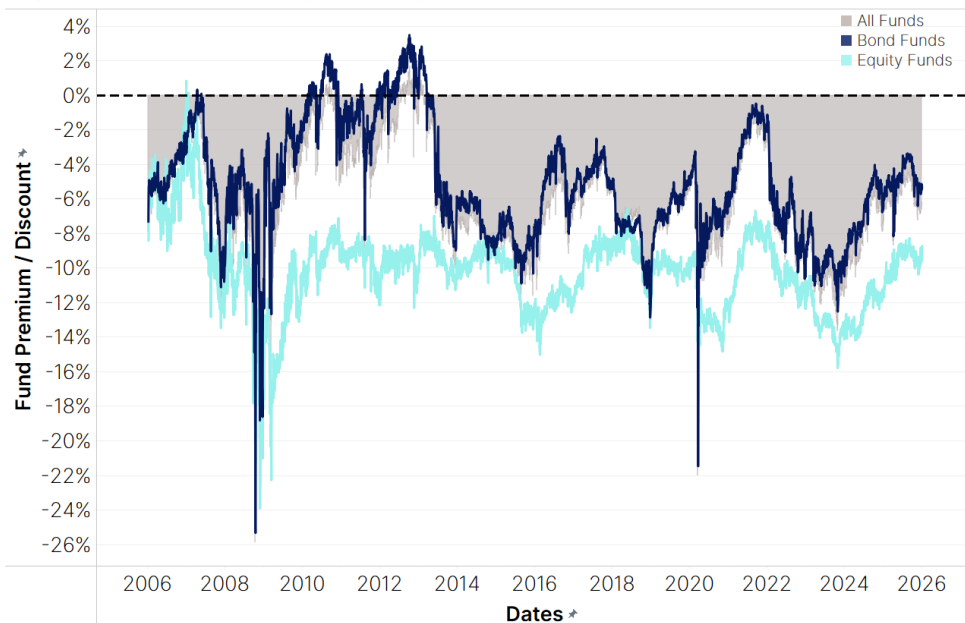
The closed-end structure provides managers with a relatively stable pool of capital. This can be helpful for managing less liquid securities without having to worry about potential shareholder redemptions. However, the inability to participate in the creation/redemption process can give rise to frequent premiums/discounts – which is when the price of the CEF deviates from its NAV (**Chart 5**).



Chart 5: Premium & Discount

CEF Discounts Over Time

Note: Based on data provided by CEFA from December 31, 2005 - December 31, 2025. Bond funds include Single State Muni, National Muni, and Taxable Bond CEFs. Equity funds include U.S. and Non U.S. Equity Funds. All funds include all Bond and Equity funds, as well as Specialty and Hybrid funds. Fund Discount represents median fund price to NAV discount. Historical results are not predictive of future performance.



Source: CEFA, Factset, Nasdaq Index Research & Development

As documented in other studies, we see that most CEFs typically trade at a discount relative to their NAV (i.e. price is lower than NAV) (**Chart 5**). This gives investors the opportunity to purchase funds for less than the underlying assets are worth, a feature unique to CEFs. This can create more tactical opportunities for investors than other forms of investment companies such as ETFs or mutual funds. However, the persistence of discounts could make it difficult for investors to benefit from a potential closing of the discount and in fact could lead to losses if the discount were to widen.

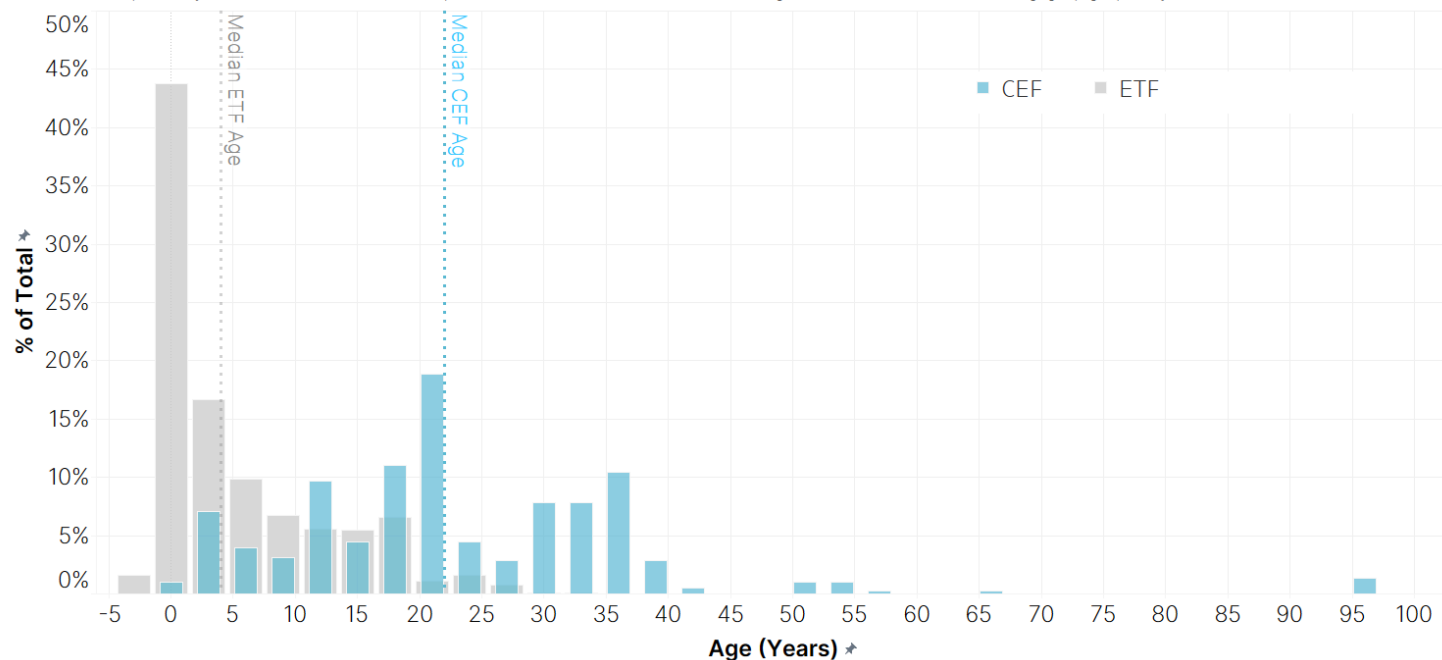
Additionally, we see that U.S.-listed CEFs are generally older than ETFs. For example, **Chart 6** shows the age distribution of current ETFs vs. CEFs as of December 2025. We see that the

median age of current CEFs is around 25 years old, compared to ETFs where the median age is around 4 years old (which is largely driven by the influx of new launches in recent years). Interestingly, one fund in particular, Adams Diversified Equity Fund, has been around since 1929, long before the first ETF debuted in the 1990s. Despite a few very old CEFs, we see the majority of CEFs were launched in the past 50 years (**Chart 6**).

Chart 6: CEF Age Distribution

How Old are CEFs vs. ETFs?

Note: Based on data provided by CEFA as of December 2025. ETF data represent U.S. listed ETFs as of December 2025. Percentages show the share of total funds in each age group (groups of 3 years).



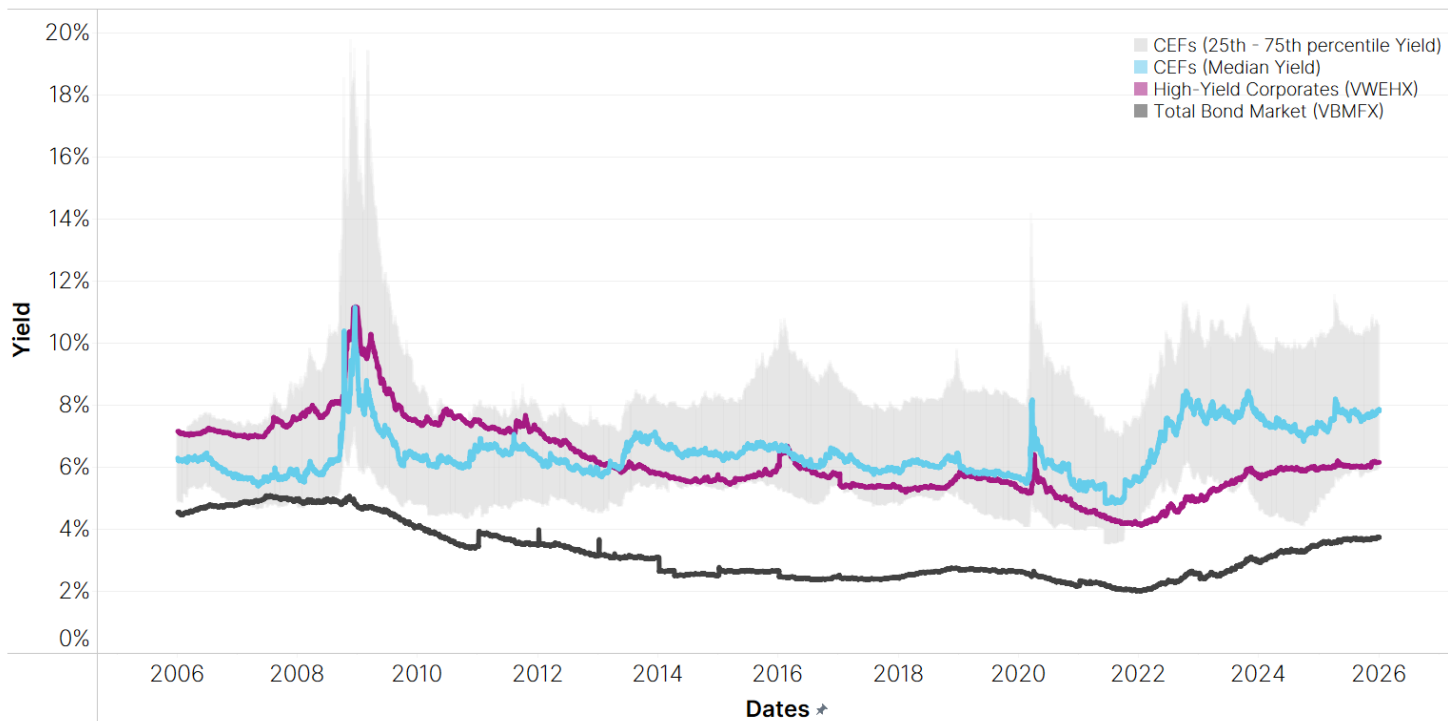
Source: CEFA, Morningstar, Nasdaq Index Research & Development

Finally, one of the key selling points of CEFs is the focus on producing consistent income, especially if the CEF has a managed distribution policy. Historically, the median yield of CEFs has been around 6-7%, which is roughly 3% higher than traditional fixed income securities, as represented by the Vanguard Total Bond Market Fund (VBMFX), and recently has exceeded even high-yield corporates, as represented by the Vanguard High Yield Bond Fund (VWEHX) **(Chart 7)**.

Chart 7: Historical Yields of CEFs vs. Traditional Fixed Income

CEFs Yield Over Time

Note: Chart shows daily CEF, high-yield corporate, and aggregate bond yields from December 31, 2005 - December 31, 2025. Grey shaded region shows the 25th - 75th percentile of CEFs yield; black line represents the median CEF yield. CEF universe consists of all CEF funds available from CEFA. Historical results are not predictive of future performance.



Source: Bloomberg, CEFA, Factset, Nasdaq Index Research & Development

Once a CEF, always a CEF?

It's possible for a CEF to convert to an ETF. Why do it? Some of the benefits to converting include:

- ✓ Elimination of the discount to net asset value ("NAV")
- ✓ Daily portfolio holdings transparency
- ✓ Lower overall total expense ratios

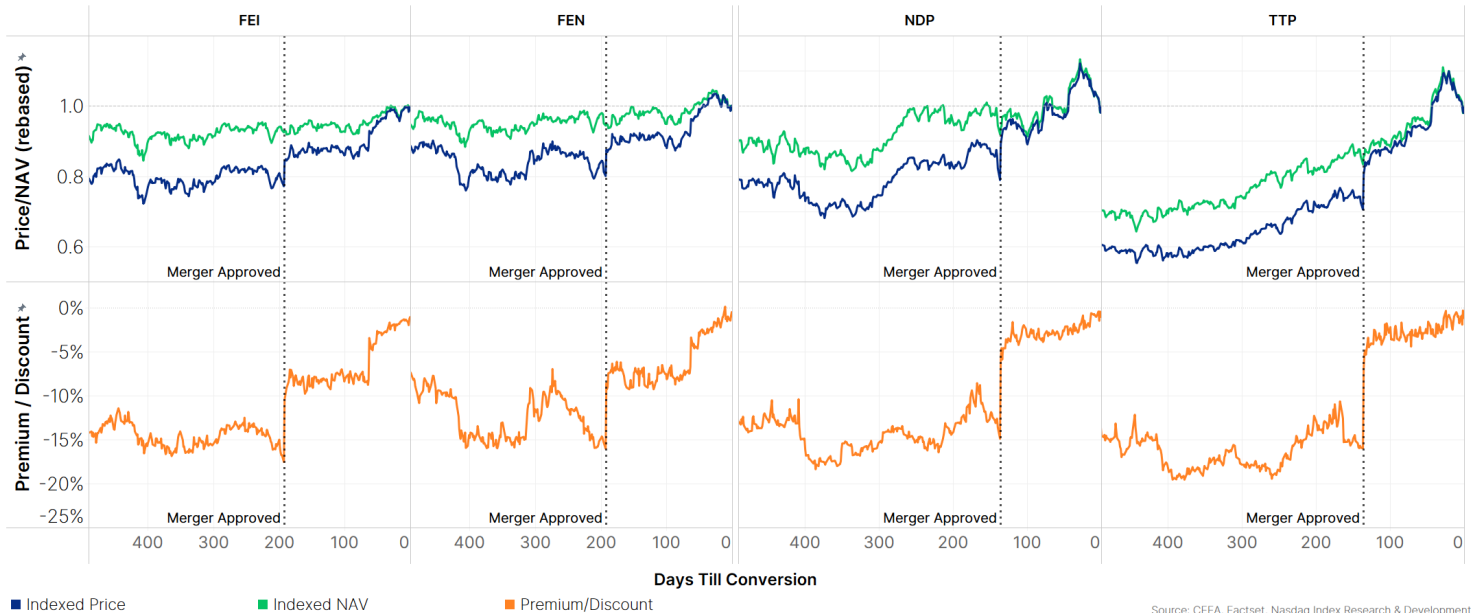
From a fund manager's perspective, the key benefit might be the ability to raise new assets. Since CEFs primarily raise capital at IPO - unlike ETFs, which can raise capital continuously through daily creations & redemptions - asset growth in the CEF structure is largely driven by the appreciation of the underlying holdings. Given the popularity and flexibility of the ETF wrapper, this may help the fund raise more assets.

From an investor's perspective, the key benefit is the elimination of the premium/discount. **Chart 8** highlights a sample of CEFs that converted to ETFs. Note that within each example, the price of the CEF converges with its NAV. Also note the immediate reaction to the discount when each fund announced that it would be converting.

Chart 8: CEF Conversion to ETF

FEI, FEN, NDP, & TTP - Price & NAV

Note: Based on daily data from December 2022 to December 2024. The chart reflects the merger and conversion of First Trust Energy Income Growth Fund (NYSE: FEN) and First Trust MLP and Energy Income Fund (NYSE: FEI) in May 2024, and Tortoise Energy Independence Fund (NYSE: NDP) and Tortoise Pipeline & Energy Fund (NYSE: TTP) in December 2024, with prices and NAVs rebased to their respective ending values. Historical results are not predictive of future performance.



Overall, once a CEF converts to an ETF, the discount is eliminated and investors realize a benefit through price appreciation.

Conclusion

While the number of CEFs has declined over the past decade, CEFs remain a compelling investment vehicle for some investors. Interestingly, there are even some ETFs which invest exclusively in CEFs, representing steady demand for the unique security type. With median yields exceeding traditional fixed income securities and the ability to purchase assets at a discount to NAV, CEFs offer differentiated features that active investors and quantitative-focused funds can capitalize on.



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