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The Month in Closed-End Funds: July 2013

PERFORMANCE

At the beginning of July investors cheered a better-than-expected nonfarm payrolls report that showed the economy adding 195,000 jobs in June, sending the market higher and tanking Treasury prices. But the month wasn't all smooth sailing for equities. Interest-related issues came under fire on continued concerns of Federal Reserve "tapering," and oil prices jumped after the military ousted Egypt's president from office. Nonetheless, Lipper's equity CEF macro-group posted plus- side returns on both a NAV basis and a market basis, returning 2.91% and 2.04%, respectively. Pulled down by continued rising-interest-rate fears and a bankruptcy filing by one of the largest cities in the U.S. (Detroit), it wasn't surprising to see fixed income CEFs post their third consecutive month of negative returns, losing 0.74% on a NAV basis and 3.99% on a market basis for July.

During the month investors turned their focus to second quarter earnings reports after being somewhat placated by Fed Chairman Ben Bernanke's assurances that despite all the talk of "tapering," the Fed would keep interest rates low for an extended period. At month-end Thomson Reuters Proprietary Research team reported that, of the 303 S&P 500 constituents that had reported second quarter earnings so far, 69% had beaten their analyst forecasts. Despite Google, Intel, and Microsoft each reporting earnings below analyst expectations, investors pushed the major indices to all-time highs during the month, with the Dow Jones Industrial Average (DJIA) reaching its twenty-eighth record close of the year, the S&P 500 posting its twenty-third record close for the year, and the NASDAQ (+6.56%) posting its strongest monthly return since January 2012. Toward month-end the markets were given a further boost by stronger-than-expected earnings from Apple and Facebook. The DJIA returned 3.96% for July, while the S&P 500 produced a 4.95% return for the month.

Mixed earnings and economic news put a cap on market returns toward month- end. Investors kept an eye on the global market, with a special focus on signs of China's slowing factory output, Egypt's growing unrest (and the impact on oil prices), and the Eurozone's impressive preliminary PMI data.

During the first half of the month Treasury prices remained on a roller-coaster ride, whipsawed by news and Fed-tapering concerns. After coming off highs midmonth Treasury yields softened a bit, but longer-dated issues still closed above their June month-end close. Imminent tapering concerns sent the benchmark ten-year Treasury yield to its highest close since August 2, 2011—jumping to 2.70% on July 10—before closing the month up 8 basis points (bps) at 2.60%. The 117-bp increase in yield since its low on July 26, 2012 (1.43%) represents an amazing 82% increase in yield in just a year. At maturities of seven years or greater the Treasury yield curve shifted up , with the twenty- and thirty-year yields rising the most—12 bps to 3.34% and 3.64%, respectively, on July 31. Much as in June, the selloff in Treasuries also led to a significant selloff in municipal debt funds as investors contemplated the Fed's next move, future tax reforms, and the credit risk of municipalities—especially after Detroit filed for Chapter 9 bankruptcy protection on July 15—for the nation's largest municipal bankruptcy case.

The Month in Closed-End Funds: July 2013

•For July only 15% of all closed-end funds (CEFs) traded at a premium, with 17% of equity funds and 13% of fixed income funds trading in premium territory to their NAVs. None of the Lipper CEF macro-groups witnessed a narrowing of discounts in July.

•For the first month in four all of Lipper's equity CEF and taxable fixed income CEF classifications were in the black.

•For the third consecutive month all of the municipal bond fund groups posted returns in the red, with national municipal bond funds (-2.48%) mitigating losses slightly better than their single-state municipal debt fund brethren (-2.52%).

•With China continuing to show some economic weakness and with interest rate-sensitive issues struggling, it wasn't surprising to see Emerging Market Funds (+0.71%), Real Estate Funds (+0.93%), and Income & Preferred Stock Funds (+1.26%) at the bottom of the equity universe in July.

THOMSON REUTERS

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For July the dollar weakened against the euro (-2.05%) and the yen (-0.84%), but gained against the pound (+0.23%). Commodities prices were on the rise for the month, with near-month crude oil prices gaining 8.77% to close the month at $105.03/barrel; gold prices reversed their recent slide into the abyss, gaining 7.24% to end the month at $1,312.40/ounce.

For July 61% of all CEFs posted NAV-basis returns in the black, with 89% of equity CEFs and only 43% of fixed income CEFs chalking up returns in the plus column. While concerns over the timing of the Fed's future tapering cast a level of uncertainty over the markets, M&A news, better-than-expected ADP data, and reports that indicated the economy grew at a faster rate in Q2 (1.7%) than was expected kept investors in the game. Despite concerns about a slowing China economy, investors generally cheered the strong preliminary readings from the Eurozone purchasing managers index and pushed the World Equity CEFs macro-group to positive performance (+2.48%) for the first month in three, sandwiched between the top- performing equity macro-group—domestic equity CEFs (+3.36%)—and the mixed-asset CEFs macro-group (+2.09%) for the month.

For the first month in four all of the equity CEFs and taxable fixed income CEFs classifications were in the black, while none of the municipal debt classifications posted returns on the plus side. Given the increase in longer-dated Treasury yields, the impact on spread products, and predictions by Meredith Whitney of Detroit's bankruptcy starting a wave of municipal bankruptcies, it wasn't surprising to see the municipal bond funds macro-group (-2.50%) pushed once again to the bottom of the fixed income group, underperforming taxable domestic bond CEFs (+1.46% on a NAV basis) and world bond CEFs (+0.74%).

Only 25 equity CEFs posted returns in the red for July, with 16 of the 25 being housed in Lipper's World Equity Funds macro-group. Convertible Securities Funds (+4.14%), Core Funds (+4.14%), and Value Funds (+3.91%) were at the top of the leader board for July. Equities tied to mortgage-sensitive issues (such as home builders) and China plays lagged other equity classifications, pushing Emerging Markets Funds (+0.71%), Real Estate Funds (+0.93%), and Income and Preferred Stock Funds (+1.26%) to the bottom of the pack. For the remaining equity classifications returns ranged from negative 1.28% (Pacific ex-Japan Funds) to 3.87% (Developed Markets Funds).

Seven of the ten top-performing individual funds were housed in Lipper's Sector Equity CEFs classification, with the two top-performers being healthcare/ biotechnology-related funds and the next two being precious metals-related funds. At the top of the chart

CLOSED-END FUNDS LAB

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

	NAV RETURNS POSITIVE	PREMIUM/DISCOUNT		NOW TRADING AT	
		BETTER	WORSE	PREMIUM	DISCOUNT
Equity Funds	89	30	69	17	83
Bond Funds	43	7	92	13	87
ALL CEFS	**61**	**16**	**83**	**15**	**85**

TABLE 2 AVERAGE NAV RETURNS, SELECTED PERIODS (%)

	JULY	YTD	3-MONTH	CALENDAR-2012
Equity Funds	2.91	8.69	-0.42	15.42
Bond Funds	-0.74	-3.61	-6.74	15.04
ALL CEFS	**0.67**	**0.97**	**-4.32**	**15.18**

TABLE 3 NUMBER OF IPOs, SELECTED 12-MONTH PERIODS

	JULY 2013	CALENDAR-2012
ALL CEFS	**33**	**31**

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

3 MONTHS THROUGH 6/30/2013	590
COMPARABLE YEAR-EARLIER 3 MONTHS	507
CALENDAR 2012 AVERAGE	506

Source: Lipper, a Thomson Reuters company was **H&Q Healthcare Investors (NYSE: HQH)**, gaining 12.52% on a NAV basis and traded at a 0.44% discount at month-end. Following HQH were **H&Q Life Sciences Investors (NYSE: HQL)**, posting a 12.05% return and traded at a 1.62% discount on July 31; **ASA Gold & Precious Metals Limited (NYSE: ASA,** June's laggard), rising 10.18% on a NAV basis and traded at an 5.21% discount at month-end; **Central GoldTrust (AMEX: GTU)**, chalking up a 10.07% return and traded at a 3.01% discount at month-end; and **BlackRock Health Sciences Trust (NYSE: BME)**, rising 8.26% and traded at a 1.42% discount on July 31.

For the month the dispersion of performance in individual equity CEFs—ranging from minus 8.21% to positive 12.52%—was narrower than June's spread and more positively skewed. The 20 top-performing equity funds posted returns in excess of 6.03%, while the 20 lagging funds were at or below minus 0.27%.

Given the concerns about the global economy, it wasn't surprising to see **RENN Global Entrepreneurs Fund, Inc. (AMEX: RCG)**, housed in Lipper's Global Funds classification, at the bottom of the equity CEF group. RCG shed 8.21% of its June month-end value and traded at a 43.19% discount on July 31. The next poorest performing equity fund was warehoused in Lipper's Emerging Markets Funds classification: **Aberdeen Chile Fund, Inc. (AMEX: CH)** declined 7.60% and traded at a 15.35% premium at month-end.

For the third consecutive month all of Lipper's municipal debt CEF classifications posted negative NAV-based returns, with—as one might imagine given Detroit's bankruptcy—Michigan Municipal Debt Funds (-3.42%) and General & Insured Municipal Debt Funds (Leveraged) (-2.84%) once again taking the worst of the beatings. However, for July one of June's leaders once again mitigated losses better than the other classifications; General & Insured Municipal Debt Funds (Unleveraged) (-1.41%) was one of the top performers, while Intermediate Municipal Debt Funds (-0.90%) was the top-performing classification in the group. The municipal debt funds macro-group (-2.50%) significantly underperformed by 396 bps its taxable domestic CEFs counterpart (+1.46%). National municipal debt funds (-2.48%) mitigated losses slightly better than their single-state municipal debt fund counterparts (-2.52%).

As conditions improved slightly for the world markets, the two classifications making up Lipper's World Income Funds macro-group (+0.73%) just managed to remain in the plus column: Emerging Markets Debt Funds (+0.71%) and Global Income Funds (+0.74%). With investors still looking for higher yields, High Yield Funds (Leveraged) (+2.44%), High Yields Funds (+2.04%), and Loan Participation Funds (+1.60%, June's leader) rose to the top of the domestic bond funds group.

U.S. Mortgage Funds (+0.09%, also June's group laggard) and General Bond Funds were the laggards of the group. Even after hearing assurances by Fed Chairman Bernanke that interest rates would remain low in the near future, the two-/ ten-year Treasury spread still widened 13 bps from June's month-end 216 bps. In the domestic taxable fixed income CEFs universe (+1.46%) the remaining classification returns ranged from 0.75% (Corporate BBB-Rated Debt Funds [Leveraged]) to 1.36% (Flexible Income Funds).

At the head of the fixed income CEFs class were three funds housed in Lipper's High Yield (Leveraged) Funds classification: **Avenue Income Credit Strategies Fund (NYSE: ACP)**, rising 3.47% and trading at a 2.82% discount on July 31; **Franklin Universal Trust (NYSE:FT)**, tacking 3.37% onto its June month-end value and traded at a 10.47 discount at month end; and **Neuberger Berman High Yield Strategies Fund Inc.(NYSE: NHS)**, posting a 3.30% return and traded at an 8.16% discount on July 31.

For the remaining funds in the fixed income CEFs universe monthly NAV-basis performance ranged from minus 5.04% **(BlackRock Municipal Target Term Trust [NYSE: BTT]**, at the bottom of the group for the second consecutive month), housed in Lipper's General & Insured Municipal Debt Funds (Leveraged) classification and traded at a 1.76% discount) to 3.28% for **BlackRock Corporate High Yield Fund III, Inc. (NYSE: CYE)**, housed in Lipper's High Yield (Leveraged) Funds classification and traded at a 7.88% discount on July 31. The 20 top-performing fixed income CEFs posted returns at or above 2.55%, while the 20 lagging funds were at or below negative 3.38%.

PREMIUM AND DISCOUNT BEHAVIOR

For July the median discount of all CEFs widened 319 bps to 8.06%—much lower than the 12-month moving average discount (2.34%). Equity CEFs' median discount widened 97 bps to 8.41%, while fixed income CEFs' median discount widened 385 bps to 7.87%. Municipal bond funds' median discount widened 379 bps to 7.85%. National municipal debt funds witnessed the largest widening of discounts for the month, widening 430 basis points to 7.58%, while World Equity Funds' median discount witnessed the smallest widening—0.44 bps to 10.60%. None of the macro- groups experienced narrowing of their discounts during July.

For the month 16% of all funds' discounts or premiums improved, while 83% worsened. In particular, 30% of equity funds and only 7% of fixed income funds saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on July 31 (94) was 40 more than on June 28.

IPOs

The initial public offering for **Principal Real Estate Income Fund (NYSE: PGZ)** raised approximately $126 million in gross proceeds. Underwriters have the option to purchase additional common shares at the public offering price (less the sales load) within 45 days of the IPO to cover any overallotments.

RIGHTS, REPURCHASES, TENDER OFFERS

A tender offer for up to 7.5% of the outstanding common shares of **Liberty All-Star Equity Fund (NYSE: USA)** at 96% of NAV is expected to begin at the end of August. If more than 7.5% of its outstanding shares are tendered, the fund will purchase shares on a *pro rata* basis.
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Tender offers for up to 5% of the outstanding shares of each of **The Central Europe, Russia and Turkey Fund (NYSE: CEE)** and **The New Germany Fund (NYSE: GF)** will expire on August 28, 2013, unless extended. If more than 5% of either fund's shares are tendered, that fund will purchase shares from tendering shareholders on a *pro rata* basis.

The next tender offer measurement period will begin September 16, 2013, and expire December 6, 2013, for **The Central Europe, Russia and Turkey Fund (NYSE: CEE), The New Germany Fund (NYSE: GF),** and **The European Equity Fund (NYSE: EEA)**. If any fund's shares trade at an average discount of more than 10% during the 12-week measurement period, that fund will commence a tender offer for up to 5% of its outstanding common shares at 98% of NAV.

The three-for-one transferable rights offering for **The Gabelli Healthcare & Wellness(Rx) Trust (NYSE: GRX)** was oversubscribed. The fund issued 3.7 million common shares, which raised over $33.6 million. The fund received total subscriptions (including oversubscription requests) for over 9.4 million common shares.

The semiannual repurchase offer for up to 5% of the common shares of **The Asia Tigers Fund (NYSE: GRR)** was oversubscribed. Approximately 905,000 shares were tendered for an offer on less than 200,000 shares outstanding. On a pro rata basis 22% of the shares tendered were accepted for payment.

The Thai Fund (NYSE: TTF) terminated the contractual investment plan in Thailand through which the fund previously held all of its Thai assets and will now invest directly in the securities of Thai companies. In addition, a tender offer will commence around August 12, 2013, for up to 15% of the fund's common shares at 98.5% NAV. If more than 15% of the fund's outstanding shares are tendered, it will purchase them on a *pro rata* basis.

MERGERS AND REORGANIZATIONS

Royce Value Trust (NYSE: RVT) filed a proxy statement seeking shareholder approval to allow the fund to contribute about $100 million of its cash and/or securities to a newly formed CEF spin-off, Royce Global Value Trust. All of Royce Global Value Trust's common shares would then be distributed to the common shareholders of the spin-off fund. RVT shareholders will be asked to approve a change to an investment restriction to facilitate completion of the spin-off at a special meeting on September 5, 2013.

OTHER

Invesco Advantage Municipal Income Trust II (VKI), Invesco Bond Fund (VBF), Invesco California Value Municipal Income Trust (VCV), Invesco Municipal Trust (VKQ), Invesco Municipal Income Opportunities Trust (OIA), Invesco Municipal Opportunity Trust (VMO), Invesco Pennsylvania Value Municipal Income Trust (VPV), Invesco Quality Municipal Income Trust (IQI), Invesco Senior Income Trust (VVR), Invesco Trust for Investment Grade Municipals (VGM), Invesco Trust for Investment Grade New York Municipals (VTN), and Invesco Value Municipal Income Trust (IIM) are amending their dividend reinvestment plans to adopt "opt-out" plans. If a fund's common shares are trading at a premium, shareholders will pay the greater of NAV or 95% of the market price; if a fund's shares are trading at a discount, investors will pay the market price for their reinvested shares. If at any time shareholders do not want to participate in the plan and would prefer to receive dividends and capital gains distributions in cash, they'll need to contact Invesco to withdraw from the plan. The amendments to the dividend reinvestment plans will become effective September 3, 2013.

Directors of **The Taiwan Fund (NYSE: TWN)** voted to discontinue the fund's discount management program effective July 30 and instead to implement a managed distribution program with a quarterly distribution target of 5% (annually) of market price. The new plan remains subject to regulatory approvals.

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Blackstone Mortgage Trust (NYSE: BXMT) filed an automatic shelf registration statement with the SEC that will permit the fund to potentially offer more common shares, preferred shares, depositary shares, debt, warrants, subscription rights, and other securities and any combination. Underwriters of the fund's May 2013 initial public offering granted a limited waiver with respect to the 180-day lock-up agreement in connection with the offering, solely to permit the filing of the shelf registration statement.

The Thai Capital Fund (NYSE: TF) will apply for liquidation of its investment plan with the Thai Securities and Exchange Commission. Following liquidation, the advisor anticipates completely dissolving the fund by September 30, 2013, and expects to pay an initial liquidation distribution (for about 90% of the fund's portfolio) to shareholders around August 15, 2013.

UBS Global AM has agreed to extend its voluntary fee waiver through July 31, 2014, for **Managed High Yield Plus Fund (NYSE: HYF)**. For the period August 1, 2009, to July 31, 2013, UBS Global AM waived a portion of the fee it received under the management contract so as not to exceed 0.55% of the fund's net assets. UBS Global AM will also extend its voluntary fee waiver for **Global High Income Fund (NYSE: GHI)** for another year until July 31, 2014.

Neuberger Berman MLP Income Fund (NYSE: NML) entered into a leverage financing facility with access to $500 million of debt; the fund recently raised $1.1 billion in its IPO.

Trustees of **Nuveen Floating Rate Income Fund (NYSE: JFR), Nuveen Floating Rate Income Opportunity Fund (NYSE: JRO), Nuveen Short Duration Credit Opportunities Fund (NYSE: JSD), and Nuveen Senior Income Fund (NYSE: NSL)** approved changes to allow up to 30% of managed assets to be invested in securities rated CCC+ and below. The board approved changes to each fund's investments policies in an effort to unify investment policies across Nuveen senior loan CEFs and to increase the funds' investment flexibility.

Mario Gabelli lifted a page from Warren Buffet's playbook recently when GAMCO Investors (NYSE: GBL), advisor to several CEFs, created a shareholder- designated charitable contribution program in which each shareholder will be eligible to select one charity to which the company will donate $0.25 per share. To be eligible the shares must be registered in the owner's name by GAMCO's transfer agent by July 31. Approximately 20 million shares are currently registered in shareholders' names, from which GAMCO is expected to make total contributions of $5.0 million.

The investment manager for **AllianzGI International & Premium Strategy Fund (NYSE: NAI)**—Allianz Global Investors Fund Management—agreed to a voluntary fee waiver of 0.10% for fiscal year 2014. The advisor also waived fees in fiscal year 2013 but had not done so in previous fiscal cycles.

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CEF Performance Statistics

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Category	Average of 1MO NAV Change	Average of 1MO Mkt Change	Average P/D 5/31/2013	Average P/D 6/30/2013	Average of 1 MO P/D Change	Average of YTD NAV Change	Average of YTD Mkt Change	Average of YTD P/D Change
California Municipal Debt Funds	-3.07%	-6.67%	-2.14	-5.58	-3.44	-10.76%	16.22%	-3.67
Convertible Securities Funds	3.79%	2.75%	-5.68	-6.7	-1.02	8.35%	-8.95%	6.47
Core Funds	4.14%	2.27%	-6.26	-6.93	-0.67	16.67%	-18.25%	12.05
Corporate BBB-Rated Debt Funds(Leveraged)	0.57%	-2.99%	-3.24	-6.48	-3.24	-3.16%	9.04%	-2.87
Corporate Debt Funds BBB-Rated	0.37%	-1.37%	-8.75	-10.53	-1.78	-5.03%	11.25%	2.32
Developed Market Funds	4.05%	4.25%	-9.03	-8.89	0.14	10.13%	-11.08%	10.53
Emerging Markets Debt Funds	0.26%	-1.17%	-6.11	-7.72	-1.61	-11.78%	15.00%	2.21
Emerging Markets Funds	0.45%	0.43%	-8.18	-7.91	0.27	-7.95%	7.72%	8.89
Flexible Income Funds	1.07%	-0.57%	-7.67	-9.37	-1.70	-1.39%	7.13%	2.42
General & Insured Muni Debt Funds (Leveraged)	-3.32%	-7.38%	-2.95	-6.93	-3.98	-11.79%	17.85%	-3.82
General & Insured Muni Funds (Unleveraged)	-1.77%	-3.64%	-4.77	-6.45	-1.68	-6.50%	11.21%	-0.13
General Bond Funds	4.07%	-0.63%	-0.58	-3.51	-2.93	-9.21%	4.60%	-4.65
Global Funds	3.31%	2.57%	-8.77	-9.56	-0.79	5.25%	-5.92%	8.82
Global Income Funds	0.24%	-3.10%	-5.1	-7.83	-2.73	-2.23%	9.19%	-2.01
Growth Funds	1.50%	22.17%	-1.71	1	2.71	3.04%	-38.18%	14.69
High Yield Funds	1.57%	-0.31%	-3.02	-5.61	-2.59	0.54%	3.50%	-2.11
High Yield Funds (Leveraged)	2.30%	-1.70%	-1.5	-4.87	-3.37	5.00%	0.18%	-3.16
High Yield Municipal Debt Funds	-2.63%	-6.66%	-0.49	-4.6	-4.11	-9.14%	14.24%	-5.71
Income & Preferred Stock Funds	4.17%	-1.35%	-2.37	-4.16	-1.79	9.61%	-3.99%	0.76
Intermediate Municipal Debt Funds	-1.34%	-4.82%	-2.06	-5.59	-3.53	-8.27%	13.36%	-3.77
Loan Participation Funds	1.02%	-1.06%	2.47	0.3	-2.17	3.38%	-2.55%	-3.27
Michigan Municipal Debt Funds	-3.90%	-9.82%	-7.87	-12.77	-4.90	-12.40%	19.46%	0.19
New Jersey Municipal Debt Funds	-2.79%	-6.16%	-4.87	-8.19	-3.32	-10.81%	19.52%	-5.22
New York Municipal Debt Funds	-2.83%	-6.56%	-1.91	-5.6	-3.69	-10.93%	17.12%	-4.87
Options Arbitrage/Opt Strategies Funds	3.00%	2.50%	-5.05	-5.47	-0.42	5.01%	-8.09%	7.84
Other States Municipal Debt Funds	-2.80%	-5.84%	-1.73	-4.71	-2.98	-10.46%	15.64%	-3.97
Pacific Ex Japan Funds	1.59%	2.29%	-10.78	-10.22	0.56	-3.13%	6.52%	7.69
Pennsylvania Municipal Debt Funds	-2.95%	-7.62%	-6.12	-10.6	-4.48	-11.05%	19.26%	-3.07
Real Estate Funds	0.43%	-1.59%	-3.69	-6.09	-2.40	2.28%	-10.01%	4.99
Sector Equity Funds	-42.80%	1.70%	-1.14	-2.74	-1.60	-35.43%	-9.02%	1.00
U.S. Mortgage Funds	-0.45%	-3.67%	-6.46	-9.2	-2.74	-0.52%	7.08%	0.76
Value Funds	3.84%	3.28%	-10.56	-11.13	-0.57	13.92%	-16.51%	12.69

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Top 5 Performing CEFs

LIPPER

Fund Name	Category	Ticker Symbol	1-Month NAV Change	Rank
H&Q Healthcare Investors	Sector Equity Funds	HQH	12.52%	1
H&Q Life Sciences Invtrs	Sector Equity Funds	HQL	12.05%	2
ASA Gold & Prec Met Ltd	Sector Equity Funds	ASA	10.18%	3
Central GoldTrust	Sector Equity Funds	GTU	10.07%	4
BlackRock Health Sciences	Sector Equity Funds	BME	8.26%	5

Fund Name	Category	Ticker Symbol	Year-to-Date NAV Change	Rank
H&Q Healthcare Investors	Sector Equity Funds	HQH	34.06%	1
H&Q Life Sciences Invtrs	Sector Equity Funds	HQL	32.09%	2
New Ireland Fund	Developed Market Funds	IRL	26.26%	3
Boulder Total Return	Core Funds	BTF	23.53%	4
Tortoise Energy Inf Corp	Sector Equity Funds	TYG	23.16%	5

Fund Name	Category	Ticker Symbol	1-Month Market Change	Rank
GAMCO Gl Gld NR & Inc	Sector Equity Funds	GGN	10.66%	1
Kayne Anderson Mstr/Engy	Sector Equity Funds	KMF	10.05%	2
GAMCO NR Gld & Inc Tr	Sector Equity Funds	GNT	9.95%	3
J Hancock Finl Opptys	Sector Equity Funds	BTO	9.35%	4
H&Q Life Sciences Invtrs	Sector Equity Funds	HQL	9.01%	5

Fund Name	Category	Ticker Symbol	Year-to-Date Market Change	Rank
H&Q Healthcare Investors	Sector Equity Funds	HQH	42.17%	1
H&Q Life Sciences Invtrs	Sector Equity Funds	HQL	34.34%	2
J Hancock Finl Opptys	Sector Equity Funds	BTO	32.84%	3
Salient Midstream & MLP	Sector Equity Funds	SMM	27.33%	4
Gabelli Multimedia Trust	Global Funds	GGT	26.75%	5

Fund Name	Category	Ticker Symbol	1-Month P/D Change	Rank
Aberdeen Chile	Emerging Markets Funds	CH	11.12	1
GAMCO NR Gld & Inc Tr	Sector Equity Funds	GNT	6.96	2
DWS Multi-Mkt Income Tr	General Bond Funds	KMM	5.13	3
GAMCO Gl Gld NR & Inc	Sector Equity Funds	GGN	4.96	4
Brookfield Gl Lsd Infr	Sector Equity Funds	INF	4.91	5

Fund Name	Category	Ticker Symbol	Year-to-Date P/D Change	Rank
PIMCO Gl StksPLUS & Inc	Options Arbitrage/Opt Strategies Funds	PGP	32.27	1
PIMCO High Income	High Yield Funds (Leveraged)	PHK	23.73	2
PIMCO Str Glbl Govt	Global Income Funds	RCS	18.48	3
Pioneer High Income Tr	High Yield Funds (Leveraged)	PHT	16.37	4
PIMCO Corp & Inc Oppty	Corporate BBB-Rated Debt Funds(Leveraged)	PTY	16.37	5

WELLS FARGO ADVISORS

Closed-End Funds IPOs

July 26, 2013

Similar to the second half of 2012, the pace of the closed-end fund (CEF) initial public offerings (IPOs) continued to accelerate during the first half of 2013 in both the number and the assets raised. This report highlights a few recent trends.

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Number of IPOs and Assets Raised

CEF issuance, as measured by the number of CEF IPOs and total annual assets raised, remains below pre-crash levels. However, the pace of the IPO market has been accelerating over the past two years. During the first half of 2013, 18 CEF IPOs raised $13.6 billion in aggregate, averaging $700 million per IPO. Perhaps mirroring the recovery in the stock market, these levels of asset raises are approaching those levels before the crisis — in the first half of 2007 $24.1 billion in assets were raised, averaging $860 million per CEF IPO. It is surprising that the CEF IPO market remained robust in May and June despite the market weakness that triggered valuations to cheapen among existing CEFs (tighter premiums and wider discounts), as eight IPOs raised a total of $3.7 billion during the two months. In addition, this is the third-consecutive half-year with an increase in the number of IPOs, total raised assets and average assets per IPO, which can be seen in the chart to the right.

The first IPO of the year, the **PIMCO Dynamic Credit Income Fund (PCI, $21.63)**, raised a total $3.0 billion, the third-largest IPO on record. In addition, through the end of June 2013, there were five CEF IPOs that raised at least $1 billion in assets; the first time the IPO market has hit this mark during a half-year since 2007 and only the second time on record. Not only were the aggregate and average half-year IPO assets the largest since 2007, the size of the individual IPOs were some of the largest on record. The four additional CEF IPOs raising at least $1 billion included the **DoubleLine Income Solutions Fund (DSL, $22.17)**, raising $2.3 billion, the **First Trust Intermediate Duration Preferred & Income Fund (FPF, $23.26)**, raising $1.4 billion, the **ClearBridge American Energy MLP Fund (CBA, $20.30)**, raising $1.1 billion, and the **Neuberger Berman MLP Income Fund (NML, $19.53)**, raising $1.0 billion.

		$ Millions	
Half Year	**IPOs**	**Total Assets**	**Average Assets**
1H13	18	12,595	700
2H12	14	7,980	570
1H12	10	4,339	434
2H11	6	1,970	328
1H11	11	3,918	356
2H10	10	4,814	481
1H10	8	2,918	365
2H09	5	1,295	259
1H09	8	1,034	129
2H08	1	142	142
1H08	1	120	120

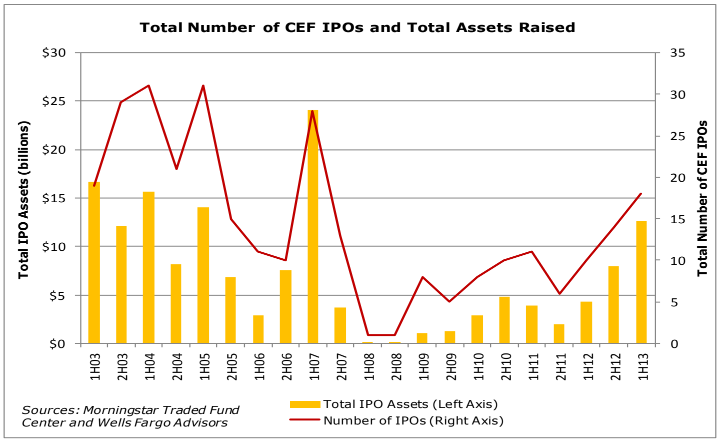
Sources: Morningstar Traded Fund Center and Wells Fargo Advisors

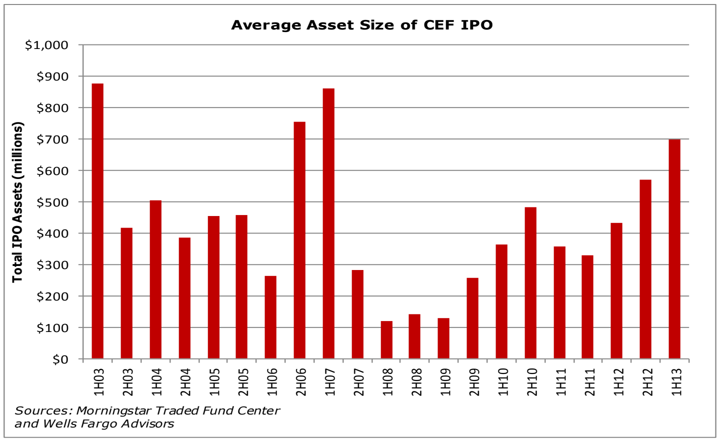
See the charts on page two for the number of IPOs and assets raised per half year since 2003. In addition, page four includes CEF IPOs this year through June 30.

[1] Closed-end fund offerings resemble those of a stock more so than a mutual fund or open-end fund. Typically, most of the shares of a closed-end fund are issued at its IPO, and additional shares may be issued later only through infrequent secondary offerings, rights offerings, or in some cases, reinvestment of distributions.

Average Yields

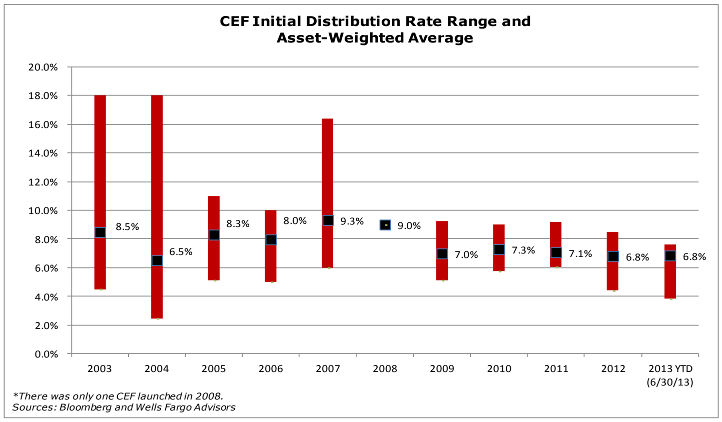
Similar to the past couple of years, the average initial distribution rate (the first distribution, annualized, divided by the IPO price) has generally remained lower than what it was before the crisis. In addition, excluding a small group of national municipal bond IPOs, the range of initial distribution rates remains much narrower than before the crisis. The magnitude of the difference between the highest and lowest initial yields has tightened from its peak of 15.5% in 2004 to 3.8% for the first half of 2013. If we are to exclude the municipal CEFs that were launched this year (or if we were to calculate their tax-equivalent yields), the magnitude of this difference would be an even tighter 2.6%. What's more, the highest initial distribution rate continues to trend lower, and it was at the lowest level over the past ten years in the first half of 2013, as seen in the chart above. We believe this is an indication that CEF managers and underwriters continue to exercise caution when setting the target distribution rate range, even as some have entered asset classes and sectors with higher risk profiles. In the past, CEFs that were issued at an initial yield that was too high often did not fare well — they tended to reduce their distribution too soon after the IPO or their NAV eroded more easily.





Asset Classes

The asset class that continues to dominate the IPO market is fixed-income, raising a total $9.9 billion, with master limited partnerships (MLPs) representing the only equity exposure receiving any significant demand, raising $2.5 billion. The preponderance of fixed-income IPOs should come as no surprise given two factors: 1) although the target distribution rate ranges have gradually been declining, they still remain very attractive to fixed-income investors given the current low-interest-rate environment; and 2) since the IPO price of a CEF is set at a premium to NAV, there may be limited success with an equity-only IPO as the significant majority of existing equity CEFs currently trade at (sometimes wide) discounts to NAV.



One group within the fixed-income categories that received significant demand, raising $6.2 billion among only four IPOs, included CEFs with the ability to invest across multiple sectors. For example, certain CEFs could include such sectors as corporate bonds (both investment-grade and below-investment-grade), emerging-market debt and mortgage-backed securities (MBS), ultimately affording portfolio managers the ability to stretch their legs and seek opportunities as they present themselves (within certain limitations established by the defined investment guidelines). We believe that these four IPOs were successful with their assets raised due, in part, to the managers behind the CEFs (e.g., Bill Gross and Jeffrey Gundlach for PCI and DSL, respectively) and investors' desire to expand their fixed-income portfolios beyond that of plain vanilla strategies.

Another interesting trend that emerged during the latter half of 2012 was the return of the national tax-free municipal bond CEFs. Since June 2012, there have been six national muni bond IPOs, raising a total of $3.3 billion (most of which was among the three launched in 2012). What we found to be most interesting was that five of the six CEFs have defined terms. The defined term structure often receives interest from investors because it affords them the ability to align their planned investment horizon with a diversified portfolio providing a higher distribution rate than what is currently available in the market. In addition, one of the latest national muni CEFs, the almost one-year-old **BlackRock Municipal Target Term Trust (BTT, $18.60)**, has a specifically-defined price to be delivered at maturity (but a return of the price is not guaranteed), a strategy not seen with muni CEF IPOs in ten years. It will be interesting to view the ability of BTT to satisfy that objective without sacrificing too much yield; however, the young CEF vehicle has already reduced its distribution once.

As mentioned before, the one part of the equity CEF market that continues to receive steady demand is MLPs as the amount raised year-to-date through the end of June 2013 has already exceeded the total assets raised in 2012. One of the latest trends for the MLP CEF IPO market is the inclusion of MLP General Partnerships (GPs) within the investment parameters. Unlike a Limited Partnership, a GP controls the underlying MLP and its assets, with typically only a 2% ownership stake in the partnership. Although only with a minimal ownership stake, the GP owns incentive distribution rights (IDRs), which entitle it to receive a disproportionate amount of the incremental cash flow, providing an accelerated distribution growth rate for the GP in addition to higher total return potential in a growing partnership. A number of existing MLP CEFs have also had follow-on offerings, which can take place only if the CEF is trading at a premium. Such offerings, which expand the supply of shares, quickly dampen the premium of the fund.

In general, the CEF IPO market has remained robust in 2013 as measured by both the number of IPOs and the total assets gathered. That being said, given the recent selloff in the CEF market, with the average discount of both the CEF universe and fixed-income CEFs reaching levels not seen since 2011, we would not be surprised to see the IPO market take a breather in the near-term.

Ticker	Name	Category	Inception Date	Assets Raised[1] ($ mil)
PCI	PIMCO Dynamic Credit Income Fund	Multi-Sector Debt	1/29/2013	3,025
NIQ	Nuveen Intermediate Duration Quality Municipal Term Fund	National Municipal	2/7/2013	188
AIF	Apollo Tactical Income Fund Inc	Bank Loans	2/26/2013	280
BIT	BlackRock Multi-Sector Income Trust	Multi-Sector Debt	2/26/2013	720
BOI	Brookfield Mortgage Opportunity Income Fund Inc	Government/Mortgage	3/26/2013	420
MIE	Cohen & Steers MLP Income and Energy Opportunity Fund Inc	Master Limited Partnerships (MLPs)	3/26/2013	480
ETX	Eaton Vance Municipal Income Term Trust	National Municipal	3/26/2013	205
NML	Neuberger Berman MLP Income Fund Inc	Master Limited Partnerships (MLPs)	3/26/2013	1,005
DSL	DoubleLine Income Solutions Fund	Multi-Sector Debt	4/26/2013	2,300
DMB	Dreyfus Municipal Bond Infrastructure Fund Inc	National Municipal	4/26/2013	254
FPF	First Trust Intermediate Duration Preferred & Income Fund	Preferreds Leveraged	5/24/2013	1,420
DFP	Flaherty & Crumrine Dynamic Preferred and Income Fund Inc	Preferreds Leveraged	5/24/2013	450
IVH	Ivy High Income Opportunities Fund	High Yield Leveraged	5/29/2013	317
CBA	ClearBridge American Energy MLP Fund Inc	Master Limited Partnerships (MLPs)	6/26/2013	1,050
EFF	Eaton Vance Floating-Rate Income Plus Fund	Bank Loans	6/26/2013	135
GGM	Guggenheim Credit Allocation Fund	Multi-Sector Debt	6/26/2013	150
JPW	Nuveen Flexible Investment Income Fund	Multi-Asset Global	6/26/2013	70
PGZ	Principal Real Estate Income Fund	REIT - U.S.	6/26/2013	126

1. Includes exercised Green Shoe assets

Source: Morningstar and Wells Fargo Advisors

Annualized, Standardized Total Returns (%) as of 6/30/13

		1 Year		3 Years		5 Years		10 Years		Since Inception				
		Price	NAV	Price	NAV	Price	NAV	Price	NAV	Price	NAV	Assets ($ mil)	Inception Date	Gross Expense Ratio
AIF	XAIFX	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-8.45	-0.58	272	2/26/2013	2.91%
BIT	XBITX	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-10.53	-3.18	664	2/26/2013	2.10%
BOI	XBOIX	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-6.46	-2.53	433	3/25/2013	2.52%
BTT	XBTTX	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-19.16	-13.55	1,550	8/29/2012	1.07%
CBA	XCBAX	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3.25	0.31	1,010	6/26/2013	1.82%
DFP	XDFPX	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-0.04	-2.78	419	5/23/2013	1.90%
DMB	XDMBX	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-15.40	-11.48	242	4/26/2013	1.71%
DSL	XDSLX	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-6.56	-4.91	2,309	4/26/2013	1.30%
EFF	XEFFX	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.50	0.00	131	6/26/2013	2.24%
ETX	XETTX	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-18.16	-13.06	183	3/28/2013	0.77%
FPF	XFPFX	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.00	-3.52	1,330	5/23/2013	1.92%
GGM	XGGMX	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.04	0.00	143	6/26/2013	1.48%
IVH	XIVHX	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.00	-1.26	308	5/24/2013	2.16%
JPW	XJPWX	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.50	N/A	66	6/26/2013	2.41%
MIE	XMIEX	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-0.39	1.20	456	3/26/2013	1.88%
NIQ	XNIQX	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-16.26	-7.58	170	2/6/2013	1.27%
NML	XNMLX	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-0.86	2.74	1,079	3/25/2013	1.24%
PCI	XPCIX	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-5.98	0.97	3,054	1/31/2013	1.28%
PGZ	XPGZX	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.00	N/A	122	6/26/2013	2.62%

Source: Bloomberg; Performance as of 6/30/13; Assets as of June 30, 2013

Returns are average annualized total returns, except those for periods of less than one year, which are cumulative.

The performance provided is past performance, which does not guarantee future results and current performance may be lower or higher than the performance data quoted. The investment return and principal value of an investment will fluctuate and shares, when sold, may be worth more or less than their original cost.

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A closed-end fund has both a net asset value (NAV) and a price, and these two values may differ. A closed-end fund's NAV is the total value of the securities in the portfolio minus any liabilities, divided by the fund's number of common shares outstanding. The funds' price is the market value at which the fund trades on an exchange. Changes in investor demand for a particular closed-end fund may cause the fund to trade at a price that is greater (lower) than the NAV; in that case the fund is trading at a premium (discount) to its NAV. Since a funds' premium or discount to its NAV may narrow or widen, a closed-end funds' price return may differ from its NAV return.

Investing in fixed-income securities involves certain risks such as market risk if sold prior to maturity and credit risk especially if investing in high yield bonds, which have lower ratings and are subject to greater volatility. All fixed-income investments may be worth less than original cost upon redemption or maturity. Bond prices fluctuate inversely to changes in interest-rates. Therefore, a general rise in interest rates can result in the decline of the value of your investment. Income from municipal securities is generally free from federal taxes and state taxes for residents of the issuing state. While the interest income is tax-free, capital gains, if any, will be subject to taxes. Income for some investors may be subject to the federal Alternative Minimum Tax (AMT).

Closed-end funds that invest primarily in Master Limited Partnerships (MLPs) may be subject to additional risks not associated with other closed-end funds. These risks may include but are not limited to the following: an MLP's ability to access external capital and identify attractive acquisitions (MLPs typically do not retain earnings to any meaningful extent and thus usually rely on external sources when raising capital, e.g., via follow-on offerings), concentration risk (lack of diversification because of exposure to just one or a few sectors), commodity price risk (MLPs may be sensitive to the price changes in oil, natural gas, etc.), liquidity of underlying securities (there may be limited trading markets for the securities in the fund), regulatory risk (changes in the regulatory environment could negatively impact the securities in the fund), sensitivity to rising interest rates (if interest rates were to increase, it could place pressure on MLP valuations), tax risk (a change in the current tax law regarding MLPs could result in the MLP being treated as a corporation for federal income tax purposes which would reduce the amount of cash flows distributed by the MLP), and extreme weather risk.

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Closed-End Fund Review

Second Quarter 2013

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Second Quarter Overview

Following a quarter in which the average closed-end fund was up 4.31%, the universe of 595 funds was lower by 5.60% on a share price total return basis during the second quarter (both figures from Morningstar). For many funds, most of the weakness occurred during the month of June (when the average fund was lower by 6.09% on a share price total return basis, according to Morningstar). The selling pressure began in May when the yield on the 10-year U.S. Treasury began a very swift move from 1.63% on 5/2/13 all the way to 2.48% by the end of the quarter (Bloomberg). This sharp rise in long-term interest rates not only put pressure on the net asset values (NAVs) of fixed-income funds that have long durations (particularly municipal funds), but also caused funds that don't have long durations to sell off (such as senior loan funds, high-yield funds and limited duration multi-sector bond funds). This was magnified for funds which use leverage. For many quarters, and years for that matter, leading up to May/June 2013, many retail investors were in a "risk off" mode, focusing primarily on fixed-income and high-yielding investments. However, with the equity markets continuing to rise at an impressive pace, coupled with the surge in long-term interest rates, there was a palpable shift in May/June with investors

shifting from "risk off" to "risk on." This manifested itself with investors not only selling yield oriented closed-end funds, but also with the significant outflows of money from open-end bond mutual funds. The yield-oriented sectors of the S&P 500, such as utilities, telecommunications, REITs (real estate investment trusts) and MLPs (master limited partnerships) turned out to be the worst performers for the quarter.

The result of the weakness during the second quarter was that average discounts to NAV widened significantly during the quarter, creating many compelling values in the secondary market for closed-end funds, in my view. Indeed, at the end of the second quarter, the average fund was at a discount to NAV of 3.8% (Morningstar). This level is wider than the 1-year average discount to NAV of 0.6%, 3-year average discount to NAV of 1.8% and the 10-year average discount to NAV of 0.7%. During these very volatile periods for the share prices of closed-end funds, there are often 2 key phenomenons which occur and the May/June period encompassed both of them as detailed below:

1. Share price weakness is more pronounced than NAV weakness and discounts to NAV widen: One of the unique characteristics of a CEF is that investors buy shares of a fund on a stock exchange as they would any other publicly traded security. This share price is independent from the underlying NAV of the fund. The NAV for most funds is calculated once a day after the market closes. During periods of enhanced volatility in the CEF marketplace, oftentimes share prices will sell off more severely than the actual weakness occurring in the NAVs of funds and this causes discounts to NAV to widen. While there is no single reason this occurs, it is mostly driven by the fact that CEFs are purchased at a share price on an exchange and are subject to the supply and demand relationship for the fund. When sentiment turns negative (as it did in a meaningful way in May/June), share prices can fall more than underlying NAVs. Furthermore, many CEFs are thinly traded and therefore it does not take a significant amount of added selling pressure to meaningfully move the share prices of many funds. During the second quarter, while share prices were lower on average by 5.60% (as mentioned above), underlying NAVs for the universe of 595 funds were only lower on an average by 4.55% on a NAV total return basis. This data point illustrates that during the quarter, share price weakness was more pronounced than underlying NAV weakness and contributed to the widening of discounts to NAV.

2. CEFs trade as one asset class even though there are dozens of different CEF categories made up of many different asset classes: While a CEF is a structure and a way for investors to gain exposure to many different asset classes just like an exchange-traded fund (ETF) or unit investment trust (UIT), there are periods (such as the recent May/June period) when all CEFs seem to trade as one asset class and all trade lower (even though there are dozens of different asset classes spread out throughout the universe of 595 CEFs). This was particularly true during the recent period of weakness when many categories of the CEF marketplace were experiencing meaningful share price weakness even though the underlying asset class and NAVs were relatively stable. For example, even though limited duration CEFs do not have meaningful duration risk and were not significantly impacted by the increase in long-term interest rates, the average limited duration CEF had share price total return weakness of 6.4% (Morningstar) during the quarter. NAVs for limited duration funds were only lower by 2.25% (Morningstar) on a total return basis. This is an example of a CEF category selling off in sympathy with other CEF categories even though the underlying asset class that these funds invest in performed much better than the share price weakness would indicate. While it can be frustrating in the short term for investors to see certain categories of the CEF marketplace trade lower even though underlying NAV performance is still holding up well, ultimately I believe over time the market and investors begin to differentiate between the categories of funds which are experiencing *real* NAV weakness with the categories that are *not*.

While it is hard to know exactly why sometimes all CEFs trade as one asset class even though there are many different asset classes throughout the CEF universe, it might be related to the fact that when long-term interest rates moved higher in May/June, investors erroneously assumed that because long term rates were increasing and many CEFs employ the use of leverage, it must mean that leverage costs were rising for all leveraged funds. However, this is not the case (as most funds' leverage costs are tied to short-term interest rates such as the Federal Funds rate which remains very low) and therefore these funds were not impacted by the increase in long-term rates.

Outlook & Favored Categories

While the recent period of broad weakness and discount widening across the closed-end fund universe might be frustrating and surprising for newer investors to this investment structure, it is not the first time CEFs have experienced this sort of volatility in the 100-plus year history they have been trading in the United States. In fact, I believe for patient, long-term investors, some of the best values and opportunities are created during these types of discount-widening periods. Indeed, the last time the broad CEF marketplace experienced this type of weakness and discount widening was in the summer of 2011 when the U.S. debt was downgraded to AA+ from AAA by S&P and investors were also concerned about Greece (see report from 8/10/2011 entitled "Discounts Continue to Widen...Opportunities Abound for Long-Term Investors"). Investors who dollar-cost averaged into the weakness were ultimately rewarded.

I also think it is vital during these periods of volatility to be reminded of the importance of the significant and compelling distributions CEFs make as it relates to the total return performance of funds over time. Indeed, according to Morningstar over the past 10 years ended 6/28/2013, the average cumulative share price capital return (which excludes distributions) for the universe of CEFs was only 5.95% (or an annualized 0.58%). However, when you factor in the distributions CEFs distribute and look at the average cumulative share price total return, the number is a much more impressive 79.19% (or an annualized 6.01%). These data points illustrate the importance of distributions compounding year after year and how significantly they contribute to the share price total return performance of CEFs. After all, the majority of CEFs have as their primary investment objective the goal of distributing current income.

As the second half of the year commences, I continue to believe the overall back drop for diversified CEF investors remains a good one. Indeed, I think one of the key comments from the recent Federal Reserve meeting that appears to have been overlooked by investors is that the Fed intends to continue to keep the Federal Funds rate at the extremely low level of 0-0.25% for an extended period of time. This is particularly important as it relates to the CEF structure as roughly 70% of all CEFs employ the use of leverage. Most funds' leverage costs are pegged off of short-term interest rates and therefore, with the Fed likely keeping rates at 0-0.25% for an extended period of time, many funds will continue to have low leverage/borrowing costs, which is a positive factor, in my opinion. Furthermore, with the average CEF trading at a wider discount to NAV than historical averages, coupled with the very attractive average yield of 6.57% (Morningstar, 6/28/13), I believe investors will look to take advantage of these compelling valuations and yields. Even though long-term interest rates did trend up in the second quarter, we are still in an overall low interest rate environment and an average yield of 6.57% is still attractive on both an absolute and relative basis, particularly in light of the very low inflation we continue to experience.

Another positive for credit-sensitive funds (such as high-yield and senior loan funds) remains the very low default rate. In fact, Moody's reported that the global speculative-grade default rate stood at 2.8% in June, no change from May. Moody's is forecasting a default rate of 3.2% for December 2013. The rate stood at 3.1% a year ago. The historical average for the default rate on speculative-grade debt has been approximately 4.7% since 1983. The U.S. speculative-grade default rate stood at 2.9% in June, no change from May. The rate stood at 3.3% a year ago. The default rate on senior loans stood at 1.49% in June, down slightly from 1.50% in May, according to Standard & Poor's LCD. Leveraged loan managers expect the default rate to be in the vicinity of 1.8% in December. The historical average is 3.3%.

While I believe the overall backdrop remains a favorable one for diversified CEF investors and the recent weakness has created many compelling opportunities in the secondary market, the volatility (particularly in longer duration fixed-income funds such as municipal funds) does illustrate the interest rate risk which does exist in certain funds. While I believe municipal CEFs do have compelling characteristics such as average tax-free yields of 5.98% from primarily investment-grade bonds (Morningstar), average discounts to NAV of 3.0% (Morningstar), and continue to benefit from low leverage cost, I also continue to actively advocate investors diversify into less interest-rate sensitive areas such as domestic equity funds and credit-sensitive funds (such as senior loan, high-yield and limited duration multi-sector funds), along with maintaining some exposure to municipal funds given the compelling tax-free yields they provide.

Since January of 2012 (see CEF commentary from 1/18/2012) I have had the highest conviction level in domestic equity funds and senior loan funds and that is still the case as the second half of 2013 begins. Based on the First Trust Economic team's view that the U.S. economy will continue to grow this year at a moderate rate, coupled with our Chief Market Strategist's view that domestic equities remain undervalued based on the potential for continued earnings growth in the S&P 500 over the next 12- months (as well as the fact that the S&P 500 continues to trade at a market multiple which is below its historical average), I continue to favor the underlying asset class of domestic equities. Furthermore, the Morningstar universe of 113 domestic equity funds trades at an average discount to NAV of 3.0%, which is wider than its 10-year average of a 0.05% premium to NAV.

On the fixed-income side of the equation, I continue to have the highest conviction level in senior loan CEFs. While the Morningstar universe of 24 senior loan CEFs was lower by 2.59% on a share price total return basis during the second quarter, the category is still up 15.01% on a share price total return basis over the past one year (Morningstar). Underlying NAVs for senior loan funds were only lower by 0.03% on a NAV total return basis (Morningstar). My positive thesis for advocating investors have exposure to senior loan CEFs is as follows:

1. Defaults continue to remain low: The default rate on senior loans stood at 1.49% in June, down slightly from 1.50% in May, according to Standard & Poor's LCD. This is significantly below the historical average of 3.3%.

2. Senior loans remain one of few fixed-income asset classes below par: As of 6/28/13, the S&P LSTA U.S. Leveraged Loan 100 Index was at 97.13 (par is 100) (Bloomberg). While not a huge discount to par, it is at a discount nonetheless when most other fixed-income oriented asset classes are at premiums to par. Furthermore, historically when interest rates trend higher, senior loans trade right around this par level as there is not a lot of duration risk due to the floating-rate nature of the interest on the loans. Indeed, the last time interest rates trended higher from 2004-2006 was when the Federal Reserve increased interest rates from 1% to 5.25% and long-term rates trended up as well. This index stayed in an extremely tight range with a low of 99.82 on 1/2/04 and a high of 101.32 on 3/18/05, according to Bloomberg.

3. Yields remain compelling: Average senior loan CEF has a distribution yield of 7.01% (as of 6/28/13, according to Morningstar). This average yield is particularly compelling in light of the limited duration risk the underlying asset class of senior loans have.

As always, due to the fact that closed-end funds can exhibit periods of high volatility, investors are encouraged to maintain a long-term time horizon and exposure to different types of funds.

All opinions expressed constitute judgments as of the date of release, and are subject to change without notice. There can be no assurance any 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.

Highlights (US$):[1]

Global ETP flows rebounded strongly to $44.1bn in July following June outflows of ($5.2bn), showing that investors again used ETPs to express market sentiment.

2013 year-to-date flows of $143.3bn have vaulted back ahead of the record pace of $128.3bn set in 2012, after dipping below record territory last month.

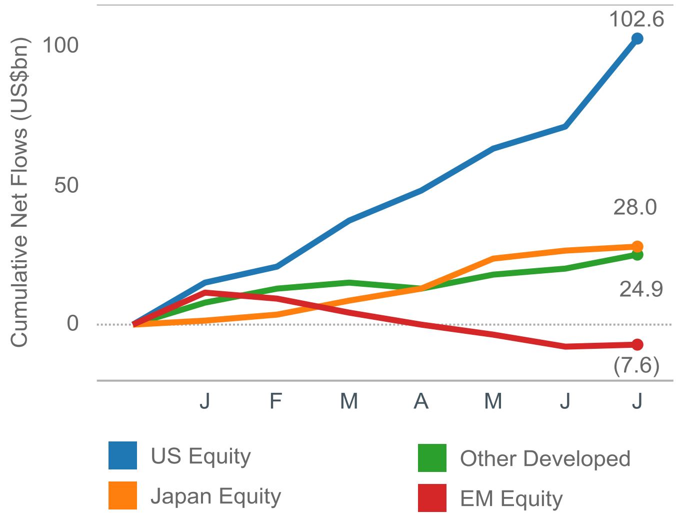
The shift in market sentiment was once again influenced by comments from Ben Bernanke on July 10th to qualify his previous comments made on May 22nd and June 19th about the pace of bond purchases that had roiled markets. The S&P 500 reached a fresh all-time high of 1695.5 in July and closed out the month at 1685.7.[2]

The 'pullback and redeploy' theme benefitted **US Equities** and to a lesser extent, **Fixed Income**, but did not extend to **Gold** or **Emerging Markets Equities**.

- July **Equity** flows scaled to a new 2013 monthly high of $39.3bn. Investors gravitated to **US Equities** with accelerated flows of $31.6bn or nearly 72% of all July flows while the category accounts for 41% of ETP assets. **US Large, Mid, and Small Cap** exposures drew in close to $24.0bn combined.
  - **US Equities** have driven 69% of all Equity flows year-to-date with $102.6bn.
  - Flows into **US Sector funds** swelled to $6.2bn, the highest monthly total since 2008. Investors favored more economically sensitive sectors including Financials with $2.3bn, Technology with $1.2bn, and Energy with $0.6bn.
- Investors embraced **Pan-European Equities**, adding $2.8bn in July, the highest total since December's $3.0bn. This is consistent with positive economic indicators for Europe's largest economy. The German manufacturing PMI index unexpectedly expanded to 50.3 in July from 48.6 in June.[3] A gauge of German services[4] also rose to 52.5 from 50.4 last month, indicating growth accelerated.
- **Japanese Equity ETPs** collected another $2.0bn in July, continuing to break year-to-date flows records with $28.0bn. These results were bolstered by the Bank of Japan's ETP purchases of $0.8bn during the month (totaling $5.5bn year-to-date).[5] Japanese elections gave Abe control of both chambers of parliament and he vowed to continue with "Abenomics", a hallmark of which is accommodative monetary policy.

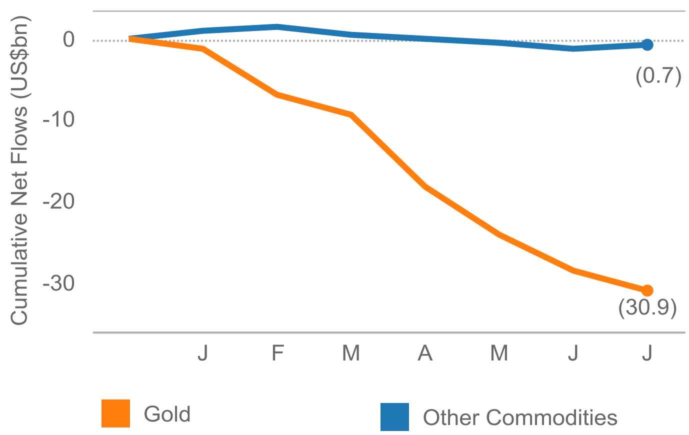
GLOBAL EQUITY CUMULATIVE ETP FLOWS[1]

2013 YTD Flows: $148.0bn



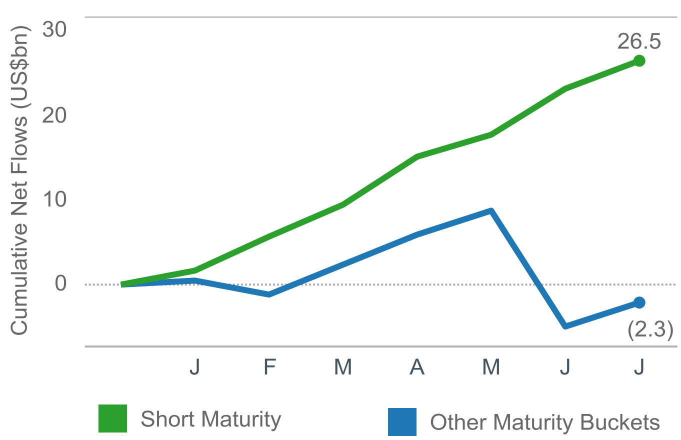
GLOBAL COMMODITIES CUMULATIVE ETP FLOWS[1]

2013 YTD Flows: ($31.6bn)



GLOBAL FIXED INCOME CUMULATIVE ETP FLOWS[1,9]

2013 YTD Flows: $24.2bn



Source: BlackRock

Highlights (US$):[1]

- **Fixed Income** flows improved to $6.4bn in July following outflows of ($8.4bn) in June. Investors displayed some risk appetite, adding $2.6bn to **High Yield**, the largest amount since February 2012 on the back of June redemptions of ($2.2bn). However, about half of July's investments were made in short maturity funds which are less sensitive to interest rate movements.[9]
    - Safe-haven **US Treasuries** also raked in $3.0bn for the best showing since May 2012, mainly driven by intermediate maturity exposures. The 10-year US Treasury rate ended July at 2.58% and was relatively stable for most of the month.[6]
    - Flows into **Fixed Income ETPs** remained positive every month this year except for June.
    - The bulk of year-to-date flows went into **short maturity** including **floating rate funds** as investors have positioned for rising interest rates . These funds attracted another $3.5bn in July, bringing the year-to-date total to $26.5bn.
    - **Broad maturities** suffered the largest year-to-date outflows of any maturity category with ($12.7bn). [9]
- **Gold** outflows continued in July reaching ($2.6bn) after June redemptions of ($4.3bn), building on an exodus that started in January. Continued modest inflation readings have lessened Gold's appeal as an inflation hedge.
- Money trickled back into **Emerging Markets Equities** with $0.5bn in July following outflows of ($4.3bn) in June.
    - **Broad Emerging Markets Equity** funds drew in $1.0bn, reversing an outflows trend that had started in March of this year, perhaps reflecting that investors believe the category could be oversold.
    - Investors withdrew ($1.1bn) from **China funds** as markets digested lower GDP growth readings of 7.5% in Q2 vs. 7.7% in Q1, and a weaker PMI reading[7] for June.
    - The S&P 500 index year-to-date price return was 18.2%[2] vs. the MSCI EM Equity year-to-date return of -10.2%[8]
- Outflows are rare in the growing ETP industry. Since July 2010, there were only 3 months with outflows: August 2010, November 2011 and June of this year, all driven by negative market sentiment. In each instance, inflows resumed the following month.

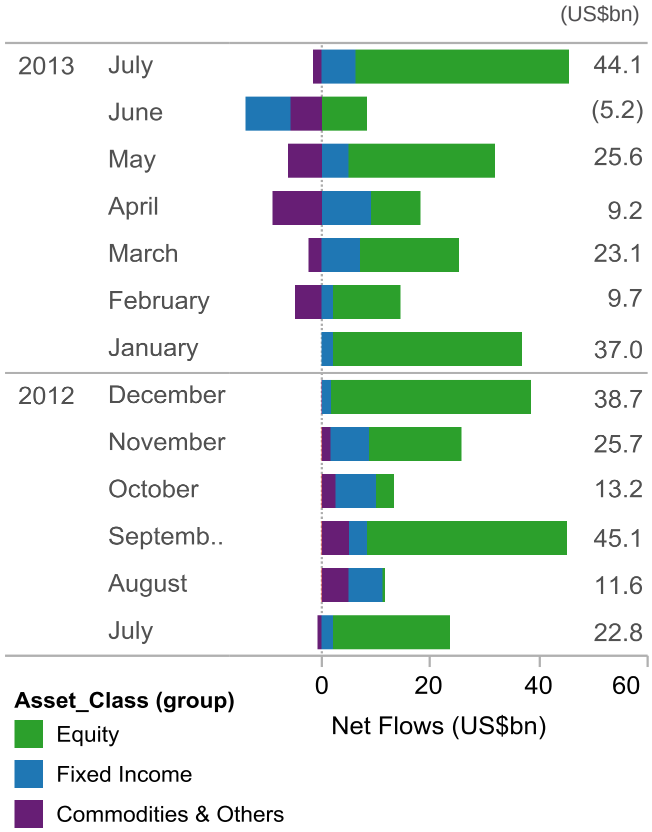
JULY RESULTS AT A GLANCE[1]
(US $billions)

	July 2013	June* 2013	December 2012	July 2012
Monthly Flows	44.1	(5.2)	38.7	22.8
Assets	2,161	2,038	1,944	1,721
# of ETPs	4,901	4,866	4,759	4,749

*Jun - 2013 restated with revised US data and additional Asia Pacific data

GLOBAL 13-MONTH ROLLING NET FLOWS[1]

2013 YTD Net Flows: $143.3bn



Source: BlackRock

Global ETP Year-To-Date Overview

BlackRock

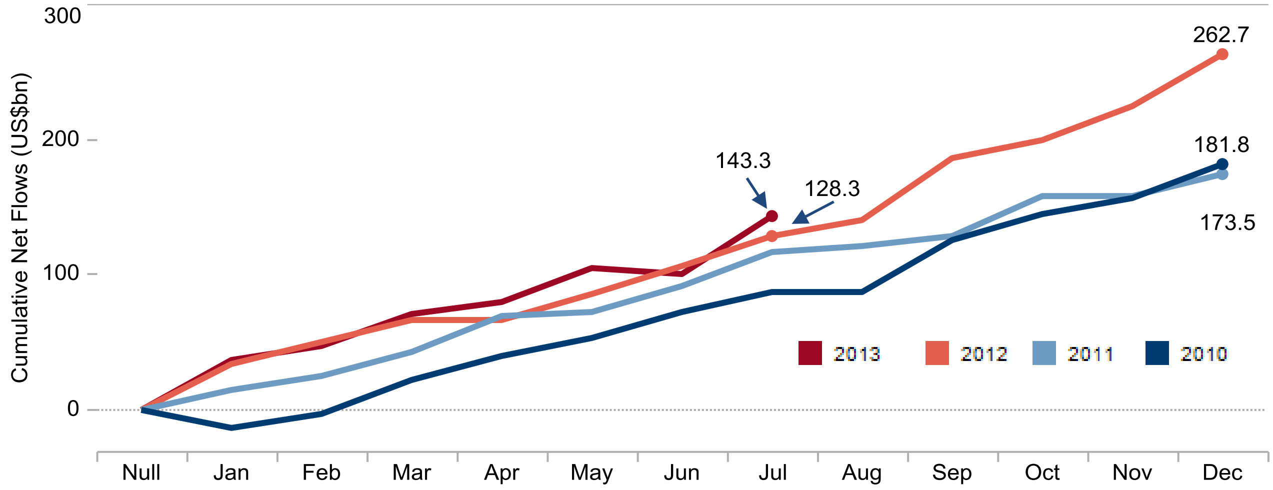
Highlights (US$):[1]

Year-to-date global ETP inflows surpassed the $140bn mark in July

- YTD flows of $143.3bn are above last year's record-setting pace. In the first seven months of 2012, ETP industry gathered $128.3bn of inflows.
- **Equity funds led with $148.0 billion** of YTD flows which is more than 92% above last year's pace of $76.9bn.
- **US and Japanese Equity exposures account for the bulk of the year-over-year Equity flow growth**. Both equity markets have been bolstered by accommodative Central Bank monetary policies.
- The growth in year over year Equity flows was mitigated **by EM Equity outflows** of ($7.6bn) YTD. The category had seen strong inflows in January of $10.9bn and then shifted to outflows from February through June. EM Equity flows turned to positive in July, attracting $0.5bn for the month.
- **Short Maturity funds (Floating Rate, Ultra-Short-Term and Short-Term) have been the engine for Fixed Income flows this year,** accumulating $26.5bn. Last July, the duration picture was completely different with YTD inflows of $2.6bn for Short Maturity funds.[9]
- **Gold** continued to have outflows in July, YTD outflows totaled ($30.9bn).

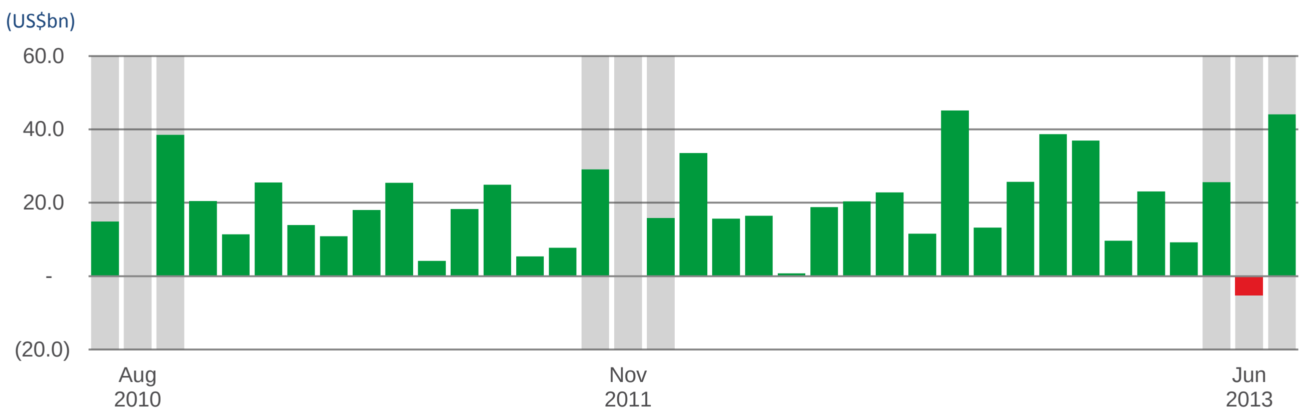
GLOBAL ETP CUMULATIVE NET FLOWS[1]

Record YTD Flows in 2013: $143.3bn



OUTFLOWS ARE RARE IN THE GLOBAL ETP INDUSTRY[1]

Monthly Global ETP Flows



Source: BlackRock

Largest Asset Gathering ETPs Launched in 2013

BLACKROCK®

Highlights (US$):[1]

- 250 new ETPs and 23 individual share class listings debuted around the globe so far this year and have accumulated $13.2bn in assets.
- 107 products and 9 individual share class listing were delisted this year with combined assets of less than $1.0bn.

Product Name (US$mn)[1]	Bloomberg Ticker	Exposure	Listing Region	Launch Date	Assets as of July 2013
ChinaAMC CSI 300 Index ETF	510330 CH	Emerging Markets Equity	Asia Pacific	January	3,081
FI Enhanced Global High Yield ETN	FIGY US	Other Developed/ Global	US	May	1,175
Vanguard Total International Bond ETF	BNDX US	Fixed Income	US	June	557
SPDR Blackstone/GSO Senior Loan ETF	SRLN US	Fixed Income	US	April	428
BMO Mid-Term US IG Corporate Bond Index ETF	ZIC CN	Fixed Income	Canada	March	355
SPDR MSCI EMU UCITS	ZPRE GY	Other Developed/ Global	Europe	January	328
Lyxor EURO STOXX 300 (DR) D-EUR (Share Class)	MFDD FP	Other Developed/ Global	Europe	June	325
China Southern Kaiyuan CSI 300 Index ETF	159925 CH	Emerging Markets Equity	Asia Pacific	April	320
FI Enhanced Europe 50 ETN	FEEU US	Other Developed/ Global	US	May	318
BMO Mid-Term US IG Corporate Bond Hedged to CAD Index ETF	ZMU CN	Fixed Income	Canada	March	220
Guotai SSE 5-Year China Treasury Note ETF	511010 CH	Fixed Income	Asia Pacific	March	213
Harvest MSCI China A 50 Index ETF	83136 HK	Emerging Markets Equity	Asia Pacific	June	205
Huaan Yifu Gold ETF	518880 CH	Commodities & Others	Asia Pacific	July	195
iShares 2018 Investment Grade Corporate Bond	IBCC US	Fixed Income	US	April	165
Samsung KODEX FTSE China A50 ETF	169950 KS	Emerging Markets Equity	Asia Pacific	January	164
Others					5,186
Total - 250 Primary ETPs + 23 Share Classes					13,237

Source: BlackRock

Largest Year-to-Date Fund Inflows and Outflows

BLACKROCK

ETPs as of July (US$mn)[1]	Bloomberg Ticker	2013 YTD Inflows	Jul-13 Assets
SPDR S&P 500	SPY US	9,259	154,099
WisdomTree Japan Hedged Equity Fund	DXJ US	9,010	10,674
iShares MSCI Japan	EWJ US	5,469	11,498
iShares Russell 2000	IWM US	4,916	25,559
Financial Select SPDR	XLF US	4,915	16,732
Vanguard Total Stock Market	VTI US	4,205	33,455
Daiwa ETF TOPIX	1305 JP	4,196	8,726
Vanguard Short-Term Bond	BSV US	3,690	12,878
PowerShares Senior Loan Portfolio	BKLN US	3,493	4,972
ChinaAMC CSI 300 Index ETF	510330 CH	3,064	3,081
Grand Total		52,216	281,673

ETPs as of July (US$mn)[1]	Bloomberg Ticker	2013 YTD Inflows	Jul-13 Assets
SPDR Gold	GLD US	(19,867)	39,176
iShares MSCI Emerging Markets	EEM US	(7,986)	35,631
iShares Barclays TIPS Bond	TIP US	(5,496)	15,326
iShares iBoxx $ Investment Grade Corporate Bond	LQD US	(4,917)	19,089
Vanguard FTSE Emerging Markets	VWO US	(2,948)	50,027
SPDR Barclays Capital High Yield Bond	JNK US	(2,734)	9,653
iShares MSCI Brazil	EWZ US	(2,340)	5,509
iShares FTSE China 25	FXI US	(2,310)	5,138
iShares J.P. Morgan USD Emerging Markets Bond	EMB US	(2,128)	4,147
ETFS Physical Gold	PHAU LN	(1,891)	5,005
Grand Total		(52,617)	188,702

Source: BlackRock

Global ETP Flows by Exposure – Developed Equity

BLACKROCK®

Exposure (US$mn)[1]		Juky 2013 Net Flows	2013 YTD Net Flows	% of YTD Flows	Assets	% of Assets	# ETPs
US Size and Style	Large Cap	16,653	35,447	24.7	422,296	19.5	225
	Mid Cap	2,173	5,593	3.9	70,574	3.3	49
	Small Cap	5,168	14,044	9.8	78,430	3.6	67
	Micro Cap	61	263	0.2	976	0.0	4
	Total Market	57	8,627	6.0	58,089	2.7	61
	Extended Market	49	720	0.5	3,241	0.1	2
	Preferred Stock	(346)	525	0.4	15,140	0.7	5
	US Size and Style Total	23,815	65,220	45.5	648,747	30.0	413
US Sector	Basic Materials	(62)	(52)	(0.0)	5,270	0.2	14
	Consumer Cyclicals	690	3,221	2.2	15,244	0.7	18
	Consumer Non-cyclicals	(297)	702	0.5	9,947	0.5	12
	Energy	630	3,588	2.5	30,578	1.4	41
	Financials	2,303	7,837	5.5	30,952	1.4	37
	Health Care	1,065	3,292	2.3	20,736	1.0	28
	Industrials	729	1,673	1.2	9,356	0.4	17
	Real Estate	(353)	2,402	1.7	30,400	1.4	22
	Technology	1,248	4,021	2.8	20,276	0.9	27
	Telecommunications	13	(43)	(0.0)	1,053	0.0	5
	Utilities	174	140	0.1	8,862	0.4	12
	Theme	46	319	0.2	1,147	0.1	9
	US Sector Total	6,186	27,100	18.9	183,820	8.5	242
US Strategy		1,621	10,327	7.2	63,822	3.0	54
US Total		31,622	102,647	71.6	896,389	41.5	709
Canada Equity		(845)	(882)	(0.6)	31,636	1.5	83
North America Regional Equity		89	651	0.5	7,295	0.3	18
North America Total		30,865	102,416	71.4	935,320	43.3	810
Pan European Size and Style	Large Cap	415	543	0.4	31,693	1.5	76
	Mid Cap	59	31	0.0	777	0.0	8
	Small Cap	44	138	0.1	1,584	0.1	13
	Total Market	1,889	1,801	1.3	29,024	1.3	68
	Pan European Size and Style Total	2,407	2,495	1.7	63,030	2.9	164
Pan European Sector		265	(374)	(0.3)	11,432	0.5	158
Pan European Strategy		98	277	0.2	2,710	0.1	20
Pan European Total		2,771	2,415	1.7	77,220	3.6	343
Country	Germany	168	(88)	(0.1)	40,152	1.9	61
	U.K.	612	1,777	1.2	16,513	0.8	51
	Switzerland	96	297	0.2	9,558	0.4	23
	France	(225)	(799)	(0.6)	5,112	0.2	19
	Others	146	693	0.5	8,164	0.4	67
	Europe Single Country Total	796	1,881	1.3	79,499	3.7	221
Europe Total		3,567	4,296	3.0	156,720	7.3	564
Asia-Pacific	Regional	(193)	345	0.2	15,169	0.7	57
	Country	1,663	27,214	19.0	121,642	5.6	226
Asia Pacific Total		1,469	27,558	19.2	136,811	6.3	283
Broad-Based Global /Global ex-US		2,850	21,301	14.9	166,962	7.7	447
Developed Equity Total		38,752	155,572	108.5	1,395,813	64.6	2,104

Source: BlackRock

Endnotes

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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. Net 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. Where price is not available, we use an approximation.

1. Data is as of July 30, 2013 for Europe and July 31, 2013 for the US, Canada, Latin America, Israel, and some Asia ETPs. Some Asia ETP data is as of June 30, 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 source from Bloomberg.
2. Source: Bloomberg, S&P 500 Index (SPX Index), as of July 31st 2013
3. Source: Bloomberg, Germany Manufacturing PMI Markit Survey Index (PMITMGE Index), as of July 2013.
4. Source: Bloomberg, Germany Services PMI Markit Survey Index (PMITSGE Index), as of July 2013.
5. Source: Bank of Japan, as of July 31st 2013.
6. Source: Bloomberg, US Generic Government 10 Year Yield Index (USGG10YR Index), as of July 31st 2013.
7. Source: Bloomberg, HSBC China Manufacturing PMI Index (EC11CHPM Index), July preliminary reading.
8. Source: Bloomberg, MSCI Emerging Markets Index (MXEF Index), as of July 31st 2013.
9. 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 focus 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
10. Source: BlackRock, Bloomberg

Disclosures:

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Dividend Deluge

ETP FLOWS QUARTERLY

JULY 2013

Many income-starved investors have turned to dividend stocks as bond alternatives. Exchange-traded products (ETPs) focused on dividends have rushed to meet this demand. We detail the money flows, country and sector compositions, and most widely held stocks of this group of funds. Highlights include:

- Dividend ETPs have gathered $87 billion in assets, accounting for 5.7% of total global equity ETP assets.
- The number of dividend ETP s has grown 75% since 2010, outpacing growth in fixed income ETP s and the total ETP market.
- Dividend ETP flows closely track ETP s specializing in investment grade bonds—and tend to move inversely with flows into cyclical stocks.
- Funds vary greatly in industry sector exposure and yield because of differences in methodologies and selection criteria.
- US stocks dominate the holdings of the top 14 divided ETP s with an 82% share.
- The top 25 stocks held by dividend ETP s make up 30% of total assets.
- Stock concentration within industry sectors is relatively high, with the top five stocks making up 65% of energy holdings of dividend ETP s.

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Head of BlackRock ETP Research

Kathleen Van Winckel
BlackRock iShares Business Intelligence

Ewen Cameron Watt
Chief Investment Strategist ,BlackRock' Investment Institute

HELICOPTER VIEW

Global ETP Trends, 2013

Click for interactive data

	Q2 2013 FLOWS (BN)	% OF Q1 2013 ASSETS	12-MONTH FLOWS (BN)	CURRENT ASSETS (BN)	12-MONTH ASSETS CHANGE	NUMBER OF FUNDS
EQUITIES						
Developed	$56.4	4.6%	$192.3	$1,292.8	35.8%	2,092
Emerging	-$12.2	-4.4%	$31.4	$237.6	11.5%	763
Total	**$44.2**	**2.9%**	**$223.7**	**$1,530.4**	**31.4%**	**2,855**
FIXED INCOME						
Corporate	-$1.4	-1.2%	$16.3	$114.6	15.1%	163
Government	$6.4	9.6%	$2.9	$72.9	4.3%	332
Total	**$6.2**	**1.8%**	**$46**	**$342.1**	**13%**	**747**
COMMODITIES						
Gold	-$19.1	-15.2%	-$16.7	$78.6	-36.9%	115
Total	**-$20.8**	**-11.4%**	**-$15.6**	**$125.9**	**-29.4%**	**922**
OTHERS	$0.1	0.1%	$2.4	$39.3	27.6%	344
GRAND TOTAL	$29.6	1.4%	$256.5	$2,038	21.5%	4,868

Source: BlackRock, July 15, 2013.
Notes: Totals include other categories. Government bonds exclude municipal bonds and inflation protected securities.

Overall industry inflows fell to $29.6 billion in the second quarter—down from a record first-quarter total of $69.7 billion and the lowest since the first quarter of 2010. See the table above and our interactive graphics. Equities attracted a net $44.2 billion of inflows, led by funds focused on US and Japanese stocks.

Bond funds had inflows of $6.2 billion, the lowest in 10 quarters. The commodity rout accelerated, with gold ETP s hemorrhaging $19.1 billion—more than twice the previous quarter's record outflow.

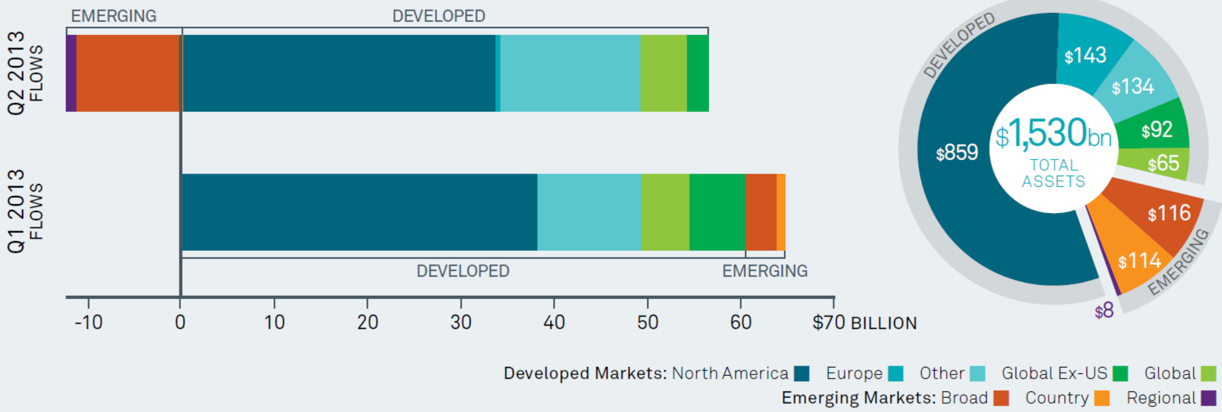
BlackRock collects and analyzes industry wide data of roughly 5,000 ETPs globally in monthly ETP Landscape reports.

The opinions expressed are as of July 2013 and may change as subsequent conditions vary

Click here for complete reading

DEVELOPED MATTERS

Equity ETP Flows and Assets, Q2 vs. Q1 2013



Source: BlackRock, July 15, 2013.

Investors poured $56.4 billion into developed market equity ETP s—near record first-quarter levels. Funds focused on North American funds made up the bulk of inflows with a 59% share. Japan funds attracted a record quarterly $18 billion on expectations of monetary stimulus and structural reforms. The Bank of Japan lent a helping hand; it reported buying $3.6 billion of Japan ETP s in the second quarter under its asset purchase program. Europe-focused funds attracted a scant $630 million. See the chart above.

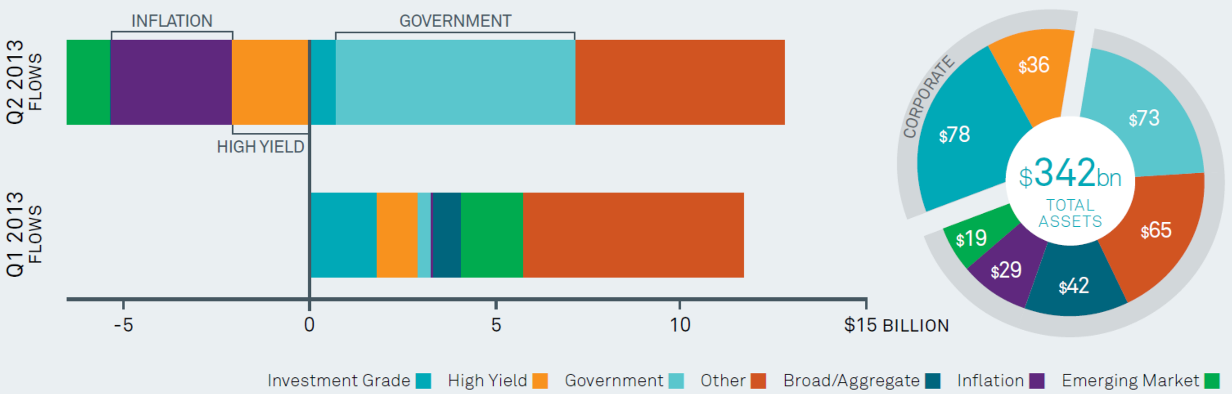
Investors yanked money from emerging market funds five straight months in a row. Expectations of a "tapering" in the US Federal Reserve's bond buying, slowing growth in China and fears of an emerging market funding crisis gave investors pause. Outflows totaled $12.2 billion. The lion's share (around 92%) was from broad emerging market funds.

Fixed income ETP s attracted $6.2 billion—the slowest rate since the fourth quarter of 2010. The "great rotation" into equities has not arrived yet—but it is real within fixed income. Inflation-protected bond ETP s had record outflows of $3.4 billion as inflation fears subsided. US core consumer prices in June rose at the slowest pace in two years. High yield funds lost a record $2.1 billion and emerging market debt lost a record $1.2 billion. See the chart below.

News the Fed could start to wind down its bond buying program led to a stampede into short-term bonds, which are less vulnerable to rate rises than longer-dated securities. Flows into short maturity funds (three years and less) accelerated to a record $13.6 billion. Intermediate, long term and broad maturity bond ETP s recorded outflows of $7.4 billion

IS INFLATION DEAD?

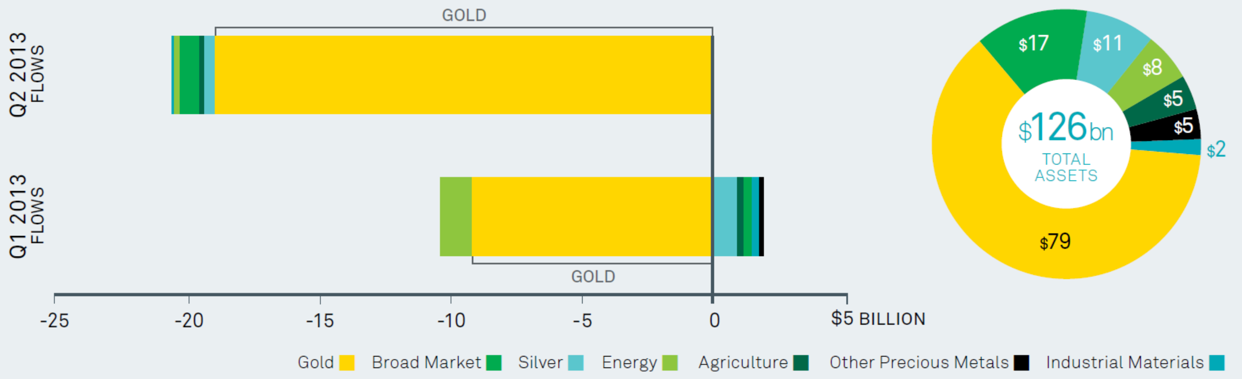
Fixed Income ETP Flows and Assets, Q2 vs. Q1 2013



Source: BlackRock, July 15, 2013.
Note: "Other" includes categories such as government/corporate, mortgages, municipals and bank loans.

PRECIOUS LOSSES

Commodities ETP Flows and Assets, Q2 vs. Q1 2013



Source: BlackRock, July 15, 2013.

Gold funds saw six straight months of outflows, with a record $19.1 billion in the second quarter alone. The gold price tumbled 23% over the quarter as declining inflation expectations and the prospect of an end to quantitative easing sparked an investor exodus. Broad funds, silver and other commodities all recorded outflows.

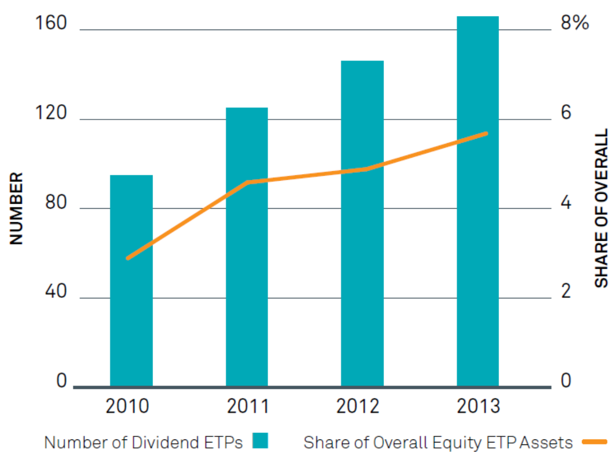
ETPs remain big players in gold markets. The industry's assets totaled $78.6 billion at the end of June, equivalent to 66 million troy ounces of gold. That compares with global gold production of 87 million troy ounces in 2012, according to the US Geological Survey. Only the Fed, Germany's Bundesbank, the International Monetary Fund (IMF), and the central banks of France and Italy hold more of the precious metal, according to Bloomberg and IMF data.

Global dividend ETP s, which focus on dividend-paying equities, held a total of $87 billion at the quarter's end. This equaled 5.7% of total equity ETP assets, compared with just 2.9% in 2010. See the chart on the bottom left. The number of dividend ETP s was 166 at the end of the second quarter—up 75% from 2010. This outpaced a 57% jump in fixed income ETP s and 37% overall industry growth.

US-focused funds dominate, with around 70% of the dividend total—dwarfing Europe's meager share of just 3.4%. Dividend ETPs have made up the bulk of the flows into European equity funds in 2013, although the totals are modest. See the table on the bottom right. Emerging markets are relatively small players in the dividend ETP world—but attracted net inflows in 2013 even as the overall category bled.

US DOMINATION

Global Dividend ETP Market Size and 2013 Flows



		US	EUROPE	DEVELOPED	EMERGING	TOTAL
ASSETS (BN)	Dividend	$61	$3	$79	$8	**$87**
	All Equity	$822	$143	$1,293	$238	**$1,530**
	Dividend Share	7.4%	2.3%	6.1%	3.4%	**5.7%**
2013 FLOWS (BN)	Dividend	$9	$0.5	$13.6	$1.6	**$15.2**
	All Equity	$71	$0.7	$117	-$8	**$109**
	Dividend Share	13%	62%	12%	–	**14%**

Source: BlackRock, July 15, 2013.

FitchRatings

NAV Declines Show Interest Rate Impact on Leveraged Municipal Closed-End Funds

August 9, 2013

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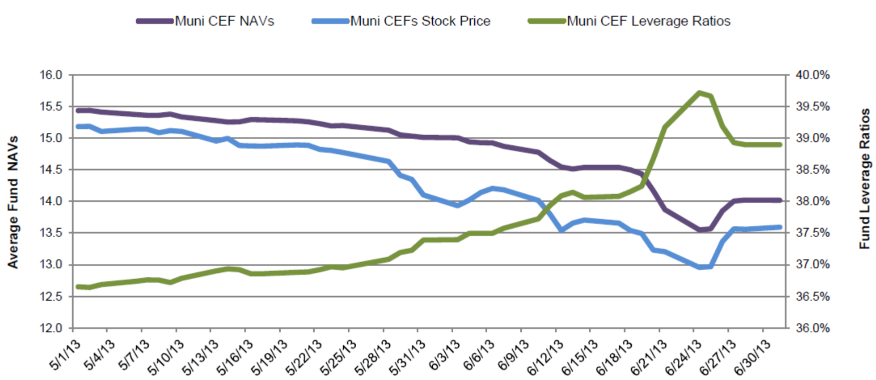
Higher Rates Impact Municipal CEFs: Leveraged municipal closed-end funds (muni CEFs) experienced significant net asset value (NAV) declines in the last couple months set off by a spike in U.S. Treasury yields. The universe of 188 muni CEFs saw NAVs decline more than 12%, leading average leverage ratios to rise moderately to 39% at the end of June 2013.

NAV Drops Reflect Portfolio Durations: Muni CEFs with longer duration portfolios fared worst, not surprisingly. The composition of muni CEF portfolios and their sensitivity to rate increases reflect the preference of many issuers in the tax-exempt market for longer-term debt and the funds' desire to offer higher yields to shareholders. The magnitude of leverage used by each fund was an additional factor that drove NAV declines

Leveraged Municipal Closed-End Funds: Price Performance and Leverage Impact Since May 1, 2013



Click here for complete reading

Sources: Fitch, public financial statements.

Rating Actions

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

- **Fitch Affirms Blackstone / GSO Sr. Floating Rate Term Fund Sr. Notes & Preferred Shares at 'AAA'** – **August 2, 2013**
- **Fitch Rates Dreyfus Municipal Bond Infrastructure Fund, Inc. VMTP Shares 'AAA'** – **July 29, 2013**
- **Fitch Rates & Affirms Preferred Shares of Nuveen Municipal High Income Opportunity Fund on Merger'** – **July 15, 2013**
- **Fitch Rates Eaton Vance Floating-Rate Income Plus Fund Preferred Shares 'AA'** – **July 10, 2013**
- **Fitch Affirms ARPS and VMTP Shares Issued by 5 MFS Investment Mgmt Muni Closed-End Funds at 'AAA'** – **July 1, 2013**
- **Fitch Rates Aberdeen Asia-Pacific Income Fund Preferred Stock 'AA'; Affirms Notes at 'AAA'** – **July 1 ,2013**

Discounts to NAV Indicate Real Value

August 08, 2013

One important indicator closed-end fund (CEF) investors should use to see if there is value in an individual CEF or value in a specific category of the CEF marketplace is to examine a fund or category's current discount to NAV relative to its historical average. CEFs historically revert back to their mean average discount to NAV so if a fund or category of funds is trading at a wider discount to its historical average discount to NAV it often signals there is value to be had.

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While I think CEF investors should examine several factors before investing in a CEF or basket/portfolio of CEFs such as attractiveness of the underlying asset class, sustainability of the distribution, NAV track record, leverage structure and duration/credit quality if it is a fixed income fund, I also think analyzing a fund's current valuation compared to its historical average is an important factor to determine if value exist in that fund.

Based on that last factor, I believe there is indeed real value across several different categories of the CEF marketplace now especially in light of the fact that the Fed has indicated they intend to keep the Federal Funds rate low for an extended period of time which should keep leverage cost very low for most funds. Keep in mind, most CEF's leverage cost is tied to short term interest rates and not intermediate or long term rates. Indeed, as you can see above, many categories of the CEF marketplace are trading at significantly wider discounts than they historically trade at and I think that indicates there is value in many categories of the CEF marketplace.

When long term interest rates started trending higher in May, investors clearly got the message that they needed to be vigilant about interest rate risk in their portfolios. However, based on these much wider than historical average discounts to NAV, the fact that the Fed continues to keep the Fed Funds rate at 0-0.25% and the fact that there are very compelling yields available across many different categories of CEFs, I believe CEF investors may have overreacted a bit by blindly selling their CEF positions almost regardless of the NAV performance and regardless of the valuations and yields their funds provide.

As a result of this selling pressure, many categories of the CEF marketplace are trading at significantly wider than average discounts to NAV and while we have yet to see investors take advantage of these wide discounts and still very high yields, historically when discounts widen this much more than historical averages it usually does begin to attract buyers. Again, while discounts to NAV is only one factor (among many) that I believe investors should analyze when looking at an individual CEF or category of CEFs, I also firmly believe that the present discounts to NAV do indeed indicate there is real value across many different categories of the CEF marketplace and the data above illuminates that point.

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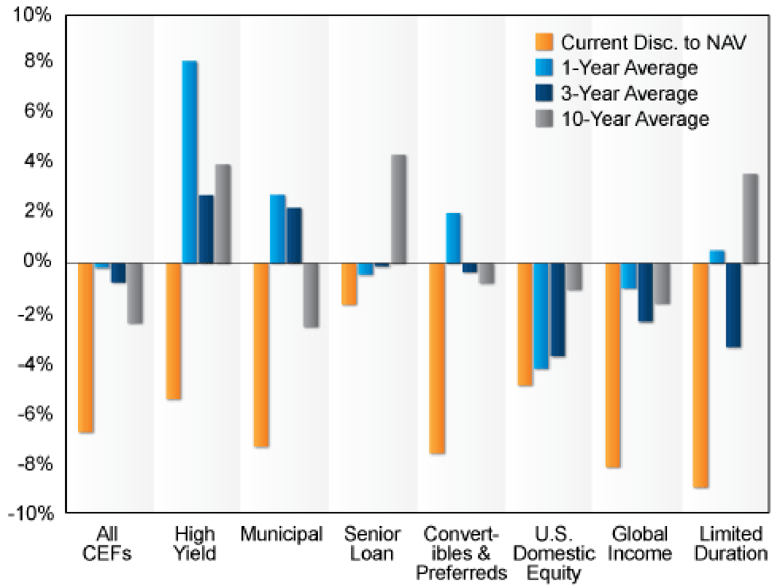

Source: Morningstar. As of 8/6/13.

The chart is for illustrative purposes only and not indicative of any investment. Past performance is no guarantee of future results. 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.

Closed-End Funds

August 02, 2013

Closed-end Funds with Finite Lives

A primer on target-price term trusts and term trusts

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Most investment funds, including closed-end funds (CEFs), are structured so that they have perpetual lives. In other words, there is no maturity date and the investor will need to liquidate his/her holdings if exposure to a particular fund is no longer desired. There are a few CEFs, however, that do have maturities. The purpose of this report is to serve as a primer on two structures of such CEFs, the target-price term trusts and the term trusts, and to discuss what we view as the pros and cons of each.

Target-Price Term Trusts

Target-price term trusts are the first generation of term trusts. This type of CEF not only has a finite life; it also attempts to return the IPO price at maturity. For example, if a CEF is launched at a price of $25 it would be the goal of the sponsor to return a price of at least $25 per share at its maturity. Note that while the sponsor strives to return the IPO price, the ending distribution is not guaranteed to equal or exceed the IPO price, nor is the sponsor obligated to pay the shareholders an amount equal to any potential shortfall. At this point, BlackRock is the only CEF sponsor that continues to use the first generation of term trust, of which there are three. Other sponsors have launched second-generation term trusts, which will be discussed shortly.

How does it work?

Because CEFs, more or less, have a fixed number of shares (excluding the effects of some forms of distribution reinvestment or other corporate actions), the task of returning a specific price is somewhat simpler than it would be for an investment product that has share creations/redemptions. Moreover, historically most of these target-price term trusts, and all of the existing ones, have invested in munis because they can retain some of the muni interest to enhance their ability to return the original IPO price (without any taxation at the fund level). However, creating target-price term trusts is not without complications and the track record for this type of CEF is not perfect as a few have failed to return the full IPO price and others have sacrificed income towards the latter years of their lives in order to return the IPO price. Some of the challenges that such CEFs may face are discussed in the following sections.

One should realize that when a CEF is launched at a price of say, $25 per share, it does not have a net asset value (NAV) of $25 per share at commencement. There are fees that are associated with launching a CEF that are taken out of the initial NAV. For example, if launched at $25 per share, its initial NAV would likely be in the neighborhood of $23.85 (if a typical offering with typical selling concessions, etc.). Thus, the CEF, which holds $23.85 of municipal bonds net of leverage, is already in the position of needing to add an extra $1.15 per share (or $25.00 minus $23.85) to achieve its goal of returning $25 per share. This is often accomplished by investing a small portion of the portfolio in zero-coupon bonds with the same maturity as that of the target-price term trust, which, once they appreciate to par, should cover that initial NAV deficit. So, a small portion of the portfolio has to be invested in securities to make the investors "whole," rather than earning an incremental return.

Another possible complication is that the bonds held in the portfolio will likely come due at different times, and few, if any, will have due dates that correspond exactly with the maturity date of the CEF itself. As such, some of these bond-redemption proceeds will need to be reinvested several years before the term trust's maturity. Additionally, if a bond comes due or is called, for example, seven years before the term trust matures, chances are that the sponsor is not going to invest the proceeds in longer term bonds given that it is striving to return a specific price seven years later. With a normal yield curve, short-term bonds have lower yields than do long-term bonds and this problem can be exacerbated if the CEF is reinvesting the proceeds from redeemed bonds in a relatively lower interest-rate environment. Because of this, the CEF's income may decline as its maturity nears, depending on the interest-rate environment at the time and other factors.

Other factors that may complicate a target-price term trust's ability to pay the IPO price at its maturity is leverage that it may employ or possible defaults on the part of some of the bond issuers to which it is exposed.

Is my principal in a better position in a target-price term trust relative to a perpetual CEF?

The answer to this question depends on, among other things, the holding period of the investor as well as the characteristics of the bonds held by the CEFs. It is imperative to remember that the underlying bonds, even when held in a target-price term trust, will fluctuate in value. As one recent example, the **BlackRock Municipal Target Term Trust (BTT, $18.18)** was launched on August 29, 2012. This leveraged product has a somewhat long maturity, with a planned maturity date on or around December 31, 2030. Because of the long maturity, the CEF can, and has, invested in bonds with quite long maturities. Its leverage-adjusted duration is about 17.6 years (longer than that of most other fixed-income CEFs), which indicates significant interest-rate sensitivity.[1] As a result, BTT was impacted somewhat harshly in the recent muni-bond CEF selloff, posting an NAV total return of -20.1% from the end of April 2013 through July 26 and a market-price-based total return over the same period of -16.2%, more severe than that of most leveraged muni CEFs, including many of those with perpetual lives. *This period of time was chosen as it roughly encompasses the time period during which the aforementioned selloff occurred. Investors should note that BTT has had a limited life and the recent performance may not be indicative of future results.*

In general, as the CEF approaches maturity and the bonds' lives shorten, its volatility should be reduced, all other factors held constant.

Also, note that there are other target-price term CEFs with shorter durations than that of BTT (however, there are factors in addition to duration that should be considered in an investment decision).

Term Trusts

A more recent development is the term trust. Like the target-price term trusts, this type of CEF also has a finite life; however, the CEF's sponsor does not necessarily strive to return a specific price at maturity. We realize that on the surface the term trusts may sound less appealing than the target-price term trusts. However, most of these products are structured so that the maturities of the underlying bonds are in close proximity to the maturity of the CEF itself (it is doubtful that many sponsors of these types of trusts would place themselves in a situation of having to terminate a trust at maturity while still holding bonds that have several years to maturity left in an uncertain interest-rate environment). Also, because they don't have to focus so much on ending at a certain price, the income stream may be less jeopardized over the life of the trust.

Another advantage of a term trust (and also a target-price term trust) relative to a perpetual trust is that much of the time many CEFs trade at discounts to NAV. At times an investor may have thought: "It is nice to be able to buy a fund at a discount to NAV, but it would also be nice if the discount subsequently narrows." Given that shareholders will receive NAV at termination, the discount (or premium) should narrow and disappear as the termination date approaches. In other words, the market price will converge towards NAV as the CEF approaches maturity.

As with the target-price term trusts there is a wide range of durations/maturities from which to choose. As such, some may be considerably more volatile than others.

A list of both target-price term trusts and term trusts that are in our coverage universe follows. Note that this list is provided for informational purposes only and does not necessarily constitute a "recommended list."

Data as of July 26, 2013 — *Listed in Order of Expected Termination Dates*

Fund Name	Ticker	Maturity*	Type	Advisory Services Group Classification	(Discount) /Premium on Last NAV Date	Total Lev Ratio (%)	Net Assets Mils USD	Average Daily Volume Mils USD	Last Closing Price
BlackRock Defined Opps Credit	BHL	12/31/2017	Term	Corporate Loans - Majority	-4.35	27.0	130.9	0.494	13.86
BlackRock Muni 2018 Term Trust	BPK	12/31/2018	Target-Price	National Muni	1.28	22.2	248.8	0.664	15.83
Nuveen Mortgage Opp Term Trust	JLS	11/30/2019	Term	Structured Finance	-5.62	26.3	415.6	1.859	24.68
Nuveen Mort Opp Term Fund 2	JMT	2/28/2020	Term	Structured Finance	-6.14	26.5	128.5	0.526	24.75
BlackRock Municipal 2020	BKK	12/31/2020	Target-Price	National Muni	0.29	35.5	323.9	0.692	16.05
Western Asset Muni Defined Opp	MTT	4/30/2021	Term	National Muni	-5.96	0.0	261.9	0.836	20.53
Western Asset Mortgage Def Opp	DMO	3/1/2022	Term	Structured Finance	-6.55	10.8	247.2	1.274	22.27
Nuveen Intermediate Dur Muni	NID	3/31/2023	Term	National Muni - Non IG	-8.53	36.3	599.7	2.236	11.69
Nuveen Inter Dur Quality Muni	NIQ	6/30/2023	Term	National Muni	-7.33	25.5	160.4	0.573	11.89
Nuveen Preferred & Income Term	JPI	8/31/2024	Term	Preferreds Leveraged	-6.37	28.3	571.6	2.065	23.52
Western Asset Glb Corp Def Opp	GDO	12/2/2024	Term	Multi-Sector Debt - Leveraged	-10.18	13.9	311.6	1.141	18.08
Mainstay DefTerm Muni Opps	MMD	12/31/2024	Term	National Muni	-3.97	34.6	423.7	1.919	16.44
Western Asset High Yld Def Opp	HYI	9/30/2025	Term	High Yield Non-Leveraged	-5.88	0.0	427.4	1.89	18.08
Blackstone/GSO Strategic Cred	BGB	9/15/2027	Term	Corporate Loans - Majority	-4.53	33.3**	802.6	2.939	18.35
EV Municipal Income Term Trust	ETX	6/30/2028	Term	National Muni - Non IG	-8.53	39.9***	158.5	0.788	14.37
BlackRock Muni Target Term Tr	BTT	12/31/2030	Target-Price	National Muni	0.64	42.2	1163.0	5.857	18.87

* In many cases, investors should view the maturity dates as ***approximate*** dates at which the CEFs will terminate.
** The targeted amount as indicated by the sponsor
*** Our estimate based on recently reported leveraged and non-leveraged durations
Sources: Morningtar Traded-Funds Center and Wells Fargo Advisors

[1] *Duration attempts to measure interest-rate sensitivity. Generally, the greater the number (usually expressed as "years"), the greater the interest-rate sensitivity.*

		Annualized Returns (%)								Assets	
		1 year		5 Years		Since Inception			Expense	Under	Market
CEF	Ticker	Price	NAV	Price	NAV	Price	NAV	Inception	Ratio	Mgmt (mils)	Price
BlackRock Defined Opportunity Credit Trust	BHL	9.5	9.5	7.0	6.6	6.1	6.2	1/28/2008	1.61%	$131	$13.85
BlackRock Municipal 2018 Term Trust	BPK	0.3	3.0	7.4	8.5	6.5	6.7	10/26/2001	0.85%	$249	$16.04
Nuveen Mortgage Opportunity Term Fund	JLS	12.5	21.0	N.A.	N.A.	8.8	11.2	11/24/2009	1.45%	$416	$24.37
Nuveen Mortgage Opportunity Term Fund 2	JMT	13.7	21.8	N.A.	N.A.	9.0	11.5	2/24/2010	1.61%	$129	$24.50
BlackRock Municipal 2020 Term Trust	BKK	5.3	3.4	9.0	8.6	6.4	6.9	9/25/2003	0.93%	$324	$15.99
Western Asset Municipal Defined Opportunity Trust Inc	MTT	-5.1	1.9	N.A.	N.A.	6.9	8.5	3/26/2009	0.68%	$264	$20.54
Western Asset Mortgage Defined Opportunity Fund Inc	DMO	22.7	32.0	N.A.	N.A.	15.9	17.2	2/23/2010	1.89%	$248	$22.22
Western Asset Global Corporate Defined Opportunity Fund Inc	GDO	1.9	9.5	N.A.	N.A.	5.3	9.1	11/24/2009	1.34%	$308	$17.84
Western Asset High Yield Defined Opportunity Fund Inc	HYI	3.0	16.0	N.A.	N.A.	4.4	9.2	10/27/2010	0.89%	$436	$17.60

All data as of July 26, 2013, except for return data, which are as of June 30, 2013.
Funds that had not been in existence for at least one year as of June 30, 2013 were excluded from the table above.
Source: Bloomberg, Wells Fargo Advisors, and the funds' websites.
In addition to the funds' expense ratios listed above, the funds are subject to brokerage fees.

Past performance does not guarantee future results. Investment returns, price, and NAV fluctuate with changes in market conditions.

Additional information can be obtained at the respective CEFs' websites:

For BHL, BPK, BKK, and BTT: https://www2.blackrock.com/us/financial-professionals/products-performance/closed-end-funds
For BGB: http://www.blackstone-gso.com/bgb-index.php
For JLS, JMT, NID, NIQ, JPI: http://www.nuveen.com/cef/?gclid=CJej9ai71bgCFdBcMgoddxwAtg
For MTT, DMO, GDO, and HYI: http://www.westernasset.com/us/en/
For MMD: http://www.nylinvestments.com/portal/site/MainStayClosedEndFund
For ETX: http://funds.eatonvance.com/Municipal-Income-Term-Trust-ETX.php

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Disclaimers

All prices are as of August 1, 2013, unless indicated otherwise.

A closed-end fund has both a net asset value (NAV) and a price, and these two values may differ. A closed-end fund's NAV is the total value of the securities in the portfolio minus any liabilities, divided by the CEF's number of common shares outstanding. The CEFs' price is the market value at which the CEF trades on an exchange. Changes in investor demand for a particular closed-end fund may cause the CEF to trade at a price that is greater (lower) than the NAV; in that case the CEF is trading at a premium (discount) to its NAV. Since a CEFs' premium or discount to its NAV may narrow or widen, a closed-end funds' price return may differ from its NAV return.

There can be no assurance that a fund's investment objectives, including a return of its IPO price at maturity, will be achieved or that the fund's investment program will be successful. The funds may be subject to some or all the following risks:

Fixed Income: Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline of the value of your investment. Investing in fixed income securities involves certain risks such as market risk if sold prior to maturity and credit risk especially if investing in high yield bonds, which have lower ratings and are subject to greater volatility. All fixed income investments may be worth less than original cost upon redemption or maturity. **Municipal:** Income from municipal securities is generally free from federal taxes and state taxes for residents of the issuing state. While the interest income is tax-free, capital gains, if any, will be subject to taxes. Income for some investors may be subject to the federal Alternative Minimum Tax (AMT). **Mortgage-Backed Securities**: The yield, average life and the expected maturity of mortgage-backed securities are based on prepayment assumptions that may or may not be met. Changes in prepayments may significantly affect yield, average life and expected maturity. **Foreign**: Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. These risks are heightened in emerging markets. **Leverage**: Leverage is a speculative technique that exposes a portfolio to increased risk of loss, may cause fluctuations in the market value of the fund's portfolio which could have a disproportionately large effect on the fund's NAV or cause the NAV of the fund generally to decline faster than it would otherwise. **Derivatives**: The use of derivatives may reduce returns and/or increase volatility. Investing in derivatives carries the risk of the underlying instrument as well as the derivative itself.

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Understanding Volatility and Value in a Closed-End Fund Based Portfolio

August 7, 2013

Authored by:
John Cole Scott, CFS
Portfolio Manage, EVP,
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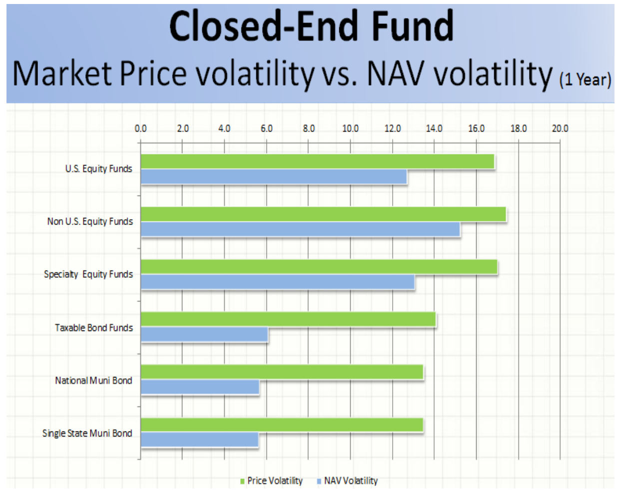
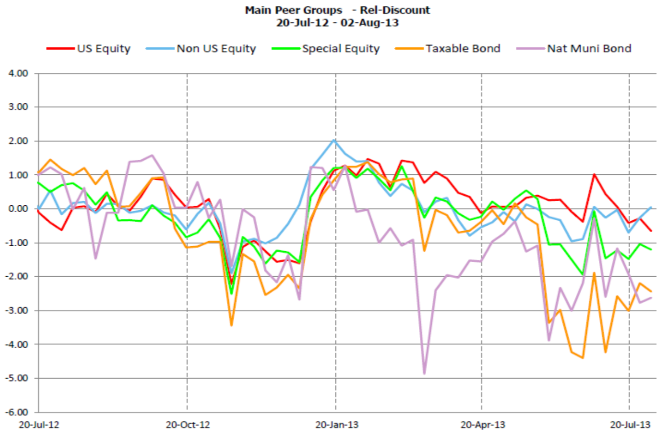
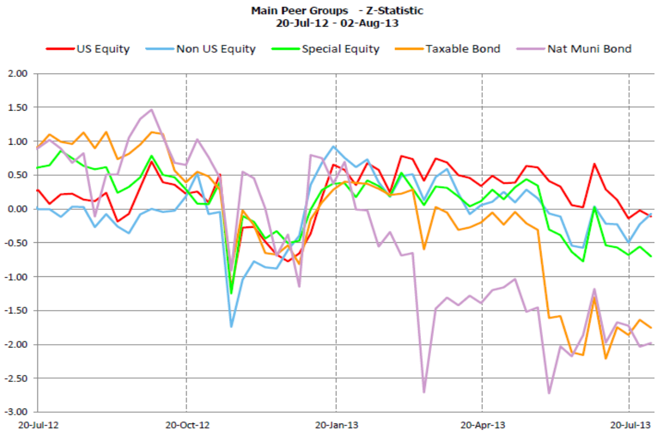
Closed-end funds are listed stocks that derive their value from their professionally managed holdings of stocks or bonds. In our experience, they are not simply another option for easy swapping from an ETF based portfolio or from an open-end mutual fund based portfolio. They have tremendous benefits and some important potential pitfalls for investors to comprehend before accessing if the structure can fulfill their investment objectives.

If you look at the current volatility for the major CEF grouping on a one year basis for Market Price vs. Net Asset Value, you can see that equity funds are only slightly more volatile than their underlying portfolios while the average taxable or municipal bond fund is more than two times more volatile than its underlying net assets. We feel that this is a benefit to CEF investors who can use the volatility to assist them in buying a fund at a relatively lower price to NAV (often a discount) and potentially sell an fund at the relatively higher level to NAV (sometimes a premium). However, if you did not expect this added volatility prior to entering the market, one might sell a fund prematurely on panic vs. due to investment reasons. This is often a poor long-term investment decision that can leave investors unhappy with the CEF sector.



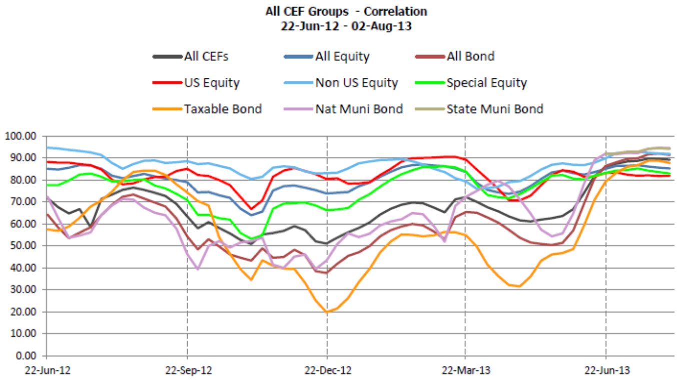
When analyzing a closed-end fund at our firm, the data we collected on a funds current discount is broken up into two categories. First, is the fund cheap or expensive compared to itself over various time periods? Second, is it cheap or expensive compared to its current peer group? This article is going to focus on two data points that look at a fund's relative value to itself. They are ***Relative Discount*** in which we use a 90 disc/prm value vs. current disc/prm and a ***1-Year Z-Stat,*** which looks at the current disc/prm vs. a fund's one year average disc/prm and divides this by the volatility of the discount in order to help analyze if the current level of relative cheapness or expensiveness is common from a historical perspective.





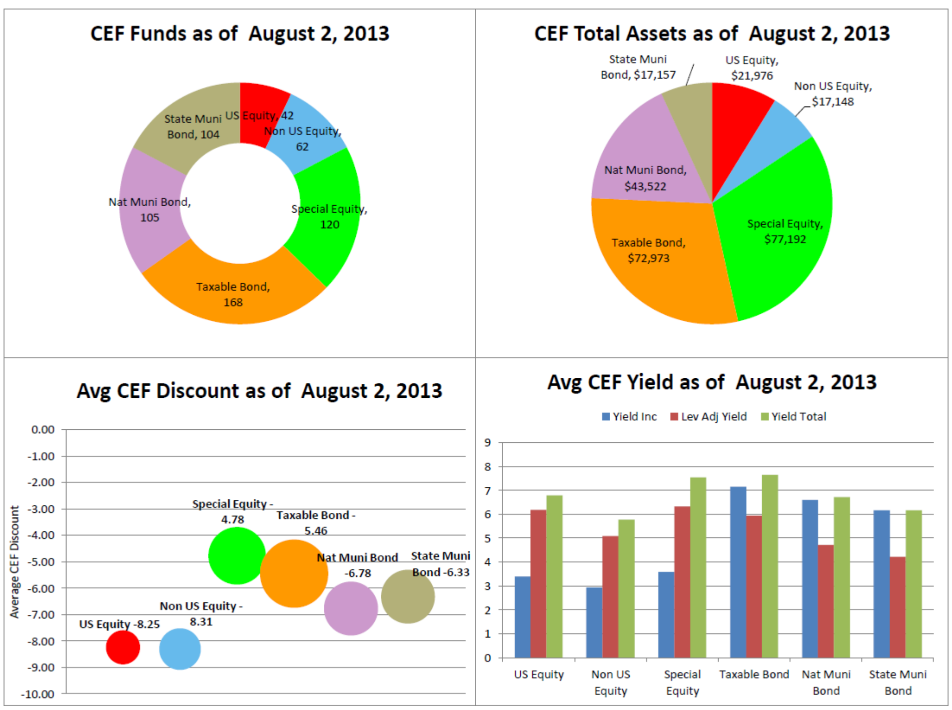
We have been collecting data on closed-end funds since we started our weekly data service in 2008. We have dramatically increased the depth of our collection since we started self-sourcing the data in 2012 and have more than quadrupled the data we now monitor. The above charts look at both the Relative Discount and 1-Year Z-Stat trends for the 5 major CEF groups for the past rolling year. During 2013, US and non-US equity funds have trended from relative premiums to small relative discounts while Specialty Equity funds, like MLP, REIT, Utility and other yield-oriented stock sectors have pushed to slightly wider relative discounts of -1%. Relative discounts are a more sensitive data point because they completely refresh every 90 days.

The 1 year Z-Stat, which focuses on a longer time period, shows the pull-back in the fall around the election as well as the more defined downward movements in taxable and municipal bond funds. Muni bond funds have been weak for most of 2013, breaching the -2.5 Z-Stat as a peer group on two occasions. They are currently at a -2 Z-stat, but due to a combination of Detroit's bankruptcy, rising interest rates and possible concerns on the tax-free standard for the funds it is completely understandable.



The last point I want to make is that correlations – covering a closed-end fund's market price vs. NAV have shot up to the 80-90%+ level in recent weeks. This is data we only started collecting in June of 2012 and we use a 90 period to make our calculations. You can see in the spring of 2013, Taxable and Muni funds hit levels of 30% and 50% at different times. Now the correlation levels are very high, but due to the downward movement in the net asset value of the funds it has not stopped CEF shareholders from showing losses on their account statements. We use this data to help find dislocations of pricing in the CEF Universe vs. trends that impact the underlying portfolio

Conclusion: In the closed-end fund universe investors are often told to simply buy a fund at a discount and sell at a premium. We hope to encourage investors or investment professionals to consider buying a fund when it is historically cheap compared to itself, and consider making a change to a peer fund when it becomes expensive compared to its historical self. Because 85% of the shares of closed-end funds are held by non-institutional investors, and about half of all funds trade about $500K to $2.5M in liquidity per day, the volatility can be your friend if you are patient and diligent and your enemy if you are quick to overreact or aggressive at the expense of performance.



*CEF Assets in $millions

Data From: CEFA's Closed-End Fund Universe

"Lev Adj Yield" is theCEF's NAV yield with the impact of leveraged removed from the calculation in order to get a handle on what the portfolio manager has to earn to meet the current dividend policy. In these cased discounts/premiums and leverage are removed from the fund's indicated total distribution yield.

Silver – Time to Shine from US$20?

August 6, 2013

All that glitters is not gold – or palladium. Consider – silver. For investors willing to look ahead, and not just avert their eyes from the 29% decline of the metal in the past 12-months, silver right now may be worth a good, hard second look.

At first glance investing in silver might feel like buying fool's gold, but a harder look at the market reveals that silver may have corrected too far and it is poised for future growth. Unlike gold, about 50% of silver consumption is driven by industrial use. Known for being the best conductor of electricity and integral to the electronics industry, demand is likely to remain steady, while new interest from the solar industry also indicates the potential for *upward* price pressure. That's a very solid foundation to build on. Gold, on the other hand, for which industrial demand only averages 10%, appears to have bottomed, at least in the near term, near $1,200. Looking at Palladium, another precious metal driven by industrial demand, has seen a 27% increase in the past 12-months on the back of strong auto sales in China and the U.S. is certainly impressive, but numbers already that high don't anticipate significantly accelerated returns.

Silver has a nice glow on it.

Here's a bit more evidence that investors willing to look around the corner a bit at silver may like what they see:

Demand Attraction, Record Physical Demand - Physical demand for silver is running at a record pace, as evidenced by US Mint sales. The US Mint has sold 29Mn ounces of silver coins in 2013 through July, just shy of total sales for 2012. US Mint silver coin sales are on pace in 2013 for 50Mn ounces - the most recent record was 40Mn ounces in 2011.

Recent Price Divergence – As suggested above, it's all about taking a good close look at silver right now. In the past one month period ending August 2nd, silver was the only precious metal to decline, losing 0.8% despite a 4.5% gain in gold (using London fix levels). Typically, silver prices are closely linked to gold with a correlation near .80, meaning 80% of the price moves in silver can normally be explained by gold. Gold and silver do no often diverge in price, but recently they have, possible due to the just salvaged WWII shipwreck containing 61 tons of silver.

Worst Annual Plunge since the Aftermath of the Hunt Brothers in 1981 - On a year-to-date basis, silver has declined 35% in 2013, as of August 2nd. If silver ends 2013 at current levels, it would be the worst annual plunge since the 47% decline in 1981, which was in the aftermath of the 434% rally in 1979 as the Hunt brothers attempted to corner the market (see charts on following page). The bottom line, from an investor and trader stand point is if silver does not recover from the recently reached US$20 level, it is likely it would be signalling more weakness with repercussions for the entire precious metals sector, which includes: gold, silver platinum and palladium. The US$20oz level in silver has acted as a key pivot level since reaching US$20 early in 2008, for the first time since 1980. Many market technicians say that old resistance becomes support and the silver market has returned to key support at US$20oz.

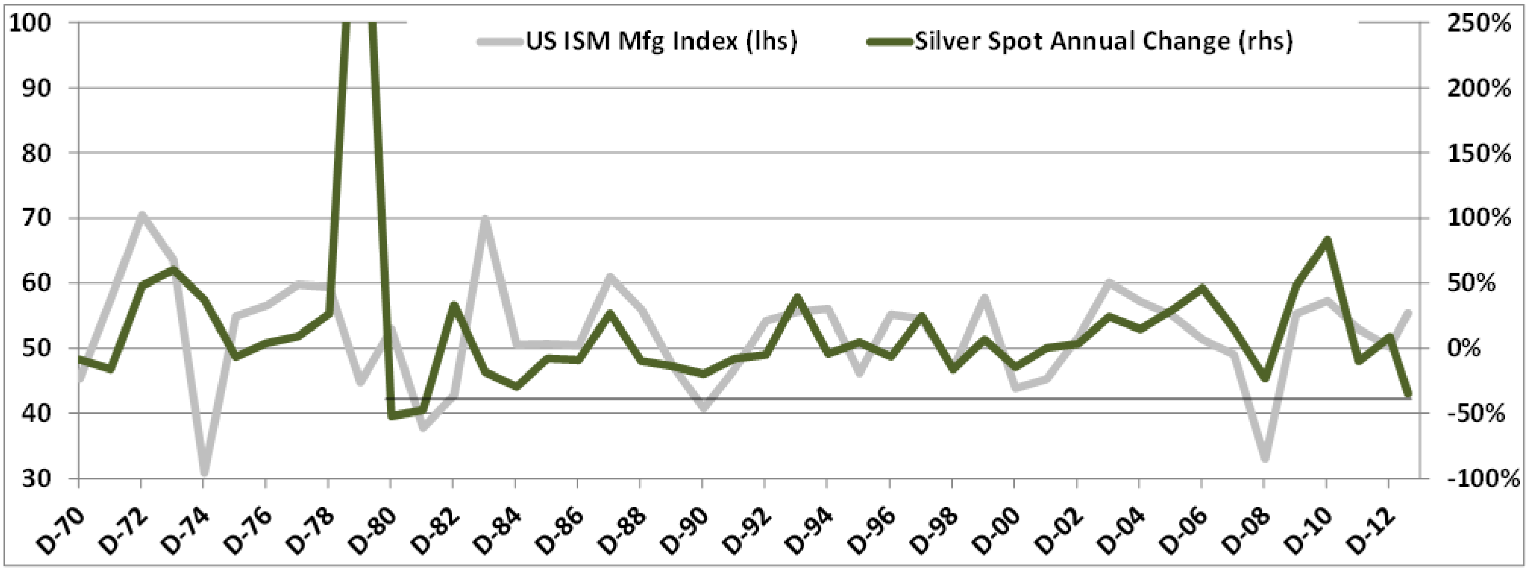
Silver, in short, has returned to attractive value near US$20oz, and it likely needs to sustain above $20oz to indicate a recovery in the precious metals market.

For savvy investors, silver, at the very least, is worth keeping an eye on.

Authored by:
Mike McGlone, CFA, FRM
Director Research US,
ETF Securities

Silver Spot Annual Change and US ISM MFg

Note - 2013 has been the worst plunge since 1981



Source: ETF Securities, Bloomberg

Spot Silver: Jan. 2008 – August 2, 2013

Gold/Silver Price Ratio

Source: ETF Securities, Bloomberg

Important Risks

• **Commodities generally are volatile and are not suitable for all investors.**

• The statements and opinions expressed are those of the authors and are as of the date of this report. All information is historical and not indicative of future results and subject to change. Reader should not assume that an investment in any securities and/or precious metals mentioned was or would be profitable in the future. This information is not a recommendation to buy or sell. Past performance does not guarantee future results.

Fidelity's Move Into the ETF Market

July 26, 2013

Authored by:
Todd Rosenbluth
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S&P Capital IQ Equity Research
@TRosen_SPCAPIQ

After months of speculation in the investment community, Fidelity, long known for providing a large number of strong, actively managed mutual funds, today registered a series of U.S. sector ETFs that it hopes to launch. Below we briefly look at what we think this means for the ETF and mutual fund industries and for investors.

According to the filing, Fidelity aims to launch 10 sector ETFs and will use BlackRock Fund Advisors as the sub-advisor on the funds. This is indeed the same BlackRock Fund Advisors that supports iShares, the ETF industry's leading provider. In March, Fidelity and BlackRock announced a partnership that included a number of components. In addition to increasing the number of iShares ETFs that would be made available commission free on Fidelity.com's website, Fidelity established a strategic relationship with BlackRock to help Fidelity's "future passive sector investment management efforts". We had expected Fidelity to offer more actively managed or rules-based ETFs leveraging its mutual fund team's Select series, which has a strong record, in our view. This is what PIMCO did in the fixed income space, when it launched PIMCO Total Return ETF (BOND 106 Marketweight) in 2012. Rather, Fidelity will be taking the passive route and seek to track the performance and holdings of certain sector-specific MSCI indices.

To us, this is a "me-too" approach and might make it hard for Fidelity, despite its scale and strong brand in the investment community, to gain share in a crowded market. At the end of June 2013, there was $169 billion invested in 209 sector- based exchange-traded products, according to BlackRock data. While this is 12% of the U.S. industry, inflows in the first half of 2013 have been quite strong. Just over $20 billion, equal to 27% of the inflows, were to these sector-based products, with Financials and Energy offerings leading the charge. State Street, with its Select Sector SPDR series, is the dominant provider of sector ETFs. Financial Select Sector SPDR (XLF 21 Overweight) has $17 billion in assets and Energy Select Sector SPDR (XLE 83 Overweight) has $9 billion in assets, making them the largest products in their respective sectors. Meanwhile, Vanguard Financial Index (VFH 42 Overweight) and Vanguard Energy Index (VDE 119Overweight) have assets of $1.5 billion and $2.3 billion, respectively. iShares does offer sector-based ETFs that seek to track a traditional benchmark like State Street and Vanguard do, though we believe these offerings play a less meaningful role for the provider than the more diversified equity and fixed income offerings.

Key Takeaways

Fidelity's likely launch of traditional sector ETFs could impact established mutual funds and ETFs.

POSITIVE IMPLICATIONS

FIRST TRUST FINAN- CIAL ALPHADEX FUND	MARKETWEIGHT	[FXO]
REVENUESHARES FINANCIALS SECTOR FUND	MARKETWEIGHT	[RWW]

NEGATIVE IMPLICATIONS

FIDELITY SELECT FINANCIAL SERVICES PORTFOLIO	★★	[FIDSX]

The recommendations contained in this Takeaway box are current, and may have changed since the original story was published. **Continued on next page..**

Meanwhile, there are other smaller, sector-based products that follow a fundamental approach, such as First Trust Financial AlphaDEX (FXO 20 Marketweight) or RevenueShares Financials Sector Fund (RWW 42 Marketweight). Unlike the three largest providers, whose ETFs seek to replicate a widely known benchmark, these ETFs aim to find stocks that offer specific fundamental characteristics. This is the approach we had expected Fidelity to take with its previously planned offerings. As a result, even though we think Fidelity will enter the market with advantages over small ETF providers, we think its purely passive approach alleviates some of the pressure we had expected for the fundamental ETFs. Of course, Fidelity could decide to launch other sector-based products over time.

At this early stage, little is known about the Fidelity sector ETFs. There were no details in the registration filing about the expense ratio, which is a key factor for investors in sorting through the various sector ETF alternatives. XLF costs just 0.18%, while FXO is much more expensive at 0.74%. In contrast, Fidelity Select Financial Services Portfolio (FIDSX 75 **), which has approximately $700 million in assets incurs a net expense ratio of 0.96%. Assuming that Fidelity's new Financial ETF costs less than 0.96%, this could cause some outflows to FIDSX, in our view.

While the Fidelity ETFs still need to make it through the registration process, we believe the likelihood of them launching successfully is high as they are seeking to track traditional benchmarks. Historically, these types of ETFs move through the regulatory process more easily than ETFs that involve more esoteric strategies. Months after the ETFs launch, S&P Capital IQ looks forward to providing research and ranking inputs to help investors compare and contrast their holdings and costs relative to other sector offerings.

Mid-Caps: Active vs. Index

July 31, 2013

Mid-cap investments offer an appealing combination strong growth profiles and modest debt leverage. However, actively managed mutual funds have failed to outperform a key S&P benchmark, opening, we think, the door for low-cost ETFs.

Authored by:
Todd Rosenbluth
Senior Director,
S&P Capital IQ Equity Research

As you would expect, the S&P MidCap 400 Index is comprised of smaller companies than you'd find in the S&P 500 Index. At the end of June 2013, the median market capitalization was just $3 billion, compared to the $14 billion for the S&P 500 Index. Although the S&P MidCap 400 Index makes up 8.3% of the market cap of the S&P 1500, while the S&P SmallCap 600 makes up 3.5%, we found there are fewer mutual funds dedicated to mid- cap stocks than there are dedicated to small-cap stocks. On Marketscope Advisor, we show $405 billion in assets spread across over 1,500 small- cap mutual funds, compared to $394 billion invested in just over 900 mid-cap mutual funds

In a recent article entitled "Mid-Cap Indexing: Try Equity's Sweet Spot", Philip Murphy, Vice President of S&P Dow Jones Indices, explored the benefits of mid-cap stocks and compared them to their larger and smaller market peers. (S&P Capital IQ operates independently from S&P Dow Jones Indices.) Murphy explained that, "Many mid-cap companies are like teenagers still growing but also possessing greater maturity than many of their small-cap cousins. These companies may offer investors the best of the large and

Key Takeaways

Active mid-cap funds have a weak record compared to benchmarks, creating opportunity for low-cost passive ETFs.

POSITIVE IMPLICATIONS

ISHARES CORE S&P MID-CAP ETF	MARKETWEIGHT	[IJH]
SPDR S&P MIDCAP 400 ETF	MARKETWEIGHT	[MDY]
VANGUARD S&P MID-CAP 400 INDEX FUND; ETF SHARES	MARKETWEIGHT	[IVOO]

The recommendations contained in this Takeaway box are current, and may have changed since the original story was published.

small-cap worlds before potentially reaching large-cap status. Fundamentally, mid-caps typically enjoy higher growth rates than large-caps, and greater access to capital than small-caps. Mid-cap stocks present an opportunity for distinct fundamental exposure given the unique life-cycle characteristics of mid- cap companies."

Murphy, using S&P Capital IQ and Compustat data, found that when examining the three-year revenue growth, S&P MidCap 400 stocks' 13% median growth rate was stronger than the S&P 500 median revenue growth rate of 10.5%. Meanwhile, the S&P MidCap 400 companies also tend to have less debt than larger firms. The median debt to capital ratio for mid-caps was 35.8%, vs. 40.9% for the S&P 500.

Conventional wisdom suggests that because mid- cap companies are followed less by sell-side or independent equity analysts, active management by a mutual fund should be more effective. Indeed, S&P Capital IQ's equity analytical team covers just 59.5% of the S&P MidCap 400 Index constituents, compared to 99.6% of the S&P 500 Index's. However, according to the S&P Dow Jones 2012 Year End SPIVA scorecard in the past 10 years, 64.6% of actively managed mid-cap funds underperformed the respective S&P index, higher than the 62.4% and 59.6% for small-cap and large-cap. S&P Capital IQ believes the high cost for these active mutual funds plays a meaningful role in the underperformance, as the average expense ratio is 1.3% for mid-cap core funds. Further, while management has more opportunities to identify appealing, underfollowed companies than in the large-cap space, they have not been successful in doing so.

While the S&P 500 Index is the most widely known of the market-cap weighted indices, the S&P MidCap 400 Index was the better performer in the first half of 2013 and has been so longer term. Year to date through June, the 400 rose 14.6%, compared to 13.8%, and looking back at the past three and 10 years, the 400's 19.5% and 10.7% annualized returns are admirable compared to the 500's 18.5% and 7.3%, respectively. Not surprisingly, the mid-cap index incurs higher volatility, with a three-year standard deviation of 16.6, versus 13.6. As currently constructed, the S&P MidCap 400 Index has higher weightings in economically sensitive Financials and Industrials stocks, but less in Consumer Staples and Energy stocks than the S&P 500.

The largest ETF tracking the S&P MidCap 400 Index is the iShares Core Mid-Cap ETF (IJH 122 Marketweight), with $17 billion in assets. It holds several stocks viewed favorably for their S&P Capital IQ STARS and S&P Capital IQ Quality Rank. Some of the top holdings are Vertex Pharmaceuticals (VRTX 82 ****), HollyFrontier Corp (HFC 46 ****), and Church & Dwight (CHD 64 ****). CHD, Ametek (AME 46 NR) and Green Mountain Coffee Roasters (GMCR 76 NR) have Quality Ranks of A+, A, and B+ respectively. IJH also has a relatively cheap expense ratio of just 0.15% and a tight bid/ask spread, offering investors low cost exposure to an appealing style.

Other ETFs that track the S&P MidCap 400 include the SPDR S&P Midcap 400 ETF (MDY 223 Marketweight) and the Vanguard S&P Mid-Cap 400 ETF (IVOO 83 Marketweight). MDY has an expense ratio of 0.25% and IVOO has an expense ratio of 0.16%.

To see reports on these ETFs, visit the ETF tab of MarketScope Advisor. To see a Stock Screen of the Week concerning mid-cap stocks with a focus on those that are deemed attractive and with limited debt leverage, please click on "Stock Screen of the Week" within the "Stocks" tab in MarketScope Advisor.

Newer Equity ETFs Attract Investor Interest

August 2, 2013

Authored by:
Tom Graves, CFA
Equity Research ETF Analyst, S&P Capital IQ

At S&P Capital IQ Equity Research, with our holdings-based approach, we are able to provide rankings on a new ETF within months of its debut. For example, we already have an Overall Ranking on 83 equity ETFs that were launched since the end of 2011, including 18 that debuted this year.

Some of the newer ETFs have been relatively quick to attract investor interest. For example, we see at least 23 equity ETFs launched since the start of 2012 that recently had a market capitalization of more than $100 million. Of these 23 ETFs, S&P Capital IQ Equity Research has an Overall Ranking of Overweight on one of them -- iShares MSCI USA Value Factor ETF (VLUE 55, Overweight) -- while there is a Marketweight appraisal on 14 of the ETFs, and an Underweight ranking on six. For the remaining two, there was no ranking available.

The largest of the 23 equity ETFs is iShares Core MSCI Emerging Markets ETF (IEMG 47, Marketweight),with a market cap of $1.9 billion, followed by iShares Core MSCI EAFE ETF (IEFA 55, Marketweight), at $897 million. Of the 19 ETFs for which a year-to-date performance (through August 1) was available (i.e., ETFs launched before the start of 2013), the top total return came from PowerShares DWA SmallCap Technical Leaders Portfolio (DWAS 36, Underweight), up 36%, followed by Global X Top Guru Holdings Index ETF (GURU 22, Underweight) at 28%, and FlexShares Quality Dividend Index Fund (QDF 31, Marketweight) at 27%. The worst total return was a negative 20% for iShares MSCI Global Metals & Mining Producers ETF (PICK 18, Marketweight). The first seven months of 2013 were generally favorable for equity ETFs, especially for those with more of a U.S. stock emphasis. With the S&P 500 showing a total return of 19.6% through the end of July, we saw equity ETFs mostly in positive return territory for the year.

Among equity ETFs launched in 2013, S&P Capital IQ Equity Research has an Overall Ranking on 18, including two that debuted as recently as June-- Horizons S&P 500 Covered Call ETF (HSPX 42, Marketweight) and Barron's 400 ETF (BFOR 27, Underweight). Of the 2013 launches, there are at least five with a recent market capitalization of more than $50 million, led by iShares MSCI USA Momentum Factor ETF (MTUM 55, Marketweight) at about $143 million, Cambria Shareholder Yield ETF (SYLD 27, Marketweight) at $117 million, VLUE at $113 million, and iShares MSCI USA Size Factor ETF (SIZE 54, Marketweight) at about $111 million.

S&P Capital IQ Equity Research's proprietary equity ETF rankings utilize up to 10 analytical inputs in comparing and appraising equity ETFs. The more than 750 reports that S&P Capital IQ provides on

Key Takeaways

S&P Capital IQ Equity Research has rankings available on many of the ETFs that have launched since the start of 2012.

POSITIVE IMPLICATIONS

ISHARES MSCI USA ETF	OVERWEIGHT	[EUSA]
ISHARES MSCI USA VALUE FACTOR ETF	OVERWEIGHT	[VLUE]
VANGUARD S&P 500 VALUE INDEX FUND; ETF SHARES	OVERWEIGHT	[VOOV]

The recommendations contained in this Takeaway box are current, and may have changed since the original story was published.

equity ETFs offer details on how much coverage is available on the five holdings-based analytics utilized in the ranking system. The other five analytical inputs relate to the ETF security itself. In arriving at an Overall Ranking for equity ETFs, S&P Capital IQ utilizes up to 10 analytical elements in the Performance Analytics, Risk Considerations and Cost Factors categories.

S&P Capital IQ Equity Research's ETF analytical product offers a quantitative ranking methodology that combines input from holdings- based analyses and multivariate analysis of the security. The ETF analysis bubbles up to an Overall S&P ETF Ranking (Overweight, Marketweight, or Underweight) of an ETF security relative to all other equity ETFs on which we have an Overall Ranking. S&P Capital IQ's analytics include assessments of both an ETF's holdings and of characteristics pertaining to the ETF security. Six of the 10 analytical metrics are proprietary to S&P Capital IQ or McGraw Hill Financial. The 10 analytical elements for equity ETFs include three for Performance Analytics that are all proprietary, including S&P Capital Q equity analyst STARS opinions on stocks of companies owned by the ETFs.

As of August 2, 2013, S&P Capital IQ was providing an Overall Ranking on 667 equity ETFs, with 167 of them receiving an overall appraisal of Overweight. Among equity ETFs with a current Overall Ranking of Overweight, there are 112 that are classified as U.S. ETFs and 55 that are categorized as international or global. Also, 56 (34%) of all the Overweights are considered to be sector ETFs. At least 25 of the 167 ETFs receiving an Overall Ranking of Overweight recently had a 12-month yield of more than 3%. (Note: Yield is not one of the 10 analytical inputs utilized in the rankings.)

In terms of age, 154 of the top-ranked ETFs were launched prior to 2011, and the remaining 13 were introduced since then. Twenty-eight of the 167 top-ranked ETFs also had an Overall ranking of Overweight in each of S&P's three primary analytical categories -- Performance Analytics, Risk Considerations and Cost Factors. Of these 28, the newest were two ETFs that launched in 2010 -- Vanguard S&P 500 Value Index Fund; ETF Shares (VOOV 77, Overweight) and iShares MSCI USA ETF (EUSA 37, Overweight). The oldest (1993 launch) and largest ($155 billion market cap) of the 28 is SPDR S&P 500 ETF Trust (SPY 170, Overweight).

As with all investments, S&P Capital IQ U.S. Equity Research believes that investors should look to make selections that are suitable for their objectives and risk profiles. ETFs that have similar overall rankings may have very different characteristics, including differences in the analytical inputs that go into our rankings, and factors such as what the ETFs own, their size, and their trading volume. Also, note that S&P Capital IQ's analytical inputs for assessing ETFs are constantly being updated.

Western Asset High Income Opportunity Fund Inc. (HIO)

August 1, 2013

It was, according to Western Asset, an interesting quarter for the fixed-income market, and corporate credit was not immune to the volatility. The managers of **Western Asset High Income Opportunity Fund, Inc. (HIO),** however, believe the selloff will open up new investing opportunities for the portfolio. The Fund, which seeks high current income and capital appreciation, provides a non-leveraged high-yield portfolio of corporate debt securities, with more than 80% of holdings invested in high-yield corporate debt (with 9.1% in investment grade, with the balance of holdings across bank loans, emerging markets, cash and other securities)[1].

Market recap

The fixed-income downturn started in the middle of the second quarter, after Federal Reserve Board (Fed) Chairman Ben Bernanke's comments about a potential exit from the central bank's extremely accommodative monetary policy. This sent Treasury yields higher and their prices lower. The 10-year Treasury, for example, rose from 1.84% at the start of the quarter to 2.49% at the end of June.

The overall high-yield market, as measured by the Barclays 2% High Yield Constrained Index, declined 1.44% during the second quarter. An interesting phenomenon was that lower quality CCC-rated bonds were only down 0.47% for the quarter and outperformed their higher-quality counterparts. This is unusual, because in a risk-off environment lower quality securities usually underperform. We believe this is partially explained by the fact that CCC-rated bonds tend to have much lower durations than higher quality bonds and the fixed income market in general. On the other end of the spectrum, BB-rated bonds were down 1.87%. For comparison purposes, investment-grade bonds, as measured by the Barclays U. S. Credit Investment Grade Index, returned -3.44% during the second quarter. These bonds tend to have even longer durations than BB-rated securities.

Within the high-yield market for the quarter, metals and mining came under pressure, as was the case with a lot of commodities. Energy and utilities also had difficult quarters, falling 2.09% and 2.28%, respectively. In contrast, communications outperformed on a relative basis, falling just 1.06%. This sector is seen as being more defensive and there has been some merger and acquisition (M&A) activity, whereby investment-grade companies come in and buy high-yield companies. Elsewhere, consumer non-cyclicals, another defensive sector, was down only 1.03% during the quarter.

Fundamentals remained strong, as companies continued to have pretty decent earnings, growth and free cash flow generation. There have been challenges in terms of top-line growth, but nothing As of 6/30/13 alarming. During the quarter there were some strong results from the banking sector, which is a focus in our investment-grade corporate portfolios. In general, we are pretty comfortable with the fundamentals. We think management teams are still running a little scared from the last downturn. As such, they're holding more cash and really focused on their costs, which are likely positives from a bondholder's perspective.

Supply trends remain favorable. According to J.P. Morgan, there was $98.6 billion in below investment-grade global supply during the quarter. Most of that was issued earlier in the period, as you'd expect given the increase in volatility as the quarter progressed. That puts year-to-date supply at $219.7 billion. To put that into perspective, during all of 2012, which was a record year for new issuance, there was $368 billion of new issuance. So we're still on pace for a record year of issuance in the high-yield market.

The supply and demand picture gives us three important clues about the high-yield market. First, this demonstrates that high-yield companies have access to capital. That's very important from our perspective in terms of realized and unrealized losses, as well as keeping defaults low. Second, according to JPMorgan of the new issuance over the first six months of 2013, 62.8% was used for refinancing, or debt for debt purposes. If you go back to 2007, there was $147.9 billion of issuance, so much less supply. But that was a leveraging period in the capital markets and only 35% of issuance was used for refinancing. So almost double the issuance today is being used to take out maturities and extend the maturity profile in companies. And that can lower the probability of defaults, which again is good for debt holders. Third, we're not seeing private equity firms levering up companies.

In terms of demand, Lipper reported $11.8 billion in retail outflows during the second quarter, a lot of which came from ETFs[2]. Second quarter outflows pretty much erased all of the first quarter's inflows into high-yield. In contrast, there was $29 billion of inflows into the high-yield market in 2012. The good news is flows started to improve after the second quarter ended.

On the default front, they remain low. Only 15 companies defaulted during the first half of 2013. Over the trailing 12-month period, roughly 2.5% of high-yield companies defaulted, which is extremely low. If you look back to 2009, J.P. Morgan reported that 70 companies defaulted and the default rate was around 12%.

Portfolio positioning and outlook

The high-yield market has rallied since the second quarter ended and we think defaults will remain low through the remainder of the year. The market is now a little over 6% in terms of yields, (as of 7/18/13) with a yield-to-worst[3] of 6.03%. We believe the market is still looking at mid- single-digit high-yield returns for 2013 as a whole. That's made up largely from the coupon and a little spread tightening. And given the sell-off, we're likely to find more investment opportunities than we had seen in awhile.

In terms of portfolio positioning, we're currently overweight high-yield metals and mining, as well as transportation. In contrast, we're underweight technology, as we find those business models to be more volatile than you're getting compensated for. From a ratings profile, we're overweight the lower quality portion of a high-yield market. It has a lower duration and has proven to be less sensitive to rising rates.

On the investment-grade credit side, we favor financials. They can offer a yield advantage, as BBB financials are yielding 3.69%, versus a yield of 3.11% for the overall investment-grade market. We are not as constructive on investment-grade given its longer duration, which is 6.8 years. Overall, we are cautiously optimistic.

Yields represent past performance, can fluctuate, and there is no guarantee they will continue to be paid. Past performance is no guarantee of future results.

Western Asset High Income Opportunity Fund Inc. (HIO) Average annual total returns (%) as of 6/30/13

	1-year	5-year	10-year
Market price	-0.71	11.49	7.19
NAV	11.87	10.20	8.40

Performance shown represents past performance and is no guarantee of future results. Current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate so shares, when sold, may be worth more or less than the original cost. Returns based on Market Price or NAV, and assume the reinvestment of all distributions at the Dividend Reinvestment Plan Price or NAV, respectively. Prior to January 1, 2012, returns based on NAV assume the reinvestment of all distributions at the Dividend Reinvestment Plan Price. All returns include the deduction of management fees, operating expenses and all other fund expenses, and do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares. Inception date: 11/16/93. For current month-end performance, visit www.lmcef.com.

Top high-yield industries (%)* as of 6/30/13

Communications	14.0
Consumer Cyclical	11.5
Consumer Non Cyclical	10.2
Basic Industry	10.2
Energy	9.1
Capital Goods	8.0
Transportation	6.9
Electric	5.2
Technology	1.8
Finance Companies	1.6

- Percentages are based on total portfolio as of quarter-end and are subject to change at any time. For informational purposes only and not to be considered a recommendation to purchase or sell any security.

EndNotes

[1]As of 6/30/13

[2]An **exchange-traded fund (ETF)** is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. ETFs experience price changes throughout the day as they are bought and sold.

[3]**Yield to worst** is the lowest potential yield that can be received on a bond without the issuer actually defaulting. The yield to worst is calculated by making worst-case scenario assumptions on the issue by calculating the returns that would be received if provisions, including prepayment, call or sinking fund, are used by the issuer.

Please see the next page for additional important information.

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

Important Information
All investments are subject to risks, including the possible loss of principal. The Fund's investments 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. The Fund may invest in lower-rated high yield bonds which are subject to greater credit risk (risk of default) than higher-rated obligations. Investments in foreign securities involve risks, including the possibility of losses due to changes in currency exchange rates and negative developments in the political, economic, or regulatory structure of specific countries or regions. These risks are greater in emerging markets. The Fund may make significant investments in derivative instruments. Derivative instruments can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance. Distributions are not guaranteed and are subject to change.

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Glossary
Credit spread is the difference between the yield of a particular corporate security and the yield of a benchmark security with the same maturity.

Credit quality is a measure of a bond issuer's ability to repay interest and principal in a timely manner. The credit ratings discussed are based on each portfolio security's rating as provided by Standard and Poor's, Moody's Investors Service and/or Fitch Ratings, Ltd. and typically range from AAA (highest) to D (lowest), or an equivalent and/or similar rating. For this purpose, if two or more of the agencies have assigned differing ratings to a security, the highest rating is used. The credit quality of the investments in the Fund's portfolio does not apply to the stability or safety of the Fund. These ratings are updated monthly and may change over time. **Please note, the Fund itself has not been rated by an independent rating agency.**

The **Federal Reserve Board ("Fed")** is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.

Free cash flow (FCF) is a measure of financial performance calculated as operating cash flow minus capital expenditures. It represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base.

High-yield bonds, generally rated below BBB or unrated, are commonly referred to as "junk bonds. Investment grade bonds are generally rated BBB and above.

U.S. Treasuries are direct debt obligations issued and backed by the "full faith and credit" of the U.S. government. The U.S. government guarantees the principal and interest payments on U.S. Treasuries when the securities are held to maturity.

The **Barclays U.S. Corporate High Yield 2% Issuer Cap Index** is an index of the 2% Issuer Cap component of the Barclays Capital U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade fixed-rate, taxable corporate bond market.

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Aberdeen

Implications of China's Cash Crunch

July, 2013

The recent fall of the Shanghai stock market to its lowest level since 2008, coupled with reports of spiking interbank rates, have sparked fears that China is slowing abruptly and that financial meltdown might follow. How serious is this?

The slowing economy is nothing new. Years of over-investment, rising wages and weak export markets have made it inevitable that China would soon have to accept Gross Domestic Product (GDP) growth lower than the 8-9% per annum it has managed for the past two decades.

China's new leadership has telegraphed as much. It has talked about quality of growth and the need to shift emphasis to domestic demand while at the same time boosting productivity. Behind this is a desire to avoid a 'middle income trap' – declining competitiveness abroad coupled with stagnant wage growth.

But there are obstacles in this transition. Past over-investment is a symptom of weak credit control. That has translated into rising bad debt that banks have tried to hide. It has also spawned the vast 'shadow banking'[1] system. Nearly every financial institution is involved, from the local village bank upwards.

So-called entrusted loans are at the heart of this system. They are typically issued by finance companies and credit guarantee firms affiliated to state-owned enterprises (SOEs) with easy access to credit. Instead of using the funds to expand production capacity, which would be a loss-making move, SOEs lend the money to smaller companies at much higher interest rates. In turn, these entrusted loans find their way into real estate speculation.

Since early this month until June 26th, money market rates had remained at elevated levels, resulting in a severe credit squeeze. The central bank , the People's Bank of China (PBOC), could have injected liquidity into the system but chose not to. It has now cited 'seasonal factors' as the reason for the abnormality. Money market rates are expected to fall.

Outwardly this looks like a warning shot to the financial system as a whole. The PBOC probably relented this time only because investors had begun dumping stocks, which infected sentiment in the bond market, leading to new issues being aborted. As the bond market is one area where banks hope to fund the returns offered on wealth management products – a popular alternative to savings – disruption could have had considerable knockon effects.

Publicly, the PBOC is backstopping the banks. But it surely doesn't end there. China may have a closed economy (in the sense of a closed capital account) and much of the banking system may lie in state ownership. Still, we believe it is a stretch to imagine that China has found the secret to good credit allocation, especially in the absence of true market price signals.

In the event of a true crunch, it would be interesting to see whether smaller lending institutions are allowed to go to the wall. Most likely the bigger state-run institutions would take them over. However, the immediate question thrown up by this episode is whether further pre-emptive action will follow; or whether there will be pressure to keep the credit machine going because of the slowing economy.

We would view any credit tightening (better lending standards, tighter surveillance, a clampdown on unregulated activity...) as potentially positive, not only for the banking system, but also the property market. Despite repeated efforts to reduce the bubble, new home prices in May still rose at their fastest pace in more than two years.

This continued boom points to the struggle authorities face in trying to manage the competing interests of banks, consumers and the businesses. Yet it should become increasingly clear to all that China's slowdown is not only inevitable but desirable. The banking system needs cleaning up and addressing it now will avoid a more expensive recapitalization later.

None of this sits well with regional trade partners who have come to depend on Chinese demand for everything from coal to capital goods to keep their economies going. We believe Australia is most exposed. Weaker imports for iron ore and copper have hit metal prices. Iron ore is selling at US$110 a ton, a fraction of the US$180 a ton Australian exporters commanded only a couple of years ago. For China's steel mills over-capacity could persist for some time if construction is now being reined in.

Across Asian stock markets, we believe investors are trying to work out how a slowdown will affect profits. It is so long since China faced a slowdown of the present magnitude, and its economic base so changed (to say nothing of its integration into the global economy) that the answers aren't necessarily clear. The hope is that this will prove just a change of gears. But it's too glib to think China's growing middle class and huge domestic market will provide a ready cushion. We believe this is more of a long-term story.

So, we expect more volatility in markets if not in economic data. The important consolation is a slowdown in China may seem like a recession but it will be nothing like the real ones afflicting parts of the developed world. The fundamentals of other Asian countries also remain sound, even if the pace of expansion is slowing.

Share valuations are becoming attractive, too, certainly if one compares price-to-earnings (p/e) ratios* to those in key developed markets. If more investors pull money from these markets amid a hullabaloo that the emerging markets story is over, they will create a potential buying opportunity.

For the moment we are sitting tight. The PBOC's actions may have rattled some, but we see only a limited impact in the short term on our equity holdings in China. We prefer to gain exposure via well-established Hong-Kong domiciled companies that operate in the mainland. We believe our holdings are fundamentally sound and well-capitalised.

Endnotes

[1] Shadow banking refers to the financial intermediaries involved in facilitating the creation of credit across the global financial system, but whose members are not subject to regulatory oversight. The shadow banking system also refers to unregulated activities by regulated institutions.

[*] Price-to-earnings is a valuation ratio of a company's current share price compared to its per-share earnings.

About Aberdeen Asset Management Inc.

Aberdeen has been investing in Asia since 1985 and established our Asian headquarters in 1992 with an office in Singapore. In addition to being one of the largest pure stand-alone asset management houses investing in the Asia-Pacific region, Aberdeen Group is the largest manager of emerging market closed-end funds offered around the world by both value and number.*

For more information on The Greater India Fund, Inc.:
Investor Relations (800) 522-465 InvestorRelations@aberdeen-asset.com www.aberdeengch.com

*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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- First Trust Morningstar Managed Futures Strategy Fund (FMF, Exchange Listing Date: August 2, 2013
- DWS Investments: The New Germany Fund, Inc. (XGFX) : 2013 Semi-annual Fund Report
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BlackRock

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