



John Cole Scott Revisits A Year Of The NAVigator And Looks Ahead

Friday, September 25, 2020

Chuck Jaffe, in The NAVigator podcast, interviewed John Cole Scott, chief investment officer at Closed-End Fund Advisors and the founder/executive chairman of the Active Investment Company Alliance. Read the Q & A below as Chuck and John celebrate the end of the first year



of The NAVigator podcast with a quick look back at a tumultuous 12 months for closed-end funds, and look ahead at the industry with an eye towards how inflated by the pandemic economy are creating strong opportunities in the credit markets, in municipal bonds and beyond.

John Cole Scott

The podcast can be found on AICA's website by clicking here: <https://aicalliance.org/alliance-content/pod-cast/>

CHUCK JAFFE: John Cole Scott, founder of the Active Investment Company Alliance is here, and we're talking about the last year in closed-end funds and celebrating the anniversary of The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization that represents all facets of the closed-end fund industry, from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. And it's been pointing you in that direction now for just about a year, because we are realistically in the 52nd week of The NAVigator, it was basically the

coming week where we started everything off. Here to revisit both the mission of The NAVigator, what we've accomplished in the last year, but also to talk about what has been a wild year for the markets and closed-end funds is John Cole Scott. Who not only runs the Active Investment Company Alliance, but he's the chief investment officer at Closed-End Fund Advisors in Richmond, Virginia which has helpful research tools online that you can use at CEFdata.com. You can learn more about the firm at CEFadvisors.com and you can learn about the Alliance at AICAlliance.org. Follow John on Twitter too, he's @JohnColeScott. John Cole Scott, great to have you back on The NAVigator.

JOHN COLE SCOTT: Always great to be here, Chuck.

CHUCK JAFFE: Hard to believe it's been a year because it feels like we just started doing this a week ago, it's been so fast. I have to say that my audience on *Money Life Show* has liked the extra exposure to closed-end funds that I've been exposed and NAVigator listeners have been exposed to a lot of new and different things, and we've covered a lot of ground. That was part of what we set out to do here, but we're really just getting started so let's talk a little bit about The NAVigator and what you've seen in last year as we've been doing the podcast.

JOHN COLE SCOTT: Remember when we formed the Active Investment Company Alliance we wanted to cover interval funds and the regular listed closed-end fund structure as well as business-development companies because they all are cousins of each other, and we wanted input from fund sponsors and institutional investors or people that create products, but also service providers. And reviewing the last year of podcasts we covered all of those areas thoroughly with a lot of great content from some amazing speakers and I'm sure you'll hear from many of them again in the future. We also, as you know, last year had our first live event in November in New York City and had a great time, and did our first virtual event just a month ago. We ended up having 20 panels between those two events and we're already planning the next virtual event November 10th. And so thinking about where we've gone, really bringing content and education as the mission and vision for investors and advisors that serves them, I'm really, really excited.

CHUCK JAFFE: Running the association has opened your eyes to the fact the industry itself and the closed-end fund space really undergoing a lot of changes, hasn't it?

JOHN COLE SCOTT: It is. The IPO structure has changed as you've heard from a handful of folks, and that's picking up some steam for more funds in the market for investors and

advisors to choose. And we're also seeing changes in governance and the way that funds are being handled from regulatory perspectives. And also liquidity is up a bit, there's more easy access to these funds because there's more ways and places to buy them.

CHUCK JAFFE: When you consider first year plus of course, because the AICA started before The NAVigator did, what's the goal for the next year plus for the AICA?

JOHN COLE SCOTT: Right now I'd say contents like the starting point, without it, what's the point? That's the viewers and the audience. Right now we have 12 people that have become members or supports of AICA, my goal by year end is to get to 25. And then next year we're going to keep developing the website and I would say the couple of things we really want to focus on would be more smaller virtual events, thinking maybe 60-70 people. Maybe some intimacy and some video networking, as well as trying to engage with professors, work with students, so think internships and possibly some ways to learn about finance and closed-end funds. And then try to find a way to work with and support independent board members because I think there's a lot of opportunity to make a better environment for everyone through all three of those lenses.

CHUCK JAFFE: So now let's talk a little bit about what we've seen in the closed-end fund space compared to the market as a whole. We all lived through what happened in February and March when the market was going in the tank, and closed-end funds, well, discounted assets became much more greatly discounted. We've then seen a significant rebound, and while the market has gotten everything back, it doesn't appear that all of the closed-end fund space has. So how has this year been dealing with closed-end funds and finding investment opportunities at a time when your favorite asset class has maybe been a little bit unloved?

JOHN COLE SCOTT: One thing we've done is we've looked at the components of the S&P 500, and if you sort them on a one-year basis, financials, utilities, real estate, energies haven't been the good success stories, and there's a lot of the closed-end fund universe that's focused in that area. Because while there's some interesting funds over the full ecosystem of capital markets, there's a lot of income focus and that provides you a lot of exposure to those areas. But when we dug in and looked at the performance of the average closed-end fund, they're down about 11% year-to-date and about half of that is discount widening, because right now discounts are 6% wider than their 10-year average. So nothing like March and April, but far from normal. And if you look at an equal weight S&P 500 benchmark, it's off about the same

amount year-to-date, and yet I'd argue going into the fall and the future when half of your down is just discounts, we don't know when but there's more gravity. And so I would argue there's more upside in a closed-end fund portfolio in the near-term than in a U.S. equity stock portfolio.

CHUCK JAFFE: So then what does that portend for the next year? Without necessarily making a market call but knowing that we're going to see a market that is going to get through the election somehow and it's going to see the economy perhaps become more in sync with stocks, what do you think is next for closed-end funds? Where do they go from here?

JOHN COLE SCOTT: Remember, closed-end funds are all about active management, that's why we named the non-profit the Active Investment Company Alliance. Knowing that markets are going to change and that managers that have choice of either structure or sector or asset allocation can really bend and move with the environment, whether inflation presses faster than we expect or whether we get a deal with China or whatever happens in this election coming up very, very soon. So I'd like to think that in general when you have a fixed-income investment, the business just has to pay the interest due. It may be healthy, it may be on the edge, yes, it definitely can have problems, much less risky to me than just participating in the earnings through a challenging market. So blending the ability to have fixed-income and equity, because also there's some beat up sectors. There's some sectors that people hate like energy, where BDCs are trading 20% wider than the 10-year average because people are worried about them. And then yet, if the managers have liquidity they can support their investments in my opinion in a strong way. We're really looking for loan based funds, active management, and then don't forget there's also a great bucket of municipal bond funds where taxes are probably going higher and you can still get to a 4-5% yield.

CHUCK JAFFE: The audience would hate me if we didn't find a way to talk about what shows up now. What are a couple of closed-end ideas that are working for you based on the research at Closed-End Fund Advisors?

JOHN COLE SCOTT: So on the equities side, Calamos has their CPZ, it IPOed about a year ago. It's a blend of convertibles and a long/short equity portfolio with about half or two thirds normal leverage for a closed-end fund. It's at an 18% discount and a 9% yield in our current

environment, and that's a great place where we put our client money in to get through the upcoming future. Going back to that fixed-income side, Invesco has some nice senior loan funds, one that has a bit of a European flavor, so it's a little bit wider discount, little bit higher yield. VTA is trading at a 16%+ discount and yielding over 9% as well, and yet these are often loans that should get through the problems ahead. Switching back to munis, Nuveen, very well-known in the space, one of our member organizations. They have a big ginormous fund called NVF, it yields 5.1% roughly now, around a 10% discount, and what I love about that fund if you're into muni funds, is the UNI balance and the earnings coverage are both trending higher, often great predictors of dividend sustainability. And then of course with the other side of the place, the BDCs, and this has been covered on the podcast this year, there's Ares ARCC, which is down 23% year-to-date but still up 8.5% on a 10-year basis, yielding 12%, a current 15% discount, and they're the largest BDC. You can never guarantee the future but they've got the resources, they got through the last recession, and if you're going to pick a BDC it's a great one to start with for your portfolio.

CHUCK JAFFE: Great stuff as always John, can't wait to do the next year with you. Look forward to having you back.

JOHN COLE SCOTT: Thanks so much as always, Chuck.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I am Chuck Jaffe and you can learn more about my work and my show at MoneyLifeShow.com. To learn more about closed-end funds and business-development companies go to AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. Thanks to my guest John Cole Scott, chief investment officer at Closed-End Fund Advisors in Richmond, Virginia, the founder and the executive chairman of the AICA. His firm is online at CEFadivisors.com and CEFdata.com, and he's on Twitter @JohnColeScott. The NAVigator podcast is available every Friday, please subscribe on your favorite podcast app and join us again next week for more closed-end fun. Until then, stay safe everybody.

Recorded on September 24th, 2020

To request a particular topic for The NAVigator podcast please send an email to:

TheNAVigator@AICalliance.org

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

<https://AICalliance.org/>

Disclosure: *Listed closed-end funds and business development companies trade on exchanges at prices that may be above or below their NAVs. There is no guarantee that an investor can sell shares at a price greater than or equal to the purchase price, or that a CEF's discount will narrow or be eliminated. Nonlisted closed-end funds and business development companies do not offer investors daily liquidity: often on a small percentage of share on a quarterly or semi-annual basis. CEFs often use leverage, which can increase a fund's risk or volatility. The actual amount of distributions may vary with fund performance and other conditions. Past performance is no guarantee for future results.*