# John Cole Scott On The Assets He Expects To Thrive For The Rest Of '25

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Chuck Jaffe, in this episode of The NAVigator podcast interviews John Cole Scott, President of CEF Advisors. John discusses how three areas that lagged during a strong first half of 2025, municipal bonds, senior loans and master limited partnerships, are poised to be leading categories among closed-end funds for the remainder of the year. Scott, the chairman of the Active Investment Company Alliance, picks out funds that he thinks are poised for a good run in each category, and discusses refining asset allocation plans to deliver more-resilient income.

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

**CHUCK JAFFE:** We're talking about the first half that was and the second half of the year that's coming for closed-end funds with John Cole Scott of CEF Advisors, this is 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 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 will point you in the right direction. Returning to The NAVigator today, John Cole Scott, president at Closed-End Fund Advisors in Richmond, Virginia, which is online at CEFAdvisors.com, the firm makes its data and closed-end fund research available too, you can dig into it for yourself at CEFData.com, and beyond his firm, John is the chairman of the Active Investment Company Alliance, which you can learn about at AICAlliance.org. John Cole Scott, it's great to have you back on The NAVigator.

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

**CHUCK JAFFE:** Now here we are on July the 11th, and this week, well, your father George Cole Scott was an absolute legend. We didn't do everything targeted to June the 30th to say what's the first half of the year, we gave a few extra days because unfortunately your father passed, we did a little tribute to him when that happened, but always still worthwhile celebrating his birthday, he was a great source to me back in my early career covering funds. So our data as of his birthday tells us what kind of first half did we have?

**JOHN COLE SCOTT:** Yeah, so basically the average closed-end fund, as is our CEF 15-sector index, has a total return of about 7% year to date through July 9th, but we really want to dig into some of those sectors that were underperforming today. The MLP closed-end funds are only up 4% total return, the senior loan closed-end funds are only up 3%, and the muni CEFs are only up almost half a basis point, and really looking at what was lagging we feel could be a recipe for good forward-looking outcomes based on our economic thesis and just diversification.

**CHUCK JAFFE:** So let's jump in on the economic thesis, because the economic reality is what determined what was lagging and leading during the first half. Let's get a sense of what you see happening broadly, and then we'll dig in deeper.

**JOHN COLE SCOTT:** Sure, so the basic thesis we're basing today on is that the Fed obviously has paused rates for now, we don't see any near-term reductions, yet the dot plots are still showing two cuts by year end. I don't know if I'd put big money on that, but that's what the dot plots are saying. The labor market from the most recent data we can study is cooling with jobless claims around 225,000, and payrolls are coming in kind of soft. We still believe that tariff risk can cloud the growth in raising future costs across the board in the economy, and a consumer and business confidence, while not terrible, isn't terribly robust at the same time. And while a mild recession risk is rising, it is definitely not guaranteed. That's the backstory for what we're looking at, we want to try to build an allocation where your listeners might be able to think about durable income, low correlation, and discount upside.

**CHUCK JAFFE:** And discount upside, easier to find right now in the sectors that have been laggards because the rest of the industry kind of saw a lot of narrowing in the first half because it was such a strong first half of the year despite the drama in the middle of it?

**JOHN COLE SCOTT:** Yeah, so there's always pockets of sector-level discounts, and our process is to find NAVs that we like and distributions that make sense, and then also lean into discounts, but there's definitely some extra discounts in those areas, and so I'd say both putting them together with extra discounts just helps you be less worried about the next months or so because you've got potential discount tailwinds relatively wide versus sector averages.

**CHUCK JAFFE:** This has been a market where the rising tide has lifted a lot of boats, what does that do for you in terms of where you think those boats are going to be and why you are particularly interested in the laggards moving forward?

**JOHN COLE SCOTT:** Yeah, so I'd say munis are tied to US interest rates and obviously local credit at the government level, senior loans are tied to short-term rates and corporate defaults, and historically we've generally liked senior loans versus high yield because I'm not a go-to-cash investor but I like first lien-loans more than unsecured high yield even when I seem to lose year to year to year sometimes. There's another sector that we've definitely talked about a lot with you over the years, MLP funds, because they're tied to commodity usage and inflation with revenues, that can be very powerful. These sectors don't move in lockstep, and that's what's potentially very stabilizing for the returns, you could see any unexpected hiccups in the economy.

**CHUCK JAFFE:** So since we're talking about muni funds as we start into those sectors, your expectation, and you don't ever talk about a sector without giving us an exemplar for something you think's going to shine going forward?

**JOHN COLE SCOTT:** I'd love to do that. So when we look at the fundamentals of the muni market, yields versus Treasuries, about the 90th percentile right now, which is a very rare ratio, really attractive. The last time we looked it up was the end of 2022, the tax-equivalent yields for those, really thirsty for muni bonds, the highest tax rates are in the six to eight range depending on what you're buying and what your tax rates are, and that's just really positive on the fundamentals. And then these bonds are pretty much investment-grade focused for the most part, and they really have a chance to do well in a Fed cut because they're really long duration at the underlying position, the 20-30-year bonds, and then these funds are levered, as you know, Chuck, which magnifies that duration, which if rates go down is a positive thing, just like when rates went up was a very negative thing in the past. They have definitely lagged this year, and I love occasionally being [inaudible 0:06:03] investor, because when I feel people get pissed off at a sector or fund, it's usually easier to make more money later.

**CHUCK JAFFE:** And the funds you are leaning into in muni funds?

**JOHN COLE SCOTT:** We've got two interesting ideas for today, one is MVF, the BlackRock MuniVest Fund, about an eight and high change discount, a six and mid-change yield, where our research suggests about 80% of that is earned, because a lot of funds are overpaying now as we've talked about as well; 41% leverage, but the gross non-leveraged expense ratio is just under 50 basis points, but like I said, the duration is 16, that's a big number in the credit markets, and it's a 2% wider discount than peer group average and 1% wider than its 90-day average. The other fund we've talked about before as well, it's RMMZ, it's a RiverNorth, different approach to this sector, a nine discount, an eight market yield, we model about 70% of that is earned through performance and cashflow; same number, 41% leveraged, a higher expense ratio of 1.3%, but a 7.7 duration. Remember, this is not a straightforward plain vanilla fund, it's tactical in its bucket of closed-end fund munis and individual munis from the subadvisor, and again, a two and mid change wider discount, which really gives you some extra tailwind if we're right in that thesis. You're effectively getting paid to take less risk than other parts of the market, and that's usually hard to find in fixed-income.

**CHUCK JAFFE:** So let's move from muni funds to the next group you talked about as we were starting this conversation, senior loan funds. Why senior loans and who's your exemplar there?

**JOHN COLE SCOTT:** We're looking for different buckets, and this is a floating-rate credit product, and it was very attractive as dividends were going up, but has a very short duration, so very less sensitive to these potential move in interest rates and the credit quality does matter. While these are not quite as risk-averse as munis, they're typically first lien secured loans and considered low risk in the long-term, and these are still solid yields, even if rates go down you'll see some compression in yields there, very positive. And the fund that we really like right now, a lot of repeats coming back to the show, Chuck, but BGB, the Blackstone

Strategic Credit Fund, it's a relatively narrow discount but not for the sector, at a 4%, it's an eight and high change yield, it's 37% levered, a 1.2% expense ratio, again, gross non-leverage, and a 0.9 duration, the antithesis of those previous funds. And the other caveat that we like, we've used this in a lot of our portfolios, it's a 2027 term trust, which means it will liquidate by the end of '27, which is a 2% per year tailwind on top of whatever net asset value does. Senior loans will never win the rate cut race, but that low duration, solid income, and a defined exit, this fund is a smart way to consider late cycle credit exposure for your portfolio.

**CHUCK JAFFE:** So now let's move from senior loan funds to MLPs, why that area and who's the star there for you right now?

**JOHN COLE SCOTT:** So master limited partnership sector, midstream is the focus, fee-based inflation linked revenue, you've got this cashflow that's resilient regardless of commodity prices historically, to the cashflows at least. It's a differed tax liability that could be really powerful in that closed-end fund wrapper that a lot of people ignore, they give you extra discount. Basically of that extra discount, generally return of capital and QDI or qualified dividend, it's another tax-adjusted or tax-advantaged focus, and we really like baking in some real assets here, because that really diversifies the general equity and bond risk of the regular market. The fund we're going to talk about today hasn't been on the show in a while, but it's NML, it's the Neuberger Berman MLP and Energy Income Fund, again eight and mid-change discount, but if we adjust for that differed tax liability, it could be as high as 16%, but that's not a guarantee. It's an 8% yield, lightly leveraged at 18%, and about 1% gross non-leveraged expense ratio. Again, like the others, a monthly payer, it's inflation linked, and we do like that real asset exposure, because these things can definitely help investors reduce taxes and get different pieces of their income bucket.

**CHUCK JAFFE:** So let's put this all together because you've told us what you like for the second half of the year, why you think the laggards might perform, are we rolling away from the leaders to add these to the portfolio? Are we looking to add these strategically and stepping up our exposure? What's the right way to allocate the portfolio for the rest of the year?

**JOHN COLE SCOTT:** Great question. So I would say these would be overweights in your asset allocation, which is different for every investor, and you might consider taking some of the other high water gains, maybe an equity part to your portfolio, because this basket really gives you different things driving the future results of the NAV, and you're considering both rising rates in a recession as a thesis for trying to stabilize these cash flows for your portfolio, and they really do perform very differently. All four of these funds really meet our trifecta analysis at CEF Advisors, and also very discount attractive. If you look at these average discount for these four funds, it's about 7.5% versus our 15-sector index of the seven most liquid funds is trading above a 1% premium, now they're not the same baskets to be fair, but there's a nice conceptual discount here that we think is really powerful. And because it's nice to have conceptual diversification, we also love data and math at CEF Data, we actually looked at the two-year weekly correlation of the NAVs to these funds, and the munis averaged 1.9% correlation to NML, the MLPs, and a 0.33 correlation to BGB or the senior loans, and then BGB is correlated right back to NML at 0.55. Not every one of your listeners is a deep correlation person, and correlation's never the first reason to do anything, but that proves the NAVs zig and zag in different ways.

**CHUCK JAFFE:** John, great stuff. When the closed-end fund industry is zigging and zagging, we know we're going to turn to you for more of your insight and your numbers. Thanks so much for the time, we'll talk to you again down the line.

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

**CHUCK JAFFE:** The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe, I'm Chuck Jaffe and you can learn more about me and my show at MoneyLifeShow.com or by finding the show wherever you find your favorite podcasts. Now if you want to find your next favorite closed-end fund or just get more information on closed-end funds and business-development companies, go to AICAlliance.org, that's the website for the Active Investment Company Alliance. And if you have questions about closed-end fund investing, send them to TheNAVigator@AICAlliance.org. Thanks to my guest John Cole Scott, he's president of CEF Advisors in Richmond, Virginia and he's chairman of the Active Investment Company Alliance, the firm is online at CEFAdvisors.com, dig into their data for yourself at CEFData.com, and John is on X @JohnColeScott. The NAVigator podcast is available every Friday, make sure you don't miss an episode by following or subscribing on your favorite podcast app. We'll be back next week with more closed-end fund talk, and until then, happy investing, everybody.

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