



## Welcome to the NAVigator

Friday, September 27, 2019



Chuck Jaffe, in the inaugural NAVigator podcast, interviewed John Cole Scott who is the founder and executive chairman of the Active Investment Company Alliance (AICA) as well as the chief investment officer of Closed-End Fund Advisors. Read the Q & A below as John discusses the creation of AICA and talks about its exciting future. The podcast itself can be found on AICA's website by clicking here: <https://aicalliance.org/alliance-content/pod-cast/>

John Cole Scott

**CHUCK:** John Cole Scott, founder of the Active Investment Company Alliance is here, and it's time to talk investments in closed-end funds this is the NAVigator. Welcome to the NAVigator from the Active Investment Company Alliance where we're talking all-weather active investing and plotting a course to financial success. Now, the AICA is a unique industry organization, brand new, and it represents investment firms, creators of closed-end funds, and users and investors. And the NAVigator, well, this is going to look at aspects of investing in closed-end funds and business development companies, so that if you're looking for excellence beyond indexing, the Navigator is going to be pointing you in the directions to look. Joining me today is John Cole Scott. He is the chief investment officer at Closed-End Fund Advisors in Richmond, Virginia. He is the founder and executive chairman of the AICA and we start in on this new adventure. We've got a lot to cover and a lot that we want to talk about in the coming weeks and months. John Cole Scott, it's great to be doing the NAVigator with you.

**JCS:** I'm so excited to be here, Chuck.

**CHUCK:** You have a lot to be excited about, and it's not just that here we are doing the NAVigator podcast, it's that you've got a brand new organization. And like I said, you're bringing in folks from

a variety of aspects. So before we get into the things we'll cover in the weeks ahead where we might be talking specific investments or we're talking strategies and more, we first have to understand where AICA is coming from. And like I said, it's got everything there which makes it... It's not really like a normal trade association. So what are you trying to do here?

**JCS:** So the key to me was really looking at the ecosphere of the closed-end fund and BDC market, both the listed structures that are well-known by investors and some of the non-listed structures in the closed-end fund and BDC space. And to get leadership and coordination with the fund sponsors - those that create the funds that allow us to have investments for our portfolios - and then also the product sponsors which are the investment firms out there that use those funds to create diversified products of the funds that investors and advisors can use for the portfolio. And that's the main leadership structure, but we also want to have input from everyone involved: the stock exchanges; from the analysts; from the proxy firms; from the activist even. We want everyone to have a voice for the betterment of the universe.

**CHUCK:** It sounds that rather than a trade organization this is almost an educational organization. Yes you've got all of the industry folks but you want to make sure that the public is better aware, has a better understanding, and knows about closed-end funds which long before you and I ever talked about doing this together I've always felt the closed-end funds were completely overlooked by most investors. So is the idea to raise the bar on education and knowledge in closed-end funds?

**JCS:** It is. A couple of things: I've been 20 years at Closed-End Fund Advisors, it's a 30-year-old specialty firm. In 2012, I launched our own independent data business CDFdata.com and we're using that data business to be the API or the automatic data feed for the AICAlliance.org website which is going to be a mecca for discussion forums, for profile pages, for BDCs, closed-end funds, even the non-listed like interval closed-end funds which will gain a lot of traction in the market where there's no real public area. And we're going to have rich content like this podcast as well as webinars, videos, and articles and events as well.

**CHUCK:** You know you talk about events, I'm going to be heading to one of your events the first week of November. I'll be there both on a panel and talking to folks on closed-end funds. The purpose of the events and the things you're doing, you're bringing together some folks that we don't normally see at things like a Morningstar meeting or a Schwab meeting. So what are you trying to accomplish with that?

**JCS:** Absolutely! I mean there are lots of different types of investment conferences out there, but the crux of this was diverse-engaging-panel-driven conferences versus a manager talks about his fund, which sometimes is very educational, but also very easy for the fund sponsors themselves to do. So November 6 in New York City, we have eight panels set up and we have three to four presentations that we're firming up right now to engage the whole neighborhood of investment professionals and it's actually by invitation, and curated panels. There's no cost to speak – you're welcome to sponsor but no cost or requirement to speak. Attendees are paying a conference fee where half the revenue to cover the conference is paid by the ticket price to attend and that is not very common in the closed-end fund world.

**CHUCK:** That's not common in the investment world, quite honestly. But the other thing that you've got going here is you have all of the data. Now you talked about your data and at Closed-End Advisors your website is CEFadvisors.com, but you also have the sister site CEFdata.com. You're talking about the data and what is out there. How important is it that we wind up getting for closed-end funds, understandable, easy-to-read, easy to take a temperature kind of data because quite honestly we haven't had much of it? And, oh, by the way, closed-end funds are not some new investment. Technically, you know, it's all a part of the unit investment trust business and that predicated mutual funds.

**JCS:** It is; the first closed-end fund was 1860 in Holland, the tulip bulbs, which weren't a good investment but the first investment company. London in the 1800s, 1893, the New York Stock Exchange, a good century before the first exchange-traded fund. And so as you talk about the data, we've grown from a data business that was originally spreadsheets and Google sheets, to a full sequel database coded for analysts, we collect every press release, every fact card, everything we can get we put into our system and then try to do comparisons and benchmarking of data; try to uniform data, press on sponsors that don't give us data that other sponsors do, as well as even develop 35 benchmarking indices that we can do more granular analysis of our work for clients as well as our peers' work for clients.

**CHUCK:** Okay. So now we've got this piece, the NAVigator that we're talking about here. We're going to try to go soup to nuts on closed-end funds. There are going to be those times when we're talking with closed-end fund managers about product. There are going to be times when we're looking at industry specialists about this industry versus that industry or these sectors or what they

see happening. And then we'll also be talking about closed-end fund investment issues: things like do you ever buy a fund that's trading at a premium? Do you look at discounts and say "ooh, how do I want to deal with this? What do you do when there's a conversion from a closed-end fund to an open-end fund or even the other way which does happen sometimes?" So what are you hoping people will get from the NAVigator?

**JCS:** One of the ideas we really want to get to, are there some sponsors out there that have a BDC, and a listed closed-end fund, and a non-listed closed-end fund, or some version of that? And we want them to come out and talk about how they put different investments in each of those investment wrappers and how investors or advisors should consider each of them differently for different outlooks, different risk tolerances, than simply apples to apples. We also want to bring in the seasonality you talked about. There's an activist season that tends to evolve in the closed-end fund space. There's often tax-loss selling that hits around mid-November through mid-February, a seasonably widening and narrowing of investments. Last year it was 6%, it was ridiculously cool. And those are some of the things we want to do. It's also on new versions of the structure. So I could see getting a 40 Act attorney on here talking about how they're pushing on the SEC to make more investments in portfolios for individuals and advisers that make more sense as we get to longer retirement periods.

**CHUCK:** So we've got all of that coming. We're excited about it. And I should point out that the website for the Active Investment Company Alliance, AICAlliance.org, is going live the first week of October basically. As we get into October everything's really kicking into high gear along with the start of this podcast. So as we get this started, do one thing: tell my audience as plainly as you can if you've never heard of closed-end funds before what's the reason you're going to want to know what we're talking about? What's the thing about closed-end funds that you're missing if you've never heard about them until we talked about them here today?

**JCS:** The most amazing things about closed-end funds are that there's an active manager inside a fixed capital structure. We don't have to worry about inflows, outflows, redemption pressures - people throwing in money at the top and pulling them at the bottom. They also can use prudent use of leverage at relatively low rates to enhance yield in most environments which allows them an average to yield 7% to 9%. And so it gives you reoccurring cash flows across 14 equity and bond sectors. It gives you the choice to change your mind and not be stuck in a hedge fund. You

can build your own product and you get to do it based on your risk tolerance; your cash flow; your tax rates.

**CHUCK:** And for investors, especially income-oriented dividend investors, a wide range of products that aren't really available to individuals elsewhere, correct?

**JCS:** Absolutely! Even though there are some non-income focused funds that are phenomenal that I can't wait to see on this podcast, that is a heavy 20-year version of the answer.

**CHUCK:** I can't wait to get to it. This has been a great start but I'm looking forward to really picking things up with you and other members of the Active Investment Company Alliance down the line. John Cole Scott, thanks for joining us.

**JCS:** So happy, Chuck. Thank you.

**CHUCK:** John Cole Scott is chief investment officer at Closed-End Fund Advisors and he is the founder and executive chairman of the Active Investment Company Alliance. The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I'm your host Chuck Jaffe and you can learn more about my show at [Moneylifeshow.com](http://Moneylifeshow.com). To learn more about all-weather investing closed-end funds and business development companies go to [AICAlliance.org](http://AICAlliance.org). The NAVigator podcast is available every Friday at all your finer podcast platforms. We've got so much to do and we thank you so much for joining us. We'll bring you more information on closed-end fund investing next week.

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To request a particular topic for The NAVigator podcast please send an email to:  
[TheNAVigator@AICalliance.org](mailto:TheNAVigator@AICalliance.org)

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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