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John Cole Scott On Q2 And The Rest Of '26 For Closed-End Funds, BDCs

A 90% Premium Evaporated in Weeks — And It Had Nothing to Do With the Manager

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Chuck Jaffe, in this episode of The NAVigator podcast, interviewed John Cole Scott, President of CEF Advisors. John provides takeaways from the second quarter for closed-end funds and business-development companies, noting that the trend was for investors to make most of their money on net asset values rather than narrowing discounts, which creates potential for a strong second half of 2026 if there is an uptick in investor sentiment. Scott, the chairman of the Active Investment Company Alliance, brought forward data from his firm's quarterly outlook presentation this week, noting that it shows that while headline risks have hurt BDC prices, underlying strength should make for a strong rebound later in the year, particularly as the actions of the Federal Reserve become more clear.

TOPICS DISCUSSED

- Q2 2026 closed-end fund sector performance, with equity funds up 15% while BDCs fell 8% year-to-date
- Why discount narrowing drove a bigger share of down months than up months for CEFs
- Robinhood Ventures Fund's (RVI) premium collapse from 90% to 10% after SpaceX's public listing
- Pershing Square USA's discount versus Bill Ackman's London-listed fund
- Redemption gate pressure on non-traded BDCs and Fitch's negative outlook for the sector
- BDC earnings season and Fed rate expectations shaping the industry outlook for the rest of 2026

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.

THE CONVERSATION

CHUCK JAFFE

We're getting the takeaways from the first half of 2026 for closed-end funds, interval funds, and business-development companies, we're getting it from John Cole Scott, president of CEF Advisors, this is The NAVigator.

Welcome to The NAVigator, which is all about all-weather active investing and plotting a course to financial success using closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, which is a unique industry organization that represents the entire closed-end fund industry from fund sponsors and creators down to users and investors. In the search for excellence beyond indexing, The NAVigator is pointing you in the right directions.

And today, we're getting the details on the second quarter of this year and the outlook for the rest of the year, we're getting that from John Cole Scott, president of CEF Advisors, which this week hosted its quarterly outlook for the closed-end fund industry. This is the 59th quarter in which the firm has done an outlook presentation on the state of the industry, and if you want to dig into the details, you want to get the latest slides, the updated industry data and how it might impact where you're looking, well, you can find it all at CEFData.com/quarterly. CEFData.com, the website for CEF Advisors, again /quarterly to get the most recent details. John, by the way, is the chairman as well at the Active Investment Company Alliance, you can learn about that at AICAlliance.org.

John Cole Scott, it's great to have you back on The NAVigator.

JOHN COLE SCOTT

Always good to be here with you, Chuck.

CHUCK JAFFE

John, by most objective performance measures, these have been pretty good times for closed-end funds and interval funds, but discounts have gotten wider over the last 18 months, so that means that the returns are the result of buying the right investments, not from the market saying, "Hey, we love closed-end funds!" Right?

JOHN COLE SCOTT

Yeah, so you know we track the sector through a 15-major sector index, that posted a year-to-date return of just under 9%, a lot of that coming in the second quarter. But you dig under the hood of the major pieces of that, equity funds were up 15%, that makes sense, it's been a very bull year for not just US equity but global, taxable bond funds are only up 1% year-to-date total return, you've got muni funds up almost 6% total return, and of course BDCs are off -8% total return. So even at that higher level, it's definitely under the hood, and there's even more dispersion at those subsectors where there's been winners and losers as well.

CHUCK JAFFE

Are there bigger takeaways from the broad picture of the industry during the second quarter and the first half of the year? Is there stuff we can say that kind of fits in or is it all at the sector level and there aren't general trends?

JOHN COLE SCOTT

I mean, we've covered it before but BDCs ended at such large discounts that it's only been wider during actual recessions that were angry like Covid and the Great Recession. But then we dug in, remember, we have those newer BDC indices, we have a large cap and a small cap, and the large cap one was up 3% this quarter but only down 4% for the year, and the small cap one was up only 2% for the quarter and off 11% for the year. And so even at that other level, these larger credit platforms, though not all are favorites, are generally performing better as investors are rewarding size, scale, usually cheaper leverage and cheaper expenses in that subsector.

And then another thing we did which was kind of interesting, we're always thinking of the average closed-end fund portfolio, that 15-sector index, it's 174 different months we've done it, how does that break down? So interestingly, the average up month and down month are both just shy of 3%, that's a good average return on the good side, no one loves the down side.

We dug in a little deeper, 63% of the months are positive, but the most interesting thing that really won't surprise investors in this space, that on those positive months, 25% of that move was discount narrowing, the rest was NAV and dividend, on the widening months it was 37% of that downside move was discount. So it reminds me of the fact that these funds, while they can bounce up, they usually bounce down faster, and that's also a reason when things are feeling more negative, to be more optimistic for closed-end funds.

CHUCK JAFFE

Let's take that discount story and dig in on a couple of things that really, for the closed-end fund industry, certainly made headlines. Specifically I'm talking about two funds, Robinhood Ventures Fund and Bill Ackman's Pershing Square USA, they were making headlines around their discounts, but hardly for the same reason. So explain the stories a little bit, and also the lessons you think investors might take away from them.

JOHN COLE SCOTT

It is two topics we have talked about earlier this year on The NAVigator, but I assume not every listener listens to every episode, so I'll give you the updated highlights. So RVI, the Robinhood fund, its premium had hit a 90% earlier this year, it collapsed at quarter end to 30%, and just for fun, the day of our session, on Tuesday, I checked it, it was down to 10% premium.

The best example I have or the reason I can give it, is that SpaceX, a large reason people were excited for that closed-end fund, is now a public company, you don't need to own RVI to own SpaceX, and whether you should or shouldn't own SpaceX, this is no longer a choice for them. And also OpenAI, another name, already has IPO timed probably for this fall.

Other side of the coin, Pershing Square USA, Bill Ackman for the second time tried, this time succeeded, we've covered that as well. There's a London fund that's not easily investible by US retail investors, only institutions, it's trading around a 22%-ish discount. One way to think about that, and his fees are lower in the US than London if you do have that choice, you have 11 years of fees baked into the discount.

Now, will the discount ever reduce? I think it should, it is predicated, as I said on that earlier podcast, he actually does a good job with stock picking, when we do get a bumpy market his idiosyncratic hedges add value and then people want to be riding his NAV rails. Which honestly, the only reason to buy a closed-end fund, whether it's a 10% discount or a 5% discount or a 2% premium, is you want to be in the NAV rails and there's no other way to get that exposure, and you're comfortable with that fund.

CHUCK JAFFE

You could certainly see, the same way that people were over-bidding and pumping up RVI because they wanted to have the early access to the pre-IPO shares and they could want that for the next big IPO, the same sort of thing. You could understand somebody if the market gets hairy enough going, "I think I want to be in a fund run by Bill Ackmann, especially if I could buy it at a big discount."

JOHN COLE SCOTT

And the fact that his experience with that fund in London, while it's less liquid as I said, it's a great way you can see his track record, and the fact that he can't charge performance fees in the US, one benefit of the 40 Act for all of our investor clients here in the US.

So overall, they're two good funds, and Robinhood has another N-2 filing for a probable version two, let's see if they can get the right holdings and the right interest to get another $600-700 million fund. Which again, creates more products that our firm, CEF Advisors, our audience, investors and advisors, can all choose when they want to liquidly for their clients or themselves.

CHUCK JAFFE

As you mentioned, business-development companies also made headlines during the second quarter, not the kind that they would have liked to make; and the public perception of BDCs may have deteriorated as a lot of the issue wasn't just performance but it was redemption gates, basically the mechanism that makes it so that investors can't just bail out when things get hairy.

Is that story, the upset about redemption gates, et cetera, is that story real or is this just a lot of unhappy investors who chased yield, they didn't know what they were getting when they were getting into it, so now they're not happy that they can't get out of it?

JOHN COLE SCOTT

So a couple things, we don't currently invest in not semi-liquid BDCs because we just have so much experience and our clients are comfortable with the additional volatility on exchange listed BDCs, which recently they maybe would have preferred non-traded because of the no discount widening. But we looked at a recent report, even since the quarter ended, where Fitch has looked at 13 of the larger non-traded or private BDCs and they've given three of them a negative outlook and 10 of them a stable.

A negative outlook doesn't mean that the investments are doing bad, they're just seeing more issues with the amount of redemptions and the way the portfolios roughly cycle each 20% a year just by the natural churn of BDC holdings. And then just a couple days later another large BDC, a $3 billion one very into private credit, not unlike others previously, investors asked for 11% and they maintained the 5% that they're obligated and required to give as per prospectus and the regulation that governs non-traded BDCs, which means if you were that investor, you got 46%.

Now here is where I think the view is nuanced, I want for investors in that fund that didn't want their money back, to get the best portfolio holdings, the best dividend experience for the rest of their investment. If you wanted to be a 10-year investor in private credit and you picked any manager, you didn't need your money back, your performance shouldn't be impaired by the manager going, "Oh, we're going to give 10% this time and just sell what we can and see whatever prices we can get."

That's where the fiduciary board and the fund sponsors detrimentally in theory to those asking for their money back because they're not hurting the shareholders that maintain exposure.

And then secondly, I think we're going to learn, and I've covered this before on panels and podcasts, we're going to learn which advisors and platforms got the right documentation and suitability at the right sizing and the right duration and all the documentation that you're supposed to do as a fiduciary advisor in the next quarters. And I think a lot of them did it the right way, that's common in our industry, but a few may not have and it's going to be a little bit more heartburn for those firms and advisors.

And again, remember, we have so many different structures, if you can't handle a non-traded BDC, there's listed closed-end funds, there's listed BDCs, there's ETFs, now ETFs can't own the same guts but they can still get you other sectors and other investment experiences.

CHUCK JAFFE

Well, and as you pointed out, there's a reason why you're not buying things that necessarily have redemption gates on it. I just keep looking at this going, yeah, I understand investors who can't get all of their money out or as much as they want to get out are unhappy, at the same time, this is working for investors.

JOHN COLE SCOTT

Yes.

CHUCK JAFFE

If you are that long-term shareholder, it's doing exactly what you wanted it to do.

JOHN COLE SCOTT

It is. If you have an allocation of private credit, you picked the manager that meets your needs and you are not trying to be strained by the environment, then absolutely correct. This is why this sector, not beyond AICA, not beyond The NAVigator podcast, more people need to explain the structure and the mechanics.

Unfortunately, most investors and advisors only learn from their own pain and not from just reading prospectuses. I also learned from my own pain, I could just read history books and not make some of the same mistakes in my personal and professional life. The first time you inadvertently put everyone's email address in a CC not BCC, you get heartburn and you hopefully never do it again. It's kind of like that.

CHUCK JAFFE

Yeah, and reading prospectuses, by the way, is also its own form of pain that some of us suffer whether it works out for us or not.

I want to change the subject but stick with BDCs. BDC earnings are due at the end of the month, that's also the next time we get a take from the Federal Reserve on interest rates. What are you expecting, and more importantly, what do you think investors are going to do and how they're going to react?

JOHN COLE SCOTT

So as you know, next week the Fed meets the 28th to the 29th and the earnings season kicks off, the largest big one is Ares Capital on the 29th, and we've gotten some pre-numbers, and we've had Saratoga, always announces a month early, and so a lot of us have gone through what we think. We do expect, our base case is slightly more elevated non-accruals in software and generically for the sector, we feel that the software is not going to be hairy and angry but just becoming more of a real pervasive risk, and we're learning which managers wrote the deals right when they did and maintained them well during the process of being a private credit manager.

And again, like we saw the bifurcation just price performance to date in large and small, we find, as we covered in the podcast for it, even the better managers and worse, and not every bigger is better and not every smaller is worse, but that's the easiest brush. So we're looking for overall a positive outcome versus the sentiment on BDCs, we don't think they're going to heal their discount over night or even in the next quarter, but we think it'll be very constructive as we get the interest rate moves.

And if interest rates tick up a little bit more this year, as that's the dot plot estimate, that's going to be generally positive for the underlying holdings yield to investors. And a lot of BDCs that wanted to have reset their leverage at the current rate versus a year ago, and so I don't think it'll be terribly painful for BDCs to have rates go up a little bit. Though I don't think they're going up much more than one increase, in our opinion, at CEF Advisors.

CHUCK JAFFE

Lastly, what's your outlook for the industry beyond BDCs for the rest of the year? I mean, if you had to tell us we're going to have some takeaways from 2026 six months from now, what are they likely to be?

JOHN COLE SCOTT

I think BDCs are going to look very good when we record our year-end podcast, that's my educated guess, because at levels we've seen now, it is previously when the economy is broken. And right now the headlines driving it aren't the underlying loan work breaking, it's just new perspective, lower rates, people thinking non-traded BDCs having redemption pressures is negative for listed BDCs.

There's an above average chance that if you need to sell some of those loans or choose to as a non-traded BDC, the most likely buyer is one of the larger group of listed BDCs, which means they might get a good discount on a good loan that's liquid enough to maybe trade, these are ideals.

And again, when you're this cheap and the market is this angry, it's hard not to win eventually. The challenge is we don't know if eventually is November, January, or when Lexi goes to college, just to say we don't know the future, but my guess is it's sooner than later because the structure is well designed and well maintained by good managers.

CHUCK JAFFE

And Lexi, by the way, is John Cole Scott's daughter, she's got a couple of years before she's going off to college.

JOHN COLE SCOTT

She's almost 16, so she's not quite on the way to grad school. Thank you for clarifying.

CHUCK JAFFE

We will have other things and other takeaways from you before we get to the end of the year, and then as we do get to the end of the year. John, it's always great to catch up with you, thanks for spending the time on The NAVigator.

JOHN COLE SCOTT

Always great being here, Chuck.

CHUCK JAFFE

The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe, and yeah, I'm Chuck Jaffe and you can learn more about me and my hour-long weekday podcast by going to MoneyLifeShow.com or you can simply find the podcast wherever you find your other favorite podcasts. 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. You can learn about the firm and dig into its research and data for yourself at CEFData.com, and oh by the way, add /quarterly if you want to get the quarterly details that we've been talking about here. John's on X @JohnColeScott.

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