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John Cole Scott On 4th-Quarter Results And A Hot New Year's Start For Closed-End Funds

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Chuck Jaffe, in this episode of The NAVigator podcast interviews John Cole Scott, President of CEF Advisors. John reviews the key takeaways from his firm's fourth-quarter review of action in the closed-end fund industry, focusing on fund consolidation trends that have occurred in the middle of booming asset growth for the industry, as well as discount levels and whether narrowing discounts set up 2026 for more muted results. Scott, the

chairman of the Active Investment Company Alliance, also noted that a number of closed-end fund categories are off to a fast start to the new year, and while areas like international equities and convertible bonds are continuing strong performance from 2025, other areas like managed limited partnership funds and large-cap business-development companies have jumped ahead after struggling in 2025.

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

CHUCK JAFFE: We're taking a look back at how the fourth quarter of 2025 treated closed-end funds, BDCs, and interval funds 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 is brought to you by the Active Investment Company Alliance, a unique industry organization

that represents all facets of the closed-end fund business from users and investors to fund sponsors and fund 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, he's president at CEF Advisors, where they produce great data covering closed-end funds, business-development companies, and interval funds, and where they just this week hosted their review of the fourth quarter activity in the industry. You can dig into a lot of their data, things that they talked about in the fourth quarter, by going to CEFData.com. Beyond CEF Advisors, John is chairman of the Active Investment Company Alliance, you can learn about it at AICAlliance.org. John Cole Scott, great to chat with you again.

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

CHUCK JAFFE: You know, we did your year in review and we did your outlook recently on The NAVigator, but one thing you've taught me is that more than many other types of investments, the closed-end fund industry kind of has each quarter being its own story. Maybe that's because of the emotions that get into discounts and things along those lines, maybe it's because the industry is changing rapidly, but each quarter has its own flavor, so what flavor were we tasting in the fourth quarter of last year?

JOHN COLE SCOTT: Yeah, so in our quarterly presentation, which is a 90-minute webinar with 75 data slides, so definitely heavy content, we did have a new slide this year after going to the ICI Conference in the fall, and we wanted to document the flow of closed-end fund numbers versus the total average assets per closed-end funds. In the last 13 years we lost 200 net closed-end funds, Chuck, but the average in assets went from \$395 million back in January of 2012 to \$735 million at the end of '25, really showing that while there is less funds, the assets actually have grown. Also, this is not a huge surprise, but 91% of world stock funds ended at discounts, and the final number, which was in that last year, was a 48.5% total return for that group of closed-end funds and a 10.5% discount narrowing, quite surprising.

CHUCK JAFFE: When you talk about, "We've lost a net of 200 closed-end funds," look, if the mutual fund world generally, not just closed-end funds, was a meritocracy, half the funds would be killed off tomorrow. But closed-end funds, when you talk about losing them, unlike say the ETF world where a lot of stuff gets thrown up and we see where it sticks, this was not through liquidations like, "Hey, we decided this fund's not working, we're not going to own the fund," this is from takeouts and other sorts of deals, wasn't it?

JOHN COLE SCOTT: It's a mix.

CHUCK JAFFE: Closed-end fund closures, what are they?

JOHN COLE SCOTT: We had about 110, I'm guessing that number in front of me, net new IPOs or direct listings of traditional closed-end funds in those 13 years, and then the bulk of it, two thirds of that roughly was mergers that took away the funds, and a smaller number really is the actual conversions, deaths, the activists-led activity, or just people giving up because they're no longer looking to be in the closed-end fund industry.

CHUCK JAFFE: That last one, I don't see too many of those happening, but interesting stuff. So okay, we wound up with world stock funds, you talked about them, where did we wind up with discounts generally?

JOHN COLE SCOTT: Yeah, so even though it was a positive year, the average net asset value was up 11 and change, average market price up nine and change, the closed-end fund universe ended the year where 29% of the time discounts were wider, which after three relatively good years is rather attractive, and 24% for taxable bond funds and 12% for BDCs, which I know we've covered recently their pullback and their valuations being positive. The two pockets of really less attractiveness are general equity funds and the muni funds, which actually as we mentioned narrowed 9% the last three calendar years. They're not aggressively expensive, but they're not nearly tasty attractive as taxable bond funds.

CHUCK JAFFE: With those discounts, we had Stephen Davis from Nuveen on The NAVigator a week ago, he was talking about how generally in closed-end funds what you had was a narrowing of discounts that really helped generate better returns. In other words, the straight NAV return was less than the return that you were getting thanks to discounts narrowing and the rest. The question I would have for you is if discounts have narrowed to where they are at, are we likely to see that continue? Or have we narrowed discounts enough that investors should be thinking, pretty much count on the NAV return, assume the market and the asset class is going to do well, don't expect to get much of a goose from narrowing discounts?

JOHN COLE SCOTT: And so Stephen is a long-time friend, we actually knew him when he was a sales trader of closed-end funds for firms like CEF Advisors, there's a nuance there that you didn't even catch, Chuck. He looked at the universe in total funds average movement of net assets versus discounts, when we think of the industry our major focus is that 15-sector

index where the giant bucket of muni funds and the half-sized bucket of BDCs are the same weighting as convertible bond funds and REIT real assets, which are 10 to 15 funds. So he was not incorrect, but as I think about my perspective on closed-end funds, I don't care if there's 100 or 300 muni bond funds or 10 or 30 REIT real assets, I care how the universe did because I'm picking three to five funds per sector per portfolio, so that's how we can say discounts widened in the fourth quarter and he can say discounts narrowed. We're just using different data sets, which is one of the interesting closed-end fund perspectives.

CHUCK JAFFE: Does that make it harder? I mean obviously you trust your data, but for our audience on The NAVigator and folks in the industry, do they have to kind of commit to one or the other? I would worry that the consumer would wind up with paralysis by analysis, in other words, wait, whose data do I believe and whose data do I trust? And the consumer, the end user maybe can't do the decisions, but for the advisors out there, for the people who are looking at it, how much do those discrepancies in an area that's not widely covered like closed-end funds, do they make it that you kind of have to pick a religion here?

JOHN COLE SCOTT: So when we developed our databases way back in 2008 with Fundamental Data in London, we had that conundrum of the weighted move, back then there were way more muni bond funds, hundreds and hundreds and hundreds; and so the hard thing for me is if I'm going to put muni bonds in a portfolio, it's going to be, if they even have them, three to five, if I'm going to put in REIT real assets, it's going to be one to three. I don't understand how if you're an investor or an advisor in this space that you think just because there's more ticker symbols, you're going to put a democratized piece. If there's 100 muni bond funds, you're going to put 10 in a portfolio because there's 100, and you'd put five if there are 50, makes no sense to me. But when the industry talks about the wrapper, they're not thinking, in my opinion, as an investor, they're thinking as a fund sponsor and someone looking at the data the way they think makes sense.

CHUCK JAFFE: Let's bring it back to what we saw in the fourth quarter. Throughout 2025, one of the exciting things, there wasn't a lot of direct listings but there were a couple of them.

JOHN COLE SCOTT: I mean, they're not common historically, so the fact that we had three, we had a BDC where it OTF direct listed at the end of the year, end of the year at a 16% discount, currently around a 20%, that's a Blue Owl product that's well regarded, but adding shares to the market so it could continue to have discount volatility. You then had FSSL, which we

talked about at the year-end podcast, a secondary version of a direct listing of a BDC into a closed-end fund, basically ended the year at a 22% discount, now a 23%. In the last two weeks of the year we had BPRE, that Bluerock interval fund direct listed to a closed-end fund, ended the year at a 38% discount, now about a 36%. Again, these are large buckets of assets now in our universe, Chuck, and we're waiting for those discounts to stabilize and these fund sponsors to be proactive, reactive, and thoughtful to support those three funds into more healthy trading patterns.

CHUCK JAFFE: Let's take a quick look in terms of you've got the index that tracks closed-end fund activity, how is that doing in the fourth quarter? How did that do relative to other investment types?

JOHN COLE SCOTT: Actually we talked about that a little bit in the last call, I'd like to talk about what's happening just the two, three weeks we've had this year, Chuck. So the average fund in our 15-sector index is up about 2.7% through today, January 21st, to be right on the data, we always benchmark broadly to the equal-weight S&P 500, it's up 3.4%, and we also note they're not part of our work but they're in the market, the Mag 7 are down about 2.5%. We look at really the sectors that have outperformed that peer group average, and international, which was the belle of the ball last year, they're still up 7.5% year to date after their one-month numbers are closer to 51%. Convertible bonds, which is not my favorite sector right now, but they're proving me wrong again, Chuck, 5.5% year to date after 21% one-year results, and the hybrid balanced up 4.2% year to date after 14% one-year results. Again, this is one we called for, MLP funds up 4% after being only up 1% one-year total return, and the large cap BDCs, this is not sexy, Chuck, but it's up 3% year to date after being down 5% on a one-year basis. All of these are total return through the first three weeks of 2026.

CHUCK JAFFE: But when you take a look at something like the MLP funds there, as you said, up 4% in the first couple of weeks after being up only 1.3% over the last year, do you do anything to try to capture that volatility when it works in your favor? Because we know that if it were working against you and you saw that kind of a drop and you had tax losses, you might be doing tax-loss selling almost immediately, but what do you do when the volatility is suddenly working in your favor that way?

JOHN COLE SCOTT: Yeah, so you look at the universe of funds and it's a much smaller bucket than the 25 or 30 when we first started this podcast in 2019, and you look for again if it's still

a good manager, a wider discount, and lean in the underlying dividends and other metrics, so make sure of the expense ratio, but there's a 10% discount in that bucket of funds. KYN is a fund that's relatively attractive right now, it's a large fund that's mostly qualified dividends, and if you think that energy's going to have an above average year, they're still not crazy expensive.

CHUCK JAFFE: It's interesting watching how it all plays out, we will be watching that with you throughout this year. John, thanks as always for coming back to The NAVigator.

JOHN COLE SCOTT: Good 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 I am Chuck Jaffe, you can learn all about me and my show at MoneyLifeShow.com or search for it where you find your favorite podcasts. Now to learn more about closed-end funds, interval funds, and business-development companies check out AICAlliance.org, that's the website for the Active Investment Company Alliance, and if you have questions about the closed-end fund industry, send 'em to TheNAVigator@AICAlliance.org. 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. You can learn about his firm and dig into its data for yourself by going to CEFData.com, and John's on X, you know, Twitter, [@JohnColeScott](https://twitter.com/JohnColeScott). The NAVigator podcast is available for you 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, until then, happy investing, everybody.

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