The NAVigator · FRIDAY, SEPTEMBER 11, 2026

If You Never Capture the Discount, Is a Fund Still a Bargain?

"You Have to Want to Be in the NAV": John Cole Scott on Why a Discount That Never Narrows Isn't a Wasted Trade

John Cole Scott
President & Chief Investment Officer
CEF Advisors

Chuck Jaffe, in this episode of The NAVigator podcast, interviewed John Cole Scott, President & Chief Investment Officer at CEF Advisors. Answering listener questions on discount dynamics, Scott explains why a discount that never narrows can still deliver "free leverage" for income investors, walks through CEF Advisors' proprietary discount-narrowing scores for BMEZ and HQH, and unpacks why the Bexil Investment Trust's (BXSY) discount has stayed above 33% for years. He also weighs how much of a portfolio to dedicate to closed-end funds, BDCs, and interval funds — and where funds-of-funds and ETFs like XMPT fit in for investors just getting started.

TOPICS DISCUSSED

- Why a discount that never narrows isn't necessarily a wasted trade — John Cole Scott explains the "free leverage" benefit of buying below NAV, even when the discount never closes
- Inside CEF Advisors' discount-narrowing scorecard: why BMEZ scores a 52 versus HQH's 19 on their 1-to-100 scale, and what volatility, asset liquidity, and governance have to do with it
- Why BlackRock's 5%-of-shares "discount management" tender is on the smaller side to begin with — and since most investors don't bother tendering, John Cole Scott says those who do submit can typically expect 10 to 15% of their stock accepted
- Why the Bexil Investment Trust's (BXSY) discount has stayed above 33% for years — its over-the-counter listing exempts it from annual-meeting rules and blocks 5% shareholders from gaining influence
- How much of a portfolio should go into closed-end funds versus BDCs and interval funds — and the roughly two-thirds-credit split John Cole Scott runs in his own household
- Why closed-end fund ETFs like XMPT and funds-of-funds can be a smart entry point before building a 20-to-30-fund portfolio on your own

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

THE CONVERSATION

CHUCK JAFFE

In a world with less activism, should investors expect big discounts to close? We're answering that question from a listener and more. Now with 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, a unique industry organization representing the entire closed-end fund industry, from sponsors and creators and managers down to users and investors. In the search for excellence beyond indexing, The Navigator's pointing you in the right direction. And today, well, we're pointing in the direction of your questions, because we figure that answering them may help a lot of investors who probably have the same issues. And we're doing it with John Cole Scott, president of CEF Advisors. If you want to learn more about John and his firm, if you want to dig into their data about your closed-end funds, go to CEFData.com. And John is also the 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 enjoy being here, Chuck.

CHUCK JAFFE

John, in my experience, investors have a lot of questions about how closed-end funds work. They often have no place to turn to for answers, and we want to give them that place. They can send questions to The Navigator at AICAlliance.org — whether it's about portfolio issues or industry issues, if they're writing us questions, we're going to try to get them answers. Today we have questions from two listeners, and we're starting with Barry in West Little Rock, Arkansas, who says he's become more interested in closed-end funds because he listens to us. He goes on to say, and I quote: "I now own one or two closed-end funds, things I bought with a pretty big discount. I'm not unhappy with their performance because I'm getting the income I wanted when I bought them. What I'm not really getting is anything on the discounts, which are basically right around where they were when I bought them. You've talked about shareholder activism and that there's less of it, that it's always about narrowing the discount. And you had a guest recently who you described as a discount capture investor — I believe that was Rob Shaker from Shaker Financial. But my funds, and most funds I've looked at, have had discounts that may move a little bit this way or that way, but they're not going from a minus 8% to net asset value. If I buy a fund at a discount and it basically always trades at a discount, is that really helping me? Is the benefit real? Because if I buy something for 90 cents on the dollar, but I sell it back for 90 cents on the dollar, I get the income it generated when I held it, but I didn't really get any benefit from buying it on sale. Did I change my mind?" And by the way, John, before you start to answer, I'm going to mention that in forwarding the question to you, you asked for the names of the funds, and I got Barry to give them. They are the Bexil Investment Trust (BXSY) — full disclosure, I own that in my personal portfolio — and the BlackRock Health Sciences Term Trust (BMEZ). John, take it away.

JOHN COLE SCOTT

Yes, everyone loves discounts. That attracts a lot of investors and crossover investors to the closed-end fund universe. And it's true — if you buy it at 85 cents on the dollar and it stays at $0.85, you might think it's not a great deal. But you did get one benefit: free leverage of the exposed assets of the manager. You're running the net asset value rails with that 15% discount. The risk, I would say, that Barry's maybe thinking of, or would wonder about, is what if a 15% discount — his is actually less than that — goes to 20? That's actually bad. What you would love, and we always do for our clients, is try to find fulcrums and opportunities for discount narrowing, whether it's a six discount going to two, or a 12 going to eight, whatever methodology we can do. So that's a very big piece. Absolute discounts are great for implied leverage, but you really need to understand what causes discounts to narrow, what causes discounts to widen, and why some seem stuck wide versus some have more volatility around them.

CHUCK JAFFE

What you're saying is that the risk is that the discount will get wider? I think at times you look at a 10% discount and you go, "How wide could it actually get? I've already bought it on the cheap." Discounts do get wider, don't they?

JOHN COLE SCOTT

They do. Oh, they can. I guess we never know what's going to happen tomorrow — no one's crystal ball seems to be out of the shop when they're on your show, or with their clients. But that's really an important piece of it. So let's dig into the funds. For BMEZ, let's first talk about some other funds that are in its neighborhood. We can look at one of the Tekla funds, HQH. BMEZ is about an eight discount; HQH is at almost a three discount. But the difference is that the discount volatility recently has been a lot higher for HQH, which shows us that's probably why it's narrowing. HQH also has more level-one assets, so less private — this is usually why we see historically wider discounts for private holdings. There are a few exceptions, like SpaceX in a couple of portfolios — that's different. We also look at the governance of the fund; we look at the historical tenders and rights offerings and things that really change discounts. We can score these funds — we'd give BMEZ, on a one-to-100 scale, about a 52 (higher is better), and HQH only a 19. We think that's one way to think about these funds with a model that's a complex analysis of discounts narrowing versus widening, more than just the absolute levels you see.

CHUCK JAFFE

The other thing with BMEZ, the BlackRock fund, is that BlackRock has what they call discount management — basically, if discounts get wide, they want to beat an activist to the punch and do it themselves. So once some of their funds have a discount above 10%, you can kind of expect action. But is it going to be the kind of action Barry might be looking for? Does that make a significant difference, or is it going to get him the ability to capture the big discount, or is it only going to make the discount a little narrower?

JOHN COLE SCOTT

It generally makes discounts a little bit narrower. It's kind of like — you know, 5% is a tailwind, it's not an event-changing thing for investors. It's part of the reaction to the Saba/BlackRock cases we discussed previously on the podcast. This is one way they can really give you these democratized tenders at that 5%. Generally, if everyone who's a listener oversubscribes their tenders, they usually get two to two-and-a-half times the stock. So most people ignore it — Barry could maybe get 10 to 15% of the tenders when they happen this year, based on the discount data we've seen so far.

CHUCK JAFFE

Let's move over to the Bexil Investment Trust, which, like I said, is in my portfolio, so I am extremely familiar with this fund and the fact that it has one of the widest discounts — and that discount has basically been there in perpetuity. It's been above 33% for years now, and doesn't seem to be going anyplace.

JOHN COLE SCOTT

A couple of reasons for that: it's one of two closed-end funds on the over-the-counter (OTC) market, so it doesn't have to follow stock exchange and Nasdaq rules for annual meetings — even though, you may remember, we talked about those possibly going away everywhere. So we'd look at BXSY as a proxy for what could happen if closed-end funds didn't have annual meetings. There's another caveat: because it's on the OTC market, it doesn't allow 5% shareholders to exist, and so even if it had an annual meeting — which I'm sure it has, but not in my memory of any recent years — it doesn't really have the ability for an activist, or even a focused investor, to nudge them to be involved in what's going on. However, I can tell you it's had great net asset value performance — it's kind of a unique bucket. The NAV is great. I would just argue I prefer closed-end funds where they do hold the annual meeting and do listen to shareholders. But I'll say that's a fund where, in theory, one day Tom could retire and want to close out the position himself, and maybe then you'd get a liquidation. That would not be normal or expected in the near term, in my opinion.

CHUCK JAFFE

Tom, by the way, being Tom Winmill, the manager of the Bexil Investment Trust. So, in a nutshell, as we wrap up with Barry — because again, he's feeling like if the discount doesn't get closed, then he didn't really get anything for buying something on sale —

JOHN COLE SCOTT

He did — he got a discounted asset. And now the question is: this is why closed-end fund investing isn't a one-factor process. You have to want to be in the NAV, and you have to experience the cash flows that come from these funds. It's worth noting that for equity funds, these aren't really true yield — it's either previous or future net asset value total return, or your net asset value won't be there later to produce those yields. There's a good chance you have to think about tenders baked in, tenders that could happen, or even negative activity like rights offerings that shoot discounts wider, as we've discussed previously. But great question — those funds could be held for a long time and probably do well, but you may not see the discount move as much on a BXSY. BMEZ is going to trade a little tighter as long as those policies are in place at BlackRock.

CHUCK JAFFE

Yeah — discount is a measure of safety, it's not necessarily a measure of return. Our second listener with a question is Mark from Gresham, Oregon, who found The Navigator because he was looking for information on closed-end funds, and he wants advice related to building a closed-end fund portfolio. He says John Cole Scott might say put everything into closed-end funds, or he might not — but for those of us seeking income and stability, what portion of our portfolio would be appropriate to dedicate to closed-end funds? Also, within that portion dedicated to closed-end funds, what does a balanced closed-end fund allocation look like — how much to bond funds, how much to equities? I know, John, he's preaching to the choir and you get to talk your book here — but is it going to be everything into closed-end funds, or maybe not?

JOHN COLE SCOTT

Well, he's not one of my clients — most financial advisors don't do only closed-end funds; they use them tactically where they make sense. The real risk in inheriting closed-end funds, if you're new to them, is that you don't understand discount downside volatility, or maybe even the NAV or the manager well enough. Whether CLOs are good or bad isn't the answer — if CLOs go on a terrible tear, it's hard to own that if you don't understand the security before you bought it. And just as easily you could go the other direction — a sector does amazingly well and you don't know why it went up so much, maybe because of a regulatory event or a political outcome or activism. So I'd say you should use them as much as you're comfortable with a market price separated from a net asset value as a piece of your portfolio. At our firm, we tend to use mostly traditional closed-end funds for our clients. We also put BDCs in, generally 5 to 20% in many cases, and then, depending on the client, we layer in zero to 20% interval funds for allocation — less volatile but less liquid — and we can use some ETFs now too. Traditionally it's zero to 20% to diversify sectors and drop some of that volatility. For perspective, my household is about two-thirds credit — all closed-end funds, interval funds, and BDCs.

CHUCK JAFFE

But again, that's also going to depend on how much income somebody wants. The other side of this is that while we're talking about blanket portfolios, in reality, for most investors the question is: if you're looking for an investment, regardless of type, that has a job to do in your portfolio — you're trying to create income with a measure of safety, etc. — you figure out the job first, you figure out which tools will allow you to accomplish it, and then you go use it, right?

JOHN COLE SCOTT

Yes. In my experience, many retail investors end up in a bucket where they either have 8 to 12 holdings, or 80 to 120. Either they only buy what they can research, or they index themselves. I can't say one is right or wrong, but if you don't have the tools to analyze the investments, I understand why doing either makes sense if you're a retail investor managing your own money without any of the tools we built at CEFData.

CHUCK JAFFE

Mark had a follow-up, which is he wanted your take on funds that invest in closed-end funds — wondering if funds of funds help balance and simplify a portfolio.

JOHN COLE SCOTT

The key is, first, there's passive and active. There are ETFs of closed-end funds, and there are also closed-end funds of closed-end funds — maybe two or three of them. So you do have to balance the discounts on discounts; there's not really leverage on leverage in these cases, but you could consider that active versus passive. You really should go and look at the holdings of the current fund — the ETFs are generally daily transparent, so you can see the passive rule of what it owns, or an active portfolio of what it owns, and that's more important. XMPT is all munis, so if you want to be in munis and have a large basket with a small fee (but not a zero fee), that works — or do you want to be in an actively managed ETF, a couple of which exist, where the manager decides asset allocation based on either their fundamental opinion or the discounts they're harvesting? Again, it's a great place to sit for a little bit if you're doing tax-loss harvesting and need to wait out the 31 days. It's a great place to start and then diversify from — or if you have small positions, it can be really hard to build your own position with 20 or 30 funds. From a maintenance perspective, that makes a lot of sense — maybe it's a good way to learn, or just to follow and benchmark yourself against how those funds are performing.

CHUCK JAFFE

In the end, what we're talking about in both of these cases, with both Barry and Mark, is that — to some extent — I like buying the closed-end fund, I like buying the discount. Barry has gone off and found the right tools; hopefully Mark has, or will, as well. But it's still going to come down to finding that tool first, then making sure — if it's a closed-end fund — that it's got a discount and a structure and all the rest that you understand and can live with, so that you believe, like anything else in your portfolio, that it's going to live up to your expectations.

JOHN COLE SCOTT

Absolutely. And the question we didn't really cover: we're generally between 40 and 60% asset allocation for about 90% of our clients, and it kind of shifts based on opportunity and the market. Right now we're slightly overweight credit versus equity across our models — that's our perspective of where we see things going this fall. We're rarely 80% anything, unless the mandate is only taxable bond funds, or only BDCs, or only munis.

CHUCK JAFFE

And again, if they have that mandate, then they're looking for the specific tools for the job. We think it's always interesting to learn more and see what tools the closed-end fund industry has. John, thanks for making sure people are a little bit smarter about closed-end funds.

JOHN COLE SCOTT

My pleasure.

The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe — yes, that's me. Learn more about my show at MoneyLifeShow.com, or find it wherever you get your podcasts. And if you want to learn more about closed-end funds, interval funds too, and business development companies, check out AICAlliance.org, the website for the Active Investment Company Alliance. And don't forget, if you've got questions, send them to The Navigator at AICAlliance.org. 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. Learn about the firm and dig into its research at CEFData.com. The NAVigator is available every Friday — follow or subscribe on your favorite podcast app so you don't miss an episode. We'll be back next week with more closed-end fund talk. Until then, happy investing, everybody.

John Cole Scott is president of CEF Advisors and chairman of the Active Investment Company Alliance. His firm is online at CEFData.com. For more of the data discussed today, follow John and AICA on LinkedIn, or visit AICAlliance.org for more on BDCs, closed-end funds, and interval funds.

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

Past performance is not indicative of future results. All investments involve risk, including the possible loss of principal. Forward-looking statements, expectations, and projections are inherently uncertain, and actual results may differ materially from those discussed.

This content does not take into account the specific investment objectives, financial situation, or particular needs of any individual investor. Prospective investors should consult their financial, legal, and tax advisers before making any investment decision.