Capital Link's
CEF & ETF Monthly Newsletter

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The Month in Closed-End Funds: January 2014

PERFORMANCE

With the S&P 500 index (-3.46%) posting its worst January return since 2010 and the Dow Jones Industrial Average (-5.30%) chalking up its worst January return since 2009, it's little wonder investors ducked for cover and bid up Treasury securities in January. Although the real meltdown didn't materialize until the very end of the month, investors were cautious after the spectacular equity run-up in 2013, the Federal Reserve's commitment to continue tapering its now $75-billion/ month bond-buying program by $10 billion in February, and the mixed economic news throughout the month. Shrugging off generally better-than-expected fourth quarter earnings reports (according to Thomson Reuters' proprietary research team, with 50% of the S&P 500 constituents reporting Q4 2013 earnings thus far, 70% have beat expectations and 10% have matched analyst expectations), many investors have decided to take some of those hard-won profits off the table, since many pundits believe we are ripe for a near-term correction and consolidation.

For the third straight month equity and fixed income CEFs went their separate ways. As one might expect, given the slide in the broad-based indices, equity CEFs were in the red for January, losing on average 1.57% on a NAV basis (their first negative return since August 2013) and 1.67% on a market basis. Meanwhile, fixed income CEFs gained 2.56% and 3.44%, respectively, in a flight to safety by investors.

At the beginning of the month investors were disappointed by a lower-than-expected nonfarm payrolls report and a drop in both the ISM manufacturing and nonmanufacturing indices. Better-than-anticipated gains in December retail sales and inline gains in industrial production and capacity utilization kept the bears at bay mid-month. However, a few earnings misses by such firms as Intel and General Electric, accompanied with news that the January HSBC China Manufacturing Purchasing Managers Index witnessed a decline to 49.5—signaling a contraction, cast a pall over the international markets. That weighed especially heavily on emerging markets at month-end, and it also pushed the DJIA to its sixth triple-digit loss for the month.

As the CBOE Volatility Index climbed 51% from its closing low on January 12 (12.14) to 18.41 on January 31, investors' rush to safety pushed Treasury prices higher. The ten-year Treasury yield declined 37 bps on January 31, down from its two-and-a-half-year high of 3.04% on December 31. Except for the one-month yield, the Treasury yield curve shifted up, with the ten- and twenty-year yields declining the most—37 bps each to 2.67% and 3.35%, respectively, on January 31.

For January the dollar strengthened against the euro (+2.03%) and the pound (+0.76%), but it lost against the yen (-2.86%). For the month commodities prices were mixed, with the near-month crude oil price declining 0.94% to close the month at $97.49/barrel, while gold gained 3.18% to end the month at $1,240.10/ ounce.

For January 70% of all CEFs posted NAV-basis returns in the black, with only 34% of equity CEFs and 93% of fixed income CEFs chalking up returns in the plus column. U.S. stocks witnessed some deep losses during the month as investor s fled equities and emerging-markets currencies in the face of China's manufacturing slowdown and renewed fears of deflation in the Eurozone. This contributed to world equity CEFs' (-4.05%) lagging domestic equity CEFs (-1.05%), while the jump in yields pushed the mixed-asset CEFs macro-group (+0.94%) to the top.

The Month in Closed-End Funds: Jan. 2014

- For January only 9% of all closed-end funds (CEFs) traded at a premium to their net asset value (NAV), with 8% of equity funds and 9% of fixed income funds trading in premium territory. The World Equity CEFs macro-group witnessed the largest widening of discounts for the month—63 basis points (bps) to 10.76%.
- Equity and fixed income CEFs continued on separate paths in January, with equity funds losing 1.57% on a NAV basis (registering their first monthly loss since August 2013), while their fixed income counterparts returned 2.56% for the month.
- For the first month in four all of Lipper's municipal bond CEF classifications posted returns in the black, with California Municipal Debt Funds (+4.35%) outpacing the other classifications in the group. Municipal debt CEFs (+3.95%) outpaced their domestic taxable CEF counterparts (+1.27%) for the month.
- With greater scrutiny on emerging markets, World Equity CEFs (-4.05%) and World Income CEFs (-1.16%) lagged their domestic and taxable counterparts, respectively, for January.

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In their flight to safety investors bid up dividend payers and gold-oriented funds, while punishing more risky plays. For January only four of Lipper's 15 equity CEF classifications posted returns in the black. At the bottom of the charts were CEFs that invest in less developed markets, with Emerging Markets CEFs—suffering a 6.89% loss for the month—bringing up the rear; it was bettered somewhat by Pacific ex-Japan CEFs (-4.42%). At the top of the charts were December's laggards, Real Estate CEFs (+2.32%) and Sector Equity CEFs (+1.97%). With yields declining during the month and municipal bond funds suffering a disproportionate share of downside performance over the last several months, it wasn't all that surprising to see the municipal bond CEFs macro-group (+3.95%) rising to the top of the fixed income macro-group, outperforming taxable domestic bond CEFs (+1.27% on a NAV basis) and world bond CEFs (-1.16%).

As investors became slightly risk averse during the month, they began taking money off the table from CEF classifications that were on a tear in 2013. On the domestic equity side Core CEFs (-3.18%, December's leader) and Option Arbitrage/Option Strategies CEFs (-2.63%) suffered the largest losses for January. Investors pushed Income & Preferred Stock CEFs (+1.45%) and Energy MLP CEFs (+2.64%) toward the top of the charts. For the remaining equity classifications returns ranged from minus 2.62% (Global CEFs) to minus 0.25% (Convertible CEFs).

Three of the five top-performing individual equity funds were housed in Lipper's Sector Equity CEFs classification. However, at the top of the charts for January was **RENN Global Entrepreneurs Fund, Inc. (AMEX: RCG**, housed in Lipper's Global CEFs classification, it was December's second worst performing CEF**)**, gaining 9.32% on a NAV basis and traded at a 44.96% discount at month-end. Following RCG were **ASA Gold & Precious Metals Limited (NYSE: ASA**, housed in Lipper's Sector Equity CEFs classification**)**, rising 7.89% on a NAV basis and traded at a 4.61% discount on January 31, and **H&Q Life Sciences Investors (NYSE: HQL**, also housed in Lipper's Sector Equity CEFs classification**)**, posting a 7.57% return and traded at a 6.64% discount at month-end. Following those two were **H&Q Healthcare Investors (NYSE: HQH)**, chalking up a 5.97% return and traded at a 2.87% discount on January 31, and **John Hancock Preferred Income Fund II (NYSE: HPF**, housed in Lipper's Income & Preferred Stock Fund classification**)**, which rose 5.45% and traded at a 5.98% discount at month-end.

For the month the dispersion of performance in individual equity CEFs—ranging from minus 12.36% to positive 9.32%—was much narrower than December's spread and more negatively skewed. The 20 top-performing equity funds posted returns at or above 2.89%, while the 20 lagging funds were at or below minus 6.02%.

For the month **Aberdeen Emerging Markets Smaller Company Opportunities Fund, Inc. (AMEX: ETF)**, housed in Lipper's Emerging Markets CEFs classification, was at the

CLOSED-END FUNDS LAB

TABLE 1 CURRENT-MONTH PERFORMANCE, P&D, P&D SHIFTS (% OF UNIVERSE)

	NAV RETURNS POSITIVE	PREMIUM/DISCOUNT BETTER	PREMIUM/DISCOUNT WORSE	NOW TRADING AT PREMIUM	NOW TRADING AT DISCOUNT
Equity Funds	34	48	50	8	92
Bond Funds	93	68	30	9	91
ALL CEFs	**70**	**60**	**38**	**9**	**91**

TABLE 2 AVERAGE NAV RETURNS, SELECTED PERIODS (%)

	JANUARY	YTD	3-MONTH	CALENDAR-2013
Equity Funds	-1.57	-1.57	0.25	16.03
Bond Funds	2.56	2.56	2.41	-1.74
ALL CEFs	**0.92**	**0.92**	**1.56**	**5.17**

TABLE 3 NUMBER OF IPOs, SELECTED 12-MONTH PERIODS

	JANUARY 2014	CALENDAR-2013
ALL CEFs	**27**	**28**

TABLE 4 AVERAGE SIZE OF IPOs, SELECTED PERIODS, $MIL

3 MONTHS THROUGH 12/31/2013	362
COMPARABLE YEAR-EARLIER 3 MONTHS	521
CALENDAR 2013 AVERAGE	564

Source: Lipper, a Thomson Reuters company bottom of the equity CEFs group, shedding 12.36% of its December month-end value and traded at a 9.91% discount at month-end. **Turkish Investment Fund, Inc. (NYSE: TKF**, also warehoused in Lipper's Emerging Markets CEFs classification**)** was the next poorest performing equity fund, declining 11.77% and traded at a 3.39% discount at month-end. Eight of the ten worst performing funds in the CEF universe were housed in Lipper's Emerging Markets CEFs classification.

For the first month since October 2013 all of Lipper's municipal debt CEF classifications posted plus-side NAV-based returns as investors bid up the group in their flight to safely, scooping up tax-exempt issues with yields exceeding those of similar-dated Treasuries before tax adjustments. California Municipal Debt CEFs (+4.35%) and General & Insured Municipal Debt CEFs (Leveraged) (+4.34%) witnessed the largest returns of the group, while General & Insured Municipal Debt CEFs (Unleveraged) (+2.64%) and Intermediate Municipal Debt CEFs (+2.78%) were the relative laggards of the group. The municipal debt CEFs macro-group (+3.95%) outperformed its taxable domestic CEFs counterpart (+1.27%). National municipal debt CEFs (+3.99%) slightly outpaced their single-state municipal debt CEF counterparts (+3.91%).

As uncertainty continued to unfold in the world markets, both of the classifications making up Lipper's World Income Funds macro-classification (-1.16%) lagged the other taxable fixed income classifications. Emerging Markets Debt Funds (-2.98%) took the worst of the beatings, outdistanced by Global Income CEFs (-0.08%). With interest rates dropping drastically during the month, December's leaders—the adjustable-rate Loan Participation CEFs classification (+0.80%) and High Yield CEFs (+0.40%)—became the relative laggards among the taxable fixed income CEFs classifications, while U.S. Mortgage CEFs (+2.34%) and General Bond CEFs (+1.90%) shot to the head of the class for January. Mixed economic reports toward the end of the month, accompanied by disappointing Chinese economic data, pushed yields lower. The two-/ten-year Treasury spread narrowed 33 bps from December's month-end 2.66%. The yield on the ten-year Treasury note finished the month 37 bps lower at 2.67%.

In the domestic taxable fixed income CEFs universe (+1.27%) the remaining classification returns ranged from 0.90% (High Yield [Leveraged] CEFs) to positive 1.70% (Corporate Debt BBB-Rated [Leveraged] CEFs).

The two top-performing CEFs in the fixed income universe were housed in Lipper's General & Insured Municipal Debt (Leveraged) CEFs classification: **BlackRock Municipal Target Term Trust (NYSE: BTT)** rose 7.09% and traded at a 6.47% discount on January 31, and **Eaton Vance Municipal Income Term Trust (NYSE: ETX)** tacked 6.70% onto its December month-end value and traded at a 6.47% discount at January month-end. Following those two was **NexPoint Credit Strategies Fund (NYSE: PHD**, housed in Lipper's High Yield [Leveraged] CEFs classification**)**, posting a 6.62% return and traded at a 13.80% discount at month-end.

For the remaining funds in the fixed income CEFs universe monthly NAV-basis performance ranged from minus 6.64% (Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. [NYSE: EDD], housed in Lipper's Emerging Markets CEFs classification and traded at a 13.13% discount on January 31) to 6.53% for Eaton Vance Municipal Income Trust (NYSE: EVN), housed in Lipper's General & Insured Municipal Debt (Leveraged) CEFs classification and traded at a 3.73% premium at month-end. The 20 top-performing fixed income CEFs posted returns at or above 4.88%, while the 20 lagging funds were at or below minus 0.44%.

PREMIUM AND DISCOUNT BEHAVIOR

For January the median discount of all CEFs narrowed 32 bps to 8.34%—lower than the 12-month moving average discount (6.04%). Equity CEFs' median discount narrowed 13 bps to 9.64%, while fixed income CEFs' median discount narrowed 74 bps to 7.55%. Municipal bond CEFs' median discount narrowed 121 bps to 7.20%. The World Equity CEFs macro-classification witnessed the largest widening of discounts in the CEF universe—just 63 bps to 10.76%.

For the month 60% of all funds' discounts or premiums improved, while 38% worsened. In particular, 48% of equity funds and 68% of fixed income funds saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on January 31 (51) was five more than on December 31.

CEF EVENTS AND CORPORATE ACTIONS

IPOs

There were no new CEFs launched in January.

RIGHTS, REPURCHASES, TENDER OFFERS

A tender offer measurement period for **The Central Europe, Russia and Turkey Fund (NYSE: CEE)**, **The European Equity Fund (NYSE: EEA)**, and **The New Germany Fund (NYSE: GF)** will run from April 7, 2014, to Friday, June 27, 2014. Each fund will conduct a tender offer if its shares trade at an average discount of more than 10% during the 12-week measurement period. In addition, directors of CEE approved a 700,000-share increase to the previously announced share repurchase authorization, resulting in a total authorization of 1,400,000 shares for repurchase through July 31, 2014.

Final results of the semiannual repurchase offer for up to 5% (189,000) of the shares of **The Asia Tigers Fund (NYSE: GRR)** saw approximately 1.3 million shares tendered; on a *pro rata* basis 14.9% of the tendered shares were accepted for payment.

The Swiss Helvetia Fund (NYSE: SWZ) is offering to purchase up to 15% of its common shares at 95% of NAV until February 11, 2014, unless extended. If more than 15% of the fund's shares are tendered, the fund will purchase them on a *pro rata* basis.

MERGERS AND REORGANIZATIONS

Directors approved a proposal to merge **Tortoise Energy Capital Corp. (NYSE: TYY)** and **Tortoise North American Energy Corp. (NYSE: TYN)** into **Tortoise Energy Infrastructure Corp. (NYSE: TYG)**. The mergers are expected to be concluded in second quarter 2014, subject to shareholder approval.

Shareholders of **Nuveen Pennsylvania Premium Income Municipal Fund 2 (NYSE: NPY)**, **Nuveen Pennsylvania Dividend Advantage Municipal Fund (NYSE: NXM)**, and **Nuveen Pennsylvania Dividend Advantage Municipal Fund 2 (NYSE: NVY)** approved the reorganization of their funds into **Nuveen Pennsylvania Investment Quality Municipal Fund (NYSE: NQP)**. The reorganization is expected to be complete Monday, February 10, 2014.

Sometime in the second quarter shareholders of **American Strategic Income Portfolio (NYSE: ASP)** and A**merican Select Portfolio (NYSE: SLA)** will be asked to approve a proposal to reorganize the funds into a newly organized CEF managed by Nuveen. If the reorganizations are approved, the new combined fund will move to the Nuveen Funds CEF platform.

Shareholders of **AllianzGI Global Equity & Convertible Income Fund (NYSE: NGZ)** and **AllianzGI Equity & Convertible Income Fund (NYSE: NIE)** approved the reorganization of NGZ into NIE; the merger was completed at the end of January.

OTHER

Nuveen Global Value Opportunities Fund (NYSE: JGV) changed its name to **Nuveen Global Equity Income Fund** (same ticker).

Alpine Total Dynamic Dividend Fund (NYSE: AOD) and **Alpine Global Dynamic Dividend Fund (NYSE: AGD)** each had a one-for-two reverse share split. The funds' shares will trade under new CUSIP numbers of 021060207 for AOD and 02082E205 for AGD.

Directors of **Western Asset Inflation Management Fund (NYSE: IMF)** adopted a proposal to liquidate and dissolve the fund. Shareholders will be asked to approve the plan at their annual meeting scheduled for April 25, 2014.

Directors of **Morgan Stanley Asia-Pacific Fund (NYSE: APF)** approved changing the fund's investment strategy; it will no longer invest in equity securities of issuers located in Japan. Accordingly, the board approved changing the fund's benchmark to the MSCI All Country Asia Pacific ex-Japan Index. The portfolio management team will also change.

Chartwell Investment Partners, subadvisor to **First Trust Dividend and Income Fund (NYSE: FAV)** and **First Trust Enhanced Equity Income Fund (NYSE: FFA)**, has agreed to be purchased by TriState Capital Holdings; the transaction is expected to close in first quarter 2014. New subadvisory agreements will be submitted later this year to shareholders of each fund for approval.

AllianceBernstein Income Fund (NYSE: ACG) announced that prior to the end of 2013 it received written requests from persons purporting to own in excess of 10% of the fund's shares that the fund submit a proposal to convert from a CEF to an open-end investment company.

First Trust Strategic High Income Fund II (NYSE: FHY) booked a reserve for potential costs and expenses related to a class action lawsuit filed against it by Lehman Brothers Special Finance. Based on the current status of the litigation, FHY booked a reserve that will result in a $0.44/share reduction in NAV and warns there is no assurance this amount will be sufficient to cover the ultimate costs of litigation.

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CEF Performance Statistics

LIPPER

Category	Average of 1MO NAV Change	Average of 1MO MKT Change	Average P/D 12/31/2013	Average P/D 1/31/2014	Average 1 MO P/D Change	Average YTD NAV Change	Average YTD MKT Change	Average YTD P/D Change
High Yield Funds	0.1%	-0.3%	-$7.58	-$7.05	$0.53	0.1%	-0.3%	$0.53
General Bond Funds	-1.3%	-1.7%	-$3.61	-$4.13	-$0.52	-1.3%	-1.7%	-$0.52
Energy MLP Funds	0.0%	1.9%	-$1.76	-$3.55	-$1.79	0.0%	1.9%	-$1.79
Natural Resources Funds	2.4%	2.2%	-$10.55	-$10.61	-$0.06	2.4%	2.2%	-$0.06
Sector Equity Funds	-1.7%	-1.4%	-$6.56	-$7.08	-$0.52	-1.7%	-1.4%	-$0.52
Emerging Markets Funds	9.2%	9.0%	-$8.34	-$6.95	$1.39	9.2%	9.0%	$1.39
Utility Funds	0.6%	0.4%	-$7.48	-$7.22	$0.26	0.6%	0.4%	$0.26
Pacific Ex Japan Funds	4.7%	5.7%	-$9.40	-$10.25	-$0.85	4.7%	5.7%	-$0.85
Core Funds	3.8%	-0.4%	-$9.18	-$9.11	$0.07	3.8%	-0.4%	$0.07
Global Income Funds	0.7%	0.9%	-$8.13	-$8.26	-$0.13	0.7%	0.9%	-$0.13
Income & Preferred Stock Funds	-1.0%	-0.8%	-$8.30	-$8.47	-$0.17	-1.0%	-0.8%	-$0.17
Corporate Debt Funds BBB-Rated	-1.0%	-1.3%	-$10.06	-$9.77	$0.29	-1.0%	-1.3%	$0.29
U.S. Mortgage Funds	-1.9%	-2.3%	-$9.36	-$9.03	$0.33	-1.9%	-2.3%	$0.33
General & Insured Muni Fds (Unleveraged)	-2.2%	-3.5%	-$5.38	-$4.10	$1.28	-2.2%	-3.5%	$1.28
Value Funds	2.5%	4.5%	-$10.49	-$11.74	-$1.25	2.5%	4.5%	-$1.25
New Jersey Municipal Debt Funds	-3.4%	-3.3%	-$9.78	-$9.80	-$0.02	-3.4%	-3.3%	-$0.02
Intermediate Municipal Debt Funds	-2.3%	-3.2%	-$4.59	-$3.66	$0.93	-2.3%	-3.2%	$0.93
Real Estate Funds	-1.9%	-2.7%	-$11.24	-$10.05	$1.19	-1.9%	-2.7%	$1.19
Pennsylvania Municipal Debt Funds	-3.3%	-4.7%	-$11.59	-$10.16	$1.43	-3.3%	-4.7%	$1.43
Emerging Mrkts Hard Currency Debt Funds	3.6%	4.8%	-$10.00	-$11.09	-$1.09	3.6%	4.8%	-$1.09
Other States Municipal Debt Funds	-3.3%	-4.2%	-$8.91	-$8.34	$0.57	-3.3%	-4.2%	$0.57
California Municipal Debt Funds	-3.7%	-4.8%	-$5.87	-$4.74	$1.13	-3.7%	-4.8%	$1.13
General & Insured Muni Debt Funds (Lever	-3.7%	-5.2%	-$6.95	-$5.45	$1.50	-3.7%	-5.2%	$1.50
Options Arbitrage/Opt Strategies Funds	2.9%	2.0%	-$7.19	-$6.31	$0.88	2.9%	2.0%	$0.88
Developed Market Funds	3.0%	3.4%	-$9.19	-$9.50	-$0.31	3.0%	3.4%	-$0.31
Corporate BBB-Rated Debt Funds(Leveraged	-1.5%	-1.7%	-$8.49	-$8.35	$0.14	-1.5%	-1.7%	$0.14
New York Municipal Debt Funds	-2.8%	-3.8%	-$6.45	-$5.51	$0.94	-2.8%	-3.8%	$0.94
Global Funds	3.4%	4.1%	-$10.89	-$11.38	-$0.49	3.4%	4.1%	-$0.49
Convertible Securities Funds	0.6%	-0.9%	-$7.54	-$5.92	$1.62	0.6%	-0.9%	$1.62
Loan Participation Funds	-0.4%	-0.2%	-$5.01	-$5.22	-$0.21	-0.4%	-0.2%	-$0.21
High Yield Funds (Leveraged)	-0.4%	-0.6%	-$6.30	-$6.10	$0.20	-0.4%	-0.6%	$0.20
High Yield Municipal Debt Funds	-2.7%	-5.3%	-$3.75	-$0.97	$2.78	-2.7%	-5.3%	$2.78
Growth Funds	2.5%	3.3%	-$4.11	$8.47	$12.58	2.5%	3.3%	$12.58

Fund Name	Category	Ticker Symbol	1-Month NAV Change	Rank
Turkish Investment Fund	Emerging Markets Funds	TKF	46%	1
Aberdeen EM SmCo Opptys	Emerging Markets Funds	ETF	14%	2
Aberdeen Chile	Emerging Markets Funds	XCH	13%	3
Aberdeen Latin America	Emerging Markets Funds	LAQ	13%	4
Central Euro Russia & Tu	Emerging Markets Funds	CEE	12%	5

Fund Name	Category	Ticker Symbol	Year-to-Date NAV Change	Rank
Turkish Investment Fund	Emerging Markets Funds	TKF	46%	1
Aberdeen EM SmCo Opptys	Emerging Markets Funds	ETF	14%	2
Aberdeen Chile	Emerging Markets Funds	XCH	13%	3
Aberdeen Latin America	Emerging Markets Funds	LAQ	13%	4
Central Euro Russia & Tu	Emerging Markets Funds	CEE	12%	5

Fund Name	Category	Ticker Symbol	1-Month Market Change	Rank
Turkish Investment Fund	Emerging Markets Funds	TKF	47%	1
Gabelli Multimedia Trust	Global Funds	GGT	16%	2
Aberdeen EM SmCo Opptys	Emerging Markets Funds	ETF	12%	3
Central Euro Russia & Tu	Emerging Markets Funds	CEE	12%	4
Aberdeen Latin America	Emerging Markets Funds	LAQ	12%	5

Fund Name	Category	Ticker Symbol	Year-to-Date Market Change	Rank
Turkish Investment Fund	Emerging Markets Funds	TKF	47%	1
Gabelli Multimedia Trust	Global Funds	GGT	16%	2
Aberdeen EM SmCo Opptys	Emerging Markets Funds	ETF	12%	3
Central Euro Russia & Tu	Emerging Markets Funds	CEE	12%	4
Aberdeen Latin America	Emerging Markets Funds	LAQ	12%	5

Fund Name	Category	Ticker Symbol	1-Month P/D Change	Rank
DoubleLine:Oppor Crdt Fd	General Bond Funds	DBL	$5.19	1
BlackRock MuniVest	General & Insured Muni Debt Funds (Leveraged)	MVF	$4.31	2
Nuveen Muni Hi Inc Opp	High Yield Municipal Debt Funds	NMZ	$4.18	3
Federated Prem Muni Inc	General & Insured Muni Debt Funds (Leveraged)	FMN	$4.16	4
Invesco Tr Inv Grd NY	New York Municipal Debt Funds	VTN	$3.81	5

Fund Name	Category	Ticker Symbol	Year-to-Date P/D Change	Rank
DoubleLine:Oppor Crdt Fd	General Bond Funds	DBL	$5.19	1
BlackRock MuniVest	General & Insured Muni Debt Funds (Leveraged)	MVF	$4.31	2
Nuveen Muni Hi Inc Opp	High Yield Municipal Debt Funds	NMZ	$4.18	3
Federated Prem Muni Inc	General & Insured Muni Debt Funds (Leveraged)	FMN	$4.16	4
Invesco Tr Inv Grd NY	New York Municipal Debt Funds	VTN	$3.81	5

Highlights (US$):[1,2]

The Global ETP Industry registered outflows of ($9.7bn) in January following average inflows of just under $30bn during the previous four months. The industry again enabled investors to quickly react to changing market sentiment at the outset of 2014. The impact on both market returns and ETP flows in January was reminiscent of 2010 and had the greatest impact on equities, particularly US and Emerging Markets exposures. Other areas of the Equity ETP landscape such as European and Japanese exposures continued to benefit from healthy investor appetite as they did in 2013.

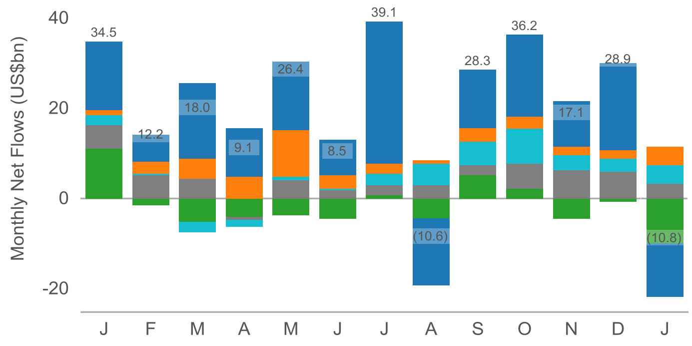
The **Emerging Markets Equity** outflows of ($10.0bn) for the month were triggered largely by two factors. A softer-than-expected Chinese manufacturing PMI reading of 49.6 signaled economic contraction and confirmed lingering fears of a slowdown in domestic demand.[5] Additional pressure during January came from ongoing tapering, which was confirmed when the Fed announced a reduction of purchases by another $10bn per month to $65bn. A number of central banks in developing countries have tried to stem the general flight to quality by raising interest rates, but this has largely served to increase worries over growth and stability for weaker economies. The result is that investors have pulled back from Emerging Markets in favor of other investment themes as the category continues to see a correction following its popularity in the wake of the financial crisis. ETP outflows in January were heavily concentrated in iShares MSCI Emerging Markets (EEM) with ($5.5bn) and Vanguard FTSE Emerging Markets (VWO) with ($2.9bn). In January the MSCI Emerging Markets Index experienced a decline of (6.6%), greater than the (5.0%) for all of 2013.[6] Longer term, growth prospects for Emerging Markets remain attractive relative to the developed world. However, the current market environment is indicative of the volatility of investing in Emerging Markets and favors careful country selection as opposed to broad-based investment.

US Equity outflows of ($12.0bn) in January were impacted by the Emerging Markets volatility but also reflected concerns over valuations

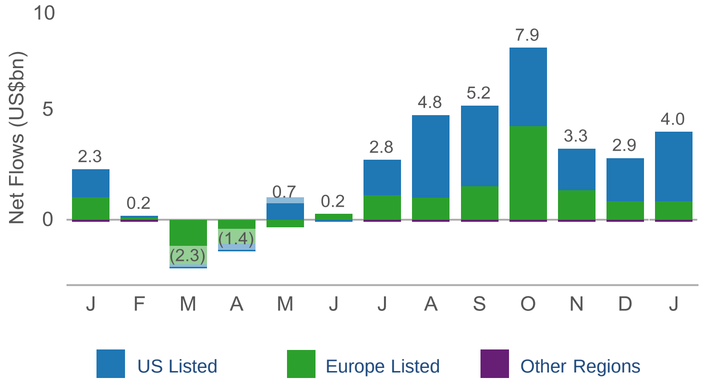
EQUITY ETP FLOWS: JANUARY 2010 VS. JANUARY 2014[1,6]
(Flows in US $billions)

Equity Category	Index	January 2010 Return	January 2010 Flows	January 2014 Return	January 2014 Flows
US Large Cap	S&P 500	(3.7%)	(18.4)	(3.6%)	(15.9)
Emerging Markets	MSCI EM	(5.6%)	1.1	(6.6%)	(10.0)
Non-US Developed Markets	MSCI EAFE	(4.4%)	2.7	(4.1%)	11.2

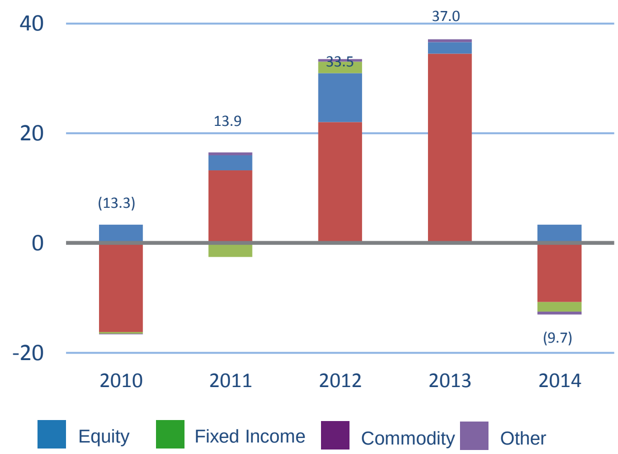
GLOBAL EQUITY CUMULATIVE ETP FLOWS[1]
2014 YTD New Flows ($10.8bn) vs. 2013 Net Flows: $247.7bn



PAN EUROPEAN EQUITY FLOWS[1]
2014 YTD Net Flows: $4.0bn vs. 2013 Annual $26.5bn



HISTORICAL JANUARY GLOBAL ETP FLOWS[1]



Source: BlackRock

Highlights (US$):[1,2]

after last year's impressive stock market performance. While the S&P 500 gained 29.6% in 2013 propelled by investor optimism, it has started the year down (3.6%) indicating wariness that the market can continue its run.[6] Also, fourth quarter earnings have not lived up to expectations in general given continued signs of an improving economy. Initial Q4 GDP growth estimates of 3.2% annualized[7] (following 4.1% in Q3) indicated continued improvement in consumer demand and business investment. The US Equity ETP outflows were concentrated in Large Cap with ($15.9bn), the majority from SPDR S&P 500 (SPY) which shed ($14.6bn). All other US Equity inflows were modest but positive at $3.8bn, driven by well-diversified Sector inflows of $2.9bn. Health Care led with $1.2bn and Technology added $1.0bn.

Pan-European Equity had another month of attractive flows – its seventh in a row – contributing $4.0bn. Investors continue to look to the region due to its improving economic growth outlook as well as for return prospects given already strong gains in the US. The preliminary January eurozone PMI reading of 53.2 was the best since June 2011 and was highlighted by German manufacturing.[8] **Broad-Based Developed Markets Equity** (Global/Global ex-US) flows of $3.7bn and **Japanese Equity** flows of $4.0bn also reinforced the current focus on non-US exposures. The Japanese flows included $1.2bn from Bank of Japan stimulus-related purchases.

Fixed Income ETP flows in January remained moderate but positive at $3.3bn led by Short-maturity funds with $1.9bn but also including inflows for Intermediate and Long-term maturities. European exposures were the key driver with $1.7bn. In the US, the recent flight to quality has led to a drop in the 10-Year Treasury rate to 2.64%[9] and modest Treasury ETP inflows.

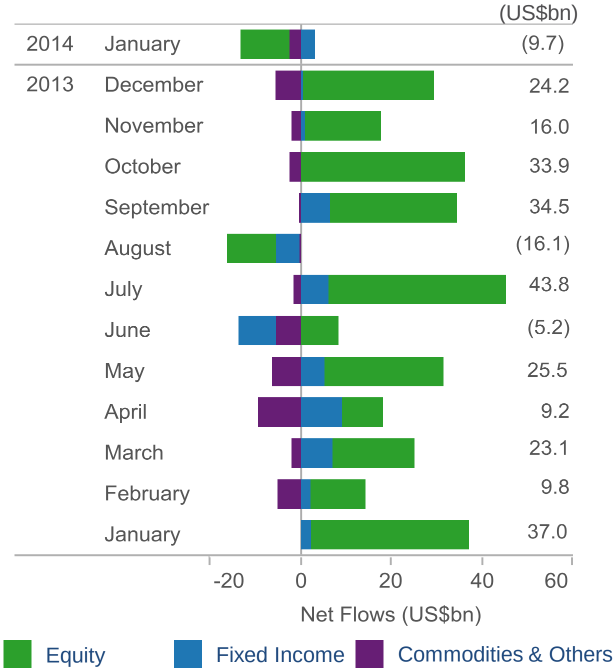
JANUARY RESULTS AT A GLANCE[1]
(US $billions)

	January 2014	December 2013*	January 2013	January 2012
Monthly Flows	(9.7)	24.2	37.0	33.5
Assets	2,321	2,396	2,044	1,651
# of ETPs	5,025	4,988	4,788	4,411

Jun-Dec 2013 restated with minor corrections to Europe data and delisting adjustments

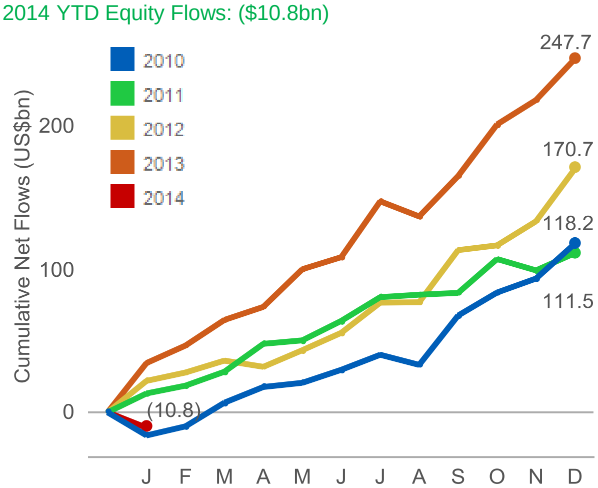
GLOBAL 13-MONTH ROLLING NET FLOWS[1]

2014 YTD Net Flows: ($9.7bn) vs. 2013 Net Flows: $235.7bn



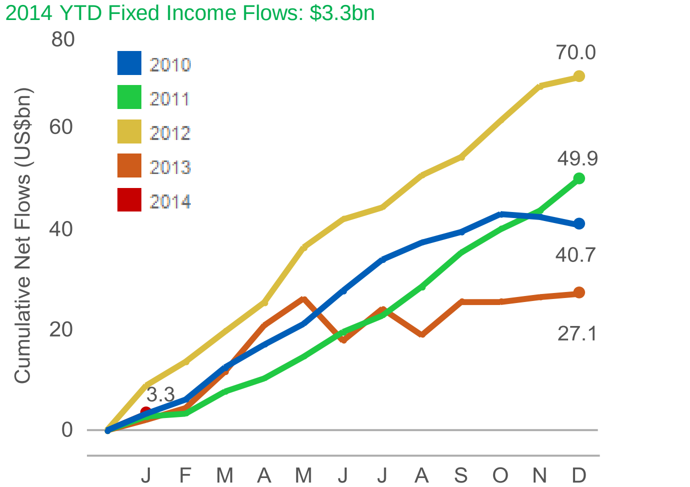
CUMULATIVE EQUITY ETP FLOWS[1]

2014 YTD Equity Flows: ($10.8bn)



CUMULATIVE FIXED INCOME ETP FLOWS[1]

2014 YTD Fixed Income Flows: $3.3bn



Source: BlackRock

Milestone -5,000 ETPs

BLACKROCK

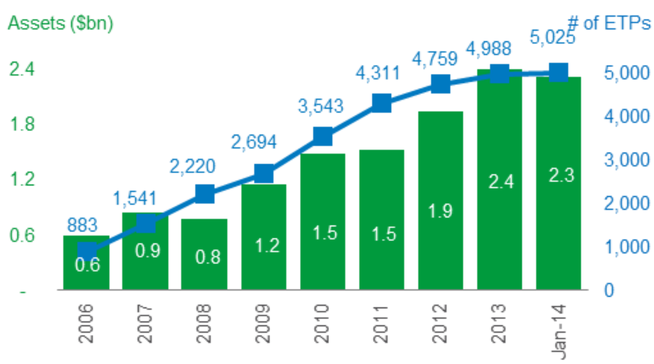
Highlights (US$):[1,2]

Global ETPs listings have exceeded 5,000 for the first time in history. It's a remarkable milestone considering it took the industry more than 15 years to reach its first 2,000 products but only six more years to reach 5,000.

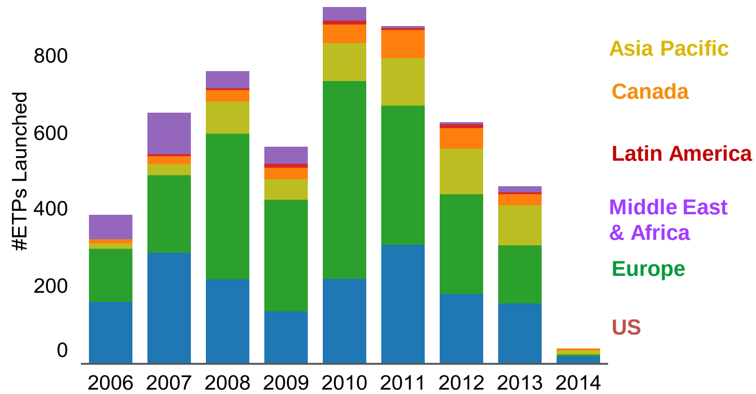
For comparison, the US mutual fund industry took nearly 50 years to reach the 2,000 mark in the late 80s and another eight years to reach 5,000.

- Regionally speaking, the US accounts for the largest share of ETP assets (71% or $1.6 trillion) while Europe has most products available on the market (2,141 or 43%). ETP providers also launched more products in Europe in the last five years than any other region. However, for 2013 alone, US has seen 158 new ETPs, eight more than in Europe. Asia Pacific on the other hand has the highest growth rate in the past five years, as the number of ETPs quadrupled.
- The speed of new launches has moderated since 2012. Total new launches (excluding share classes) in 2013 totaled 430, with $26.4bn gathered within the year. That is considerably less than the $37.1bn gathered during 2010 across 929 new funds but ahead of 2011 when 876 new products finished that year with only $23.6bn in assets.
- Looking at asset classes, EM Equity and Fixed Income maintained their pace of new launches in 2013. However, commodity funds dwindled as the end of the commodity super cycle and consistent outflows from existing ETPs last year took a toll on the pipeline.
- Product rationalization has doubled to around 200 per year in 2012 and 2013, up from the 100 redemptions seen on average each year since 2009. The majority of fund closures come from the US and Europe. There were 119 funds delisted in Europe in 2013, whereas in the US only 67 ETPs closed.
- The top three ETP providers globally have maintained their ETP launches in recent years, averaging 95 new funds per year since 2006. The majority of the new funds globally are from smaller providers.

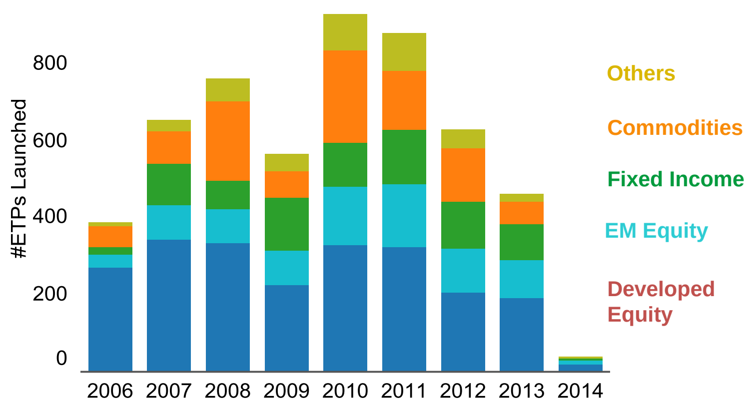
GLOBAL ETP ASSETS & NUMBER OF ETPS BY YEAR[1]



 # ETPs LAUNCHED PER YEAR PER REGION[1]
(Primary Listings only, excluding Individual Share Classes)



 # ETPs LAUNCHED PER YEAR PER ASSET CLASS[1]
(Primary Listings only, excluding Individual Share Classes)



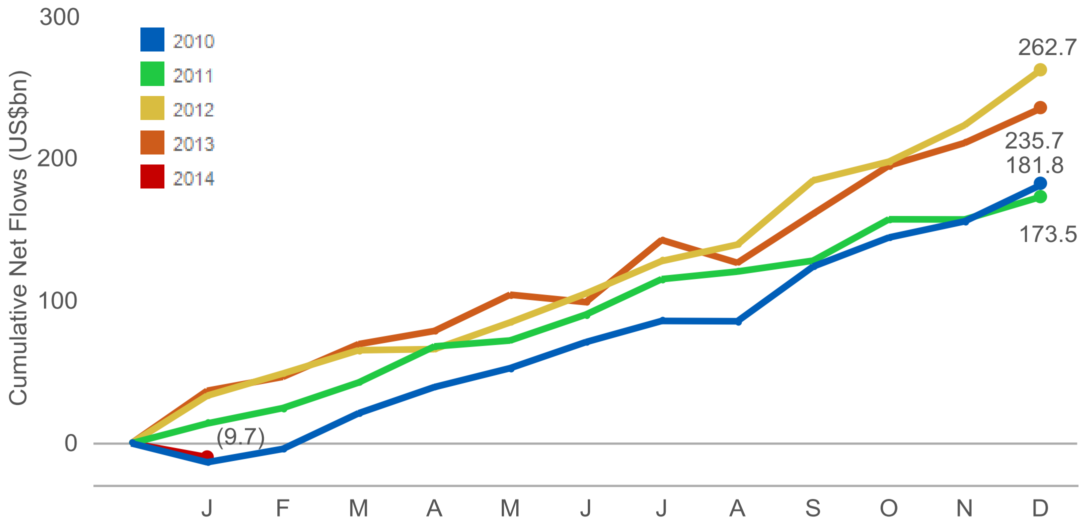
Source: BlackRock

GLOBAL ETP YTD FLOWS BY EXPOSURE[1]

(US$bn)			Jan 2014	Jan 2013	Annual 2013
Fixed Income	**Total**		3.3	2.1	27.1
Developed Markets Equity	North America Equity	**Total**	(12.5)	14.7	148.1
	Other Developed/ Global Equity	Asia Pacific Equity	3.7	2.2	37.9
		Europe Equity	4.3	1.9	27.1
		Global/Global ex-US	3.7	4.8	44.9
		Total	11.7	8.9	109.9
	Total		(0.8)	23.6	258.0
Emerging Markets Equity	**Total**		(10.0)	10.9	(10.3)
Commodities	**Total**		(1.7)	(0.2)	(42.9)
Others	**Total**		(0.5)	0.6	3.8
Global ETP Total			(9.7)	37.0	235.7

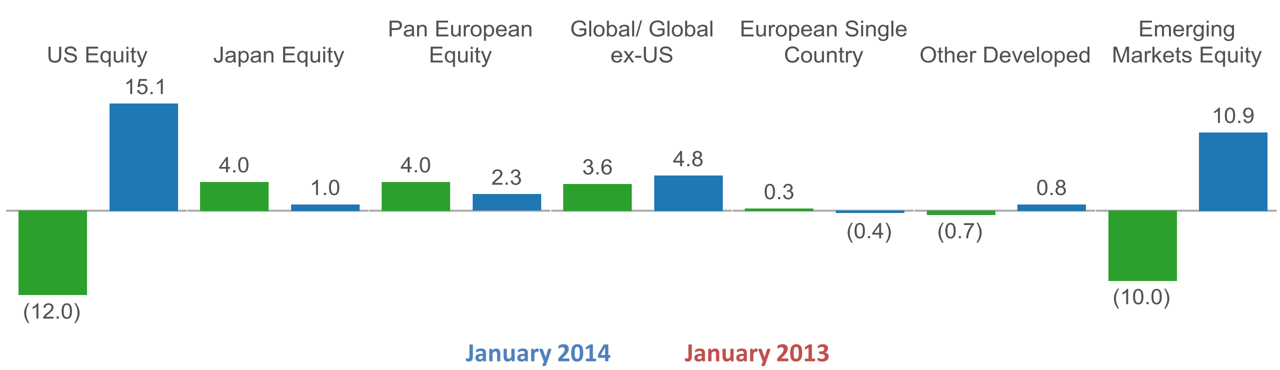
GLOBAL ETP CUMULATIVE NET FLOWS[1]

2014 YTD Flows ($9.7bn) vs. 2013 Net Flows: $235.7bn



GLOBAL EQUITY ETP FLOWS BY EXPOSURE[1]

2014 Jan Net Flows ($10.8bn) vs. 2013 Jan Net Flows $34.5bn



Source: BlackRock

Largest Year-to-Date Fund Inflows and Outflows

BLACKROCK

ETPs as of January 2014 (US$mn)[1]	Bloomberg Ticker	2014 YTD Inflows	Jan-14 Assets
Vanguard European	VGK US	1,269	14,329
NEXT FUNDS Nikkei 225 Leveraged	1570 JP	1,198	2,250
NIKKEI 225 ETF	1321 JP	1,140	17,661
Vanguard Total Stock Market	VTI US	1,020	38,940
Vanguard Total Bond Market	BND US	927	18,869
iShares MSCI EMU	EZU US	891	8,812
Vanguard FTSE Developed Markets ETF	VEA US	821	18,935
Samsung KODEX Leverage ETF	122630 KS	701	2,338
iShares MSCI EAFE	EFA US	641	51,288
iShares Dow Jones U.S. Real Estate	IYR US	586	4,192
Grand Total		9,194	177,615

ETPs as of January 2014 (US$mn)[1]	Bloomberg Ticker	2014 YTD Outflows	Jan-14 Assets
SPDR S&P 500	SPY US	(14,561)	154,469
iShares MSCI Emerging Markets	EEM US	(5,491)	32,057
iShares Russell 2000	IWM US	(2,943)	24,558
Vanguard FTSE Emerging Markets	VWO US	(2,919)	40,341
PowerShares QQQ	QQQ US	(1,550)	42,916
iShares iBoxx $ High Yield Corporate Bond	HYG US	(1,258)	13,912
iShares Core S&P 500	IVV US	(1,225)	50,642
Consumer Discretionary Select SPDR	XLY US	(1,087)	6,053
iShares NAFTRAC	NAFTRAC MM	(714)	5,776
Mirae Asset MAPS TIGER 200 ETF	102110 KS	(680)	2,157
Grand Total		(32,427)	372,881

Source: BlackRock

Largest Asset Gathering ETPs Launched in 2014

BLACKROCK®

Highlights (US$):[1]

- 47 new ETPs and 3 individual share class listings debuted around the globe so far this year and have accumulated $1.0bn in assets
- 10 products and 2 individual share class listings were delisted this year with combined assets of less than $40mn

Product Name (US$mn)[1]	Bloomberg Ticker	Exposure	Listing Region	Launch Date	Assets as of Jan-2014
CSOP Source FTSE China A50 UCITS ETF	CHNA LN	Emerging Markets Equity	Europe	January	231.0
Source Goldman Sachs Equity Factor Index World UCITS ETF	EFIW LN	Other Developed/ Global	Europe	January	191.8
db x-trackers Harvest CSI300 INDEX UCITS ETF (DR)	RQFI GY	Emerging Markets Equity	Europe	January	92.5
Listed Index Fund JPX-Nikkei Index 400	1592 JP	Other Developed/ Global	Asia Pacific	January	43.8
NEXT FUNDS JPX-Nikkei Index 400 Exchange Traded Fund	1591 JP	Other Developed/ Global	Asia Pacific	January	43.3
Hua An CSI Pharmaceutical Segment Exchange Traded Open-end Index Fund	512120 CH	Emerging Markets Equity	Asia Pacific	January	35.3
iShares CHF Corporate Bond (CH)	CHCORP SW	Fixed Income	Europe	January	33.3
AdvisorShares Sage Core Reserves ETF	HOLD US	Fixed Income	US	January	32.5
Invesco Great Wall CSI 500 Index ETF	159935 CH	Emerging Markets Equity	Asia Pacific	January	32.5
PIMCO Low Duration Exchange-Traded Fund	LDUR US	Fixed Income	US	January	28.1
Source Man GLG Continental Europe Plus UCITS EUR ETF (Share Class)	MPCX LN	Other Developed/ Global	Europe	January	24.9
Pimco Diversified Income Exchange-Traded Fund	DI US	Fixed Income	US	January	22.9
Hua An CSI Real Estate Segment Exchange Traded Open-end Index Fund	512110 CH	Emerging Markets Equity	Asia Pacific	January	18.4
Source PIMCO Emerging Markets Advantage Local Bond Index ETF-Income	EMLI LN	Fixed Income	Europe	January	10.5
Market Vectors Short High-Yield Municipal Index ETF	SHYD US	Fixed Income	US	January	10.0
Others					128.7
Total - 47 Primary ETPs + 3 Share Classes					979.4

Source: BlackRock

BLACKROCK®

Exposure (US$mn)[1]		Jan 2014 Net Flows	2014 YTD Net Flows	% of 2014 YTD Flows	Assets	% of Assets	# ETPs
US Size and Style	Large Cap	(15,878)	(15,878)	163.4	454,811	19.6	238
	Mid Cap	628	628	(6.5)	83,620	3.6	49
	Small Cap	(2,297)	(2,297)	23.6	84,477	3.6	70
	Micro Cap	24	24	(0.2)	1,105	0.0	4
	Total Market	1,911	1,911	(19.7)	65,192	2.8	64
	Extended Market	150	150	(1.5)	4,064	0.2	2
	Preferred Stock	(121)	(121)	1.2	12,241	0.5	5
	US Size and Style Total	(15,581)	(15,581)	160.3	705,509	30.4	432
US Sector	Basic Materials	498	498	(5.1)	7,568	0.3	15
	Consumer Cyclicals	(1,047)	(1,047)	10.8	14,566	0.6	19
	Consumer Non-cyclicals	(115)	(115)	1.2	9,675	0.4	13
	Energy	312	312	(3.2)	32,683	1.4	45
	Financials	(490)	(490)	5.0	30,807	1.3	39
	Health Care	1,190	1,190	(12.2)	27,281	1.2	30
	Industrials	86	86	(0.9)	15,088	0.7	18
	Real Estate	854	854	(8.8)	29,764	1.3	24
	Technology	1,035	1,035	(10.7)	26,023	1.1	28
	Telecommunications	107	107	(1.1)	1,130	0.0	6
	Utilities	464	464	(4.8)	7,400	0.3	13
	Theme	6	6	(0.1)	1,109	0.0	8
	US Sector Total	2,901	2,901	(29.9)	203,094	8.8	258
US Strategy		649	649	(6.7)	69,253	3.0	65
US Total		(12,031)	(12,031)	123.8	977,856	42.1	755
Canada Equity		(728)	(728)	7.5	30,648	1.3	88
North America Regional Equity		277	277	(2.9)	8,182	0.4	21
North America Total		(12,482)	(12,482)	128.5	1,016,686	43.8	864
Pan European Size and Style	Large Cap	337	337	(3.5)	43,374	1.9	82
	Mid Cap	(46)	(46)	0.5	1,178	0.1	9
	Small Cap	543	543	(5.6)	3,873	0.2	12
	Total Market	2,709	2,709	(27.9)	48,246	2.1	69
	Pan European Size and Style Total	3,541	3,541	(36.4)	96,600	4.2	170
Pan European Sector		455	455	(4.7)	13,964	0.6	151
Pan European Strategy		28	28	(0.3)	3,211	0.1	20
Pan European Total		4,026	4,026	(41.4)	113,847	4.9	343
Country	Germany	(310)	(310)	3.2	39,562	1.7	65
	U.K.	23	23	(0.2)	20,660	0.9	52
	Switzerland	(123)	(123)	1.3	10,228	0.4	23
	France	(80)	(80)	0.8	5,684	0.2	18
	Others	758	758	(7.8)	12,335	0.5	67
	Europe Single Country Total	268	268	(2.8)	88,469	3.8	225
Europe Total		4,294	4,294	(44.2)	202,316	8.7	568
Asia-Pacific	Regional	(295)	(295)	3.0	15,359	0.7	60
	Country	4,023	4,023	(41.4)	139,132	6.0	243
Asia Pacific Total		3,729	3,729	(38.4)	154,491	6.7	303
Broad-Based Global /Global ex-US		3,660	3,660	(37.7)	199,100	8.6	458
Developed Equity Total		(799)	(799)	8.2	1,572,594	67.8	2,193

Source: BlackRock

Endnotes: BlackRock's ETP Landscape: Monthly Highlights report

"ETP" (or exchange traded product) as referred to above means any portfolio exposure security that trades intraday on a US exchange. ETPs include exchange traded funds (ETFs) registered with the SEC under the Investment Company Act of 1940 (open-end funds and unit investment trusts or UITs) and certain trusts, commodity pools and exchange traded notes (ETNs) registered with the SEC under the Securities Act of 1933.

The data for this report are captured from a number of sources by the BlackRock Investment Institute including provider websites, fund prospectuses, provider press releases, provider surveys, Bloomberg, the National Stock Exchange, Strategic Insight Simfund, Wind and the Bank of Israel. All amounts are reported in US dollars. Flows are derived using daily net asset values and shares outstanding using the most recent data we can capture at month-end. For products with cross-listings, we attribute net flows and assets to the primary listings. For Middle East and Africa, net flows data is not available. Assets are derived using shares outstanding and prices at the end of each month (or the closest date available). Where price is not available, we use an approximation. For ETPs listed in Israel, product level detail is not available. Product level information is aggregated by provider, asset class, exposure, region listed and replication method to produce the various analyses in the report

1. Data is as of January 30, 2014 for Europe and January 31, 2014 for the US, Canada, Latin America, Israel, and some Asia ETPs. Some Asia ETP data is as of December 31, 2013. Global ETP flows and assets are sourced using shares outstanding and net asset values from Bloomberg for the US, Canada, Europe, Latin America and some ETPs in Asia. Middle East ETP assets are sourced from the Bank of Israel. ETP flows and assets in China are sourced from Wind. Inflows for years prior to 2010 are sourced from Strategic Insights Simfund. Asset classifications are assigned by the BlackRock based on product definitions from provider websites and product prospectuses. Other static product information is obtained from provider websites, product prospectuses, provider press releases, and provider surveys. Market returns are sourced from Bloomberg.
2. We classify maturity buckets of a Fixed Income ETP if the fund invests at least 70% of its assets in the corresponding maturity/exposure range: Short maturity includes: underlying security maturities < 3 years and floating rate where the fund holds floating rate securities and/or bank loans. Intermediate includes: 3 years < underlying security maturities < 10 years. The "other" category includes Long-Term: underlying security maturities > 10 years; Broad Maturities: The fund invests in more than two maturity buckets without emphasizing one; Selected Maturities: The fund holds securities with multiple selected range of maturity buckets, i.e. barbell strategy which focuses on the specific short-term and long-term buckets with even weights; and Fixed Maturity: The fund itself has a target maturity date and arranged holdings correspondingly.
3. Source: BlackRock, Bloomberg, Reuters
4. Mutual fund data is sourced from EPFR (excluding Money Market funds and ETFs). 2013 date is sourced from EPFR monthly data. January 2014 data is sourced from EPFR weekly data for the four weeks ended January 29, 2014. Money Market mutual fund flows is sourced from EPFR weekly data for the four weeks ended January 29, 2014.
5. Source: HSBC
6. Source: Bloomberg (S&P 500, MSCI EM and MSCI EAFE index returns in US dollars)
7. Source: US Bureau of Economic Analysis (BEA)
8. Source: Markit
9. Source: Bloomberg (US Treasury Generic 10 Year yield index)

Disclosures:

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Fitch: Investors Sell Puerto Rico Bonds; PRICA Adds Uncertainty

February 12, 2014

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Fitch Ratings-New York-12 February 2014: Pressure on US mutual funds to sell Puerto Rico (PR) bonds could contribute to deteriorating capital markets for the commonwealth's debt, Fitch says. Tuesday's credit downgrade and recent updates to the Puerto Rico Investment Company Act of 2013 (PRICA) may introduce additional selling pressures by mutual funds operating out of PR. Funds already cut their exposure to PR bonds significantly in the second half of 2013.

Fitch Tuesday downgraded PR general obligation and certain GO-linked credits to 'BB' from 'BBB-', resolving a negative rating watch from Nov 14, 2013. COFINA sales tax bonds, the island's top credit, remained at 'AA-/A+'.

US mutual funds have already sold much of their PR municipal bond holdings since May 2013. Fitch reviewed holdings of 92 Fitch rated municipal closed-end funds across 6 large asset managers. The group cut their PR exposure, on average, by more than 65% through Dec 2013, with two managers exiting their holdings entirely.

US mutual funds have historically invested in PR bonds because of its triple tax-exempt status and good liquidity compared to eligible non-PR issues. For example, a single-state fund investing in bonds exempt from Federal and New York State income tax might have 95% New York State municipal bonds and 5% PR municipal bonds.

Click here for complete reading

Fitch: New Puerto Rico Fund Regulations Modest Credit Positive

January 29, 2014

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Fitch Ratings-New York-29 January 2014: The new Puerto Rico Investment Companies Act of 2013 makes several improvements to the regulatory oversight of the island's $11billion-plus fund industry that are modestly credit positive for rated short- and medium-term notes issued by Puerto Rican closed-end funds (PR CEFs), according to Fitch Ratings.

The act revamps compliance and governance rules, allows for greater diversification outside of Puerto Rico, establishes formal fund leverage limits, creates a new type of tax-advantaged structure, and mandates all rulings by the Commissioner of Financial Institutions be made public going forward, according to local law firm López Sánchez Pirillo & Hymovitz, which specializes in this area.

Existing funds are for the most part grandfathered in the Investment Companies Act of Puerto Rico of 1954 (Old Law), except for having to comply with new rules with respect to affiliate transactions, tighter governance over fund directors and officers, and uniformity over repurchasing fund stock from investors. These changes closer align local investment companies with protections already in place for U.S. mutual funds under the U.S. Investment Company Act of 1940, as amended. Moreover, shareholder approval is needed to convert existing funds to the new law, which may prove challenging.

Click here for complete reading

Rating Actions

To access the complete rating action, please click on the links below.

- **Fitch Rates & Affirms Preferred Shares of Nuveen Pennsylvania Investment Quality Muni Fund on Merger – January 10, 2014**
- **Fitch Rates Kayne Anderson MLP Investment Co's Sr Notes 'AAA'; Affirms Existing Ratings – February 10, 2014**
- **Fitch Affirms Clearbridge Closed-End Fund Notes at 'AAA – February 6, 2014**
- **Fitch Rates Auction Rate Preferred Shares of Four Gabelli Equity Closed-End Funds 'AA' – January 28, 2014**

The Power of Closed-End Fund Distributions

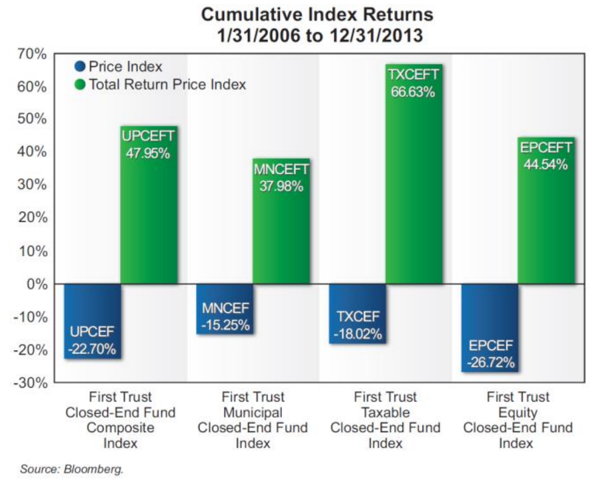
January 21, 2014

Albert Einstein once said, “Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it.” Long-term investors in closed-end funds (CEFs) are keenly aware of this principle. The majority of CEFs have the goal of distributing current income as their primary investment objective and historically the majority of a CEF’s total return has come from the distributions it makes. This doesn’t mean an individual CEF or category of CEFs cannot earn capital appreciation along with distributions, rather as the data below indicates it simply means over long periods of time the majority of the total return CEFs historically provide comes from the distributions.

Below are data points which clearly show the power of CEF distributions adding up over time and making up all of the positive return the First Trust CEF Indexes have earned over the past eight years. Each First Trust Index below shows two returns. The blue bars exclude distributions and only include the price return. The bars shaded in green are total return and include the price return plus the distributions.

The data is very compelling. It clearly illustrates the power of CEF distributions compounding over time and contributing significantly to the total return of these broad based CEF indexes. When putting this chart together I used data which goes back almost eight years and therefore includes the significant price downturn experienced in 2008. If I had used data which only goes back five years it would still show the majority of the return earned in these indexes coming from the distributions, however it would show some of the return coming from capital appreciation as well. For example, the First Trust Closed-end Fund Composite Price Index (UPCEF) had a cumulative return of 41.67% from 12/31/2008 -12/31/2013. The First Trust Closed-end Fund Composite Total Return Price Index (UPCEFT) generated a cumulative total return of 110.04% during the same five year period (12/31/2008-12/31/2013).

Whether looking at this total return data over five years or eight years the point remains the same. The distributions CEFs make on a regular basis can have a significant impact on the total returns investors have historically earned in CEFs. If an investor owns one CEF or a portfolio of dozens of funds, I believe it is critical to always consider the distributions when calculating the return as in all likelihood the distributions will make up a substantial part of the total return.



The chart is for illustrative purposes only and not indicative of any investment. Past performance is no guarantee of future results. The First Trust Composite Closed-End Fund Index is a composite index of the municipal, taxable fixed income and equity indexes and is intended to provide a capitalization weighted representation of the entire U.S. closed-end fund universe. The First Trust Municipal Closed-End Fund Index is a capitalization weighted index designed to provide a broad representation of the U.S. municipal closed-end fund universe. The First Trust Taxable Fixed Income Closed-End Fund Index is a capitalization weighted index designed to provide a broad representation of the taxable fixed income closed-end fund universe. The First Trust Equity Closed-End Fund Index is a capitalization weighted index designed to provide a broad representation of the equity based closed-end fund universe. An index cannot be purchased directly by investors.

Closed-end funds are subject to various risks, including management’s ability to meet the fund’s investment objective, and to manage the fund’s portfolio when the underlying securities are redeemed or sold, during periods of market turmoil and as investors’ perceptions regarding the funds or their underlying investments change. Unlike open-end funds, which trade at prices based on a current determination of the fund’s net asset value, closed-end funds frequently trade at a discount to their net asset value in the secondary market. Certain closed-end funds may employ the use of leverage which increases the volatility of such funds.

All opinions expressed constitute judgments as of the date of release, and are subject to change without notice. There can be no assurance forecasts will be achieved. The information is taken from sources that we believe to be reliable but we do not guarantee its accuracy or completeness.

Authored by:
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Closed-End Fund Analyst
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The Future of Closed-End Funds: Yield May No Longer be The Marketing Plan

February 7, 2014

Authored by:
John Cole Scott, CFS
EVP, Portfolio Manager,
Closed-End fund Advisors, Inc.

Closed-end funds (CEFs) are three things: Permanent Capital, Active Management and Investor Liquidity. The fixed capital feature is where the "closed" comes from as funds are created through an IPO and do not offer a daily exchange of shares at net asset value (NAV). CEFs have active management and offer investors daily liquidity on US exchanges. We see these characteristics as benefits because the fund manager doesn't have to deal with redemption and in-flow pressures. CEFs are also able to offer preferred stock and employ other forms of leverage. These unique features have allowed CEFs, especially in the past 10 years, to focus on yield-oriented strategies without having to face the same pressures that open-end funds have. With past trend of falling interest rates, it has been a very favorable environment for CEFs.

According to our CEF Universe data, from December 31, 2003 through December 31, 2013, there have been 218 funds IPOed from 59 different fund sponsors, raising approximately $125 billion in investible assets at IPO. For perspective the CEF Universe is now about $250 billion in total net assets. The average IPOed fund had approximately $570M in assets. Presently, 159 or about 73% of the funds have some amount of leverage employed with 145 (67%) using more than 10% effective leverage. It is fair to say CEFs generally use their leverage capabilities.

Leverage has been broadly applied in almost every corner of the CEF universe except Covered Call Equity Funds, which by design have the goal of a less volatile NAV, for which leverage would be unlikely to facilitate. For the past decade yield and CEFs has almost been unanimous. For example, there are now only three equity funds currently showing a market yield under 5%.

In the tables below we have summarized the last decade of CEF IPOs from December 31, 2003 through December 31, 2013.

What does the future hold for closed-end funds? We think that CEFs in the future will include less yield-focused endeavors, where leverage is applied for more capital appreciation goals than simply the goal of increasing the dividend yield of the underlying securities. We believe that investment objectives and portfolio managers which investors have no other way to access, other than through these new CEFs, will fuel demand for CEFs that are more about growing capital than only producing income.

Investors are generally disfavored with "Hedge Funds", which we think are misnamed; not all Hedge Funds actually "hedge out" market risk, though there are still a good number that do state it as an investment objective. Hedge funds are actually just a pooled investment structure for accredited investors ($2M in net worth) where the portfolio manager can participate in the portfolio's growth. They generally have a fee structure that looks like 2% per year and 20% of high water (new) gains. We think investors that had previously searched out this type of manager can find comfort and liquidity in a potential new generation of CEFs.

Why Alternatives Make Sense in a CEF Structure? It is simple, fixed capital allows for less liquid investments and no redemption pressures. This is exactly the type of investments that hedge funds have often used for clients. The CEF world needs great managers with ideas and investment mandates that are not available or ideal to ETF or open-end funds, to lead the way for this endeavor.

Major Grouping	# Funds IPOed	$AUM IPOed
Municipal Bond	19	$6.5B
Taxable Bond	68	$33.0B
Specialty Equity	87	$53.3B
US Equity	15	$7.9B
Non US Equity	24	$14.6B
Commodity	5	$2.5B

Largest Areas for CEF IPOs	# Funds IPOed	$AUM IPOed	Current Lev%	Current Avg Mkt Pr Yirld
Equity - Covered Call	31	$25.4B	3%	9.1%
MLP Funds	26	$13.2B	23%	6.7%
Loan Funds	19	$8.1B	30%	7.4%
Municipal	19	$6.5B	25%	6.0%
Energy, Utility	16	$6.7B	16%	7.6%
Multisector Bond	14	$10.8B	29%	8.0%

Data from our CEF Universe Report dated 1/31/2014. It should be noted that our data currently has a survivorship bias. We do not have access to data on funds that merged, liquidated or open-ended that IPOed since 12/31/2003.

Click here for complete reading

Three Things to Know about Currency Hedging

February 10, 2014

Authored by:
Dodd Kittsley, CFA
Director, Global Head of ETP Research, BlackRock

As investors seek international equity exposure as a means of enhancing portfolio diversification to reduce risk, Dodd Kittsley explains why it's important to take note of the impact of currency on total returns.

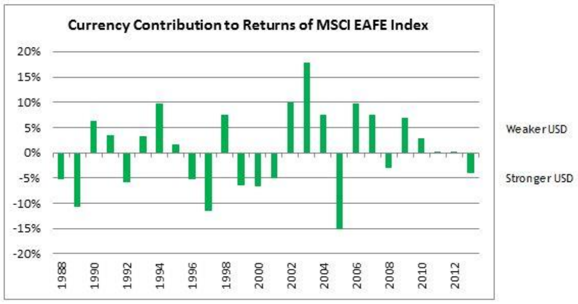
In the past month, non-U.S. developed markets equity ETFs attracted $11.2 billion. Pan-European equity, which I've discussed before on the Blog, brought in $4 billion. During the same period, broad-based developed markets equity added $3.7 billion, and Japanese equity exposures attracted $4 billion. We believe this trend will continue, and recently upgraded our view of Europe and Japan from neutral to overweight, as noted in BlackRock's latest Investment Directions.

As U.S. investors allocate more overseas for exposure to potential enhanced returns and reduced risk through diversification, many of them are unaware of how currency can impact the overall return of any international equity investment. In fact, currency can often contribute more to your return than the underlying security itself. I like to think of it as simply as

Total Investor Return = Equity Return + Currency Return

Your total return depends on both equity and currency returns, which are sensitive to economic, political, and market events, and fluctuate over time. Below is an illustration of the historical effects of currency fluctuation, comparing the MSCI EAFE USD and the MSCI EAFE Local Index. As you can see, currency values can drastically impact total return. For example, the effect of currency in 2003 added 18% to an investment in the MSCI EAFE Index for U.S. investors. This was a time when the U.S. dollar weakened relative to other currencies, in particular the euro and the yen, and an unhedged investment paid off.

Another example is in 2005, where the effect of currency took 15% from an investment in the MSCI EAFE Index for U.S. investors. This was a time when the U.S. dollar strengthened relative to other currencies, and marked a year where hedged investment paid off.



Think of it this way: if you have a positive view of the underlying market equities in a foreign country, and a weak view of the U.S. dollar (i.e. appreciating local currency), you could select an unhedged currency investment, which most international equity ETFs currently offer. On the other hand, if you have a positive view of underlying market equities in a foreign country, and a strong view of the U.S. dollar (i.e. depreciating local currency), you could select a currency hedged product.

When the U.S. dollar appreciates, gains on international equity investments can diminish when converted back into U.S. dollars. This is especially relevant right now, as we expect the dollar to strengthen this year. In a stronger U.S. dollar environment, hedged investments tend to outperform. Investors seeking pure exposure to underlying international markets can help to neutralize currency risk with a currency hedged investment or ETF. Here are three things to keep in mind:

1. **The effects of currency fluctuations are more relevant today than ever before.** Investors are beginning to allocate a greater proportion of their overall portfolios to international developed and emerging markets to avoid home country bias, or over-investing in one's own country. As my colleague Russ Koesterich points out in a recent post, investors often exaggerate the benefit of physical proximity and thus have overly-concentrated portfolios. Awareness of this bias has increased recently and combined with attractive fundamentals in markets outside the US- a reallocation outside the US is clearly underway.

2. **Currency hedged investments historically have exhibited less volatility than unhedged.** What's more, hedged products are now large, liquid and accessible to the average investor, offering international exposures while reducing the risk of currency fluctuations. Three new solutions include the iShares Currency Hedged MSCI Japan ETF (HEWJ), the iShares Currency Hedged MSCI EAFE ETF (HEFA), and the iShares Currency Hedged MSCI Germany ETF (HEWG).

3. **Investors are beginning to take note of the value of currency hedged ETFs.** In fact, currency hedged ETF flows hit a record $19.35 billion in 2013.

Click here for complete reading

2013 - A Strong Year for ETFs

January 24, 2014

Authored by:
Ryan O. Issakainen, CFA
Senior VP, Exchange Traded Fund Strategist, First Trust Advisors L.P.

Strong ETF Net Inflows for 2013

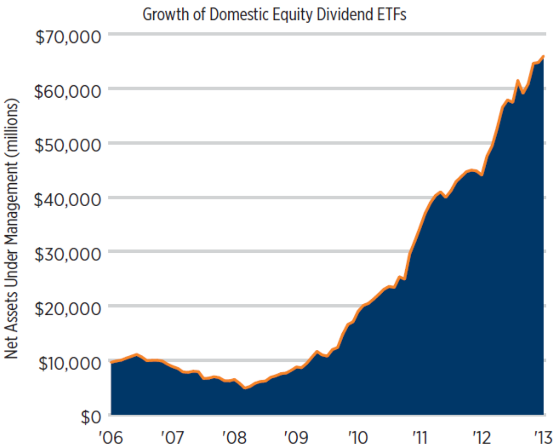
US-listed ETF[1] net inflows totaled $185.5 billion in 2013, setting a new record.[2] While the largest percentage of net inflows remained concentrated among a relatively small group of the 1521 US-listed ETFs, investors broadened their horizons more in 2013 than in previous years, as 312 ETFs had net inflows exceeding $100 million.

2013 was also a record-setting year for First Trust's ETF complex. Net inflows for the 79 First Trust ETFs totaled $8.2 billion in 2013, with 24 ETFs exceeding $100 million in net inflows, increasing ETF assets under management (AUM) at First Trust to $19.7 billion. As of 12/31/13, First Trust was the 9th largest sponsor of US-listed ETFs.

Strong Inflows Continued for Equity Income ETFs

Equity income remained a prominent theme for ETF net inflows in 2013, continuing a trend that began in March of 2009. From 3/31/09 to 12/31/13, assets in domestic equity income ETFs grew from $5 billion to over $65 billion.

Chart 1



Data from Bloomberg.
Includes US-listed Dividend Focused ETFs with >$100 million AUM, as of 12/31/13.

Generally speaking, investors in these ETFs were rewarded with solid returns during that stretch. However, looking ahead many equity income ETFs with overweight allocations to non-cyclical sectors may face headwinds in 2014, in our opinion, especially if mid- and long-term interest rates continue to trend higher. Investors with a preference for dividend-paying stocks, but concerns about rising interest rates, may consider reallocating assets from ETFs focused on high dividend yielding stocks to ETFs focused on dividend growth stocks.

Although equity income ETFs apply a variety of different strategies for constructing their respective portfolios, one common characteristic currently shared by many of these funds is a sector allocation that tends to overweight relatively high dividend yielding sectors with below average dividend growth (such as the utilities and consumer staples sectors), and underweight sectors with lower dividend yields but greater opportunity for dividend growth potential (such as the technology and financial sectors). As we discussed in last July's edition of "Inside First Trust ETFs," we believe that stocks with growing dividends may perform better than those lacking dividend growth during periods of rising interest rates. Indeed, this was the case in 2013, as the 10 year US Treasury yield increased by 137 basis points from 5/2/13-9/5/13. During that period, returns for the S&P 500 Utilities and Consumer Staples Sectors, were -9.4% and -2.8%, respectively, while returns for the S&P 500 Information Technology and Financial Sectors were +5.2% and +6.7%, respectively.

If interest rates continue trending higher in 2014 (First Trust economists forecast a 3.65% 10-year US Treasury yield by year-end), it may be prudent to consider repositioning equity income ETF assets to seek dividend growth. One ETF that may be considered by investors looking to increase exposure to dividend-paying technology companies is the First Trust NASDAQ Technology Dividend Index Fund (TDIV). For those seeking increased exposure to the financial sector, the First Trust NASDAQ® ABA Community Bank Index Fund (QABA) invests in a portfolio of community banks. We believe this segment of the financial sector is particularly well-positioned to benefit if the yield curve steepens in 2014. Finally, investors looking for a more diversified portfolio of stocks that have consistently increased dividends in the past, and may be well positioned to increase dividends in the future, may consider the
First Trust NASDAQ Rising Dividend Achievers ETF (RDVY).

AlphaDEX and "Smart Beta"

In our opinion, one of the most interesting developments in the ETF industry in 2013 was the growing acceptance of ETFs tracking alternative strategies for selecting and weighting stocks, often labelled as "smart beta" strategies by ETF industry pundits. Of course, not all smart beta strategies are equally smart, and many investors may decide to wait for some of the newcomers to develop longer-term track records before considering them.

Click here for complete reading

Preparing for the Unexpected with Commodity Futures ETFs

February 10, 2014

Authored by:
Ryan O. Issakainen, CFA
Senior VP, Exchange Traded Fund Strategist, First Trust Advisors L.P.

Three straight years of negative returns for broad commodity benchmark indices, such as the Dow Jones-UBS Commodity Total Return Index, have led some investment advisors (and their clients) to begin questioning the rationale for including commodity futures ETFs[1] in their asset allocation models. Relatively tame inflation expectations seem to support these doubts, as commodities are often thought of as a hedge against inflation. However, the fact that inflation expectations are so low may actually highlight one of the most important reasons for maintaining (or adding) a strategic allocation to commodity futures ETFs: in order to hedge against *unexpected* inflation.

Unexpected inflation is a risk worth hedging, in our opinion, because it tends to have a negative impact on both stocks and bonds. For example, when inflation is accurately forecasted, manufacturing companies can utilize futures contracts to lock in their future costs for certain raw materials, in order to manage their profit margins. However, when input costs rise unexpectedly, profit margins may be compressed for companies that have difficulty passing these cost increases along to their customers, which, in turn, tends to hurt stock prices.

Bondholders are negatively impacted by unexpected inflation as well, since bond yields are set by the market with an embedded inflation expectation. When inflation increases unexpectedly, the real value of bond interest payments is reduced, which may also negatively impact bond prices, as the market requires higher nominal yields.

Similar to stocks and bonds, the prices of commodity futures also have embedded inflation expectations, but unlike stocks and bonds, commodity futures prices tend to be positively impacted by unexpected inflation increases.[2] This relationship enables investors to potentially utilize commodity futures and related ETFs as an effective hedge against unexpected inflation.

Of course, it's difficult to make a strong case for *when* unexpected inflation may show up, which is ultimately what makes it *unexpected*. While there are certainly conditions in place that could eventually lead to higher levels of inflation, First Trust's forecast for year-over-year US CPI growth of 1.8% in 2014 and 2.3% in 2015 is only slightly higher than the median forecast among Bloomberg contributors (1.6% for 2014 and 2.0% for 2015). But this underscores why we believe it makes sense to include a strategic allocation to commodity futures ETFs in an asset allocation model: not as a tactical play based on our expectation of unexpected inflation, but as a tool to manage the risk of unexpected inflation, which, by definition, you don't see coming.

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[1] For the sake of clarity, the term "ETF" is used to refer to all exchange-traded products (1940 Act exchange-traded funds, exchange-traded notes, commodity exchange-traded
securities, etc.).

[2] Gary Gorton and K. Geert Rouwenhorst. 2006. "Facts and Fantasies about Commodity Futures." *Financial Analysts Journal*, vol. 62, no. 2 (March/April 2006):47–68.

You should consider a fund's investment objectives, risks, and charges and expenses carefully before investing. You can download a prospectus or summary prospectus, or contact First Trust Portfolios L.P. at 1-800-621-1675 to request a prospectus or summary prospectus which contains this and other information about a fund. The prospectus or summary prospectus should be read carefully before investing.

The Dow Jones-UBS Commodity Index is made up of exchange-traded futures on physical commodities and represents 20 commodities, which are weighted to account for economic significance and market liquidity. Indexes are unmanaged and an investor cannot invest directly in an index.

Investors buying or selling ETF shares on the secondary market may incur customary brokerage commissions. Market prices may differ to some degree from the netasset value of the shares. Investors who sell fund shares may receive less than the share's net asset value. Shares may be sold throughout the day on the exchangethrough any brokerage account. However, unlike mutual funds, shares may only be redeemed directly from the fund by authorized participants, in very large creation/redemption units. A fund's shares will change in value, and you could lose money by investing in a fund. One of the principal risks of investing in a fund is market risk. Market risk is the risk that a particular security owned by a fund, fund shares or the market in general may fall in value.

The trading prices of commodities futures fluctuate in response to a variety of factors which will cause a fund's net asset value and market price to fluctuate in response to these factors. As a result, an investor could lose money over short or long periods of time. In addition, the net asset value of a fund over short-term periods may be more volatile than other investment options because of a fund's significant use of financial instruments that have a leveraging effect. Futures instruments may be less liquid than other types of investments. The prices of futures instruments may fluctuate quickly and dramatically and may not correlate to price movements in other asset classes.

All opinions expressed constitute judgments as of the date of release, and are subject to change without notice. There can be no assurance forecasts will be achieved. The information is taken from sources that we believe to be reliable but we do not guarantee its accuracy or completeness.

2014: Year of the Fundamental Investor

January 2014

Authored by:
John P. Calamos SR.
CEO and Global CO -CIO
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Gary D. Black
EVP and Global CO-CIO
Calamos Investments

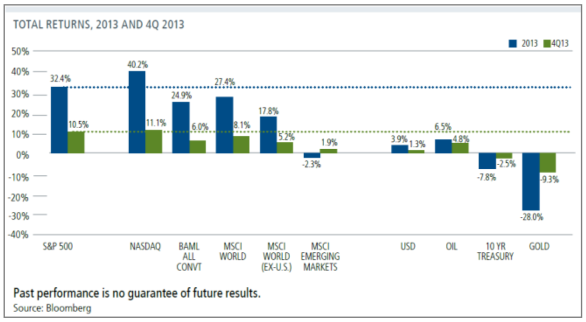
January 2014

Entering 2014, we expect a good year for global equity and convertible markets overall. The major global economies look positioned to show faster growth, although this positive global synchronization is occurring at varying rates and supported by diverging policies. Historically, the conditions we see today have benefited equities and convertibles, especially cyclical growth opportunities. More importantly, we are encouraged by the emergence of more fundamentally driven markets across asset classes and believe that our active approach is well suited to this environment.

I. Market Review

The S&P 500 Index rang out 2013 with a total return of 32%, its strongest year since 1997 (Figure 1). The Nasdaq Index soared even higher to a 40% gain for 2013, on the back of an increased appetite for risk assets, including smaller cap and technology names. Developed markets outside the U.S. also advanced briskly, supported by improved conditions in the euro zone and brightening sentiment on Japan.

FIGURE 1. U.S. EQUITIES SOAR, WHILE BONDS AND GOLD FALTER



In terms of market performance, the emerging markets (EMs) did not enjoy similarly good fortunes, as market participants struggled with the potential deleterious impact of a U.S. taper on countries with weaker currencies and deficits; these anxieties were exacerbated by concerns of slowing growth. Talk of a potential credit bubble and slowing growth in China was a focal point of investor apprehension.

As is often the case, good news for U.S. stocks was bad news for much of the bond market, and the 10-year Treasury sank 8% for the year. Gold declined nearly 30% as inflation remained contained and equities extended their rally.

For the year (Figure 2), consumer discretionary led, as companies continued to reap the benefits of the wealth effect provided by rising equity markets and recovering home prices. Health care and financials rounded out the top performing sectors.

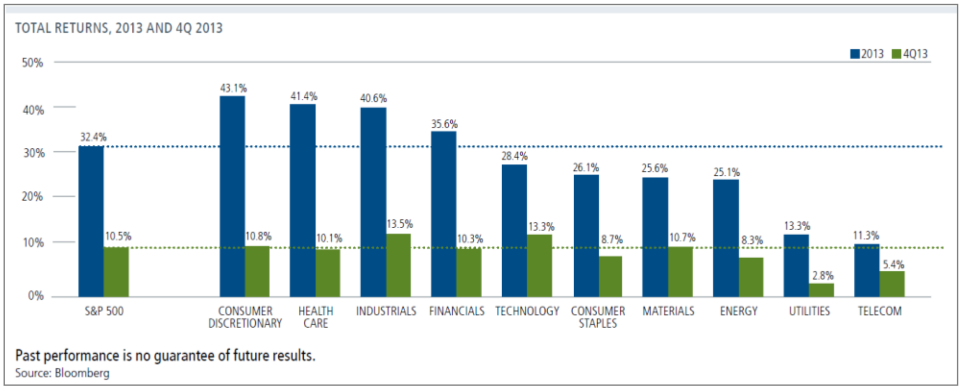
For the quarter, cyclical growth sectors performed best, led by industrials and technology. Utilities and telecom posted the most muted gains for the quarter and the year, as investors turned away from more defensive names.

II. Global Outlook

While improved global economic growth in 2013 was led by the U.S., we are starting to see positive global synchronization among major economies. Europe is coming out of its recession, and Abenomics has promoted economic growth in Japan. China's growth has decelerated, but it is delivering solid growth nonetheless, as are a number of lesser-discussed EMs.

In the wake of the 2008 financial crisis and euro zone turmoil, accommodative policy was good for the global economy. Recovery efforts didn't take firm hold until the U.S., the European Central Bank (ECB) and China aligned in an accommodative direction. Now, with the worst in the rear-view mirror, countries are following different routes to move forward as they address local issues.

FIGURE 2. A STRONG SHOWING FOR CYCLICALS IN THE U.S. EQUITY MARKET



Click here for complete reading

The U.S. is tapering; elsewhere in the developed markets, monetary policy remains highly accommodative and fiscal policy has become more simulative. The ECB has indicated its willingness to inject more money into the euro zone, and Japan looks set to continue with its unprecedented stimulus measures. China and other emerging markets will likely be in varying levels of tightening as they work to avoid credit bubbles while keeping inflation in check. All in, we expect global growth slightly above 3.0% (Figure 3), with the U.S. and China making strong contributions. As the two largest economies in the world, their economic growth can offset the more modest expansion that we may see in the euro zone and in some EMs.

United States. The U.S. economy looks to be in a "not-too-hot, not-too-cold" period, supported by improving GDP growth and low inflation, upbeat consumers, good corporate balance sheets, strength in manufacturing and an improving trade balance. We expect U.S. GDP growth of 2.5 to 3.0% in 2014, with inflation holding at less than 2%. Against this backdrop, we anticipate that the Fed will withdraw QE stimulus by the end of 2014, while continuing accommodative policy through 2015.

Supported by a wealth effect of rising equity markets and home values (Figure 4), the U.S. consumer is feeling better and spending more, including on autos and other discretionary items (Figure 5). Net worth is higher than it was before the financial crisis, and the deleveraging cycle may have well have bottomed out (Figure 6). This willingness to spend and potentially take on debt should sustain economic growth over the long term.

The U.S. Labor Department's report that only 74,000 jobs were added in December fell far short of economists' expectations (Figure 7), but we expect the number to be revised upward next month. The calendar was compressed with Thanksgiving coming late; the weather was bad; and if one considers November data (revised up to 241,000 jobs) along with December's data, the average monthly job growth has been respectable at about 160,000. The December numbers are also inconsistent with the other stronger economic data we've seen over the past few weeks, including new unemployment claims and ADP's private sector job growth report.

Businesses are also doing well. Capital spending has begun its long-anticipated recovery, with total expenditures at record highs. Corporate cash growth and high cash balances suggest that this recovery can be sustained over an extended period. Operating earnings of S&P 500 companies continue to rise. Small businesses are adding jobs and benefiting from increased access to credit. As earnings season starts again, we believe most sectors are likely to do better versus reduced expectations. Retail and restaurants may be an exception; like the employment numbers, these sectors were similarly affected by the compressed calendar and weather.

FIGURE 3. GLOBAL AND U.S. GDP GROWTH

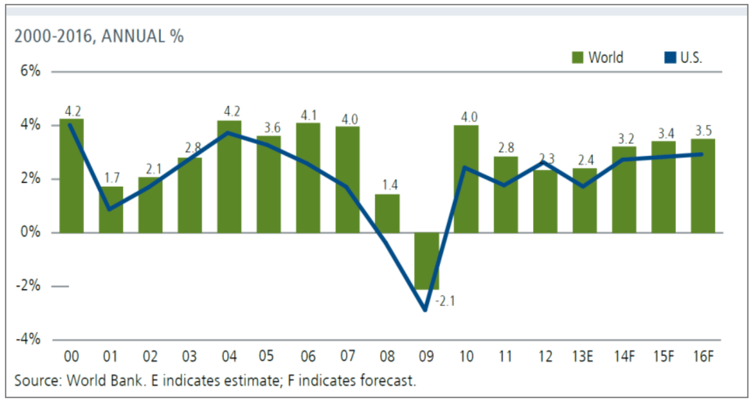


FIGURE 4. U.S. HOME PRICES RISE, HELPED BY LOW INVENTORY

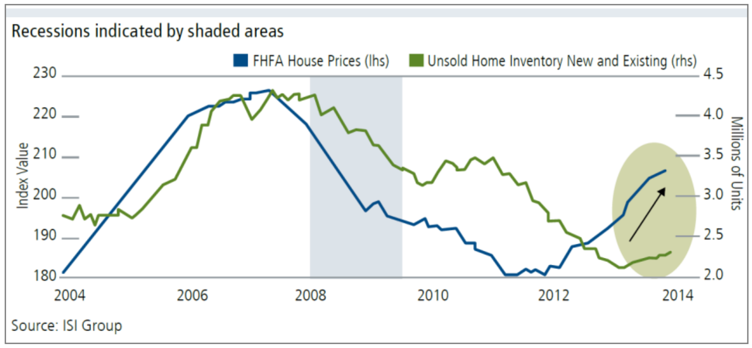


FIGURE 5. U.S. AUTO SALES ON THE RISE

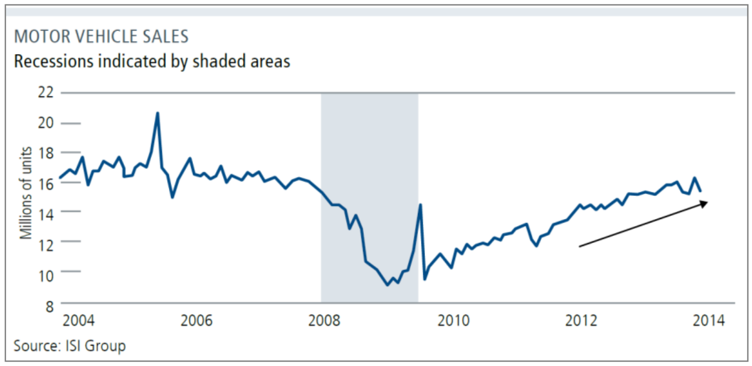
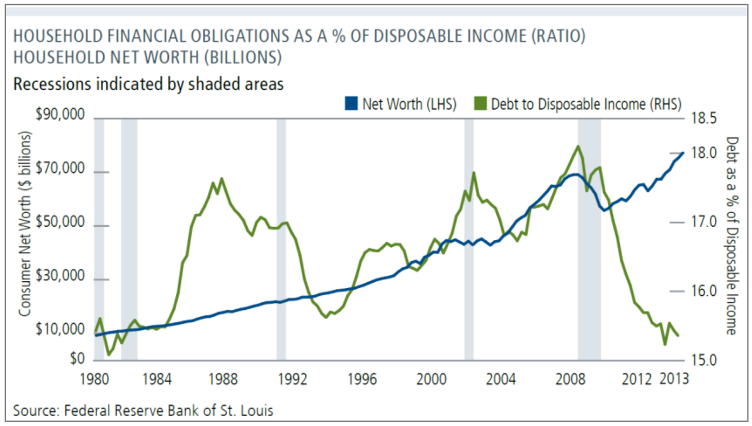


FIGURE 6. U.S. CONSUMER NET WORTH CLIMBS AS DEBT BURDENS PLUMMET



Municipal Bond Market Review & Outlook

February 11, 2014

Western Asset's Fourth Quarter 2013 Recap

The municipal (muni) bond market struggled throughout the fourth quarter and in 2013. However, despite heightened market volatility and high-profile credit stresses, there was actually strengthening fundamentals. For example, tax receipts have improved for 15 straight quarters. In addition, spending has remained in check, or in equilibrium, with incoming revenues.

Thus far, we're not seeing austerity fatigue settle into budgets. That's due to several factors. First, the unemployment rate has declined. Second, there has been improvement in the housing market. Third, sales tax, personal income tax and corporate income tax receipts have all risen. That being said, revenue improvements have been uneven across regions. The disparity is especially pronounced between state and local governments. While tax revenues in some regions now exceed their pre-recession levels, this isn't the case in some areas. In addition, while the housing market has rebounded, this has been insufficient in terms of propping up of property tax receipts. This will likely to keep pressure on certain local government bonds, more so than state and higher-quality local government bond markets.

While the landscape is uneven, municipal balance sheets are generally much stronger today than where they were just a few years ago. We have a backdrop of improving fundamentals, and muni valuations are very, very cheap. In particular, given oversold conditions and the steep muni yield curve, we see value in longer-term maturities. And we expect the muni yield curve to flatten in 2014. Even with an expectation for higher interest rates in 2014, you can make the case that the oversold conditions in the muni bond market in 2013 left us with a decent cushion to help protect against the potential for negative price returns in the upcoming quarter or quarters.

What are some of the things we're watching that could offset our upbeat tone? We're closely monitoring the Detroit bankruptcy settlement case, underfunded local pension liabilities, and Puerto Rico's liquidity and its ability to access the capital markets. Again, these high-profile credit stresses, we believe, have overshadowed the broader municipal story, which is fundamental improvement and cheap prices.

In terms of supply/demand technicals, crossover buyers have been providing liquidity and offsetting much of the negative cash flows from open-end mutual funds. More importantly, demand from retail investors has improved a bit. It hasn't been significant, but in early 2014 we've seen the appetite for municipal bonds improve. And we're starting to see positive cash flows into open-end mutual funds. So, it's generally good news all around. Fundamentals are improving, valuations are cheap, and technicals are more favorable.

Let's turn our attention to the high-profile credit stresses in Puerto Rico. It is facing many challenges, and strengthening the island's physical condition is a key goal for the current administration. Governor Padilla, who was elected in November 2012, has taken many positive steps by increasing and broadening certain taxes, as well as instituting better tax collection processes. For example, on average, only 50 cents of each dollar of sales tax gets to the state. They're looking for ways to improve that tax collection process, such that increasing revenue collections might help the imbalance between revenues and expenses. But these positive factors have been largely overshadowed by the weak economy. Puerto Rico is now in an eighth year of a recessionary environment. This is leaving little economic opportunity and causing many people to leave the island, which is shrinking the tax base. So the economy must begin to grow to help the island out of its economic troubles. But Puerto Rico does have an economic development plan, they've seen an improvement in revenues and they're keeping expenses at bay. At least for now, it looks like they'll be able to find liquidity in the financial market, although it will be at a prohibitively high borrowing cost.

Turning to Detroit, it is in the midst of an ongoing legal battle. This will continue even after the bankruptcy settlement, as there'll be an appeals process. We believe the market place has already valued or priced in all the available information from Detroit, Puerto Rico, Chicago and some of the communities in California.

Market Outlook

We are upbeat about the muni bond market. Our portfolios are positioned with durations that are slightly longer than those of their respective benchmarks. We have been adding to our A-rated securities and, to smaller degrees, BBB-rated and some below-investment-grade credits where we're identifying great values.

From a sector perspective, we continue to favor revenue bonds versus general obligation debt. Within the revenue bond sector, we look to overweight corporate-backed obligations – commonly referred to as IDRs or industrial development revenue bonds – and health care, utilities and transportation related bonds. The latter includes airport, airline, marine port and mature toll roads with solid pricing power, good liquidity and modest amounts of debt.

Looking ahead, we will be tactical in terms of duration, and we continue to look at valuations versus fundamentals. Should prices become stretched relative to the fundamentals, we'll look for opportunities to move away from some of the things that we've included in our portfolios and look for better opportunities.

Western Asset manages the following municipal bond closed-end funds:

- Western Asset Municipal High Income Fund Inc. (MHF)
- Western Asset Managed Municipals Fund Inc. (MMU)
- Western Asset Municipal Partners Fund Inc. (MNP)
- Western Asset Municipal Defined Opportunity Trust Inc. (MTT)
- Western Asset Intermediate Muni Fund Inc. (SBI)

For more information about any of our municipal bond closed-end funds, including the long-term performance, risks, expenses and fund objectives, please visit www.lmcef.com.

Please view endnotes and important information on the next page.

Important Information:

All investments are subject to risks, including the possible loss of principal. Investments in bonds are subject to credit risk, inflation risk, and interest rate risk. As interest rates rise, bond prices fall, reducing the value of the Fund's share price. Investments in lower-rated high-yield bonds are subject to greater credit risk (risk of default) than higher-rated obligations. Derivatives, such as options and futures, can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance. Certain investors may be subject to the federal Alternative Minimum Tax (AMT), and state and local taxes may apply. **Distributions are not guaranteed and are subject to change.**

The Closed-End Funds are not sold or distributed by Legg Mason Investor Services, LLC ("LMIS") or any affiliate of Legg Mason, Inc. Unlike open-end funds, shares are not continually offered. Like other public companies, closed-end funds have a one-time initial public offering, and once their shares are first issued, are generally bought and sold through non-affiliated broker/dealers and trade on nationally recognized stock exchanges. Share prices will fluctuate with market conditions and, at the time of sale, may be worth more or less than your original investment. Shares of exchange-traded closed-end funds may trade at a discount or premium to their original offering price, and often trade at a discount to their net asset value. **Net Asset Value (NAV)** is total assets less total liabilities divided by the number of shares outstanding. **Market Price**, determined by supply and demand, is the price at which an investor purchases or sells the fund. Investment return, market price and net asset value will fluctuate with changes in market conditions. The Funds are subject to investment risks, including the possible loss of principal invested.

Diversification does not assure a profit or protect against market loss. Any performance discussed is past performance, and past performance is no guarantee of future results. Unless otherwise stated, all yields and returns discussed are those of indexes or asset classes and are not those of the Funds.

A credit rating is a measure of an issuer's ability to repay interest and principal in a timely manner. The credit ratings provided by Standard and Poor's, Moody's Investors Service and/or Fitch Ratings, Ltd. typically range from AAA (highest) to D (lowest), or an equivalent and/or similar rating. Please see www.standardandpoors.com, www.moodys.com, or www.fitchratings.com for details. **Please note that the Funds themselves have not been rated by an independent rating agency.**

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Glossary

Crossover buyers are investors that typically wouldn’t transact in tax-exempt muni bonds for various reasons.

Duration is a measurement that signals how much the price of a bond is likely to fluctuate when there is a change in interest rates. The higher the duration number, the more sensitive a bond will be to interest rate changes.

General obligation (G.O.) bonds are issued by a municipality and are backed by the general ability of the municipality to raise revenue. No specific tax or project revenues are identified as the source of future payments and no assets are used as collateral.

A **revenue bond** is a type of municipal bond distinguished by its guarantee of repayment solely from revenues generated by a specified revenue-generating entity, rather than from a tax.

A **yield curve** shows the relationship between yields and maturity dates for a similar class of bonds.

The views expressed are those of the portfolio managers as of January 30, 2014 and are subject to change based on market and other conditions. These views may differ from other portfolio managers or the firm as a whole, and are not intended to be a forecast of future events, a guarantee of future results, or investment advice. Discussions of individual securities are intended to inform shareholders as to the basis (in whole or in part) for previously made decisions by a portfolio manager to buy, sell or hold a security in a portfolio. References to specific securities are not intended and should not be relied upon as the basis for anyone to buy, sell or hold any security. Forecasts are inherently limited and should not be relied upon as an indication of actual or future performance.

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Potential inclusion of China A-shares in major global benchmarks

February 2014

Authored by:
Shan Lan
Head off Index Change Research
Deutsche Bank

Chinese equities are underrepresented in major global benchmarks such as those operated by FTSE and MSCI. This article, an excerpt from a Deutsche Bank research report called "Synthesizing Equity in 2014," explains.

The size of China's economy and equity market demands a larger index weight

Chinese equities are underrepresented in major global benchmarks such as the FTSE and MSCI indices. The FTSE All World Index assigns a weight of 2% to China, while the MSCI All Country (AC) World Index allocation is only marginally higher at 2.2%. In the FSCI Emerging Markets Index, even though China is the largest component, with close to a 20% weighting, the allocations are still arguably on the lower side if viewed from the perspective of stock-market capitalization. Our analysis suggests that China should be more than 30% by weight in the MSCI Emerging Markets Index.

Obstacles for China A-shares to be included in global benchmarks

Some major obstacles still exist in terms of market accessibility, preventing fund managers from replicating or benchmarking to a global index that includes China A-shares. There are a number of restrictions in place for a foreign investor seeking exposure to Chinese equities, such as the low quota for each Qualified Foreign Institutional Investor (QFII), restrictions on capital remittance and repatriation and uncertainty regarding capital-gains tax.

Acceleration in opening up China's capital market

Recently, the Chinese government has made significant progress opening up China's capital markets. In 2013, we witnessed dramatic acceleration in this continued process. In January, the former chairman of the China Securities Regulatory Commission (CSRC) indicated that the Renminbi

Qualified Foreign Institutional Investor (RQFII) and QFII quotas could be increased to 10 times the current level. In July, Chinese regulators almost doubled the QFII quota (from $80 billion to $150 billion). In September, the Hong Kong Monetary Authority (HKMA) became the first QFII to be awarded more than $1 billion in investment quota from China. Following that, Chinese regulators raised the QFII quota to more than $1 billion for both Norges Bank and Temasek. In November, China's central bank chief, Zhou Xiaochuan, stated the intention to further expand quotas for QFII and Qualified Domestic Institutional Investor (QDII) schemes, and ultimately remove the quota system altogether when conditions ripen.

Understanding China A-shares

Under current regulations, foreign investors can access Chinese stocks in just a few ways: China B-shares, H-shares, and Red Chips (which are quoted in foreign currencies) and China A-shares (which are quoted in Chinese renminbi). Because they provide direct access to a wide array of Chinese equities quoted in local currency, China A-shares are in high demand. However, China A-shares are generally only available for purchase by mainland citizens; foreign investment is only allowed through a tightly regulated structure known as the Qualified Foreign Institutional Investor (QFII) system.

Timeline of the potential inclusion

There have been many discussions on when index providers will include China A-shares into their global benchmarks. The actual timing depends on the progress of the China capital account liberalization to a large extent. Major index providers may wait until the Chinese equity market fully meets these criteria before they include it into their global benchmark.

Alternatively, index providers can gradually add China A-shares starting with a portion of the full weight, similar to the addition of Korea and Taiwan in the MSCI Emerging Markets Index. MSCI added Korea at 20% of its weight in 1992, and took six years to include the full weight of Korea. Similarly, it took nine years from the initial inclusion of Taiwan in the MSCI Emerging Markets Index to its full inclusion.

In June 2013, MSCI announced that it had added China A-shares to the review list for potential inclusion to its most tracked benchmarks, such as the MSCI Emerging Markets Index and MSCI AC World Index. The MSCI annual country classification review in June 2014 is the earliest time for MSCI to announce China A-shares inclusion in the MSCI Emerging Markets Index. Assuming the previous decision is taken, June 2015 would be the earliest MSCI would implement China A-shares inclusion in the MSCI Emerging Markets Index.

FTSE will announce its annual country classification review decision in September 2014, and China A-shares are on watch list for possible inclusion in its global index series. Assuming FTSE decides to make the change, it may implement China A-shares inclusion in its FTSE All World Index series in March or September of 2015.

QFII vs. RQFII

The Chinese government introduced the QFII system in 2002 to allow eligible foreign investors to invest in listed domestic securities subject to a quota approved by China's foreign exchange controller. The similar-sounding RQFII system, on the other hand, permits Hong Kong subsidiaries of qualified mainland asset-management firms to channel renminbi raised in Hong Kong to invest in mainland. QFII funds are largely exposed to the China A-shares market, while RQFII funds invest primarily in the Chinese domestic bond market. Meanwhile, the QDII system, launched in 2006, provides limited opportunities for domestic investors to invest funds abroad.

While the actual timing of the inclusion of China A-shares in these indices depends on the speed of the liberalization of China's equity market, we are optimistic that in the next two to three years, China A-shares will be included (at least partially) in one or more major global benchmarks.

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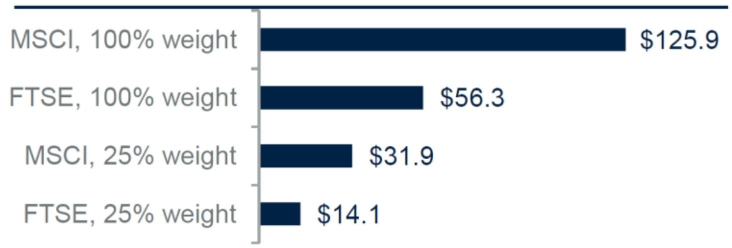
Potential impact

MSCI and/or FTSE include China A-shares in their major headline indices, such as the MSCI Emerging Markets Index and FTSE All World Index, we would expect significant flows into the China A-share market. To get a sense of the magnitude of potential inflows to China, we analyze two scenarios, assuming MSCI and FTSE will include 25% and 100% of the weight of China A-shares respectively. (See Figure 1, above.) Our analysis also assumes that the assets benchmarked to these indices will be allocated to various countries based on their country weight in the index. In reality, a majority of these assets are held by active managers, who may underweight or overweight a country based on their judgment. Therefore, the actual inflow and outflow could vary from time to time. On a neutral basis, China could eventually see up to $180 billion of inflows if both MSCI and FTSE include China A-shares with the full weight. In a phased approach including 25% of full weight, we estimate about $46 billon flowing into the China A-shares market.

Figure 1: Estimated flows into China, in billions



Source: MSCI, FTSE, and Deutsche Bank estimates. There is no guarantee that forecasts will be realized.

Access China A-shares with db X-trackers Harvest CSI 300 China A-Shares Fund (ASHR)

With db X-trackers Harvest CSI 300 China A-Shares Fund (ASHR, the first ETF to provide U.S. investors direct access to China A-shares, you now have access to some of the largest and most-liquid stocks in the world's second-largest economy.[1]

ASHR offers:

— A broader opportunity set. Many sectors and companies are only available via China A-shares.
— Solid companies. The CSI 300 Index is composed of the 300 largest and most-liquid stocks in the China A-share market.
— Diversification potential. This market historically has had a relatively low correlation with other major markets.[2]
— Enhanced return potential. The Chinese A share market currently trades at 9.1 times its forward price-to-earnings (P/E) ratio.[3]

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[1] Source: National Bureau of Statistics of China as of 2012.
[2] Source: "Empirical Evidence of Co-Movements Between China and Global Stock Markets" as of October 2012.
[3] Source: Deutsche Bank as of June 2013.

Definitions: The CSI 300 Index tracks the performance of 300 stocks traded on the Shanghai and Shenzhen stock exchanges. The FTSE All World Index tracks the performance of approximately 2,800 mid-and large-cap stocks from around the world. The MSCI AC World Index tracks the performance of 45 countries comprising 24 developed and 21 emerging markets. The MSCI Emerging Markets Index tracks the performance of stocks in select emerging markets. The MSCI Developed Markets Index tracks the performance of stocks in select developed markets. Price-to-earnings ratio (P/E) ratio compares a company's current share price to its per-share earnings.

The db X-trackers funds ("Funds") are distributed by ALPS Distributors, Inc. ("ALPS"). The Fund is managed by DBX Advisors LLC ("DBX") and is sub-advised by Harvest Global Investments Limited. The fund is not FDIC insured and there is no bank guarantee and it may lose value. DBX is a subsidiary of Deutsche Bank AG, neither of which is affiliated with ALPS.

Carefully consider the fund's investment objectives, risk factors and charges and expenses before investing. This and other important information can be found in the fund's prospectus, which may be obtained by calling 1-855-DBX-ETFS (1-855-329-3837) or by viewing or downloading a prospectus. Read the prospectus carefully before investing.

Important risk information

International investing involves greater and different risks than investing in U.S. companies and funds investing in a single country or in a limited geographic region tend to be more volatile than more diversified funds. Emerging markets, such as China, tend to be more volatile than the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. Special risks associated with investments in Chinese companies include exposure to currency fluctuations, less liquidity, less developed or less efficient trading markets, lack of comprehensive company information, political instability and differing auditing and legal standards the nature and extent of intervention by the Chinese government in the Chinese securities markets; and the potential unavailability of A shares. An investment in this fund should be considered only as a supplement to a complete investment program for those investors willing to accept the greater risks associated with investments in China.

Indices are unmanaged and you cannot invest directly in an index.

Shares of the funds may be sold throughout the day on the exchange through any brokerage account. However, shares may only be purchased and redeemed directly from the funds by authorized participants in very large creation/redemption units. There is no assurance that an active trading market for shares of a fund will develop or be maintained.

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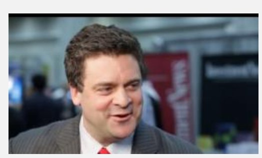

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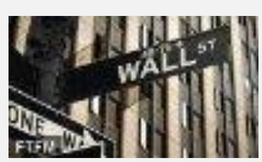

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Smart Beta ETF Strategies

January 2014

Decoding the "Buzz" Around Smart Beta

While smart beta has become a buzz word, the concept is far from new. Institutional investors have used alternative weighting and factor-driven strategies since the 1970s, albeit not labeled "smart beta." Now that the term has become mainstream, Invesco PowerShares would like to provide insight on where we see opportunities for investors.

Smart beta indexes, including non-price weighted and factor-driven, represent a significant development in asset management and another step in the (r)evolution of indexing. Smart beta seeks to offer investors an alternative to the traditional black and white world of active vs. passive portfolio construction. These alternative-weighted or factor-driven indexes provide investors the opportunity to achieve their investment objectives while seeking outperformance, reducing risk, or both, in a systematic manner relative to a market cap-weighted benchmark. In addition, smart beta indexes seek to retain the associated benefits of ETFs such as exposure, significant investment capacity and portfolio transparency.**

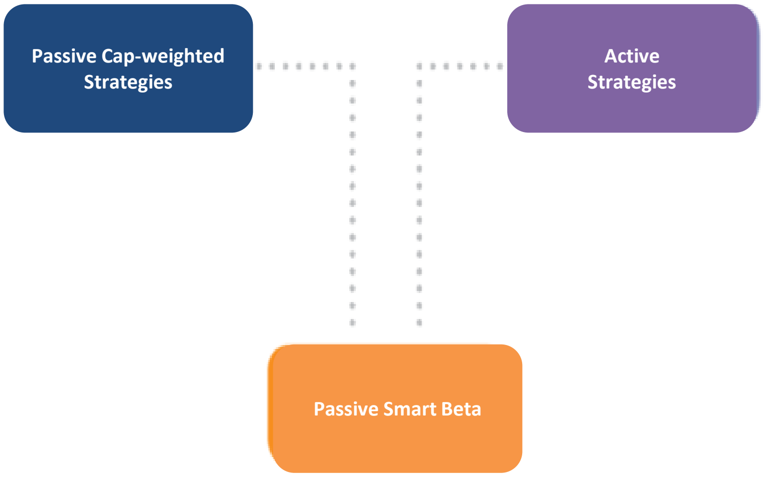
Many investors describe smart beta strategies simply as an offshoot of active management, mimicking the ability to take advantage of market dislocations. Unlike actively managed approaches, smart beta ETF strategies provide investors passive, rules-based exposure while retaining the possibility to generate excess returns when compared to a cap-weighted benchmark index.

Others describe smart beta as simply another index replication strategy. Unlike traditional market capitalization-weighted indexes, smart beta indexes may provide better risk-adjusted returns by allowing investors to capture risk premia from various factors. These factors have been studied by academics and used by institutions and active managers for decades.

Invesco PowerShares believes that smart beta strategies offer exposure to the best of both worlds, providing investors a valuable alternative that expands portfolio construction opportunities. We were founded on the belief that all investors should be provided with a smarter way to access the markets — beyond traditional active and passive strategies. Invesco PowerShares introduced many of the first smart beta vehicles available today calling them "Intelligent ETFs.+"

Employing Features of Both Worlds

Smart beta strategies seek to offer investors an alternative to the traditionally polarized passive and active portfolio construction options. They are not simply offshoots of active management or ETF replication vehicles. Through smart beta ETF strategies, we believe investors have the opportunity to retain broad market exposure, potentially achieve long-term outperformance when compared to an index, and reduce portfolio risk in a liquid,[1] transparent,[2] and low cost[3] way.



Beta is a measure of risk representing how a security is expected to respond to general market movements.*

Smart Beta represents an alternative and selection index based methodology that may outperform a benchmark or reduce portfolio risk, or both.**

** For example, a beta of one means that the security is expected to move with the market. A beta of less than one means the security is expected to be less volatile than the overall market. Betas greater than one are expected to exhibit more volatility or movement than the general market.*
***** Smart beta funds may underperform cap-weighted benchmarks and increase portfolio risk.***
+ When we say that our ETFs are intelligent, we mean that in several different ways. Please see "Important Information" on page 12 for a more detailed explanation.

There is no assurance that an investment strategy will outperform or achieve its investment objectives.
1 Liquidity: Shares are not individually redeemable and owners of the shares may acquire those shares from the Fund and tender those shares for redemption to the Fund in Creation Unit aggregations only, typically consisting of 50,000, 75,000, 100,000 or 200,000 shares.
2 Transparency: ETFs disclose their holdings daily.
3 Low Cost: Since ordinary brokerage commissions apply for each buy and sell transaction, frequent activity may increase the cost of ETFs.

	Passive		Active
	Cap-weighted	Smart Beta	
Market benchmark performance	Seeks to match benchmark	May outperform benchmark	May outperform benchmark
Portfolio composition	Relatively static	Relatively static	Flexible
Typical security selection	Replicates an index by size and segment	Replicates an index with rules based methodology	Portfolio manager flexible discretion
Security weightings determined by	Market capitalization	Alternative-weighted and risk factors	Manager discretion
Typical security rebalancing	Less Frequent	More frequent	Manager discretion
Security turnover	Lower	Varied	Higher
Cash positions	Very low/fully invested	Very low/fully invested	Varied, determined b portfolio manager
Typical Costs	Lowest	Low	Higher
Transparency	Daily	Daily	Typically Quarterly
Ability to manage portfolio risk through security diversification	Yes	Yes	Yes
Portfolio diversification beyond single security	Yes	Yes	Yes
Delivered through various investment management platforms and vehicles	Yes	Yes	Yes

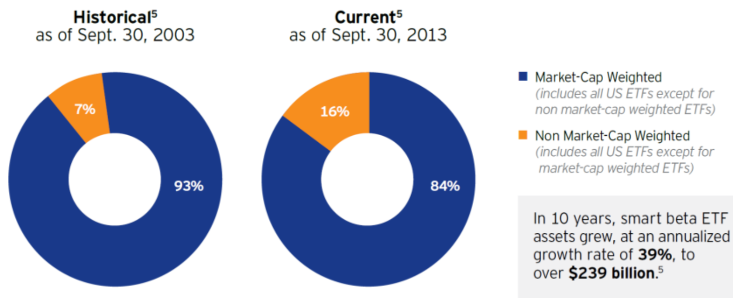
The (R)evolution of Smart Beta Strategies

As smart beta continues to evolve, it is important to understand that strategies now included in this category are not new. Since the 1970s, institutional investors have used alternative and factor driven weightings as a way to generate alpha at lower risk premiums than traditional investment options. As far back as 2003, equal and quantitative-weighted indexes and ETFs were introduced, providing access to individual investors.

Adoption of Smart Beta Strategies

While smart beta strategies have been around for some time, their adoption has only recently caught on as reflected below. The expected acceleration of growth will have significant implications on traditional asset allocations.

Total US Equity Smart Beta ETF Assets



\According to a recent Financial Times article, "Fund managers expect institutional investment in 'smart beta' equity strategies to surge in the next five years as investors increasingly attempt to manage portfolio risk". One estimate stated that by 2018, over one-third of assets could be allocated to smart beta strategies. However, the article indicates that "expectations of such rapid asset growth are 'ambitious'. 'In the short term smart beta might attract a lot of money as it is new, people are excited about it and they think it works.

There is a good chance 30 percent of equity allocations will end up in smart beta products.'

The article underscores that an understanding of the diversity across smart beta funds is essential, and if 'strategies fail to deliver in the long term, investors will withdraw.'[6]

— Financial Times, July 14, 2013

4 Total smart beta exposure for Towers Watson clients in 2012. Towers Watson, "Understanding Smart Beta," July 2013
5 Source: Bloomberg L.P., as of Sept. 30, 2013
6 Source: Financial Times, "Smart beta funds eye $5tn windfall", July 14, 2013

General Risk Information

There are risks involved with investing in ETFs, including possible loss of money. Index-based ETFs are not actively managed. Investments focused in a particular industry are subject to greater risk, and are more greatly impacted by market volatility, than more diversified investments.

There are risks involved with investing in ETFs, including possible loss of money. Shares are not actively managed and are subject to risks similar to those of stocks, including those regarding short selling and margin maintenance requirements. Ordinary brokerage commissions apply. The Fund's return may not match the return of the Underlying Index.

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Aberdeen Greater China Fund, Inc. (GCH)

Fund Manager Interview with Nicholas Yeo, Head of Equities

January 2014

How did Chinese equities fare in 2013?
It was very much a year of two halves. Chinese stocks initially fell alongside most regional peers in the first two quarters of the year, after policy tightening measures and concerns over a potential credit bubble. Better data and post-Third plenum reforms[1] then sparked a rally which pared losses. The MSCI Zhong Hua index[2] posted gains of 2.6% (in U.S. dollar terms) for the year, in line with the broader region.

So, how did you perform last year?
Our flagship China fund underperformed the benchmark MSCI Zhong Hua index by around eight percentage points. Jardine Strategic (7.6% of the Fund*) led stock disappointments on concerns over slower growth of its Southeast Asian subsidiaries. Not holding certain internet stocks, such as Tencent (up 98%) was costly too. But we don't see any case for changing our stance towards the sector. The reliance of Tencent (and Baidu) on opaque offshore entities, known as Variable Interest Entities (VIEs) to get around restrictions on foreign ownership makes us uncomfortable.

What's your view on Beijing's reform agenda?
We believe China needs to change its economic model, but resistance from vested interests and bureaucratic inertia may hamper the reform push. Actual implementation could take years, and we may see slower growth in the coming
decade. That said, we have not changed our investment view, nor made any strategic decisions, based on the Third Plenum reforms. Instead, we will stick to our well-tested stock picking approach and continue to invest in companies we like.

China's biggest problem today is excessive credit growth, isn't it?
Too much credit poses a major risk to the health of the financial system. For example, local governments now sit atop a debt pile of around US$3 trillion, with little chance of it being repaid in full. Many of these 'off-balance sheet' loans were taken to fund infrastructure projects that have yet to generate revenue. To avoid defaults, Beijing has allowed the rolling over of loans that were due to mature last year. The risk is that this will result in a build-up of bad debt, as local governments struggle to repay those loans without sufficient revenue.

Will Beijing succeed in regulating the shadow banking[3] sector?
It's much too early to say. The framework laid out by the State Commission last December to police the shadow lenders is scant on detail, albeit a step in the right direction in containing credit growth and financial risks. At the same time, the authorities are mindful of removing a key source of credit in the economy. The active participation of Chinese banks in risky off-balance sheet lending activities, however, means we could see a rise in non-performing loans and even bankruptcies – unless the authorities opt to bail them out.

Around 39% of the fund is allocated to financials. Why?
First of all, this category comprises not only banks but also insurance and real estate. We have positions in Hong Kong property developers which are generally more disciplined with their balance sheets and capital expenditures than their mainland counterparts. Our holdings, Swire Properties (3.8% of the Fund*) and Hang Lung Group (3.7% of the Fund*) were hurt by property cooling measures in Hong Kong last year. However, both companies have solid portfolios of shopping malls in mainland China and Hong Kong and remain well-positioned to tap on the long-term growth in the middle class.

So, are valuations still appealing?
Yes, we believe there is still value to be found. The MSCI Zhong Hua index is trading at an estimated price to earnings ratio (P/E ratio) of 11.3 times for fiscal year 2014.4 Yields are a decent 3%. That said, valuations for well-owned sectors, such as internet stocks, are looking stretched.

How about the earnings outlook?
We think earnings growth for companies will be muted, probably below 10%. Operating conditions for businesses remain challenging given the weaker environment in 2014. Corporate profits are down and sentiment has been affected by tighter credit policies. As for the fund, we see little indication of financial stress among our holdings thanks to what we see as their healthy balance sheets and cashflow generation, as well as sustainable business models.

How do you gain exposure to the China market?
Generally, we prefer Hong Kong-listed stocks that have exposure to the mainland as we believe these companies tend to be higher quality businesses with prudent management and very long track records. We also view Hong Kong-listed stocks as offering investors the additional benefit of a transparent, less volatile and well regulated stock market. Accordingly, good quality H-shares5 and Hong Kong companies with revenues coming from mainland China form important parts of our fund.

Nicholas Yeo
Director & Head of Equities
(China/Hong Kong)
Aberdeen Asset Management

Key points

- China's economy could grow at a slower pace as the focus shifts towards quality growth
- The challenge for investors is to find a way to gain access to good companies
- Aberdeen emphasizes an unconstrained total return approach that places fundamental research at the center of the investment process
- Our fund invests in what we believe are good quality companies helmed by experienced management
- The investment team in Hong Kong provides local expertise

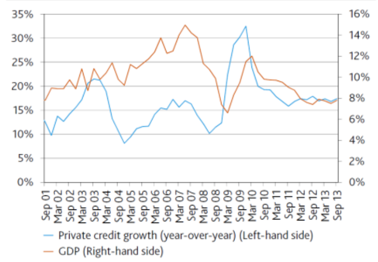
What importance do you attach to your active stock picking approach?

Stock selection is what sets us apart. We do our own company research and if a stock fails our screens we won't own it. Furthermore, no company is bought before our equity teams meet the management. Unlike many fund managers we're long term in our focus. That means we go back and visit companies again and again. The benefit of this is to isolate only the well-managed companies that have attractive long-term prospects and which represent good value. It's important for us to focus on price as well as quality – there's no point in overpaying however attractive a company might be.

How important is due diligence when investing in Chinese companies?

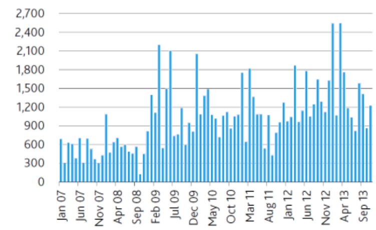
For an emerging market as large as China, due diligence is essential. The country scores poorly for its corporate governance. One explanation is that domestic companies are still young in terms of their management experience. Independent directors are few and board accountability is lacking. Minority shareholders are usually ignored so they get a raw deal. Instances of related party transaction are quite common. As a result, it's essential for us to see companies first and, as much as possible, speak to management. We held over 300 meetings with China/Hong Kong companies in 2013.

Chart 1: Private Credit-to-Gross Domestic Product (GDP)
%



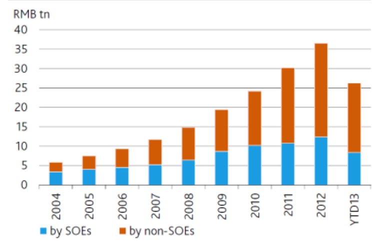
Source: Emerging Advisors Group, December 2013. For illustrative purposes only.

Chart 2: Total Social Financing
Renminbi (RMB) Billion



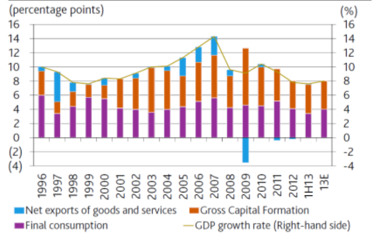
Source: CEIC and Nomura Global Economics, December 2013.
For illustrative purposes only.

Chart 3: State-Owned-Enterprise's (SOE) share of fixed asset investment is declining



Source: CEIC, CLSA Asia Pacific Markets, NBS, September 2013.
For illustrative purposes only.

Chart 4: Rebalancing of economy underway



Source: CLSA Asia-Pacific Markets, September 2013.
For illustrative purposes only. Estimates are used here for illustrative purposes only. No assumptions regarding future performance should be made. Estimates are offered as opinion and are not reflective of potential performance, are not guaranteed and actual event or results may differ materially.

Endnotes

* As of November 30, 2013 A full list of holdings is available upon request. This information should not be considered a recommendation to purchase or sell any security. There is no assurance that any securities discussed herein will remain in the fund at the time you receive this report or that securities sold have not been repurchased. Securities discussed do not represent the entire fund and in the aggregate may represent only a small percentage of the fund's holdings

[1] The third plenum of the 11th Communist Party of China Central Committee in 1978 marked the beginning of the era of China's reform. Since 1978, third plenary sessions have witnessed major milestones in China's development.

[2] The MSCI Zhong Hua Index is a composite index that comprises the MSCI China and MSCI Hong Kong Index. The index captures large and mid cap representation across all China securities available to non-domestic investors that are listed in Hong Kong and China as well as Hong Kong securities listed on the Hong Kong stock exchange.

[3] Shadow banks are financial intermediaries involved in facilitating the creation of credit across the global financial system without explicit access to central bank liquidity or public sector guarantees. The shadow banking system also refers to unregulated activities by regulated institutions.

[4] P/E is a valuation ratio of a company's current share price compared to its per-share earnings.

[5] A share of a company incorporated in the Chinese mainland that is listed on the Hong Kong Stock Exchange or other foreign exchange.

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Aberdeen has been investing in Asia since 1985 and established our Asian headquarters in 1992 with an office in Singapore. Aberdeen Group is the largest manager of emerging market closed-end funds offered around the world by both value and number.*

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* Fund Consultants LLC, February 2013. Based on analysis of emerging market closed-end funds offered in multiple jurisdictions as of December 31, 2012; data provided by Morningstar Inc. Closed-end funds are defined as investment companies that are 1) listed on a recognized exchange; 2) possess fixed share capital and; 3) were formed via subscriptions from the public via an open offer or placement. Criteria for inclusion in the emerging markets category is based on the World Bank's definition of emerging countries as measured by lower and middle income per capita. Criteria for fund inclusion is 1) at least 75% of gross assets invested in emerging markets; 2) funds with under 25% exposure to Asian developed markets.

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