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# CEF Data's Scott On The Takeaways From Dechert's Private Credit Summit

*Private Credit's Stress Tests, Insurance Capital, and What Institutional Investors Are Really Thinking*

**John Cole Scott**
President
CEF Advisors

Chuck Jaffe, in this episode of The NAVigator podcast, interviewed John Cole Scott, President of CEF Advisors. John attended the Private Credit Summit hosted this week in New York City by Dechert LLP, and came away with a sense that private-credit markets have not yet gotten to the overheated levels that could turn investor fears of a blow-up into a financial reality. Scott, also the chairman of the Active Investment Company Alliance, discusses "stress tests" that Fitch Ratings did on some large perpetual business-development companies to see how they would perform if market conditions changed dramatically, and found that the BDCs did not break under severe conditions. He also discusses how insurance companies putting money into the private credit and BDC industries is changing underwriting standards, adding a measure of safety that he says all private credit investors are likely to benefit from. Plus, he discusses his sense of where the market is in its current cycle, based on what he heard from institutional investors who were in attendance.

### TOPICS DISCUSSED

- Fitch Ratings stress-tested the 8 largest perpetual non-traded BDCs — modeling asset write-downs, zero new capital inflows, and frozen portfolios — and all 8 passed
- Why BDCs' current under-leverage (~0.85x) is a key structural safeguard for investors, even during gating periods
- How "gating" in interval funds works and why it doesn't necessarily signal a portfolio in trouble
- The growing role of insurance company capital in private credit and how their rigorous underwriting standards benefit all BDC investors
- How to identify BDC managers that have insurance capital as a partner — and why that may signal higher-quality underwriting across the board
- The mood among institutional investors at the summit: cautiously confident, and calling for significant consolidation among mid-tier managers over the next 2–3 years

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**

We're getting the takeaways from the Private Credit Summit in New York this week with John Cole Scott, president of CEF Advisors, welcome to The NAVigator. This is 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 fund sponsors, creators, and managers down to users and investors. In the search for excellence beyond indexing, The NAVigator is pointing you in the right directions.

And today, we're getting the news out of the Private Credit Summit hosted in New York City by Dechert LLP on June the 23rd, and we're getting it from John Cole Scott, president of CEF Advisors, where they produce great data covering closed-end funds, interval funds, and business-development companies. You can learn about the firm and dig into its data for yourself at CEFData.com. John is also chairman of the Active Investment Company Alliance, which you can learn about at AICAlliance.org.

John Cole Scott, great to have you back on The NAVigator.

**JOHN COLE SCOTT**

Always good to be here, Chuck.

**CHUCK JAFFE**

You know, John, private credit and alternative asset diversification are all the rage in the investing world these days, and the Private Credit Summit is one of the premiere conferences covering trends in private credit, or so I've been told. Because it's been around for more than a decade and I have to say it's one industry event I've never gotten to, largely because it's not open to the press, which certainly makes me curious about the things they're saying and doing at the conference.

So you were there in New York City this week, let's dig in and get your takeaways, starting with the presentation that I, when I did get a chance to see the agenda, thought was pretty interesting; it was from Fitch Ratings about business-development companies.

**JOHN COLE SCOTT**

Yeah, so I'm there, it's almost my 10th year at this conference, I go there to meet with the managers and the service providers and to listen to the way the industry talks to each other because that gives me a lot of insight as an investor and allocator in this space. And so a lot of the questions that are coming up about these non-traded BDCs and these gatings, which we've discussed before on the show, but Fitch, because it's their job, decided to take the largest eight perpetual of these BDCs and stress test them with a couple of things.

What if they wrote down level two and three assets? What if there was zero new inflows of capital which could be sourced for any redemption requests by investors? And then there's a term called "churn", I actually had to ask someone what it meant because I'm not in this industry on this level, basically what if there was a frozen portfolio? There was no pre-payments, no turnover, could the fund handle the leverage requirements at zero churn, 3% churn, or more normal 6% churn?

They said all eight funds stress tested, and one reason they said they actually worked out, these funds are under-levered. They're about 0.85 leverage, and even going to the lower churn they only went to about one and change leverage, well below regulatory levels. Which just says, while you may not like the gating, it's not actually a fundamental risk for the portfolio as being a lender to it and an investor in it.

**CHUCK JAFFE**

The gating is basically, for those who don't know, you have limited windows in an interval fund, that's why it's an interval fund, and when those windows open it may not be as easy as, "Hey, let me get all my money out," because they're not letting it all go, that's the gating side of things. So when they're doing these stress tests, how much of this is to try to tell you that if you can't get your money out, you won't have to worry that it won't be there the next time the gate opens?

**JOHN COLE SCOTT**

That's exactly the question that Fitch was thinking about for the industry, so if you can't get all of your money back out as soon as you desired, is there an impairment or risk at the structure level, the holdings level, because of that issue that would hurt even the investors that chose to stay for many, many years that didn't need their money back? And you're right, this proved that 80% of these funds, which is the top eight assets in the sector, really were in sturdy positions because they're not over-levered and they're designed to be built around these 5% a quarter tenders, even though some have gone higher.

And it's not really a part of the conversation, but I saw some data quoted by [inaudible 0:04:59], which as a provider in this space and this sector, and I thought their data didn't look right, so when I got home, Chuck, I looked at it. They were showing $473 billion of assets in BDCs at the end of '25, I double checked our data and we had almost $50 billion more at CEF Data, which reminds me one reason I like to be so aggressively focused on catching every data for the work we do, and that's why I'm glad I don't have to rely on outside data for my perspective.

CHUCK JAFFE

Let's talk about the inside data. Fitch did its stress test, you have your trifecta analysis, if they came to the conclusion that everything's okay, we tested these big BDCs and they passed the test, would they have passed your test? Getting the Fitch Investor Services folks to say, "These are okay," that's one thing, but hearing it from you, do you agree, even if it's for different reasons?

JOHN COLE SCOTT

Yeah, so the heart of this question was, does the gating of these portfolios, and then a tough market where assets get written down and no new money's put in, does that put risk to investors already in the portfolio that are not choosing to get out or can't get fully out? And so it's not the same thing as saying is the manager better or worse? That's an important conversation to consider, this is more does the structure and the way the managers are using the regulatory environment of leverage? If the leverage was 50% higher at 1.5%, then there would be serious risk of gating, no inflows, and a recession causing real economic harm to the portfolio even beyond credit issues at the manager and decision-tree level.

CHUCK JAFFE

Well, that brings me to the next side because with private credit one of the big worries for investors is that there will be some sort of a blow up, and I know that one of the sessions at the Private Credit Summit was on insurance company capital coming into the marketplace, and insurance companies have different underwriting standards, they have underwriting standards that investment companies don't really worry about. So is that helping to take some of the inherent risk out of the space? Is it even possible that that could take risk out of that space?

JOHN COLE SCOTT

And again, you know I've been doing BDCs since 2014, and so I keep thinking I can't learn something new, and I have known that insurance companies were gaining exposure here but I really hadn't done the through connection of how it changes the industry and changes the experience for even those retail investors in listed BDCs.

The cool thing, and the conversations I had at the conference, was these insurance companies, they have a need for long duration, fixed-rate investments, which is not the actual guts of any BDC, a listed or a non-traded. But what the BDCs have done, without getting too much into the sausage making, is they've built structures to take their underlying portfolios, put a special vehicle around it, and create a synthetic stable payment back to the insurance company that can be matched to a 15-year annuity or other things.

What that means, because these insurance companies as so risk-averse and so good at scrutinizing risk, it's actually changed the deal structure and relationship with these investors into the overall access to these underlying portfolio company loans at all BDC levels. And so with those insurance investors, part of the equation, it's creating bleed-through benefits for retail investors in non-traded and retail investors in traded when the manager has that relationship with insurance. Because you have to bring up all of your underwriting when you have a major partner with huge amounts of capital and you want to make them happy, and that bleeds through generally to all of your work in a very positive way.

**CHUCK JAFFE**

But is there any way for your clients or my listeners to say, "Okay, if I ride with BDC X, I'm basically riding on the back of the big insurance company that's giving them a lot of money, so I could expect a little more safety"?

**JOHN COLE SCOTT**

It is. So when you're thinking about a BDC manager, another thing to consider when choosing one or two or three is to see if they have insurance money as partners and backers of their investments, even if it's not the same category of investments you're directly in, because that is generally a tailwind to better quality underwriting across the sector and a discipline that you'll find extend to you as the listed or the non-traded BDC participant. Because you're not going to see fiduciary boards have two levels of underwriting because, oh, you're the insurance guy and you're the retail, they're going to have to have that same level of underwriting, and this could be more transparency and more scrutiny.

And just like I've said, one reason we want AFFE gone and other things, more institutional investors, more intelligent people looking into the books of BDCs is going to create better behavior because even the most intelligent retail investor still can't do the resources to look at most BDCs and do heavy homework on whether they're really good or really bad at credit, until it's too late usually.

CHUCK JAFFE

Well, John, the conference we've been talking about, the Private Credit Summit hosted by Dechert, is for institutional investors. I can tell you, getting details on it, from it, is hard because it's pretty much ignored by the mainstream media, especially because they're basically barred from attending. You were there, what was the tone and the mood of the event and of the institutional investors that were there? We got a market that has climbed a wall of worry to record highs, what was their mood?

JOHN COLE SCOTT

Yeah, so with all of the negative press for the last nine or so months, you might think that they'd be defensive and defending the structure and, "Let's get together," basically the tone was we think that the press wasn't getting it wrong but they were just not digging deep enough into the minutiae to get the whole story. People might think of a Mainstreet Capital, which is lower middle market, internally managed, high ROE, low yielding BDC, the same way you would think an Ares Capital, very different animal, mostly first lien, externally managed, so you can't compare them apples to apples.

But they really came through with a comment that I find we've been considering as well, there has been 1,500 basis points of different manager performance for the top [inaudible 0:11:24]. They really felt that the larger strategies with the resources to incorporate AI, to go through cycles, would keep growing, and the small niche-y ones would also keep growing.

They're worried more about the middle manager that wasn't quite big enough to be an Ares or a Blackstone or a Golub and wasn't as niche-y as a Gladstone or a Capital Southwest or a Mainstreet. They are calling for significant consolidation this sector in the next two or three years as the winners and the losers basically get found out by who can actually underwrite when interest rates are higher, when economic activity is lower, and it's not free money and all boats are rising.

CHUCK JAFFE

John, really interesting stuff. Thanks for sharing, because like I said, this is not one of those events I can get to even if I want to. I appreciate it, we'll talk to you again soon.

JOHN COLE SCOTT

Always good to be here, Chuck.

CHUCK JAFFE

The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I'm Chuck Jaffe, you can learn more about me and my show by going to MoneyLifeShow.com or just look for it where you look for your favorite podcasts. Now to learn more about closed-end funds, interval funds, and business-development companies look for the data that's available to you at AICAlliance.org, that's the website for the Active Investment Company

Alliance. And if you want to look for even more data, well, my guest today was John Cole Scott, president of CEF Advisors in Richmond, Virginia and he's the chairman of the Active Investment Company Alliance. You can learn about the firm and dig into its research and data for yourself at CEFData.com, and John's on X @JohnColeScott. The NAVigator podcast is available every Friday, make sure you don't miss any of our episodes by following or subscribing on your favorite podcast app. We'll be back next week with more closed-end fund talk, until then, happy investing, everybody.

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