Black Friday Discount Shopping With John Cole Scott

Friday, November 29, 2024

The day after Thanksgiving is all about shopping at the biggest possible discounts and John Cole Scott of Closed-End Fund Advisors puts a closed-end fund spin on it for the third straight year, culling through funds the way bargain shoppers look for the best deals. Scott, Chairman of the Active Investment Company Alliance, identifies three different closed-end funds and one business-development company that, based on his firm's data, are particularly good bargains entering the holiday and tax-loss selling season.

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

CHUCK JAFFE: We're going Black Friday discount shopping with John Cole Scott of Closed-End Fund Advisors, welcome to 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 is brought to you by the Active Investment Company Alliance, a unique industry organization representing 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. And you know, it takes a little while to create a tradition, in fact I have long maintained that if something happens once it's an occurrence, if it happens twice it's a coincidence, if it happens three times it is a trend, maybe four times it becomes a tradition. We are moving in that direction because for the last few years on Black Friday, John Cole Scott, president at Closed-End Fund Advisors in Richmond, Virginia, and the chairman of the Active Investment Company Alliance has helped us go discount shopping. Now it's not run out to the mall, and it's not go find it on Amazon.com, but no, buying closed-end funds at a discount is a big reason why people are buying closed-end funds, finding the right discount at this time of year particularly important if you're going to have any tax-loss selling. So as annual traditions go, Black Friday shopping for closed-end fund discounts is a really good one in the investment world. John Cole Scott is president at Closed-End Fund Advisors, it's online at CEFAdvisors.com, and if you want to dig into the firm's research yourself, do it at CEFData.com. The Active Investment Company Alliance is also online at AICAlliance.org. John Cole Scott, happy holidays, welcome back to The NAVigator.

JOHN COLE SCOTT: It's always good to be here with you, Chuck.

CHUCK JAFFE: Discount shopping, like I said, it's an important thing for anybody in closed-end funds, but particularly this time of year because this is when you might be looking to make some swaps in your portfolio. So help us understand first when you go discount shopping, it's not just about how big is the sale?

JOHN COLE SCOTT: Absolutely. As a fundamental firm, we really do balance our analysis of discounts are a big part of the work every closed-end fund investor traditionally focuses on, but you have to also do good work on the sector and the manager, the actual net asset value you're buying access to. And you have to have a handle on the distribution yield, and those have kind of been different this year as we've talked about numerous times on the show, but making sure the number is reasonable, or if it's a little bit unreasonable, there's enough of a discount, which is like a free tender to help you out. So it's really balancing the trifecta, and then focusing on both absolute relative and comparable discounts, which we'll talk about on this segment, to really find stuff that is not just the easy sift but the harder screen to find, we think may be more attractive and upside potential for discounts.

CHUCK JAFFE: In the closed-end fund space discounts have been narrowing because of course the market's been doing so well, and so as you're looking, is this a good year or a bad year to be a discount shopper?

JOHN COLE SCOTT: It's always a good year to lean into discounts because you never know what's going to happen next, and generally speaking a basket of closed-end funds that are set to a wider discount in a tough market, they fall less of future discount expansion based on whatever the net asset values have been or the headlines. And so you might see a 3-4%

premium, which is relatively common for taxable bond funds right now, possibly drop to a 10-15% discount, and you might see a 10% discount drop to a 15-20% discount. So less of a downside historical risk is really a great place to be, and like you said, there are times where you may want to push something a few more days to make it long-term capital gain if it's been a good year. As you know, we've had two probable back to back 20%+ year for closed-end funds, and so there are less discounts, but it still makes sense to be rotating as appropriate for your portfolio and your needs.

CHUCK JAFFE: Let's dig in. I know you've got three closed-end funds and one BDC that are on your holiday shopping list, let's start with an equity closed-end fund.

JOHN COLE SCOTT: So the ticker symbol is EOD, the Allspring Global Dividend Opportunity Fund, and it's a relatively wide discount, about 12.5% discount right now. It's about 3% wider than its peer group average. It's three-year average discount is about 8.4%, so again it's trading 4% wider than itself historically. And a little more granular data for recency, a six-month relative Z-stat to its peer group, a -0.33, and a 90-day relative to itself, a -0.25, those are little bit more sensitive to say that it's also just recently a more attractive discount. But we told you this is the full analysis, the portfolio is global, mostly equity, about 70% equity exposure, it's beta versus the S&P 500 is about 0.87. It's about only 39% in any of the names in the S&P 500, so a good global diversifier, and it's a lower volatility than our international index, and its one-year NAV performance, you wouldn't be surprised, is about 25%. It's lightly levered at 16%, it's a $300 million fund, and the gross non-leverage expense ratio is about 1.08%, so it's really giving you a sense of that portfolio and what you're getting with an attractive discount. I forgot to give the yield, that's also important but not the most important, it's a 9.7% yield which is backed up by a 7.3% leverage adjusted NAV yield, a reasonable number.

CHUCK JAFFE: So again it's EOD, the Allspring Global Dividend Opportunity Fund. Let's move from equity funds to a taxable bond closed-end fund.

JOHN COLE SCOTT: Going to the taxable bond fund, that'll be the FINS, the Angel Oak Financial Strategies Income Trust, its managers have been on the podcast relatively often. It's a 10% discount, about 7% wider than a peer group average, though it's worth noting that the PIMCO multi-sector bond funds have kind of pulled that average up, kind of like the GUT pulls up utilities stocks. It's three-year average discount is in line with that, just above 10%, but its six-month relative Z-stat, a little lighter, -1.17, and its 90-day relative discount, -3%. Again, this is a portfolio, digging into net asset value, that really is focused on bank debt. Very low volatility versus the S&P 500, a 0.19 beta, much lower volatility than the regular multi-sector bond fund index. It's 77% investment-grade bond exposure to bank debt. Duration's only two and low change, it's one-year NAV performance is about 15%, it's 29% levered. It's a half billion dollar fund and it's a 1.5% gross non-leverage expense ratio, and currently has 10 and low change indicated yield, and that is supported by a 7% leverage adjusted NAV yield.

CHUCK JAFFE: That again, FINS, the Angel Oak Financial Strategies Income Term Trust. Let's move to a muni fund.

JOHN COLE SCOTT: So this is not a traditional regular muni fund, it is RMMZ, it's the RiverNorth Managed Duration Muni Income Fund II, and we're going to spend some time talking about a little more complex NAV analysis, but it's about a 10% discount, about 1.5% wider than peer group average. It doesn't have a three-year record yet, IPO'ed back in February of '22, but it's one-year average discount is about 8.5% and it's three-year range today, so that's not the full three years because it's not three years old, it's in the 27th percentile of its peak to value range, showing some relative attractiveness. It's relative Z-stat is a -2.1, and it's 90-day relative discount is -2. If we take the under portfolio's exposure to closed-end funds inside of the closed-end fund, we model about an extra 3% discount, sort of discounts on discounts, for a weighted -13% estimated total exposure discount.

CHUCK JAFFE: Again, that's the RMMZ, the RiverNorth Managed Duration Muni Income Fund II. I should disclose I hold that in my portfolio. And last, a business-development company, which one are you looking at?

JOHN COLE SCOTT: Looking at NCDL, it's the Nuveen Churchill Direct Lending. It's not even one year old but sporting a relatively narrow 5% discount, but it's about 2.5% versus its entire peer group average. And when we looked at our index, which is the more liquid fund, it's 8% wider than our index's average current premium, and it IPO'ed January 24th of 2024, so relatively new, but the fund is not new, it's been doing its work for years. Its range is around the 50th percentile mark, and so -1 relative Z-stat and a -1 relative discount, so discount attractive. You might know on the show that we've covered BDCs and analyze them differently than a regular credit fund. We do have one-year return on equity of 14% because it had a life before being public, versus about a +10 for the index. That's a really good measure of how they're actually earning money on the portfolio that they can't hide through accounting issues. Non-accruals, a half percent versus the index's 1.8%. The fair market value marks of every investment which is updated quarterly for every BDC is 1.58 versus the index at -2.2. And what that means to us is that they've generally written better loans and they don't have as much risk of writing down tough loans and having loans paying them less of their income. Leverage is on par with the sector at 51% total leverage, there's 200 companies in here, 94% variable loans and 87% first-lien loans. It is a $2 billion fund, and just like you might expect from the [inaudible 0:09:38] ownership of Nuveen, its current expense ratio is a 1.05 non-leveraged gross ratio, it also has a 6% [inaudible 0:09:46] rate and a high-water mark, which is a very fair fee structure for investors. If we were to think into the future, sometime in the first quarter after it's one year old, we think they'll trade, if we look at a 15 peer group of funds, we think there's 10% relative upside versus its 15 peer group where it should trade because it's a well-run large liquid fund, just not a lot of followers yet. And it has around industry average, a 10.5% yield paid quarterly, and the average yield on investments is just under 11%, and its dividend coverage right now is 129.5%, so it's got good cushion for whatever happens next in a well-run credit platform.

CHUCK JAFFE: And again, that is NCDL, the Nuveen Churchill Direct Lending BDC. There's your four holiday bargains. John, great stuff. Now everybody needs to run off to the mall or wherever they're going to do their other shopping, we've taken care of their closed-end fund needs. Thanks so much, happy holidays, we'll talk to you again soon.

JOHN COLE SCOTT: Happy holidays, Chuck.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. And yep, that's me, and you can check out my hour- long weekday podcast by going to MoneyLifeShow.com or by searching for it wherever you find your favorite podcasts. If you're trying to find your next favorite closed-end fund or business-development company, go to AICAlliance.org, it's the website for the Active Investment Company Alliance, and they have plenty of stuff there that'll make you a better investor. Their chairman is John Cole Scott, he's also president of Closed-End Fund Advisors in Richmond, Virginia, he's been my guest here today and you can dig into his research and the stuff he was talking about by going to CEFData.com. To learn more about the firm go to CEFAdvisors.com, and to find him on X go look @JohnColeScott. The NAVigator podcast is available for you every Friday, sign up on your favorite podcast app to make sure you don't miss an episode and subscribe. We'll be back next week, but meanwhile, Happy Black Friday, Happy Thanksgiving, and happy investing, everybody.

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