

# Listed CEF Activism by the Numbers— The Takeover of Voya Prime Rate Trust

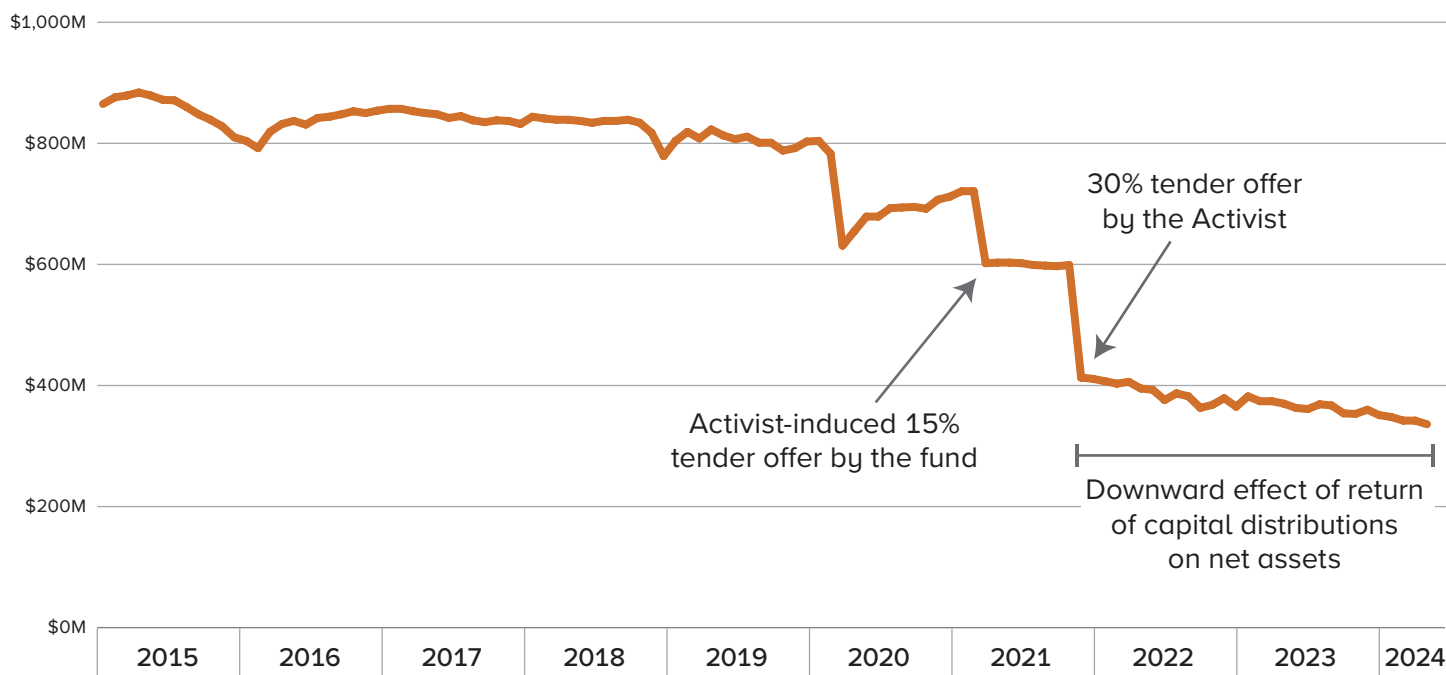
Before 2020, Voya Prime Rate Trust had an investment objective to provide income and preserve capital and invested almost exclusively in senior loans.

In April 2020, an activist firm that held 24.6% of the fund’s outstanding shares instituted a proxy battle that changed all eight of the fund’s directors. Of approximately 147 million shares outstanding, 39% voted for the activist’s board slate, 25% voted for the existing board directors, and 34%—presumably retail investors—did not vote, meaning the activist was able to replace directors with only 14% of outstanding shares that it did not otherwise control.

**CHANGES WERE SWEEPING.** The new board terminated the existing investment adviser and appointed the activist, with shareholder approval, as the new adviser. During that time, the fund engaged in two tender offers. While the activist secured a nice profit for itself (76% of proceeds from the second offer went to activist shareholders), the tenders resulted in a significant loss in economies of scale for remaining shareholders.

## Depleting the Fund’s Assets

Total net assets are less than half of what they were prior to activist involvement

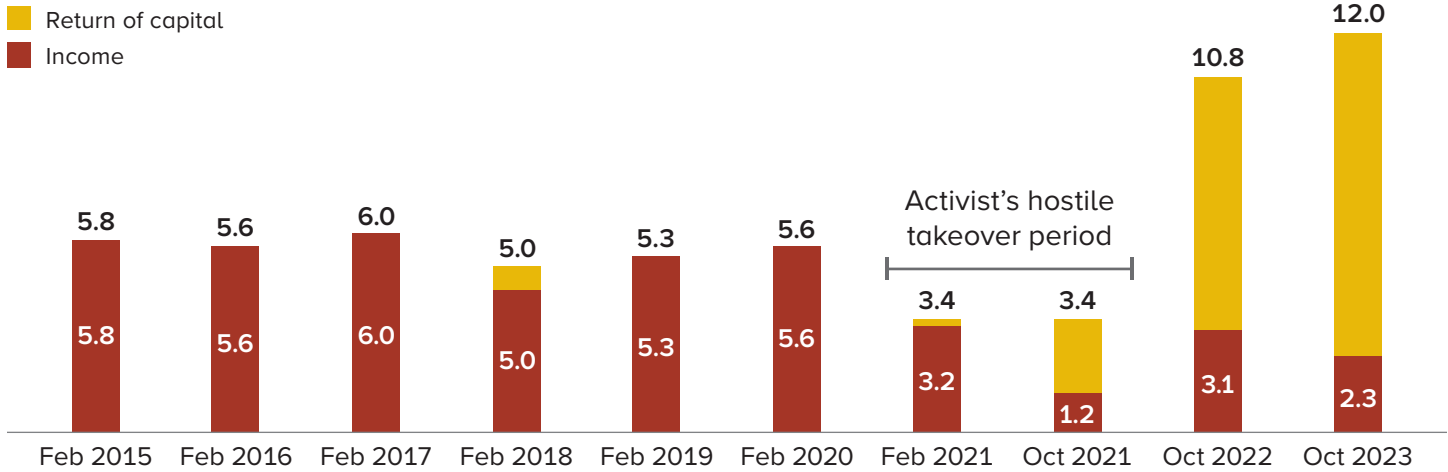


Source: ICI calculations of Refinitiv data

Additionally, several of the fund’s investment restrictions and portfolio allocations were ultimately changed. Whereas previously the fund held approximately 96% of its assets in senior loans, the fund’s portfolio after the activist takeover included other CEFs, crypto trusts, private funds, and special-purpose acquisition companies (SPACs)—with only 10% remaining in senior loans as of October 2023.

As the fund shifted away from holding senior loans, its income fell. During this time, the new board initiated a managed distribution plan and started returning capital to keep its distributions high.

## Killing Income



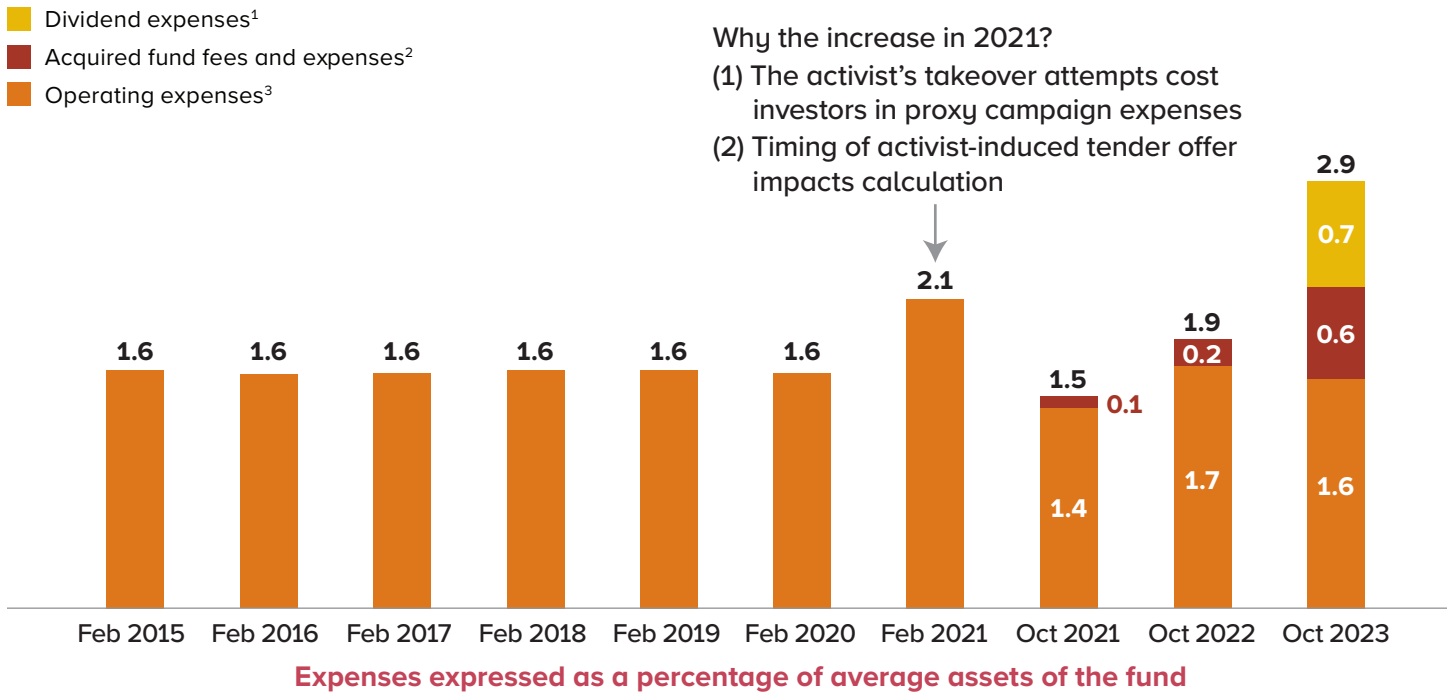
Note: Annualized distribution rate is the fund's annual distributions per share as a percentage of the net asset value at the beginning of the reporting period. "Return of Capital" means returning to investors a distribution in excess of the income generated by investment securities (i.e., returning investment capital).

Source: ICI calculations of SEC EDGAR data

Further, as part of the change in portfolio allocation, the fund began incurring increased expenses related to holding underlying funds and newly occurring short sale activity.

## Short Selling and Investments in Other CEFs Driving Up Costs

New costs are being passed onto investors



Expenses expressed as a percentage of average assets of the fund

<sup>1</sup> Dividend expenses are the dividends paid out by an investment that the short seller must cover.

<sup>2</sup> Acquired fund fees and expenses are not reported in the annual report. ICI estimates this expense by applying general averages (e.g., 1.2 percent for CEFs, 2.0 percent for private funds) to average total net assets and the average share held at mid-year and year-end.

<sup>3</sup> The operating expense ratio is the management fee plus other fixed costs related to running the fund.

Source: ICI calculations of SEC EDGAR data

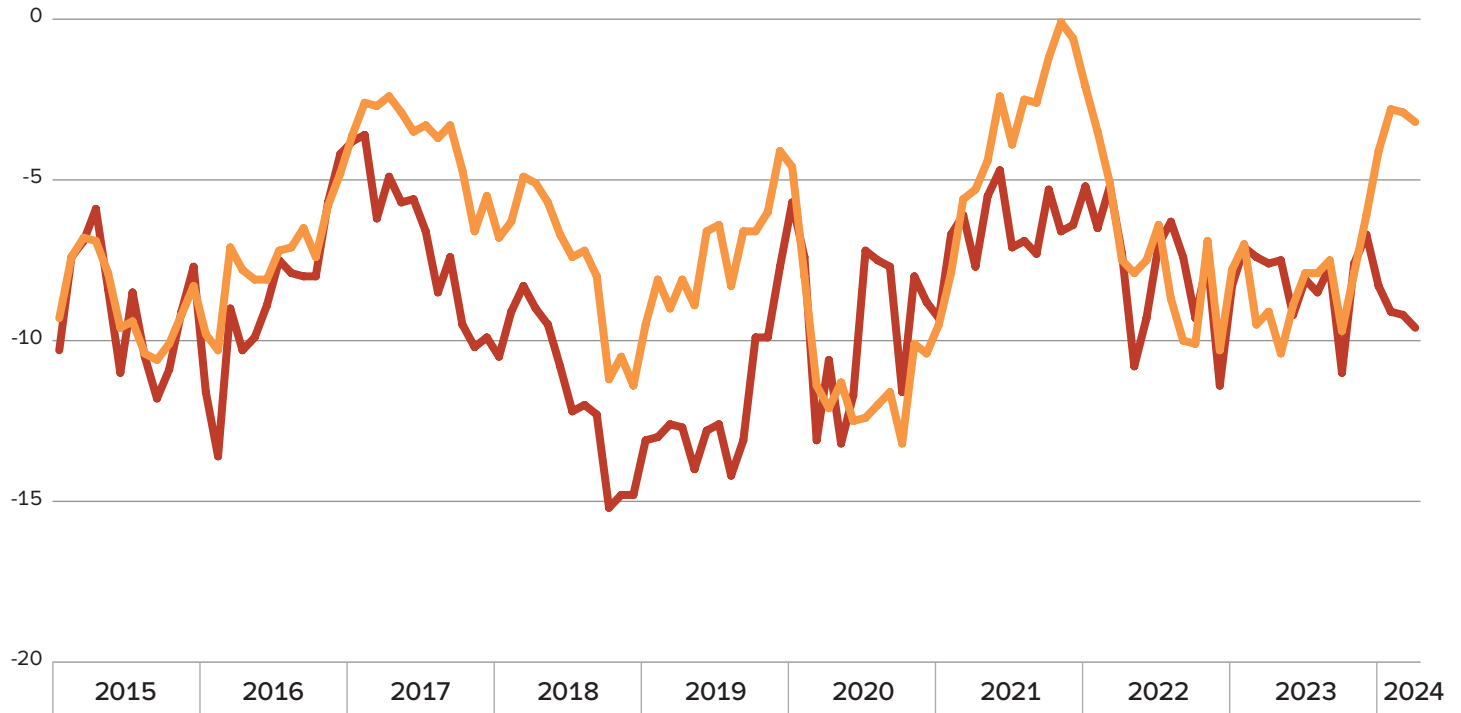
Activists claim to unlock value for all shareholders, but the discount to net asset value (NAV) for the fund has actually *increased* in comparison to the discount average for bank loan funds once considered peers.

### Discount Has Widened Since Activist Takeover Compared to Former Peer Group

In recent months, the fund’s discount has become significantly wider than average for bank loan CEFs

— Bank loan average  
— Fund

Premium/discount rate (percent)\*



\*The premium/discount rate is the simple average of the percent difference between the share price and net asset value at month-end.  
Source: ICI calculations of Refinitiv data

Listed CEF retail shareholders need additional investor protections. One key protection being deliberated now is the NYSE’s proposal to remove the annual meeting requirement for listed CEFs, which if accepted would close the door to this kind of activist maneuver and lower costs for investors. ICI supports the NYSE’s proposal and believes it should be approved swiftly.



INVESTMENT COMPANY INSTITUTE  
Washington, DC // Brussels // London // www.ici.org