ACTIVE INVESTMENT COMPANY ALLIANCE
Excellence beyond indexing

Talking Closed-End Funds On Sale With John Cole Scott

Friday, November 28, 2025

Consumers have a tradition of going bargain hunting on Black Friday, but The NAVigator has a day-after-Thanksgiving ritual too, looking for discounts on closed-end funds with John Cole Scott, President of CEF Advisors and The Chairman of the Active Investment Company Alliance. For the fourth straight year, John is looking at market bargains in time for the holiday, and this year he is looking at two municipal-bond funds, two business-development companies and two direct offerings that the market has put on sale and that investors might want to consider wrapping up for their portfolios.

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

CHUCK JAFFE: It's the holiday shopping season and we're going discount shopping with John Cole Scott, president of CEF 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's 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. And today, well, it's Black Friday as we release this episode of The NAVigator, and we're going in the direction of bargain shopping, and we're doing it with John Cole Scott, president of CEF Advisors in Richmond, Virginia, which is online at CEFData.com. Beyond CEF Advisors, John is chairman of the Active Investment Company Alliance, which you can learn about at AICAlliance.org. John Cole Scott, happy holidays, welcome back to The NAVigator.

JOHN COLE SCOTT: Always good to be here with you, Chuck.

CHUCK JAFFE: I love what has become something of an annual ritual for us, we spend the Black Friday holiday or non-holiday, going shopping, but shopping for discounts and not just going, let's just look for the biggest discounts, but trying to find where you've got a discount and how much of a bargain it is comparing it to other stuff. So munis, obviously always a big topic in closed-end funds, let's start there. I know you've got a muni fund that you think is gift wrapped for investors right now.

JOHN COLE SCOTT: Yeah, so we're going to talk about two different funds in this grouping, the first is the Aberdeen VFL, and the second is the PIMCO PCQ, which is a California fund, of course the Aberdeen is a national fund. They both have just under 12% discounts but VFL has about a 6% yield, PCQ has just about a 5% yield, VFL is about a quarter billion dollar fund and the PIMCO is about a billion dollar fund. They're very similar expense ratios, about 1.1 for VFL and 1.3 for PCQ, but one thing interesting, leverage costs is mildly cheaper for VFL, which we think is a positive tailwind, and the return of capital reported is under 1% for VFL, it's about 15% for PCQ. We're not surprised, because if you look at the dividend history for PCQ, it's dropped its dividend almost over 40% in the last couple of years as it was a lofty number, and now it's actually in some ways underpaying in our experience. Both funds are up about 10% NAV total return in the last three months, and their earnings coverages are relatively close to par, though we have to remember that both leverage data and earnings data is never yesterday's data, we wish it were, it's recent data we have to model for at CEF Advisors in this analysis. They're both relatively high durations, VFL at 18, PCQ at 15, and they're very similar, they're around 80% investment grade bonds and about 15% non-rated bonds, a value for the manager. For the reason why we think PCQ has more discount upside, is because people are still angry about the dividend cut and disliked it, and they're giving it more of that contrarian downside pain, it's only trading 28% in its three-year range while VFL is trading, still attractive, at 36% in its three-year range.

CHUCK JAFFE: That's interesting to me, because as you were going through it, and I hear you talking about return of capital, I'm thinking, oh, the discount on PCQ, again PIMCO California Municipal Income, I'm thinking the discount's about the same but the return of capital should make it less attractive to me than the Aberdeen National Municipal Income Fund, that's VFL, but you're saying the discount's actually better on PCQ because there's more negative sentiment which will keep it there, and eventually that sentiment will come away and return to normal, and that's when you'll pick it up. So it's about closing the discount rather than buying the discount in this case, right?

JOHN COLE SCOTT: A little bit, but we also feel a lot of that return of capital was before the cut, and we feel that the underlying return required to fuel the current yield is a lighter number, and PIMCO is a relatively active manager, as is Aberdeen in this case, and so it's less of a plain vanilla fund than some of the others that fit the national fund grouping.

CHUCK JAFFE: And in both cases, because obviously somebody who's not in California is not going to want to own a California muni fund, in both cases discount's attractive and you like them both. So if somebody's looking for a muni income fund but they live any place but California, VFL would be in the mix for you?

JOHN COLE SCOTT: Actually at our firm we usually half-size state funds that are silly attractive, and this is a very liquid silly attractive fund, and so a normal allocation would be 4% in a portfolio, we might make this 2%.

CHUCK JAFFE: Well, now let's move from muni funds to BDCs.

JOHN COLE SCOTT: Yeah, so BDCs are like the weird cousin bookend of a muni funds, very different drivers of their returns, but there's two very interesting funds from well-known asset managers. First going to talk about BXSL, that's the Blackstone listed BDC, that's a $6 billion fund, and then we've got the Carlyle CGBD, which is a $2.4 billion BDC. What's interesting is the Blackstone fund, as we record this, is trading just above net asset value, and the Carlyle fund is trading about a 23% discount to net asset value, and for perspective, the average large cap BDC's at a 3% discount. When we look at the dividend ratio, they're both around 11-12%, depends on the day you hear this, which is right in line with their peer group, so we really want to dig into the underlying details of why would the discount be so much wider on Carlyle versus Blackstone? And yet in our opinion, each has a short-term upside of low teens and a long-term upside of around 20% based on when you buy the fund.

CHUCK JAFFE: Interesting, because obviously the bigger discount is typically what's going to attract investors, but you're saying in this case don't necessarily be fooled, they're both buyable?

JOHN COLE SCOTT: They are, because BDCs really are so hard for traditional closed-end fund investors to buy not fat discounts because they don't understand there's a stock component to BDCs that gives them more than just their price to book, there's the reason the reason they're price to book. And with only four net asset values a year, it's far more likely for a broken BDC at a terrible discount, which is neither of these, to actually have its NAV fall to market price, [inaudible 0:06:29] market price rise to NAV historically. Let's jump in, as you suggested, about why they're different. Blackstone has essentially zero nonaccruals and Carlyle has 2% nonaccruals, still below a peer group average, but definitely showing more problems in the portfolio. Blackstone is showing 105% adjusted core dividend coverage and Carlyle is 95% coverage, not terrible but a better footing for paying those dividends which shareholders strive for. Looking at where they've marked down their portfolios, Blackstone's written down less than 1% of fair market value marks, and Carlyle has marked down almost 4%, again, still less than a peer group average. And then a newer concept we've been talking about is return on equities for investors in BDCs, the Blackstone fund is just shy of a 10% ROE while Carlyle is just about a seven and mid-change ROE, again, still above a peer group average but not as healthy as the Blackstone. We dig into some of the simpler reasons, just credit quality, which is a factor here, we look at the expense ratio for Blackstone, it is about a 2.09 gross non-leveraged expense ratio, Carlyle's still below peer group but a 2.72, that savings is passed through to shareholders. And the leverage, the leverage costs for Blackstone averages just under 5%, and the leverage cost for Carlyle is just under 7%, that's additional net savings to make it easier to pass those earnings onto shareholders. We think about even how the [inaudible 0:07:59] look at the funds and they're given that one notch better rating to Blackstone than Carlyle, but still both rated above average. It's because of these combined factors of the guts, the dividend, and the discount, our trifecta analysis, at CEF Advisors, we like both funds, we own both funds, but we see the same rough upside for both even though the regular screening would say, "Why would you ever buy Blackstone over Carlyle?"

CHUCK JAFFE: Let's move from that to direct listings, it's one of the interesting ways that people can get into closed-end funds, and the discounts there can be tough to understand and I know you've got a good discount story.

JOHN COLE SCOTT: Yeah, so about three years ago, FS or now Future Standard direct listed FSCO in November of 2022, and it came out at a certain price and dropped in about six months roughly to a 34% discount. It wasn't linear, it was kind of ebbs and flows the way markets do, but then within two years it had gone to roughly a small premium, but right now it's at a mid-teens discount, it's not a big focus for today but we liked it a lot more here than where we did in the middle of the summer. It's a $2 billion fund that's up over 170% from its direct listing three years ago, and just like most credit funds, it's kind of a half BDC, half senior loan, it's showing good dividend coverage, low duration. The reason why I wanted to talk about it, it wasn't just saying we like this fund today if you're curious, but there is a different larger direct listing next month in mid-December for BlueRock, it's going to be an interval fund listed as a closed-end fund that's mostly non-traded or private real estate, and we're trying to figure out where that discount will bottom. There's two answers, probably below 20%, but it's going to be decided how much people have an appetite for real estate next year and how angry are their general market trends? If it's a lofty [inaudible 0:09:55] market, it won't trade as deep. If it's an angry, upset market, you could see 20% discounts here or 40%, depends on what happens the next three to six months.

CHUCK JAFFE: John, really interesting. Obviously investors love taking a look at the discounts, but it's not necessarily just that you get discounts, it's that you get a good buy, and unfortunately we've come to the time where we have to say our goodbyes to you, but we know you're going to be back during the holidays because we always are catching up. Thank you so much for joining us, we'll talk to you again soon.

JOHN COLE SCOTT: 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. And yes, I'm Chuck Jaffe, I'd love it if you'd learn more about me and my show by going to MoneyLifeShow.com, or just search for us on your favorite podcast app. Now to learn more about closed-end funds, interval funds, and business-development companies, go to AICAlliance.org, that's the website for the Active Investment Company Alliance. Thanks to my guest John Cole Scott, he's president of CEF Advisors in

Richmond, Virginia and he's the chairman of the Active Investment Company Alliance. His firm is online at CEFData.com where you can dig into their data for yourself, and John's on X @JohnColeScott. The NAVigator podcast is available every Friday, make sure you don't miss an episode by following along on your favorite podcast app. We'll be back next week with more closed-end fund fun, until then, have a great holiday weekend and happy investing, everybody.

Recorded on November 28th, 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/