



CEF Advisors' Scott Breaks Down How Bad News Has Impacted BDCs

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Chuck Jaffe, in this episode of The NAVigator podcast, interviewed John Cole Scott, President of CEF Advisors and the Chairman of the Active Investment Company Alliance. Chuck and John discuss the recent issues in business-development companies, which got hammered in March as the market punished software investments, including lenders who made loans to software firms. While BDCs rebounded in April, they remain significantly

down, and Scott discusses how the companies with the biggest troubles have higher yields and bigger discounts, but the top performers are delivering a better return on equity and are the better, safer bet while the industry gets through the current rough patch.

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CHUCK JAFFE: Business-development companies have been making news for the wrong reasons, we're discussing differences between the ones that have gotten in trouble and the ones that haven't, and we're doing it with John Cole Scott, president of CEF Advisors, this is

The NAVigator. Welcome to The NAVigator, where we discuss all-weather active investing, plotting a course to financial success using closed-end funds. The NAVigator's brought to you by the Active Investment Company Alliance, a unique industry organization representing the entire closed-end fund industry from users and investors to fund sponsors and creators. If you're searching for excellence beyond indexing, The NAVigator's going to point you in the right directions. And today, we're discussing business-development companies, which got into trouble with the market woes that hit the software business back in March, which recovered nicely in April, but which are still unloved by the market right now. We're having the conversation with John Cole Scott, he's president of CEF Advisors, where they produce great data covering closed-end funds, business-development companies, and interval funds, and John, well, he's going to be discussing data that you can dig into for yourself by going to CEFData.com. John is also chairman of the Active Investment Company Alliance, which is online at AICAlliance.org. John Cole Scott, welcome back to The NAVigator.

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

CHUCK JAFFE: John, we have talked plenty about BDCs, private credit markets, et cetera, here on The NAVigator and with you, we've had a number of top BDC officials here on The NAVigator. But given the headlines where BDCs were scaring the market, I know you have dug in and taken a look at basically a group of the most liquid, big BDCs, and then which ones are on top and which ones are on bottom, and the idea here is not let's look at who's winning or losing, it's is everybody impacted by the trouble? So let's talk about the troubles, how you set up the research, and what you found.

JOHN COLE SCOTT: Yeah, so I was preparing for a CFA talk this week in Cleveland and I was adding a slide to our deck, and I was sifting through our freshest data file which is through May 8th, 2026 and I was looking at basically all the BDCs over \$250 million in market cap, basically looked at the top 18 and the bottom 18 based on their one-year return on equity or ROE, and really found a lot of stark differences, except for one main thing. You probably remember, Chuck, a couple months ago we added an AI-risk score at CEF Data for the holdings of BDCs and also did a weighted risk score, so if one BDC is 20% software and one BDC is 40%, we can normalize that exposure. And for that, the top ROE BDCs have a CEF Data Risk Score of about 5.2, and the bottom 18 have a CEF Data Risk Score of 4.98, technically different but not that different, and all the other data is dramatically different, as you suggested.

CHUCK JAFFE: In terms of what you found, the market has run away from BDCs to some extent, and I've asked others the question of, "Did they throw out the baby with the bathwater? Have they thrown out the good with the ones that they've perceived as bad?" Your research suggests that the bad aren't necessarily as bad as everybody thinks they are, but the good is way better, so help us understand those differences and then we'll maybe point folks towards what is standing out.

JOHN COLE SCOTT: Yeah, so really the average one-year ROE for those 18 better BDCs is 11.1%, and the bottom 18 was 1.1%, huge differences. What's interesting is the net asset value total returns line up roughly in line at 11% and mid-change and 1% and mid-change, over the long period of times, ROEs and net asset value total returns tend to line up, though can dislocate at a fund level. And even as market price total return is what we actually experience for our clients and your listeners do, the one-year total return for the better BDCs was a +5 and the worst was a -7, so really definitely different fundamentals. And what's also interesting is that non-accruals were only slightly better at about 1.38 for the top ROE BDCs, and 1.53 for the bottom, the rest of the data though was actually significantly different.

CHUCK JAFFE: Are the differences that we're talking about based largely on the things that the market saw in the BDCs that were getting in trouble, which was basically over-reliance on making loans into the software business?

JOHN COLE SCOTT: And that's where our CEF Data Relative AI-Risk Score really gives me the confidence to say, "No, it's not just software." Software did start to have more non-accruals and had a lot of note of risk, but the actual answer of data we've been able to collect is it's much more the quality of the manager, who they wrote the loan to, how they structured the loan, how they supported their portfolio company through the life of the loan, and then created that return on equity which would be passed through as returns for shareholders, and mostly in dividend form. So software is important, and it did lead probably more payment in kind from software and software could be more cloudy in the future, but to date, it's not been the driver of the distinguisher of better BDC, worse BDC.

CHUCK JAFFE: Let's talk about factors that frequently investors are looking at, the BDCs that are "better" have a narrower discount, the BDCs that are "worse" have a much larger discount. Is the discount enough that you want to be doing bottom fishing even though that puts you into the area that folks are scared of when it comes to BDCs right now? Or do you want to be fishing at the top end of the pool here?

JOHN COLE SCOTT: One thing we've shared over our seven years almost of this podcast is BDC investing is different than closed-end fund investing, it is usually far more likely that dividends will get crumbled faster in weaker BDCs, the net asset values will trend to market prices. So like you said, the better BDCs average a 1.1% discount and the worse group is a 26% discount, a 25% difference, and I would still suggest doing most of your fishing in the top half and be very selective. Again, we like to find bruised, not broken BDCs or closed-end funds in our research at CEF Advisors, and I think there's possibilities in the bottom half and not every top one is a perfect investment today because they might be trading really expensive to book, but it's still not where we put most of our money for most of our clients.

CHUCK JAFFE: Are you getting paid dramatically more in terms of yield to go after the ones that are near the bottom?

JOHN COLE SCOTT: Kind of. So the average top BDC is at 10.7% indicated market yield, the bottom is 13.4%, on top of that the dividend growth rate on a one-year basis is -6% for the better and -12% for the worse. I would argue, if we could fast forward three, six, nine months, you'll continue to see more dividend reductions on the funds that can't earn ROE on their capital, and have more credit issues and just have been weaker in the market. The dividend cuts will continue to be wider for weaker BDCs and more stable for solid and better performing BDCs.

CHUCK JAFFE: If that discount is that wide and it stays there for a long time, because I think the PR impact of this little problem is going to stay with the industry until something else becomes the next thing that the industry's worried about. If the PR problem stays there for a while, and these loans that they've got are maturing and they're changing their portfolio and maybe becoming less software reliant and the market is maybe getting a better understanding of this, do we get to a spot where you go, "Oh, I definitely want to go bargain hunting"? If this is still hanging over the market and the industry in five months, are you at that point going, "Hmm"? As we're getting near year end, tax loss selling and whatever we might do, do we want to be bottom fishing at that point?

JOHN COLE SCOTT: So I'll say right now the software exposure, we use AI risk exposure because we have a little bit wider definition than just software, is 16.7% for the top performing, and the bottom is 22%. Again, a bigger number, but the key would be, a year from now, are the bottom BDCs still doing way lower return on equity? There's negative return on equity in this mix to get to a 1%, and so that's going to be a big driver. I would say,

as I said earlier, when I build a diversified portfolio we usually have three buckets of BDCs, we're tactically thoughtful on the better quality, trading richer, often a premium, either internally managed or some of the better quality at small premiums, we then have middle of the road BDCs where they're mostly sturdy but not quite as high of valuation, and then we do have those bruised, not broken that we pick in almost all of our portfolios for our clients, and so that is the answer. I could see some of the bottom 18 being applicably useful in the market, but I wouldn't just use those 18 as the base case in my experience for what's going on, because the discounts are wide but the ROEs are not performing at all.

CHUCK JAFFE: And maybe the moral of the story, at least for retail investors, and also advisors who are looking at it, is why are you stretching even for a 13.7% yield on average going to the bottom end when you can stay at the top end and find an average yield above 10%? And, oh, by the way, much better return on equity, right?

JOHN COLE SCOTT: Yes, and the goal of this was really to talk about the software, continue to be less, not unimportant but less all the big pullbacks and concerns we've seen, and to consider other factors more important than software. But absolutely, we would see that a 10.7% yield is still a very good yield, and there are opportunities to look at dividend coverage, look at other factors that we didn't cover today that are also important. But I really wanted to cut into just how dramatically different these two buckets were of the same size of peer groups, and that some people would naturally be attracted to higher yields and deeper discounts but they have to go back and actually look under the portfolio and see are these managers actually doing the job you are paying expenses to have them do for you?

CHUCK JAFFE: Yeah, from the sounds of it, look at ROE, look at other factors before you look at the general discount, and make sure you're not buying the thing that is too dependent on software and maybe too tied to what's happening with current events.

JOHN COLE SCOTT: It is. No data point is perfect, that's why we collect many and use many and evolve our thinking around it. And again, we're going to re-run this data and post it on my LinkedIn page once we have the full calendar quarter and see how true these two thirds of inputs are to what we saw in the first quarter of '26 earnings for BDCs.

CHUCK JAFFE: John, really interesting stuff. I'm sure we're going to be talking about it again as we watch it play out, but thanks so much for joining me.

JOHN COLE SCOTT: Always good to be here.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe, and I'm Chuck Jaffe, you can check out my hour-long weekday show by going to MoneyLifeShow.com or you can search for it on your favorite podcast app. Now to learn more about closed-end funds, interval funds, and yes, 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 is chief executive at CEF Advisors, and you can dig into their data for yourselves at CEFDData.com. You can also find where he is on LinkedIn there so that you can follow and make sure that you don't miss when he follows up on the BDC data he talked about here. The NAVigator podcast has something new for you every Friday, so make plans to join us again next week for more closed-end fund fun, and follow us on your favorite podcast app so you don't miss an episode. Until next week, happy investing, everybody.

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