



John Cole Scott discusses the Active Investment Company Alliance and other industry insights with Gregg Greenberg at the November 6, 2019 AICA Bootcamp and Round Table

Wednesday, November 6, 2019

Financial reporter Gregg Greenberg interviewed John Cole Scott, CIO at Closed-End Fund Advisors and Executive Chairman at AICA, at the AICA Boot Camp and Round Table held on November 6th in New York City. Read the transcript from the interview below.



John Cole Scott

To view the rest of the conference events and panels go to: <https://aicalliance.org/NYC2019Event/>

Gregg Greenberg: John, what are your goals for the Active Investment Company Alliance?

John Cole Scott: Well, it's real simple, and it's so beautiful to have it come together today at the event. My goal has been to take the closed-end fund, BDC, interval fund sponsors, bring them together with the advisors, the press, the institutional investors. Try to be the whole ecosystem of what needs to be done to make it better, stronger. How to communicate what tools are available for investors and advisors. And, also build up AICAlliance.org to be the best, most robust content and data resource available.

Gregg Greenberg: What are some of the interesting ideas that you've heard just so far today?

John Cole Scott: I heard some great things about a new types of closed-end funds. It hasn't done a filing yet, but I got a call yesterday with First Trust, about possibly putting a listed closed-end fund of all hedge funds in the market. And gave them some perspective on how that could work. What I love is that we've seen different styles of closed-end funds IPO this year. We've had new sponsors, and we have a new version of closed-end funds that don't always have to be only about yield, but yield's always important.

Gregg Greenberg: So there's a lot of innovation being discussed, but there's also a lot of education. Can you talk about what we've been learning so far?

John Cole Scott: We've learned about how interval funds have way less volatility, but you have to lock in your capital for generally 90-day buckets at a time. We've learned about how BDCs have more leverage and higher fees, but they're giving you access to venture loans, and part of the market that you can't get to through other retail products. And I think what's really important, we're learning the common view of institutional investors, and how they think about closed-end funds. They file their 13 filings, they push on boards, they're not just retail investors. I think we're learning about that. And the last thing we're learning, we're learning in the process with the AICA about how London did a better job supporting their closed-end fund market, and try to use that roadmap to benefit U.S. folks.

Gregg Greenberg: Can you also talk a little bit about regulation, because that's a topic that's also been coming up here over the course of the day?

John Cole Scott: It's just fascinating. I think of one of our sub-sectors of BDCs. I was at the BDC Roundtable in D.C. put on by Eversheds Sutherland, and they had seven SEC panel

presenters on three panels for only a hundred ticker universe. You need 40 Act attorneys of various firms, some are presenting today, to go down and help educate the SEC. Because while they've got some very bright people, closed-end funds are still nichey, and you need to educate them, to then be able and create the right products to help investors.

Gregg Greenberg: They're nichey, but the performance has been there over the past year. Talk about some of the top sectors. Certainly the income producers, the REITs, the UITs have done very well as rates have been dropping.

John Cole Scott: It is. With real estate closed-end funds, I believe the top performer year-to-date, I don't have it right in front of me. BDCs have thankfully done very, very well. It's a big part of our work for our client base. We've also seen overall good performance in U.S. focused equity funds. They're kind of boring in how they perform, historically they don't trade too volatile, but have obviously benefited from a very good tailwind. Muni bond and preferred equity funds, which are defensive sectors in our universe, were very wide discounts Christmas Eve, are now trading much better, with tremendous, almost 20% total returns for people that bought Christmas Eve.

Gregg Greenberg: What about on the merger front? Always fun in the closed-end fund space.

John Cole Scott: It is. We saw the Zweig Fund's press release yesterday, that they're proposing the merger between those funds. It probably makes sense in our opinion, as closed-end fund advisors. I would also say that we have proposed RAINF merger at the Brookfield complex. Again, I talked to them about it, they actually asked for my input on it when it was being put into process. And I think they have a great process to take a fund that's successful, and a fund they struggled to make successful, and merge it together. But then make the overall assets look more

like the successful fund, so everyone should benefit from that tide, and not just watering down the other fund.

Gregg Greenberg: Well tides rise, and tides fall. So talk about the risks heading into 2020.

John Cole Scott: We do have tax-loss selling season happening soon, usually get an average three percent balance. I think we could get a four or five in certain pockets of the closed-end fund sector, where we've had underperformance like senior loan funds, and other things. And so what I'd like to say is that there's usually more volatility in the fourth quarter. It's a great time to take your losses, and to reposition for that gain. As we think about what's going on in the market, there's just a lot of new things, or even look at the IPOs. The IPOs are trading very well in the last 12 months, a relatively uncommon experience, because they're 12-year terms, and the manager is paying the loan. There's some more nichiness, there's some cool ideas, but that mechanism has allowed them to trade well, which make the IPO investors happier, which means you should get more IPOs.

Gregg Greenberg: The AICA is certainly a cool idea, and you've done this all yourself. Really kind of brought this whole thing to fruition. Where is the AICA and the Roundtable going to be in 2020?

John Cole Scott: We're actually looking, now that we've run a great event, with help from folks like you and lots of friends in the sector, a lot of feedback. The website's in good shape, we'll keep picking and improving it. The next step is membership. We're looking for funds sponsor members, institutional members. We're even going to create an ecosystem for institutional advisors, to become known for that nuance. And then to actually get them involved, as not a voting member for the board, but our closest allies for the litmus test of what's going on. We've

had a very fast 65 days of life, 35 days of website. 2020 is going to be amazing. We're going to have a lot more help, and you'll be learning from higher staff, get a full board, and do even better work than we've done so far.

Gregg Greenberg: All right, you're off to a great start.

John Cole Scott: Thank you, Gregg.

Recorded on November 6, 2019

Click the link below to go to the home page of Active Investment Company Alliance to learn more:

<https://AICalliance.org/>

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