



Not All Income Is Created Equal: How We're Positioning For 2026 With John Cole Scott

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In this interview from the NYSE, John Cole Scott, President & CIO of Closed-End Fund Advisors discusses how he's thinking about income-oriented portfolios heading into 2026 amid persistent inflation, evolving interest-rate expectations, and ongoing market volatility. The conversation focuses on how different income sectors have historically behaved across market

cycles and where relative value may exist today, particularly within the closed-end fund (CEF) structure.

Topics and fund sectors discussed include:

- Master Limited Partnership (MLP) CEFs
- Real Estate & Real Asset CEFs
- Senior Loan / Floating-Rate CEFs
- Preferred Equity CEFs
- After-tax yield considerations
- Discount and valuation dynamics
- Historical NAV correlations across income sectors

John also references CEF Advisors' Trifecta Analysis, which blends:

1. Sector & manager exposure
2. Distribution sustainability
3. Discounts and relative valuation

The discussion is educational in nature and intended to help investors and advisors better understand the tools, trade-offs, and data points involved in evaluating income-focused strategies.

🔗 Explore the data referenced in this interview:

- Free CEF & BDC profile pages: cefddata.com
- 40+ CEF & BDC indexes: cefddata.com/index

Powered by CEFData, offering transparent data on U.S. listed closed-end funds, BDCs, interval funds, and ETFs.

JANE KING: John Cole Scott is a second-generation, 25-year industry veteran in the closed-end fund, business-development company, and interval fund landscape. As an investment manager building portfolios of these funds for clients, a database provider for the industry, and the founder of the Active Investment Company Alliance, he brings a unique and multifaceted perspective. John, welcome and congratulations on 25 years.

JOHN COLE SCOTT: Thank you so much. I realized it was the Tuesday after the MLK holiday back in 2001 when my dad asked me to join him and I said yes, and I'm grateful to have done that.

JANE KING: And I'm sure you have seen a lot over those 25 years.

JOHN COLE SCOTT: It's been a crazy 25 years. I hope the next 25 are hopefully less crazy.

JANE KING: That's true. Well, who knows? How did closed-end funds do in 2025?

JOHN COLE SCOTT: Yeah, so overall they did rather well. The average net asset value did a little bit over 11% total return, which is slightly ahead of an equal-weight S&P 500, but the average market price did just nine and mid-change because discounts narrowed about 2.5% on the tail end of the year. So I'd say not as bad year, but not an outperforming year.

JANE KING: Okay. And then if inflation stays sticky, what sectors of closed-end funds might be of interest to investors?

JOHN COLE SCOTT: Good question, because when we build our portfolios for our clients at CEF Advisors, we're always looking for different theses to hopefully make them money on top of their income generation, and we really felt that the MLP or the master limited

partnership sector really only did about 4% total return last year, which means prices were down with dividends collected, and we feel that those generally are great for inflationary components, as well as also REIT real assets. The commercial real estate story, just look around you, any city, New York, even in Richmond, Virginia where we're from, and there's been a lot of pain in the D and C-class commercial real estate. We feel after a couple of years of that pain, the managers, the owners, the investors probably have figured that out, so we're focused overweight on that sector as well. Because it's great to be a contrarian with closed-end funds, Jane, because as you may remember, closed-end funds can trade at deeper discounts, narrower discounts, small discounts, we try to overweight our thesis of NAV with our ability to buy discounted closed-end funds for hopefully extra tailwind for our clients.

JANE KING: Now would you say inflation is the main reason or the only reason why somebody should look at closed-end funds? Particularly those two that you mentioned, the real estate funds?

JOHN COLE SCOTT: Yeah. So I would say that inflationary pressures, which may not happen but could happen, they could stay sticky or close to 2.5%, 3%, some people forecast 2%, I think nobody that sits in this chair, Jane, can actually know the answer, but we feel that really that reversion to mean, that deeper discount, that recently underperforming sectors, if they line up with a possible outcome, is as great way to be buying these funds because they're a part of a diversified portfolio. Where we have 30-35 positions, we build 2% to 4.5% allocations, and so this is a great way to not bet the farm but to put a theme in the portfolio. So we believe it can both be a healing of discounts as well as dividends can possibly grow in an inflationary environment, which is useful because in other parts of the sector dividends are going to come down because rates will come down.

JANE KING: Yeah. Now just about no one is predicting a recession or a bear market, which probably means it'll happen because we know how these things go. Is there, just as a hedge, or a way that investors can invest in closed-end funds to protect? I mean, never say never, what would you advise?

JOHN COLE SCOTT: It is, and so we look at two different asset classes, one's really well rooted in closed-end fund experience, you've got the senior loan market, which is related to the high-yield market, but what it is, it's a floating rate structure and it's more senior secured. And so if you're worried about a company borrowing money and then having a problem, long-term

recovery rates do depend on the environment, but I've seen 60-80% very normal, much higher than the high-yield market. And so the benefit here is that if there's trouble, these senior loans, which currently are yielding about 9% in the closed-end fund universe, are giving you an above average yield and you're getting the ability to be more protected. However, they're floating rate, Jane, so dividends were down a little bit last year, and we expect them to be down next year. The flip of that coin would be the preferred equity sector, that's a little bit more into financials, a little bit more of a duration exposure, not quite investment grade but generally safer than senior loans, but not as high in the capital stack. So it's an interesting mingle of what these options can be, but they're more tax-advantaged, they're qualified dividends as a 90% outcome for many funds, and so if you're a taxable client, you're balancing the floating rate with the higher recovery with the tax benefit versus a different sector of the market.

JANE KING: I was just going to ask about that, the income, the after-tax income differences that you see with all the funds?

JOHN COLE SCOTT: Yeah, so if you think about it, most peoples' qualified dividend rate is 15%, people with tons of income are up at 20%, if you think you're up at that upper level, then if you were to put a senior loan fund yielding 9%, you're probably down in the 7% after-tax yield, if you buy a preferred equity fund yielding 7.5%, you're probably at 7% after-tax income. And so while taxes are never the only thing to consider, we always use them in concert with our discount analysis, our sector analysis, our manager analysis, and our dividend analysis, really to help make good decisions for our clients, and you should therefore put the right funds in the right bucket and consider taxes as part of your analysis.

JANE KING: Absolutely, it makes a difference to consider that as part of the whole equation. Now if investors are seeking diversification, what can you share about these four sectors?

JOHN COLE SCOTT: Yeah, so again, just like taxes, correlation is never the most important thing, but we looked into our 18 years of history at CEFData and we found the MLP funds correlate to REIT real assets and preferreds about 55% over the long term, these are the net asset values of the funds. They correlate to senior loan funds around 69%, and then senior loan funds and preferreds correlate about 71%, and senior loan funds and REIT real assets correlate a little higher, 77%. Most people would say all these numbers are diversifiers, and therefore we can look to build all four of these funds in your diversified income portfolio,

and you can understand that they're not going to all zig and zag at exactly the same time. It's important to note, Jane, we're talking about net asset values, in market euphoria and fear, the discounts can go the same direction for all the funds, and so this is more manager diversification than discount diversification.

JANE KING: Now also there was a CEF Advisors Trifecta Analysis, what did they find out about 2026?

JOHN COLE SCOTT: Yeah, so if you think about our firm as I've worked here 25 years, both on the shoulders of my father's journalistic career, we do manager and sector analysis as a base case. We have to like the story, talk to management, and understand what they're doing, whether it's governance, whether it's when and how to do a rights offering, how to treat shareholders, how to buy in stock, that's a big part of the work we do in our trifecta. The second goes back to dividend analysis, not just whether it'll be more likely to increase versus decrease, or increase more or decrease less, which is our, we'd say more like baseball, we're trying to bat .500 or .600, not 1.000.

JANE KING: Sure, right.

JOHN COLE SCOTT: And then the last thing, very common for closed-end funds and a big part of our work is where things are on a real discount, a recoverable discount, a comparable discount, or a relative discount. All that means in a lot of jargon, how we feel about the likelihood of a discount to be more likely to narrow than widen relative to other options in our portfolio.

JANE KING: So let's talk about some of the particular funds, and some bullet points on those.

JOHN COLE SCOTT: Yeah, so love to give some real ideas for your audience, our audience, Jane, and so this is not a portfolio and these are funds in focus, we can't give investment advice to strangers, as you might appreciate. The first one is an MLP fund, KYN, it's about a 10% discount to net asset value, yielding about 8%, and the dividend actually grew about 6% last year, inflation has been real. It's almost a \$3 billion fund, it's only 17.5% levered, and again, 90% of the dividend is qualified dividends in this fund and the other 10% has historically been return of capital, which is a tax deferable, so very tax-advantaged. It's got a 0.89 beta versus its index, which means it's a little less volatile than its peer group, but again when we're building income portfolios, it's a feature that we like. And again, discounts have tightened about 1% this year, but it's still very attractive based on last year's relative

underperformance, and so very attractive. Another fund we like is BPRE, it's kind of an interesting story, it was a direct listing, about a month ago, Jane, of an interval fund to a listed closed-end fund here in the market, it came out with about 22% net asset value, it's been trading between 14% and 16%, a deep discount, which happens when people want out of an interval fund when it gets direct listed, we've seen it with previous funds. It's about 8.5% yield, only 15.5% leverage, but it's been trading between a 30% and 40% discount, and again, like I said, we believe that this is a sector that will do well. If we were to guess, we think the manager, as the yield curve steepens, will add a little bit more leverage, we think that they'll buy in shares, and we think the net asset value will stabilize and recover back towards some previous relative high-water marks, so our guess is it's a great way to ride real estate at a deep discount, and unfortunately if they don't do a great job, there are some activists that could pressure them lightly to maybe give better outcomes as a put to closed-end funds.

JANE KING: Okay, interesting. And interest rates, we think, may be going lower, so that conceivably could help some of these.

JOHN COLE SCOTT: It is, and on the other side of the equation, looking at a fund that focuses on senior loans is BGX, it's a Blackstone fund, it's about \$250 million in assets, it's 31% levered, 9.5% yield, and again the average portfolio has to hit 6.5% in the base of that to fuel that policy, which we think is very attractive, and it's a 0.6 beta versus index. Again, it's not the only reason we look at funds, but when we build client portfolios, when we can say the NAV is less volatile, the discount is wide and we like the cash flows, it lets our clients sleep easier at night given the markets that we're in. Again, it's 96% earnings coverage, we would expect this fund to pull dividends back about 10% this year, but with the discount wide, and we feel that the market's already put that into the analysis, we think that the discount's more likely to narrow than widen in 2026. Which brings us to that fourth bucket, DFP, it's a Flaherty & Crumrine preferred equity fund, around an 8% discount, about a 7.5% cash flow, and again the manager only has to blend to four and mid-change to fuel that because of the discount and leverage, we find the leverage-adjusted NAV yield really important for closed-end fund analysis. A larger fund, \$750 million, 37% leverage, 98% qualified dividends, Jane, and in the last three years when it wasn't qualified dividends, it was long-term capital gains, I don't think any investor would be upset about long-term capital gains in any of these four

portfolios, and again, another fund with a 0.82 beta to its index. All these indices are at CEFData, so people can check them out on their own.

JANE KING: Okay, and how can somebody find out more about closed-end funds and what you do in particular?

JOHN COLE SCOTT: So you might remember four months ago we integrated our data website with our wealth management website under one URL, CEFData.com, you can choose your own adventure on that platform. We've really grown our index pages, we have over 40 listed indices, and interval funds coming this year, we have profile pages on every listed fund, and again, interval funds and BDCs, non-listed, coming this year, and we also, for 57 quarters, have done a quarterly presentation with me talking for as very long time with 80 or so slides and we just held it last week, it's all archived at CEFData.com/quarterly.

JANE KING: Okay, great. I think it's wonderful for people to take a look at that, find out if it makes sense for them, the closed-end funds, because not a lot of people know they exist so it'd be good to learn more about them.

JOHN COLE SCOTT: Which is why we talk, Jane.

JANE KING: Absolutely.

JOHN COLE SCOTT: So people can hopefully figure them out and use them for their own benefit.

JANE KING: Yeah, love doing it, so thanks much, John.

JOHN COLE SCOTT: Great to be here, Jane.

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