CEF Advisors' Scott On The Realities And Mirages Of Double-Digit Yields

Friday, August 1, 2025

Chuck Jaffe, in this episode of The NAVigator podcast interviews John Cole Scott, President of CEF Advisors and Chairman of the Active Investment Company Alliance. John digs into his firm's data to look at how many categories of closed-end funds are delivering double-digit yields now, in some cases doubling the average payouts in the underlying asset class. He talks about judging how real the big payouts are and which areas of the market are delivering the best combination of yield and discount.

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

CHUCK JAFFE: We're talking with John Cole Scott of CEF Advisors about yield, and whether what you see is truly what you're getting in closed-end funds, 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 business 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. Joining me today, John Cole Scott, president of CEF Advisors in Richmond, Virginia, which is online at CEFAdvisors.com. With him we're going to dig into some of the firm's data, which you can do for yourself, including you can check out how they're sizing up individual funds that you're interested in at CEFData.com. And beyond CEF Advisors, John is the chairman of the Active Investment Company Alliance, which you can learn about at AICAlliance.org. John Cole Scott, welcome back to The NAVigator.

JOHN COLE SCOTT: Great to be back, Chuck.

CHUCK JAFFE: One of the reasons why we get along so well is that we both love digging into the numbers and seeing what comes up, and you and Dan Silver from CEF Advisors recently published your second quarter or mid-year review and outlook for closed-end funds and BDCs, and there's a ton of information and details in there, but I wanted to zero in on something that I know has piqued the curiosity of a lot of my listeners on *Money Life*, which is specifically yield. With the Standard & Poor's 500 in record territory, the yield on the index has dropped to 1.25%, I've also talked to experts who say that in a nervous market, even though we've got stocks at record highs, they might turn to bonds because you can clip a nice coupon at four, five or six percent, but yields on closed-end funds, blow the doors off the yields most investors are looking at. According to your data, the market yield on US stock funds is 7.6%, and that's low compared to utility funds, covered-call funds, REIT funds and more. And on the fixed-income side, no one wants to believe that bond categories can deliver double-digit yields, but yeah, that's exactly what's been happening with international, multi-sector, junk, senior loan funds and more. So investors are told all the time, "Don't chase yield," this is one of the things that I hear from my audience is, "I don't want to be chasing yield," but if the yields I see quoted in your data are real, well, then you're not chasing yield, you're capturing yield. So are the yields real? Are the closed-end funds covering these payouts? And how are they doing it and how can we tell how much of the yield is real and how much is done with accounting tricks or sleight of hand?

JOHN COLE SCOTT: So this is a very large conversation I'll try to distill in a couple of major components to help with your audience. So let's first start with the equity funds, equity funds are generally paying out long-term net asset value performance, but it is solely to the discretion of the board of directors, and so there are times where the boards are more aggressive and times where they're more conservative, and so you really have to do a simple analysis that we've been using for a decade plus at CEF Advisors, is the leverage adjusted NAV yield. That basically takes the idea our listeners will know about of taking the yield, taking out the impact of leverage and discounts, basically meeting how much does the manager and his team have to hit to meet the policy set by the board, and that's very commonly total return focused and cash flow focused. And again at a high level with closed-end funds, when you have an above average reasonable discount, that's a more protective footing for getting those cash flows at a better price, and then some of the sector funds, equity funds, have leverage, but not nearly as much as the bond funds, and so it's really what is normal for the sector? What's the long-term performance chart look like? What is your opinion about the next six to 12 months for preferred equity or utilities or global stocks, and does this policy seem expensive or does it seem safe?

CHUCK JAFFE: In terms of that idea of not chasing yield, for an investor out there, if they're coming to you and saying, "I want a portfolio that is yield-driven," what is a comfortable level without necessarily going all the way to who's got the biggest number?

JOHN COLE SCOTT: So there's two answers, and really actually one of our prospects we're talking to tomorrow really needs the portfolio to be a sustainable yield, and so we do run, not our most popular, but a dividend confidence model, where we do try to find where the payouts are as sturdy as possible for a manager we want, a sector we want, and a discount we like. And so you really are doing that math, because there are BDCs like TRIN, Trinity, that yield 13%+ and it's covered, and there's funds that yield 7% that are uncovered in a different sector. It is never easy, and it's probably why, Chuck, I really enjoy closed-end funds, as a liberal arts major from William & Mary, is you have to blend feelings, research, curiosity, with data, and so at a high level you could look at on a symbol bond fund the earnings or the income-only yield as a proxy for that, but please look through more than one reporting period of data because some of that data can be noisy. You have to remember that with levered funds you have to think about the type of leverage and cost of leverage, and not just if they're levered. That leverage-adjusted NAV yield is probably the shotgun approach, and so it's a lot easier sometimes on the credit funds because you can get more thoughtfulness of generally there can be more discounts sometimes and more leverage which makes that leveraged-adjusted NAV yield easier to hit in a reasonable market.

CHUCK JAFFE: So leverage-adjusted NAV yield, net asset value yield, as opposed to market yield?

JOHN COLE SCOTT: Yes. You can never receive it, but it gives you a sense of what the manager has to do to get the policies paid out by the board. And if you look at early in the data slides, almost half of all the funds have almost level or managed distributions, which means they are manufactured in some way by the board, and could be regardless of whether we're in any market cycle, positive or negative.

CHUCK JAFFE: So when we're saying they're manufacturing it, that's where you're going, okay, they're giving an attractive payout, but it might be you getting your own money back?

JOHN COLE SCOTT: It is. And so that's one reason why we're very thoughtful, unless we truly build a portfolio to be, I'll say 95% durable, is the word we prefer at CEF Advisors. We are suggesting to people, because there's funds we like at large discounts that pay stupid yields because it's the right fit for the portfolio, we just have some metrics we use to help model whether you should be re-investing 50 basis points a year, 100 or maybe 150. That's probably for a diversified sector, not overweight, 35 plus ticker symbol, it's hard to need to do more than that based on the numbers we see.

CHUCK JAFFE: In answering that question, you put together the prospect of discounts with yields, and that's a big part of it. If you wind up with a big discount and a big yield, obviously the big discount means your payout's even bigger, but is that one that you trust? That's where you want a discount but maybe not the biggest one? Or they're completely unrelated, so yeah, if the market wants to put a sale on a big yield, you're not worried that those two characteristics are there at the same time?

JOHN COLE SCOTT: So we've covered a lot of these before, but at a high level the wide discount could be sector or fund sponsor pessimism, bad governance, too high of fees for what they are, a fund that doesn't make sense in the current economic cycle, and so you have to be keeping these in the back of your mind as a closed-end fund investor. But there's a certain point, like there's very few taxable bond funds at 8%+ discounts, and so when we're building an allocation, we're looking for the pieces that we like that build an allocation that meets our economic outlook without having too narrow of a discount overall. We can buy a 4% discount if we buy a 9% discount and average to a solid discount, that's part of our process of blending data, not screening only for data. And so if the discount's wide and you're taking the cash flows that are useful, it's easier to hit them at that wider discount, but also is the leverage 10% or 30%? Is the leverage fixed or floating? Does it cost 6% or 4% for the leverage? Depends on when the leverage was set and how it was set. So you can't forget all these factors, and again, that's one reason why a handful of firms like us love these structures, is because it's not a simple soundbite that gives you the answer, you have to be blending the closed-end fundedness and the NAV. So it's like buying an open-end fund ETF, but then you have to add the closed-end fundedness to make sure you're not shooting yourself in the foot.

CHUCK JAFFE: Let's try to help people by giving them an answer that's pretty straightforward here. Are there favorite categories for you, where you look at the yields and you go particularly good numbers but also particularly solid numbers? Are there certain asset classes that for you are the standouts right now? And then the flipside of that will be, what are the ones you dislike?

JOHN COLE SCOTT: So I'm going to talk about two, one on the equity side that I think really reminds you that this is not an easy cash flow focused yield. And so if you look at the REIT real asset sector closed-end funds, they yield around 10%, the leverage-adjusted NAV yield is around 8%, but a REIT index yields about 4%, and so you pretty much are certain that this is part of the total return upside of a broader asset mix that's not just REITs, but not just the cash flow of the portfolio. It doesn't mean you shouldn't own assets there, especially if you have ideas about upside of NAV and discounts, but you can't take that yield as cash flow face value. On the other side, we think it's interesting that the preferred equity index is at 6.7%, and the leverage-adjusted NAV yield of the preferred group of closed-end funds is at 5.8%, giving you an 8.2% market price, and these are not the same things purely, but they're neighbors in proximity to each other. We believe there's a lot more comfort in the upside income of a preferred equity fund versus its index benchmark, because that number is dramatically lower and it doesn't feel like the manager has to grab the basket of preferreds and reach for the least quality and highest yielding just to try to make a thing or do it from only total return. I have way more confidence as tax and risk appropriate in the average preferred equity fund right now than I do with the REIT real asset sector, even though both are useful for many portfolios.

CHUCK JAFFE: And the sectors you dislike?

JOHN COLE SCOTT: Well, again, I guess at that level I would say the sector where the data is most ridiculous would be the international bond, which is a 10% and change leverage-adjust NAV yield and an 11% and change market yield. There it feels mostly activism defense or activism reaction, that's probably the exemplar of that behavior. We own funds in that sector because we need those assets and there's some good managers there, but we can't take those payouts as the banking for the monthly dividends we give our clients at CEF Advisors.

CHUCK JAFFE: One last question here when we're looking at yields, because the area that a lot of investors are most curious about is going to be stocks and US stocks. Now you just recommended the REIT sector, and in looking at that REIT you were talking about how the REIT index has a 4% yield, but the REIT sector when you're doing your yield comparison has more than double that when we're talking about leverage-adjusted net asset value yield. But the S&P 500 has a yield of 1.25%, and the US stock yield is about five to six times higher than that, so that discrepancy there, does that make you want to say, "If I'm going to have equity exposure, US equity exposure, buy a discount, get a high yielding closed-end fund for that"?

JOHN COLE SCOTT: So partially, yes. I mean, US stock funds in that category are going to be net asset value capturing vehicles, and so they're not the payout of the underlying dividend stocks because just the math does not make sense. The reason why I picked REIT real assets is because we have a feeling at CEF Advisors that the NAVs are more depressed there than on the US equity side, which are I believe near, if not at all-time highs, it depends on when people hear this podcast. And so it is part of my [inaudible 0:12:51] as an advisor and portfolio manager to say we're not overweight, we still have more US stocks [inaudible 0:12:56] than REIT real assets, but we're overweight relative to a benchmark in that sector because we find it's better for inflation, it's less frothy, and we are understanding the math is true. But you're completely correct, the math is way more terrible for US stock funds, but that's so common for closed-end funds even [inaudible 0:13:13] pays 2% a quarter.

CHUCK JAFFE: John, really interesting stuff. Appreciate the insight and the time, we'll talk to you again a little further down the line.

JOHN COLE SCOTT: Always happy to, and the full deck is on our website.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe, and I am Chuck Jaffe, you can learn more about me and my show at MoneyLifeShow.com or by searching for it wherever you find your favorite podcasts. Now to learn about closed-end funds, interval 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 funds or questions for the podcast in general, send them to TheNAVigator@AICAlliance.org. Thanks to my guest John Cole Scott, he's president of CEF Advisors in Richmond, Virginia and the chairman of the Active Investment Company Alliance. His firm is online at CEFAdvisors.com, dig into their data at CEFData.com, and John's on Twitter/X @JohnColeSCott. The NAVigator podcast is available every Friday, make sure you don't miss any episodes by following or subscribing on your favorite podcast app. We'll be back next week with more closed-end fund talk, until then, happy investing, everybody.

Recorded on August 1st, 2025

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/