John Cole Scott's August 2025 Update

Friday, August 22, 2025

John Cole Scott, President and CIO of CEF Advisors and Chairman of the Active Investment Company Alliance, provides a mid-year 2025 update on closed-end funds (CEFs) and exchange-traded funds (ETFs). He notes that his firm's online database, CEFData.com, recently added a new 250-ticker symbol ETF data file with over 150 metrics in response to increasing interest in, and active management of, ETFs. Scott explains how both structures differ and how they can work together for investors willing to explore each.

He expands on that idea by spotlighting four credit-focused ETFs:

- iShares High-Yield Active ETF (BRHY)
- BNY Mellon High Yield Strategies Fund (DHF)
- Nuveen Preferred and Income ETF (NPFI)
- Flaherty & Crumrine Preferred Securities Income Fund (FFC)

Lastly, Scott addresses CEF NAV volatility, which he says provides opportunity along with risk.

Learn more about John Cole Scott, CEF Advisors, and CEFData.com.

JANE KING: John Cole Scott is a second generation, 25-year industry veteran in the closed-end fund, business-development company, and interval fund landscape, and he has been with CEF Advisors since 2001 and is also the founder of the Active Investment Company Alliance. Welcome John, you bring such a unique and multi-faceted perspective to all this.

JOHN COLE SCOTT: It's always great to be here with you, Jane.

JANE KING: Yeah, great to have you back. So let's start with peer active ETFs and CEFs, so what does the data show about those two and what makes them useful and challenging?

JOHN COLE SCOTT: Yeah, so closed-end funds have traded here on the New York Stock Exchange since 1893, ETFs have been getting a lot of interest for a lot of investors, as you probably know, and our audience should as well, and we thought it would be really interesting in today's environment as closed-end funds, some of the sectors have gotten kind of tight, and ETFs have really grown in the active space in a lot more sectors than just traditional stuff we saw 10 years ago, Jane. And even at CEF Data, we've added a 250 ticker symbol ETF data file with over 150 data points, really talking about where you might plug in ETFs when you're a closed-end fund investor, and we argue where you might want to plug in closed-end funds if you are an ETF-focused investor.

JANE KING: So let's explain, when would somebody want the closed-end fund versus the ETF? Why would they rotate in and out?

JOHN COLE SCOTT: Great, so both structures are very similar, the major difference is that you can have a disconnected market price for a closed-end fund, leads to a premium or discount, and then because most closed-end funds offer leverage, you can often usually enhance that yield. And so basically you can pick up discount tailwinds as a closed-end fund investor, and more yield per risk at the manager level. Then ETFs, you can't get any discount headwind or tailwind, and you generally get less yield for the same type of investments, but you can often get good yield in this market because active management [inaudible 0:02:02] to do some really interesting work in different sectors that can compete or be a companion to closed-end funds.

JANE KING: And you also just added an ETF companion file with the data you briefly touched on, elaborate on that a little bit.

JOHN COLE SCOTT: Yeah, so we decided that in our portfolios for income-focused clients at CEF Advisors, we wanted to be able to, when a closed-end fund discount got narrow, go to swap to something to maintain asset allocation and also most of the yield pickup, we also thought that there's a chance to have those positions sitting and waiting for the next time discounts widen. We never know when that'll happen, Jane, but days like today where you've got some interesting news items on a Friday in August, we're considering maybe discount widening to be a place where then you can take those no-discount generally ETFs and find fatter discounts in closed-end funds, and rotating your income portfolio through an allocation to closed-end funds and through an allocation to ETFs based on your basis. It's a great way to potentially pick up some reduced downside, possibly make up upside, and maintain similar yield in many environments.

JANE KING: And then you also have some information on two credit sectors, so high-yield and also master limited partnerships, so explain them.

JOHN COLE SCOTT: Yeah, so first we've got high yield, and so really there's an ETF there, that's the iShares High-Yield Active ETF, ticker symbol is BRHY, it's a small fund but iShares is a larger complex so it's just over $60 million. Again, no discount generally for ETFs, we have a 6.5% yield roughly, and there's of course no leverage for that fund structure, and so the manager has to hit 6.5% to give you the investor 6.5%, and the one-year NAV total return is about 10%, and the expense ratio, common for an ETF, is at 45 basis points. So that's a fund that you may be comfortable with in the space if you're an ETF investor, the kind of similar companion closed-end fund is DHF, and that's the Bank of New York Mellon High Yield Securities Fund. It's only about $300 million in assets but it's almost a 7.5% discount right now, but its discount swing the last five years has gone from -16% all the way to a +9%, and its yield is 8.2%, but the cool closed-end fund thing is with that 27% leverage, you're able to only need 5.9% to fuel that 8.2% because of that closed-end fundedness general benefit. In the last year, the net asset value has been close to the other fund, about nine and mid-change, but the expense ratio of course is a little higher at 1.27%. We thought it'd be fun to look at another sector in the credit side, it's the preferred equity sector, and so there's a Nuveen, NPFI, it is again a smaller fund, but Nuveen's a well-known player to the closed-end fund viewers that we have, it's about a 5.6% yield and about an 8.6% one-year NAV performance and a 55 basis points expense ratio. Let's look at a really well-known old closed-end fund in the space, the FFC, it's the Flaherty & Crumrine Preferred Securities Income Fund, it's a $1.3 billion fund, it's at a 6% discounts, its five-year range is from a -15% to a +15%, we've had an interesting five-year period as you know, Jane. It's giving you a 7% yield but with 37% leverage, it only has to do 4.7% to fuel that, and the one-year NAV performance is beating the other fund because of the leverage, we believe, at 11 and change, and the expense ratio, this might surprise people, when you back out leverage costs and over net assets is 91 basis points. And so that's the type of funds that could be companions, if the closed-end funds are narrower you can buy the ETF, and then when they widen you can rotate the ETF back to the closed-end fund.

JANE KING: Now what about expenses with those, volatility?

JOHN COLE SCOTT: Great question. So we hear a lot of people talking about volatility in closed-end funds, they go, "Oh, it's because they're levered," and that does add some NAV volatility, but the bulk of closed-end fund volatility is simply the fact that you can buy and sell it at an elastic disconnection with net asset value, and that would happen whether they're levered or not. And so we find when we talk to our clients, and we think investors should consider volatility not just a risk but an opportunity, because what you want is a more volatile discount so you can sell when it's overtly high and buy when it's overtly low. That's a great way as a retail investor to do the type of investing that the large institutional owners of closed-end funds often do for their clients in very mass scale in a personal way for your portfolio.

JANE KING: Yeah, volatility equals opportunity sometimes. How have those performed, the different sectors?

JOHN COLE SCOTT: Yeah, so sectors, we never know the future, Jane, but we basically at CEF Advisors consider our forecasts for interest rates, our forecasts for employment, and try to build a durable portfolio of income for our clients that's tax thoughtful. And so preferred equity is going to be a less robust sector, more defensive, it's basically higher in the capital stack of a company and so it's generally safer through bankruptcies or other problems. And then of course high yield, some people call it junk, but we prefer high yield, it's just less quality investments but with active management, we believe, whether it's the ETF wrapper or closed-end fund, an active manager can make diversified bets to give you these higher yields with less idiosyncratic risk by having hundreds or even thousands of positions, depends on their fund.

JANE KING: Okay, interesting as always. Thanks so much, John.

JOHN COLE SCOTT: Great to be here, Jane.

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