



Panic or Opportunity? Takeaways from the CFA Society San Francisco Session



An October 21, 2026, summary of John Cole Scott's CFA Society San Francisco presentation on what changed for closed-end funds and BDCs since May, and where opportunity now sits against risk.

John Cole Scott, President and Chief Investment Officer at CEF Advisors, gave the presentation to CFA charterholders and investment professionals in San Francisco on October 21, 2026. It was his third CFA society session of the year, following Philadelphia in

February and Cleveland in May, each introduced by Mike Taggart of Aberdeen Investments. The title, "BDCs & CEFs in the Headlines: Panic or Opportunity?", framed the question most allocators were already asking.

The talk was booked in April. By October, the market had moved enough that several slides were rebuilt the weekend before. The core message from Cleveland still held: these structures reward investors who understand both the portfolio and the wrapper. What changed was the size of the dislocation. In May, discounts were meaningful by long-term standards. By the end of September, credit discounts had reached levels seen only a handful of times in 25 years.

Cleveland was largely about how to use CEFs and BDCs tactically. San Francisco was about how to separate a cheap fund from a broken one when nearly everything in credit looks cheap at once.

What changed since Cleveland

"The NAV is the anchor point, the intrinsic value, but you can never buy or sell that number."

The clearest change was the gap between what managers earned and what investors received. Through the first three quarters of 2026, the CEF Advisors 15 Major CEF Sectors Index produced about 6.9% in NAV total return but only about 3.4% in market price total return. The portfolios largely held up. The price investors would pay for them fell, and the index discount widened from about 3.0% to 7.7% over 12 months.

A few differences from May stood out:

- Taxable bond CEFs ended September at a 9.84% average discount, wider than 99% of months since 2001, against a long-term average of 2.66%.
- Debt-focused BDCs ended at a 26.76% average discount, wider than 95% of months since 2004. On a price-only basis, excluding dividends, the BDC index sat at the lowest level in its history, below its financial-crisis low.
- Across all CEFs and BDCs, the average discount was 10.8% versus a 10-year average of 5.8%. Only MLP and muni funds traded narrower than their 10-year averages.
- Preferred CEFs, which Scott did not favor in the spring, sat at an 8.8% discount versus a 1.6% 10-year average.

The structure has not changed, but the universe has

“Yield does not always mean it’s earned.”

The room mixed longtime closed-end fund investors with professionals newer to the structures, so the session started with mechanics. Scott’s example: a fund yielding 8.5% at a 10% discount has a 7.65% NAV yield. With 25% leverage, the leverage-adjusted NAV yield is 5.74%. That is the hurdle the manager must clear, after fees and borrowing costs, to fuel the distribution the board has set. A high number is not proof of skill. It measures how hard the manager has to work.

The universe has changed, too. In December 2011 there were 632 traditional CEFs. As of October 16, there were 358 with \$363 billion in assets, and the average fund had nearly doubled in size to about \$782 million. Fewer, bigger funds usually mean lower costs and cheaper leverage, and they are harder targets for activists. BDCs, created by Congress in 1980, now hold \$569 billion of the \$1.2 trillion in closed-end structures CEFData covers, with \$473.9 billion invested at cost across 8,607 U.S. companies in every state.

Why former premium funds lost their premiums

“We tend to think of discounts as a starting point, not the answer.”

One of the first audience questions was about Guggenheim Strategic Opportunities Fund (GOF) and the PIMCO closed-end funds, which have long traded at large premiums and recently sold off more than their peers. Part of the answer was sector-wide: taxable bond CEFs were near the 99th percentile of cheapness in 25 years, driven by wider spreads and rate uncertainty.

The rest was specific to those funds. Sponsors raised billions of dollars through at-the-market offerings above NAV in recent years. That is accretive to NAV, but it also absorbs some of the upside that used to show up as premium expansion. Sponsors now also offer active ETFs and interval funds with similar exposure at NAV. In Scott’s view, that competition makes a return to the old premiums less likely, though not impossible.

Wide discounts, weak momentum, and tax-loss season

“Average data is useful, but it’s not actual data.”

A new slide paired discount levels with relative strength. For the Taxable Bond CEF Index, there were four prior episodes since 2011 when the price-to-NAV ratio was at least 6% below its three-year average with an RSI of 40 or below. All four were positive 12 months later, with an average price total return of 22.1%. In October, the ratio sat 7.1% below its average with an RSI of 36. For listed debt BDCs, six of 10 episodes were positive, averaging 16.6%, but both 2025 signals were flat to negative. These are small samples, and past patterns may not repeat; they argue for patience and position sizing, not certainty.

Tax-loss season was more relevant in October than in May. Over the last 10 seasons, CEF discounts recovered an average of 2.7 points between the November and December low and the January and February high. The timing work was more nuanced than a Thanksgiving rule of thumb. When CEFs were positive the prior year, waiting worked 63% of the time. When they were up 10% or more on October 31, buying early worked 67% of the time. Scott said 2026 looks more likely to be a “buy late” year, while noting that this year feels more unusual than most.

Munis: the sector that has not cheapened

“Munis should have wider discounts than taxable bond funds, in my opinion.”

Municipal CEFs had the toughest third quarter of any major group, yet their 4.7% average discount stayed narrower than their 10-year average. With durations of 11 to 12 years versus about four for taxable bond funds, that is unusual. Scott’s explanation was distribution policy. In his view, many muni funds appear to be paying more than their portfolios currently earn, and tax-free cash flow continues to attract buyers.

The tax-equivalent yield slide made the point. A national muni CEF basket’s 7.00% market yield breaks down into a 4.99% unlevered portfolio yield, plus 1.59 points from leverage and 0.42 points from the discount. Remove the 1.72 points of return of capital and the earned yield is 5.28%. For a top-bracket taxpayer, the familiar 11.8% federal tax-equivalent yield becomes about 8.9% on income alone. That is still well above the 6.2% for the iShares National Muni Bond ETF, but with more duration and volatility.

Return of capital itself was not the concern; about 23% of all CEF distributions carry that label. The warning sign was destructive return of capital, where NAV performance is not supporting the payout. By CEFData’s measure, 72% of bond CEFs showed some, compared with 32% of equity CEFs, with the highest rates in muni funds.

BDCs and AI: the second look

“Close enough to call rhyming cousins.”

The AI and return-on-equity slide debuted in Cleveland. In San Francisco, it returned with

second-quarter data and a broader definition: every portfolio company where AI is a major factor in outcomes, not just software. The top 36 listed debt BDCs by market cap were split into two cohorts by one-year ROE.

The top cohort earned a 10.27% ROE and traded at a 0.6% discount. The bottom cohort earned 0.15% and traded at a 27.8% discount. The bottom group had more AI-exposed holdings, 26.8% versus 18.0%, but nearly identical relative AI risk scores, 4.83 versus 5.07. The clearer differences were credit outcomes: non-accruals of 1.86% versus 1.40%, fair value 6.04% below cost versus 0.93%, and PIK income of 8.3% versus 5.7%.

PIK again needed context. PIK planned at the start of a deal can be a reasonable financing choice. PIK that appears when a borrower is struggling is different. Managers Scott met at a September BDC conference in Washington described a working rule: one quarter of PIK can be a bridge, but two quarters usually means a restructuring.

Private credit liquidity moved into the headlines

“I don’t expect to use it. I need to know it’s there.”

The liquidity question was louder in October than in May. Scott pointed to redemption limits at Cliffwater’s flagship interval fund as the structure working as designed: you cannot offer full daily liquidity on assets that cannot be sold daily. Industry reports in September said investors had asked to redeem about 16%

of shares that quarter, while the fund repurchased its 5% limit pro rata.

That does not make interval funds a bad structure. CEFData counts 177 interval funds with \$170 billion in assets, up from 72 at the end of 2020, and 60 more are in registration. Scott did raise concerns about a proposal that would let new interval funds skip quarterly repurchases for up to two years after launch. As one of two allocators on an industry committee made up mostly of lawyers and fund sponsors, he said he would be reluctant to buy a fund that removed that liquidity.

New listings and the Anthropic question

“There’s a lot of mostly ugly stuff.”

New supply barely came up in Cleveland. In San Francisco, it drew some of the sharpest questions. Of the nine closed-end funds listed since August 2025, eight traded below their launch price at the end of September, with a median decline of 18%. Robinhood Ventures Fund I (RVI) was the exception, up 11.4% from its IPO. Robinhood Ventures Fund II (RVII), an equity-focused BDC, was down 13.8% weeks after its August launch, and Pershing Square USA (PSUS) was 25.8% below its IPO price.

Asked why sponsors choose closed-end structures at all, Scott pointed to permanent capital: managers can hold less-liquid assets, use leverage prudently, and set distribution policies without daily redemptions. The tradeoff is cost. Sponsors usually pay the

launch costs and often need five to six years to break even.

Another attendee asked how big technology IPOs could affect these funds. Scott contrasted BlackRock Technology and Private Equity Term Trust (BTX), which holds Anthropic directly, with Destiny Tech100 (DXYZ), which holds it indirectly through a feeder vehicle. He said he generally prefers a daily-traded closed-end fund for this kind of exposure for a structural reason: new money does not dilute the position the way it can in an ETF or interval fund. Five days after the talk, Anthropic publicly filed its S-1 for a Nasdaq listing.

Audience questions sharpened the discussion

“You do a separate NAV analysis, and you do a separate discount analysis.”

The questions in San Francisco were more technical than in Cleveland. One attendee asked whether BDCs are limited to accredited investors. They are not. Listed BDCs trade like any common stock.

Another asked how BDC NAVs are marked when the holdings are private. BDCs strike NAV quarterly. At most managers, an outside valuation firm reviews about a quarter of the portfolio each quarter, so every company gets at least one outside look a year, and watch-list names often get two or three.

A third asked about Sharpe ratios. Scott said they are useful for NAV, but discount volatility should be analyzed separately. When building

a new portfolio, you actually want recent price performance to look worse than NAV performance, because that is where better entry points come from.

Asked whether wide discounts are a reliable buy signal, Scott said broadly yes, but only after checking why the discount exists. Ownership changes can reset a fund's normal discount range. Bexil Investment Trust (BXSX), an over-the-counter equity fund that does not hold annual meetings, traded around a 35% discount, which Scott believes reflects, in part, the limited ways shareholders have to hold the manager accountable.

On trading, a veteran in the room said that in nearly 40 years of trading closed-end funds, 99% of his orders have been limit orders. Scott added that block desks and liquidity specialists can help on larger trades.

The last question returned to yield. Asked about BlackRock Capital Allocation Term Trust (BCAT) paying close to 20%, Scott said a yield at that level is likely tied to a discount management policy rather than earned income. A closed-end fund can set a very high distribution rate, but that does not mean the portfolio is earning it. His general caution: income investors may not want to spend all of it.

Panic or opportunity?

“There are definitely spots I would not be willing to be in.”

Scott's answer was not either-or. There are managers and structures he would avoid. But

broadly, in listed BDCs and taxable bond CEFs, he believes current prices may offer more tailwinds than headwinds for investors comfortable with those assets. Preferreds were the clearest change in tone since spring: a long-run beta of about 0.25 to the S&P 500, about half the duration of munis, and unusually wide discounts.

The risks are clearer, too. CLO equity drew the most caution in Cleveland, and the CLO CEF index has since fallen 22.98% on price year to date through September, while its NAV total return was roughly flat. In his view, munis remain the sector where distribution policy is doing the most work to support price. And in listed BDCs, the spread between better and weaker managers is now far wider than the spread in AI exposure.

Practical ways to improve outcomes

“Usually what happens next is more important than the trade.”

For investors approaching CEFs and BDCs after the third quarter of 2026, a few disciplines stood out:

- Separate NAV analysis from discount analysis. A weak price with a stable NAV is a different situation from a weak price with a falling NAV.
- Compare market yield with leverage-adjusted NAV yield and destructive return of capital, especially in bond and muni funds.

- In BDCs, start with return on equity, then check non-accruals, fair value versus cost, and how PIK income is being used.
- Do not assume former premium funds will return to past premiums when similar exposure is available at NAV.
- Be patient with new listings. Most funds launched since August 2025 trade below their launch price.
- Treat interval-fund liquidity as a feature to verify, not a promise.
- Plan for tax-loss season. Historical patterns suggest 2026 may favor buying later rather than earlier, though results vary.
- Use limit orders, start positions small, and add with conviction and time.

In May, the opportunity was tactical. In October, it was broader, but so was the need to discriminate. In Scott's view, credit discounts are wide enough to warrant serious attention, but not wide enough to justify buying everything.

Event slides can be accessed by emailing Sales@CEFadvisors.com with “**CFA San Francisco Slide Request**” in the email subject.

Disclosures

The views expressed are those of John Cole Scott as of the date of the presentation and writing and are for informational and educational purposes only. They do not constitute investment, tax, legal, or accounting

advice, or a recommendation to buy or sell any security or to pursue any specific strategy.

CEF Advisors is an SEC-registered, fee-based investment advisory firm founded in 1989 and based in Richmond, Virginia. The firm specializes in closed-end funds (CEFs), business development companies (BDCs), interval funds, and related income-oriented strategies.

This article may reference market themes, fund structures, discount behavior, distribution policies, and corporate actions including rights offerings, tender offers, mergers, liquidations, and dividend changes. These references are general in nature and should not be interpreted as advice for any specific investor, account, or security.

Any discussion of yield, discount, premium, net asset value, alpha, total return, leverage, non-accruals, return of capital, payment-in-kind income, or historical market behavior is subject to change and may not be repeated in future periods. Past performance, historical patterns, and research observations are not guarantees of future results.

Investing in CEFs, BDCs, interval funds, and other income-oriented vehicles involves risk, including possible loss of principal. These structures may involve leverage, liquidity risk, credit risk, interest-rate risk, market risk, valuation risk, distribution risk, and event risk, all of which can increase volatility and magnify losses.

Examples and observations regarding tactical trading, tax-loss selling, or event-driven opportunities are illustrative only. Actual

results depend on market conditions, security selection, timing, taxes, transaction costs, account restrictions, and investor suitability.

Certain information may be derived from proprietary research, public filings, sponsor materials, third-party data, and CEFData. While believed to be reliable, accuracy and completeness are not guaranteed.

References to specific funds, sponsors, sectors, managers, or structures are for illustration and market commentary only and should not be considered a solicitation or endorsement. CEF Advisors, its employees, clients, or related accounts may hold or trade securities discussed.

Readers should review applicable fund documents, including prospectuses, shareholder reports, and regulatory filings, and should consult their own financial, tax, and legal professionals, as appropriate, before making any investment or allocation decision.



2711 Buford Road, # 382
Richmond, Virginia 23235 U.S.A.

www.CEFData.com