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John Cole Scott Breaks Down Recent Media Recommendations On CEFs

What Forbes Got Wrong on PTY (and Seeking Alpha Missed on VVR) — Based on CEF Advisors' Trifecta Analysis & Data

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Chuck Jaffe, in this episode of The NAVigator podcast, interviewed John Cole Scott, President of CEF Advisors. When closed-end funds catch mentions in the mainstream media, the recommendations often focus on yield without digging deeper. John looks at some recent closed-end fund recommendations from articles on *Forbes* and *Seeking Alpha*, and breaks down how those funds do through the "trifecta analysis" his firm uses to select funds, pointing out the shortcomings of using a rigid criteria or focusing on partial information to make decisions. Scott, who is also the chairman of the Active Investment Company Alliance, offers suggestions for what he would use in portfolios in place of the media recommendations.

TOPICS DISCUSSED

- Breaking down Forbes' “two cheap bond funds” pick, PTY (Pimco Corporate & Income Opportunity), and why its yield story oversells the fund's sustainability
- How CEF Advisors' “trifecta” analysis — discount, dividend sustainability, and leverage/expense/manager quality — balances multiple factors instead of chasing one metric
- An alternative pairing to PTY (two parts PAXS, one part DSL) that offers a deeper discount and a more sustainable NAV yield
- Seeking Alpha's Triple-Factor screen naming VVR (Invesco Senior Income Trust) twice, and why a rules-based screen doesn't guarantee fund quality
- VVR's declining earnings coverage (90% to 82%) and rising return of capital (nearly 28%) — red flags for a bond fund
- An alternative pairing to VVR (two parts ARDC, one part BGX) offering stronger earnings coverage, no return of capital, and better resilience to rate moves

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: cefdata.com
- 40+ CEF & BDC indexes: cefdata.com/index

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

If you own closed-end funds or business-development companies, you may be overlooking discount shifts, leverage changes, sector rotations, earnings resets and more. A focused portfolio review from CEF Advisors will review positioning and help identify risks while uncovering potential opportunities across your holdings. Schedule a conversation at CEFData.com/contact. Results will vary.

THE CONVERSATION

CHUCK JAFFE

You don't have to go far to find media mentions suggesting that certain closed-end funds might be worth buying. Well, John Cole Scott, president of CEF Advisors is here to talk about some funds that got recent mention and whether they actually are worth buying, this is The NAVigator.

Welcome to The NAVigator, which is 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, a unique industry organization representing the entirety of the closed-end fund business from fund sponsors and creators, managers all the way down to users and investors. In the search for excellence beyond indexing, The NAVigator's pointing you in the right directions.

And today, we're finding out if a couple of recent media mentions of closed-end funds are pointing investors in the right direction, and we're doing it with John Cole Scott, he's president of CEF Advisors. If you want to learn more about the firm or dig into its data on closed-end funds, including researching the ones you own or are interested in, go to CEFData.com. John is also chairman of the Active Investment Company Alliance, which you can learn about at AICAlliance.org.

John Cole Scott, welcome back to The NAVigator.

JOHN COLE SCOTT

Always good to be here, Chuck.

CHUCK JAFFE

You know, John, I know you read everything you can about closed-end funds, and you like pretty much anytime they catch a mention, but the truth is not every mention of closed-end funds is a positive one. Even if it's saying good things about funds, there are plenty of times where the mention talks about a fund, focuses in on one thing, but you, because of the way you do analysis, don't like it so much.

So we're going to dig in on a couple of those, and we're going to start with a piece that Brett Owens, a contributor to *Forbes*, wrote back on July the 29th. We're going to link it up, by the way, in today's show notes, and it was two cheap bond funds paying dividends over 10%, and I know you want to focus mostly on one of those funds. It's PTY, Pimco Corporate & Income Opportunity. So let's start there, talk a little bit about what he was saying about the fund, and then a little bit more about how you were feeling about the fund.

JOHN COLE SCOTT

Yeah, when he posted the article he was saying it's a 12.3% yield, it's only a 2.7% premium, its five-year average is north of 20%, it's the cheapest it's been in over a decade, and there was even another author that recently put it as one of his top fund quant screens as additional support for it. And while we would argue Pimco is one of the top credit managers in the market, we ran the data through August 10th and it's actually even higher.

It's a 3.4% premium, the one-year average is just below 10%, it's only been to a 2% discount, and the yield is 12% and we see that only 84% is actual income. The manager has to clear 9.6% after expenses and leverage costs, and the return of capital is, again, 16%, which means something's going on beyond just net investment income for a bond fund.

And then the real simple test, if you ever look at the one-year, three-year, five-year, be thoughtful on the entry point, but the NAV total return has to fuel NAV yield or it's not sustainable over long periods of time. The five-year NAV return is 8% and low change, the NAV yield is 12.4%, which is a 4% lag, and so it's just really hard to see it as a good decision.

And it's worth noting, he says, "Oh, this might go back," or "Could go back to a high premium," and we've been telling investors for years now that with active ETFs and interval funds competing for investor dollars, it's unlikely in the future market to see the premiums we saw in these funds. Because we do believe dividends will have to come down because we don't see the next three to five years feeling like the last three to five years for credit funds.

CHUCK JAFFE

When you pointed me to this article, and I read it, my thought at that point was, one, this is just about chasing yield and saying, "It's an established fund that's paid this yield for a long time," without breaking it down.

But two, if I'm going to be a close-end fund investor and I've got a choice between two funds, one's trading at a discount, one's trading at a premium, both are trying to throw off high yield, the chances that the premium gets significantly higher, which is what he was hinting at, seemed to me to be way smaller than the chances that the discount gets narrowed.

JOHN COLE SCOTT

Yes, historically in most cases that's true. Though for many, many, many years, I mean, like most of my career, people said, "Pimco is special. They get this premium for their active management, their secret sauce, their software, their hedging, the fact they kept their option rate preferreds longer beyond when Nuveen and Blackrock did after the Great Recession. Yeah, it should go back because it once was there."

It reminds us, if you don't do the research to know why things may have changed, you might assume the bounce will be the same. But as you know, markets adapt and there's way more products today than when this fund was at a 20% premium five years ago.

CHUCK JAFFE

It wasn't Brett Owens only fund, it was two cheap bond funds. We should at least tell everybody that the other fund he mentioned was DoubleLine Yield Opportunities, that's DLY. Your quick take there?

JOHN COLE SCOTT

It's not our favorite DoubleLine fund, they have two funds, DSL and DLY. I think that one has less of a premium erosion issue, though it doesn't trade as well as we typically would go for. But as you bring that up, we thought how could we maybe give people an idea of a similar exposure, and we tried to make relatively simple for the audience, Chuck.

I couldn't find one fund that was the right pair in our dataset, but I found two that gets us kind of close. There's another Pimco fund, PAXS, it's a newer launch, if you roughly two parts that and one part DSL, the other DoubleLine fund, you get almost a 4% discount, which is a seven point swing, you get a little bit more sustainable leverage adjusted NAV yield, 8.9% versus that 9.6%. The same dividend coverage with slightly more leverage, you're getting similar guts, not perfect but relatively similar, and yet the possibility of maybe some discount narrowing or just not worried about the dividend being as risky for a larger cut and banking on future premiums to be the answer to bail you out.

CHUCK JAFFE

You're more or less saying he picked the wrong funds from each firm, that you would have been better off doing two other funds that they offered. Don't be suckered in by the high yield and think that the premium is some sort of seal of approval.

JOHN COLE SCOTT

But remember, our process is not myopic, we actually balance the discount range and outcome opinions of our firm and the data we have to support it. We balance the dividend sustainability and characterization in our process, and then we balance the leverage cost, the expense ratio, the quality of the manager. That trifecta is not meant to say one of those items is the only important one, but we do our best to balance it like an orchestra versus a single instrument in our research process.

CHUCK JAFFE

Let's move this over to the other fund where you were making sure I was aware they had gotten some attention and it was an interesting case. And it really is, because the other fund is the Invesco Senior Income Trust, its ticker symbol VVR, and Stanford Chemist's Triple-Factor screen on *Seeking Alpha* twice named VVR, June and July. And again, we will link the Triple-Factor screen to our show notes, for deep discount, strong coverage, yields up to 11.6%. But the thing is, this is a screen that's rules-based, if you pass the test, you make the list. That's okay, but that doesn't guarantee that you're going to have a good fund.

JOHN COLE SCOTT

In our opinion at CEF Advisors, it's never a simple three-rule test, in our opinion, to build a portfolio. It's true, it's currently around 11% and low change discount, but that's not so similar from other peers that we would choose for our clients. Its yield is 11.6% as of August 10th, and it's not all from net investment income, there is some return of capital there.

I did note, because we have earnings coverage because it's a later time period, through June 30th, it's dropped from 90% when he reported down to 82%, I'd argue not the direction you want in a bond fund where that is your goal. And the 12-month return of capital is currently showing almost 28%, which is even more than the 16% we flagged in PTY. And again, there's almost no duration, it's mostly non-investment grade. Again, it's a discount opportunity but it's not a good yield, and I think there's a lot better options to consider to pair a close NAV at a more sustainable dividend and a reasonably close discount.

CHUCK JAFFE

Was there another fund that if somebody was going to be looking at that fund, you'd go, "You know, my alternative would be…"?

JOHN COLE SCOTT

Yeah, so again, we tried to find one fund that was a simple companion for the research, but again, could not. So the closest simple we have was two funds, one we've talked about regularly, ARDC, which is an Ares fund that's multi-sector in the credit space, and then BGX, a Blackstone fund, doing a two-ratio ARDC, one ratio BGX. That blends to almost a 9% discount, which is not as deep as VVR, and you do get a lower yield, 10.3%, but still over 10%, which he was kind of calling out as a goal versus the 11.6%. The earnings coverage, while not perfect and not the only thing to care about, is 94%,, which is way better than the other one, and there's zero return of capital in either of the funds' last year's notices, which means they're seeking to return distributions and income as their goal at the fund level.

And if we think about the future, one of your guests this week talked about the grey ball or the cloudy crystal ball, I guess, our feeling is we're expecting one hike at some point this year and then cuts later. We looked in the portfolio, we did our math, and we think that VVR will be hit more negatively by that by about 26 basis points in that scenario versus only seven or 1/5th roughly of the blend, and so it's a better outcome.

But it's worth noting it's a different portfolio, there's some CLO equity and debt, but not a huge amount when you weight these two funds together, it's still a double-digit yield and it's a discount that we think will narrow over time. But honestly, we think the NAV will handle what we think will happen going forward better and the distributions are more earned so it's more likely they're sturdier, or we use "durable" with our clients at CEF Advisors, going forward.

CHUCK JAFFE

And the real moral of these stories is there's a lot of reasons why somebody can be attracted to a fund, there's a lot of things that can be put in for like, "Hey, this is what we're searching for. We want to find a fund to write about it because it's got a big yield," or something along those lines. It's very seldom that those solutions are necessarily the ideal solutions.

JOHN COLE SCOTT

It is, and our process tries to take more into account, the process we shared, the experience, the depth of data we have, the ability to sort through it and consider multi-factor analysis versus single-factor analysis. Just because it's cheap to itself doesn't mean it will go back to where it was.

Again, I always say, when we build a closed-end fund portfolio it's like stacking the deck in your favor, we still don't know what card's coming up next, but we hopefully have a better chance to beat the dealer more times than not based on having generally more information, more perspective, and more patience than folks that don't have the depth of our analysis.

CHUCK JAFFE

And that's why we appreciate the depth of your analysis, John. It's great to be able to have it and to help people understand that, yeah, you want to get a little bit deeper if you're going to make closed-end funds work for you. Thanks as always for joining us on The NAVigator.

JOHN COLE SCOTT

Great to be here as always.

CHUCK JAFFE

The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. And yep, I'm Chuck Jaffe, you can learn more about me and my show by going to MoneyLifeShow.com or you can just look for it in your favorite podcast app.

Now to learn more about closed-end funds, interval funds, and business-development companies, go to AICAlliance.org, it'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 chairman of the Active Investment Company Alliance. You can dig into the firm's research, learn more about the firm and John as well by going to CEFData.com, and John's on X, he's @JohnColeScott.

The NAVigator podcast is available 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 fun, until then, happy investing, everybody.

Click the link below to go to the home page of Active Investment Company Alliance to learn more: https://AICalliance.org/

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