



## Where Closed-End Funds Stand After A Strong-But-Volatile 2<sup>nd</sup> Quarter

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Chuck Jaffe, in The NAVigator podcast, interviewed John Cole Scott, chief investment officer at Closed-End Fund Advisors and the founding chairman of the Active Investment Company Alliance. Read the Q & A below as Chuck and John take a look at where closed-end funds stand



now. It was a big rebound for CEF issues in the second quarter, with strong gains despite facing an environment of heavy dividend cuts; while closed-end issues remain down on average for the year, Scott notes that wider discounts make them particularly attractive at this point, especially for income-oriented investors. He also provides two closed-end funds he thinks are worth a look-see now.

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, executive chairman of the Active Investment Company Alliance is here, and we're catching up on everything that's happening in the closed-end fund space now on The NAVigator. This is 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's 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's going to point you in the right direction. Joining me again today, John Cole Scott, who not only runs the Active Investment Company Alliance, but who is chief

investment officer at Closed-End Fund Advisors in Richmond, Virginia. Which has some really good research tools online for you to use at CEFdata.com. You can learn more about the firm at CEFadvisors.com, and by the way they just did their quarterly review and outlook as a webinar. So if you want to learn more about the closed-end funds and get more of John Cole Scott then even we can give you, go check out the Closed-End Fund Advisors website. One more note, John Cole Scott's father, George Cole Scott, is something of a legend in the closed-end fund space. And long before I knew John, I was actually interviewing his father who just turned 83. Beyond wishing George Cole Scott a happy birthday, well, this is our 45th edition of The NAVigator. Yeah, we'll dispense with the happy birthday, but we'll get to the talk. Remember, if you want to get more information on closed-end fund investing go to AICAlliance.org. John Cole Scott, thank you for joining me again on The NAVigator.

**JOHN COLE SCOTT:** Always love being here, Chuck.

**CHUCK JAFFE:** We just went through a really interesting quarter in terms of, of course, the stock market. But it was particularly interesting for closed-end funds. Closed-end funds were hammered during the first quarter. Now we've got bigger discounts, we've seen a huge comeback, though many closed-end funds are still down for the year. So give us a quick take on where closed-end funds are now. Because intuitively I'm thinking, "This is kind of investment's bargain right now."

**JOHN COLE SCOTT:** It is. First off remember, closed-end funds are roughly half equity sectors, half bond sectors, and they're way more than just the Dow Jones, the S&P, or the NASDAQ. And so we saw a very, very, very healthy second quarter, discounts kind of narrowing and solid performances. But we're still off about 8% for the average closed-end fund this year on NAV through July 8<sup>th</sup>, and we're down about 14% on market prices. Discount historically, again, we always talk about 4%, but it's a hairy number, but right now the universe is at about an eight discount. And while we love seeing discount tailwinds, that's a great benefit for investors, we also remember dividend changes. The quarter was rough for them. Just conceptually about three times bigger than average, and almost two and a half times more than usual because it was a rough quarter. But I think we're still set with a solid approach to a diversified portfolio.

**CHUCK JAFFE:** The dividend cuts, for an investor who is buying closed-end funds basically looking to get income, the dividend cuts, well, they were maybe the right move for the

company, they may have made the closed-end fund suffer a little bit. Is that something that you're willing to ride out? Or is that something that you worry about in certain industries, where maybe the dividend cuts were so broad you have to change how you view the income possibilities?

**JOHN COLE SCOTT:** I'll say how we did it for our clients and our income approach to closed-end funds at Closed-End Fund Advisors was, in March we went for the policies that were generally more protective. We also over weighted sectors, like senior loans, and preferreds, and utilities, and munis that are more resilient in the turbulent future. And that gave us a little bit less yield because they're a little bit less risky, but it gave us more comfort. For a perspective, our dollars down from the previous quarter, but more like 8-10% versus 15-20% for the sector. And I believe that you need a closed-end fund to pay you what it can return long-term or it will dividend itself out of business.

**CHUCK JAFFE:** What are the other parts of the industry that you like? And then conversely, what are the parts that are really scary right now?

**JOHN COLE SCOTT:** Really scary to me in my universe are, I would say where there's still some significant premiums. Even though we said we liked preferreds, we've been very careful because they're at an average that are around three premiums. That's aggressive, and you can often get a similar after tax in munis yielding high fours on average in a high tax rate. So that's where we're saying be careful on preferreds, I would lean more into munis. And then when you think about global bonds, I think you've got to find a manager and decide to be in non-U.S. bonds in a more thoughtful way with a much bigger discount mandate. For the simple reason of, they don't have our Fed, and our Fed is supporting our credit in a much stronger way than any other country has a chance to.

**CHUCK JAFFE:** How do you think closed-end funds weather all the frothiness in the news between COVID-19, election, etcetera?

**JOHN COLE SCOTT:** Well, I listen to a lot of people, strategists, economists, fund managers, for a sense of what's going on. I still have no idea what's going to happen, I can only build a resilient portfolio. I would just say the country has found a way to grow through other problems, but you can't think that any one sector is always perfect and discounts always revert or dividends are always going to be paid. When you bank a strategy on one thing it's easy to get burned. I'm a risk manager, and so we think just more broadly about, "Okay,

where can we get a bit of a discount, a simpler dividend?" Right now the muni funds are increasing their durations to levels I didn't know they could because there's such a long runway til rates should go up. And so that's the way I would think of it, and then react to the market. If dividends get cut, do you buy more or do you have to swap because you're an income mandate that needs X dollars per month? Being reactive and proactive together is a great strategy.

**CHUCK JAFFE:** I mentioned your upcoming webinar. Now obviously closed-end professionals really need to be there, but individual investors can go to. So explain what they're going to get, how they're going to make the most of this and not be maybe overwhelmed or mismatched with the conference.

**JOHN COLE SCOTT:** Again, it's just going to have content covering traditional closed-end funds, BDCs, interval funds. We're going to have an afternoon block of content with three slots, but four going on at a time, so you'll be able to curate your own. You'll get your conference based on your interests and what you need. And again, the way our conferences work is we invite to speak, and then you pay to attend. But thankfully, there's no food to buy, so admission's only going to be like \$59 per registrant for six hours of event. And I think it's going to be a great place to wet your whistle, to dig deeper, and to choose your own adventure in a closed-end fund event that literally is curated for quality and a diverse perspective across the landscape because we don't have to do a pay-to-play model.

**CHUCK JAFFE:** Quickly because we're almost out of time, give us a closed-end fund or two that you would suggest that average investors check out right now.

**JOHN COLE SCOTT:** We always like to go in for spots we think are relatively safe but the funds are maybe a little bit unique and might be off your radar because they're newer. And so two of the newer funds are from traditional places. BlackRock has BMEZ, it's a kind of biotech flavored fund that came out earlier this year, but it's trading at a 10 discount and a five and half yield. It's great if you want to be in that sector, it's far more attractive than some other funds in that space, and from a manager with a lot of great resources. On the other side, there's RiverNorth, which is a crossover; they own closed-end funds, they make closed-end funds. They have a muni fund that's RFM, that's a blend of traditional closed-end fund muni guts, and then actual muni bonds that they tactically adjust based on their outlook for risky versus safe, and they're about a nine discount and about a six yield. And so the discounts

should narrow, the yields can change, but to me they're great companions because they're very different parts of the economic cycle.

**CHUCK JAFFE:** John, great stuff as always. Thanks so much for joining us. Wish your father a happy birthday for us and come back and talk to us again soon.

**JOHN COLE SCOTT:** Thank you, Chuck. Glad to be here.

**CHUCK JAFFE:** The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I'm Chuck Jaffe, your host, 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. 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 executive chairman of the AICA. His firm is online at CEFadvisors.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. Til then, stay safe everybody.

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