5 CEF Myths Debunked: Insights from CFA Society Seattle

Closed-end funds (CEFs) are often misunderstood. Despite offering compelling opportunities across income, total return, and niche exposures, myths about their structure, pricing, and risks still dominate the discourse.

But investors who put in the work benefit from the CEF structure's remarkable flexibility. Whether you're allocating for income, navigating tax strategies, or accessing private credit or alternatives — there's a place for CEFs in many portfolios.

In a presentation to CFA Society Seattle on April 3, 2025, John Cole Scott, President and CIO of CEF Advisors, dug into a few of these myths, explored what really matters in CEF investing, and shared how investors can build better portfolios using listed and non-listed closed-end fund structures such as business development companies and interval funds.

Myth 1: "Discounts Are Everything"

Discounts do matter — but they're just one piece of a larger puzzle. NAV performance, manager alpha, sector outlook, and structural features often have more long-term impact. Buying a CEF just for its discount ignores the structure's true value*. You can't always sell a CEF for a higher price to NAV, but the discount implies a certain degree of useful leverage.

Myth 2: "CEF Fees Are Too High"

CEF fees are often misunderstood. Most CEFs use leverage, meaning they often manage more gross assets than investors realize. Almost every CEF is actively managed. Judge fees by their net results, not as a line item.

Myth 3: "Leverage Is Too Risky"

Leverage amplifies both gains and losses. In normal yield curve environments, it enhances income and performance. Post-2022, it's been a headwind — but still useful when well-managed. Borrowing benefits shareholders in most cases.

Myth 4: "Distributions Are Just Like Dividends"

CEF distributions may include income, capital gains, or return of capital. Functionally, they act as a kind of democratized tender. You can't take every dollar invested in a CEF portfolio and pay it out because there are overpayments — sometimes to prevent activism, and sometimes in reaction to activism. Then there are some who don't care about distributions, but you have to, because CEFs are typically priced to their implied level of distribution.

Myth 5: "CEF Managers Don't Add Value"

Active fund management matters — especially in niche or illiquid markets where sector knowledge and experience is at a premium.

CEF Evaluation Checklist

- ☐ NAV trend and beta
- ☐ Earnings and coverage
- ☐ Distribution sustainability
- ☐ Manager track record
- ☐ Leverage use and cost
- ☐ Sector-level valuation history