



John Cole Scott Evaluates Robinhood's New Private-Stock Closed-End Fund

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Chuck Jaffe, in this episode of The NAVigator podcast interviews John Cole Scott, President of CEF Advisors. John and Chuck discuss Robinhood Ventures Fund I, Robinhood Markets is launching its first closed-end fund, which is the first IPO the closed-end fund space has seen in about four years. John sizes up the prospects for the new issue, which intends to be a concentrated portfolio of private companies. Scott, the chairman of the Active Investment Company

Alliance, discusses the role private equities can play in a portfolio, as well as the challenges investors face in sizing up a fund with a net asset value entirely based on the purported market value of shares that don't trade in public markets.

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CHUCK JAFFE: We're looking at one of the most unusual IPOs that the closed-end fund industry has seen in a long time, and we're doing it 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 in that it represents all ends 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 returning to The NAVigator today, it's John Cole Scott, he's president of CEF Advisors, where they produce great data covering closed-end funds, business-development companies, interval funds, and also exchange-traded funds, and you can dig into the firm and its data for yourself by going to CEFData.com. Beyond his own firm, John is chairman of the Active Investment Company Alliance, which you can learn about online at AICAlliance.org. John Cole Scott, it's great to have you back on The NAVigator.

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

CHUCK JAFFE: Well, we in the last week have seen one of, I think it's gotta be categorized as the most unusual initial public offerings for a closed-end fund that we've seen in a long time. The fund is Robinhood Ventures Fund I, it's planning to sell 35 million shares priced at \$25 apiece, and oh by the way, it's launching through Robinhood's platform, basically investors could put in requests for shares as of earlier this week, February the 17th. It already has stakes in a bunch of companies, and there's a whole lot more that's in this. This is a little bit different than the standard IPO, so let's talk about why this is happening, and is this going to be a one-off or is this going to start a trend?

JOHN COLE SCOTT: Yeah, so I'd say a couple things, we've had a lot of people looking to put private equity in a listed closed-end fund wrapper crossing my desk for over a year., the major difference is this seems to have the resources and mechanism to actually get a size that's going to be large enough to be liquid and into the market. With the ongoing conversation about democratization of alternative investments, private equity, private credit, there's a lot of debate back and forth between the best wrapper, between a listed closed-end fund, all the liquidity you want, discounts and premiums potentially, and interval funds, no discounts or premiums, but not all the liquidity that you want.

CHUCK JAFFE: The attractive thing to investors is basically we've got a lot of start-ups, they're not going public as frequently, but in this structure you can own private companies, so Destiny Tech 100, which we've talked about on The NAVigator, has shares of SpaceX and OpenAI, et cetera, Robinhood, looking to do the IPO thing, a lot, right?

JOHN COLE SCOTT: Yes, and again it's good in a way because we always want big funds for us to consider for our clients at CEF Advisors or the retail investors that are looking for options in their portfolio where they don't have access in this capacity, and generally we've never bought the IPO, we're going to follow this very closely and see how it trades and consider the market environment that it's in for private equity, and if there's a discount we deem meaningful, you'll probably see it pop up in our 13 filings over time. We do think the structure does have some good advantages, the fact that there is the ability to, if you choose to, to size up slowly or to get out when you want and not potentially gated in the evergreen structures that have recently been more common for private equity exposures for retail investors.

CHUCK JAFFE: Robinhood is a bit of an unlikely sponsor here in that we don't normally expect the brokerage platform to necessarily become the fund sponsor, but this is kind of in line with their business and what they're offering, so maybe it's not any different from Schwab saying, "Hey, we'll have the Schwab funds," or is it different?

JOHN COLE SCOTT: Well, I mean, a couple years ago Fidelity launched a private or non-traded BDC using their client base as the largest investor base, and initially I was scratching my head until I got to meet their head of private credit, I was actually impressed with both his experience and the software and research they're using to analyze deal flows. So I think this is the extension of where we are with technology and the future of capital markets, where you have up and coming players like Robinhood. I mean, the fee, not terrible, it's 2%, and you know we've talked about the Private Shares Fund, the interval fund, its management fee is 1.9%, and the first six months has been waived down to 1%, which is positive, it's less friction the first six months as they scale up, it's going to be 20% max exposure and 10 plus positions, kind of focused, but again this is a new fund and it's got to start from zero and grow from that point.

CHUCK JAFFE: Of course we haven't seen a lot of IPO activity, I say it's the most unusual one we've seen in a while, that's true but we haven't seen a lot of IPO activity in the fund space of

late. We have seen some efforts that didn't go so well, like Bill Ackman, the billionaire, he tried to start a closed-end fund and he never really gained the traction. Do you think this one gains the traction, if only because Robinhood has that ready customer base?

JOHN COLE SCOTT: My instincts are I would personally be surprised if they hit the billion dollars, but I also could see a future where retail investors get so excited with all the Robinhood app-iness that comes through and maybe it gets above and gets their green shoot over a billion dollars. It's a much different offering than with Bill was doing, because at least you could argue you could buy his UK fund, if not easily as a retail US investor, there was another structure at a discount which would give you that exposure. I do think it's a very different flavor from a Bill Ackman fund, and it could be the future of new funds because the last traditional syndicate IPO was almost four years ago, it was February 22nd, 2022, the last time a syndicate desk created a listed closed-end fund, and that was RLTY.

CHUCK JAFFE: Is there a worry when you get a fund like this that you're going to have a lot folks who get into closed-end funds more because of what they think they're getting or the headline of, "You can buy SpaceX," or what have you, pre-IPO, who don't fully understand what they're getting? Is there a risk, as somebody who looks at the whole industry through what you do with the Active Investment Company Alliance, that you start a name like this, if it winds up being a bust, it has some bleed or some spillover that taints other funds?

JOHN COLE SCOTT: I mean, they are having Goldman Sachs as a partner, that's a step in the right direction, but you do have to think that what if the headlines, either a market event or a private equity, large caliber event, makes people suddenly dislike private equity, because right now the backdrop is there's more interest in private equity and there's longer use of private equity in US capital markets, but also there are more options like we talked about, besides the other funds, the ETFs, the interval funds, tender offer funds. And so I do worry about if the train goes the wrong direction, discounts become terrible, we've seen that historically in the equity BDCs which are similar yet different, much different environment, and I'd like to think that if they come through and they're able to support the structure, if they needed to they could buy back shares, they could offer some sort of tenders that line up with the liquidity of the portfolio. One of the major challenges is when there's no expectation of cash flow at the NAV level, it'll be a lot harder to, even by choice, create tenders because you'd have to be selling your private positions in the secondary market, which is great until

it isn't great. Versus BDCs, good or bad, most of their loans are paying dividends every quarter, you can pay out money and that's positive, so I do see a lot of opportunities, but I think about how they'll handle bumps and bruises and if they have the resources to learn what it's like to have common stock shareholders whether it's firms like us at CEF Advisors or retail investors.

CHUCK JAFFE: We should point out that this fund should be launched before the end of this month, this is all coming together very quickly. But when people think of IPOs normally they're thinking stock IPOs, in that case we understand IPO stands for "It's Probably Overpriced", but IPOs in the closed-end fund space, well, there's been a lot of talk about, do you buy into an IPO on a closed-end fund? Do you wait for it to settle down, et cetera? John, you've always said you look at every player in the industry, do you play with this fund while it's new? Do you want to be in from the beginning? Is there somebody that this is right for? Or is this one you'll wait till they prove it?

JOHN COLE SCOTT: Well, generally historically we've waited for six months until we saw a semi-annual statement with a sense of investments and if there was leverage, there won't be leverage here in my opinion. One way I did think of using it is in my daughter's college fund we currently have some PIIVX, it's a 5% position, I'm adding money every month because she's a couple years from college and I want to be thoughtful on the ticket charge for interval funds. If you want a 5% position, every \$100,000 of capital is a new ticket charge, and so then I'm thinking about if I want to add private equity to her portfolio, I'm not putting \$100,000 in right now regularly, and so this is considering one of the options I could use if I wanted private equity for this growing portfolio to scale up to 2-3%, and then if it was a good price to exit, I could then rotate if I wanted to to an evergreen structure, which is more of my preference. That's one of the ways I think it could be useful, because it's hard with smaller blocks of money to really buy and sell interval funds even if they're full liquid, because ticket charges, they're like \$30 or \$20, depends on the platform, real money when everything else is free.

CHUCK JAFFE: Ultimately, when you look at a vehicle like this, this is trying to do something that's not completely different, there are one or two funds that get into some of this stuff, et cetera, how do you size this one up? Even as you're waiting for six months when you'll have more data, how do you size this one up relative to any other player?

JOHN COLE SCOTT: I mean, I'm going to really be looking at the way they're doing their fair market value marks, which is going to be more like BDCs where you're going to get roughly four updates monthly maybe for some of the portfolio companies, very focused, I would expect a volatile NAV if they're using a well thought out formula. It's going to be like the CLO funds and the BDCs, it may look like a discount or premium because you're waiting for the next 90-day update to see where the actual market's going, I think that's a really important factor for this fund. But really at the end of the day the wrapper is a chance for democratized access to a sector people want, investors in this country can choose to buy a stock, a bond, a closed-end fund, an ETF, this is another option in their wheelhouse, and I want just to make sure people understand that it's going to trade unlikely at net asset value. If it's done well it should trade net asset value for the simple premise of you can't put this in an ETF wrapper, this is not going to be the next large sponsor that can inflow of money every day, but I do think you've got to be very thoughtful of the volatility that could happen when you least expect it, size it appropriately. That's why we tend to size funds 2-4% at CEF Advisors, so that one portfolio holding can't take away the future, whether it's saving for college or saving for retirement.

CHUCK JAFFE: I've got to ask, you talk about how it will trade relative to net asset value, but functionally if this is invested almost fully or fully in private companies, you don't really have net asset value, you've got whatever they paid and basically they're telling you, "Yeah, it's holding its value," or what have you. So you could see some massive spikes if you start to see companies like SpaceX go out, company holds them and they come out at huge premiums, you could also see massive collapses where something is losing its value but it's not showing up in the market. So how do you evaluate that? If you see this trading at a discount, can you say the discount's real?

JOHN COLE SCOTT: Is it a real discount? That's one of my challenges. I would hope that the portfolio becomes much larger than the 10 positions minimum and the 20% max allocation because that's a little volatile even for a well-executed private equity. I sit on my university endowment board and I look at their private equity positions and we get updates quarterly but on delay, but we're in lots of positions and so one company doesn't really change the ability for William & Mary to pay a professor's salary. So I do say that it one of the risks, to watch this scale up, but like any investment it has to start somewhere, it's going to need

investors to create the shares, that's the nature for a closed-ended management company, it doesn't grow unless it does a direct listing or a delay. This functionality is a block of money comes to market, it buys what they said they would, and if they do a good job it ends up trading well and people are happy. But you're right, it's going to be a bumpy NAV, it's not going to be like monitoring a taxable bond fund, even from the most interesting manager, and having most of portfolio marked daily through public marks.

CHUCK JAFFE: And again, they're hoping with Robinhood Ventures Fund I to raise a billion dollars in the IPO. Is that number realistic to you?

JOHN COLE SCOTT: I touched on it earlier. My gut, when Bill Ackman said \$5 billion and we had to pay the load, we weren't but the investors would, I was like this is not going to happen, if he gets \$500 million, he should be happy because he's Bill Ackman, and he pulled it, I don't know what number he pulled it at but he pulled it because it wasn't his sizing. As I said earlier, it's such a different animal because he had a sister fund in London, if you're an institutional investor or can shelter yourself from the tax rules for foreign securities, and I just have to remember all the craziness from Robinhood in 2020, meme stocks, the nature of social media, just the magnitude of people going, "I want this and now I can buy it," and it's cheaper than the Dynasty Fund or whatever they're looking it and so it's a relative value swap potentially, I have no idea. It's going to be a very unexpected outcome and really I think it's going to be successful and raise money, I think if they do their job it'll be long-term successful, but it's definitely going to be a bumpy ride and I don't know how big the number will be once we get through the publicly traded later this month.

CHUCK JAFFE: Yeah, but good, bad, or otherwise, it certainly gives us something fun and interesting to talk about in the closed-end fund space. It's Robinhood Ventures Fund I, it is the new kid on the block. John, thanks so much for giving us your perspective on it.

JOHN COLE SCOTT: Always happy to, and it's definitely more fun than a muni bond fund.

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 and you can learn more about me and my show at [MoneyLifeShow.com](https://www.MoneyLifeShow.com), or you can do it wherever you find your favorite podcasts. Now if you want to learn more about closed-end funds, interval funds, and business-development companies, check out [AICAlliance.org](https://www.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 the chairman of the Active Investment Company Alliance, you can learn about the firm and dig into its research and data for yourself at CEFDData.com, and John's on X @JohnColeScott. The NAVigator podcast is available every Friday, make sure you never miss an episode by following or subscribing to us 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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