Capital Link's
CEF & ETF Monthly Newsletter

June 2013
Volume 1 | Issue 1

Table of Contents

Capital Link ...your link with the Global Investment Community

About: Launching our CEF & ETF Newsletter

Dear Readers,

We are pleased to launch our CEF & ETF Newsletter which we intend to distribute on a monthly basis. This Newsletter aims to provide a review of developments in the CEF & ETF space as well as commentaries and editorial from leading industry participants. We hope you will find it helpful and useful.

Capital Link has made a strategic commitment to raise visibility for CEFs and ETFs to a wider audience. We believe we have put together a unique platform that includes our CEF and ETF websites, interviews, webinars, market reports and newsletters.

Our CEF & ETF Webinars (http://webinars.capitallink.com) feature presentations on CEF & ETF topics from leading industry experts and fund sponsors on a regular basis. We are pleased to include a calendar with five webinars scheduled to take place until the end of July 2013. Our intention is to host these webinars twice a month.

Our two internet portals (www.cefforum.com and www.etfforum.com) are dedicated to providing free news and data as well as the latest in fund commentary and analysis on CEFs and ETFs.

Our Annual CEF & Global ETFs Forum, already in its 13th year, is considered a must-attend industry event that attracts annually 1,000+ delegates. A testimony to the success of our Forum is not only the growing attendance, but also the enduring relationships we have built and maintained with CEF and ETF analysts and CEF and ETF sponsors, who participate in our Forum every year and who significantly contribute to its success. Our next Forum is scheduled for Thursday, April 24, 2014 at the Metropolitan Club in New York City.

Advisors and investors use Closed-End Funds and Exchange-Traded Products and Funds as complementary investment vehicles. They are followed by the same analysts and many fund sponsors are actively involved with both CEFs and ETPs/ETFs. Therefore, we believe that by combining both CEFs and ETPs/ETFs in our Annual Forum, webinars, newsletters and our informational platform, we maximize the end result and benefit for everyone.

Please send us ideas and suggestions as to how to improve this Newsletter at funds@capitallink.com.

Thanking for your interest and support,

Sincerely,
Nicolas Bornozis
President

The Month in Closed-End Funds: May 2013

PERFORMANCE

Despite the fact that the Dow Jones Industrial Average and the S&P 500 Index both set all-time highs again in May, for the first month in nineteen both the equity and fixed income CEF macro-groups posted negative returns on a NAV basis. Equity CEFs declined for the first month since October 2012, losing 0.67% for May, and fixed income CEFs returns turned red for the first month in three, declining 1.55% for May. On a market-price basis both groups were in the red, returning minus 0.74% and minus 5.26%, respectively. Late in the month investors began showing a little rally fatigue after Fed Chairman Ben Bernanke told Congress the central bank could start reducing its bond-buying program over the next several months and after some pundits began questioning the staying power of Japan's "Abenomics." Despite a lackluster earnings season that generally showed unimpressive revenue growth, many U.S. stocks hit new 52-week highs during the month and the S&P 500 posted its seventh consecutive month of plus-side returns, up 2.08% for May. Meanwhile, the Dow recorded its sixth straight monthly gain, returning 1.86%.At the beginning of the month investors celebrated a better-than-expected April jobs report, which showed U.S. nonfarm payrolls increased 165,000 and the unemployment rate fell to 7.5%. At mid-month the rally was further extended by news that the Conference Board's leading economic indicators rebounded in April, and the University of Michigan and Thomson Reuters May preliminary consumer sentiment index jumped to 83.7. However, prospects of the Federal Reserve beginning to reduce its bond-buying stimulus rattled market constituents.

Despite the selloff in equities toward month-end, investors continued their month- long trend of pushing Treasury prices lower on concerns the Fed will slow the pace of its bond purchases, which sent benchmark ten-year Treasury yields to their highest close since April 5, 2012. After hitting a closing low of 1.66% early in the month, Treasury yields generally rose, ending the month up a whopping 46 basis points (bps) at 2.16%. The Treasury yield curve shifted up at all maturities over six months, with five-year and seven-year yields rising 37 bps and 44 bps to 1.05% and 1.55, respectively, on May 31. The selloff in Treasuries also led to selling in high-yield bonds as their yield advantage faded against rising Treasury yields.

For May the dollar gained against the yen (+3.43%), the pound (+2.36%), and the euro (+1.44%). Commodities prices declined for the month, with near-month crude oil prices falling 1.59% to close the month at $91.97/barrel and with gold prices dropping 5.41% to end the month at $1,392.60/ounce.

The Month in Closed-End Funds: May 2013

- For May only 19% of all closed-end funds (CEFs) traded at a premium, with only 20% of equity funds and 19% of fixed income funds trading in premium territory to their NAVs. None of the Lipper CEF macro-groups witnessed a narrowing of discounts in May.
- For the first month in 19 both the equity and fixed income CEF macro-groups posted returns in the red, with equity and fixed income CEFs losing on average 0.67% and 1.55%, respectively, on a NAV basis.
- Caught up in the exodus out of Treasuries and govies, all of Lipper's municipal bond fund groups posted returns in the red, with national municipal debt funds (-1.83%) mitigating losses slightly better than their single-state municipal bond fund (-1.98%) brethren
- Suffering from the strengthening U.S. dollar and continued concerns of China's slowing growth, both the World Equity CEFs (-1.56%) and World Income CEFs (-3.62%) macro-groups receded to the cellars of their respective universes.

THOMSON REUTERS

Authored by:
TOM ROSEEN
HEAD OF RESEARCH SERVICES
LIPPER, DENVER

For May only 26% of all CEFs posted NAV-basis returns in the black, with 46% of equity CEFs and a measly 14% of fixed income CEFs chalking up returns in the plus column. Investors eased their foot off the equity gas pedal after Bernanke's testimony to Congress but kept an eye on the final reading of the Thomson Reuters/ University of Michigan's May consumer sentiment index, which was revised up to 84.5—its best showing since 2007. The Chicago PMI jumped to 58.7 (its best reading in more than a year). Because of the rise in bond interest rates, some pundits were anticipating a rotation out of dividend payers into cyclicals, financials, and technology stocks as investors searched for bargains. Because of China's slowing growth and the strengthening of the U.S. dollar, the world equity CEFs (-1.56%) macro-group was relegated to the cellar— lagging its domestic equity CEFs (-0.47%) and mixed- asset CEFs (+0.21%) counterparts for the month. Given the spike in interest rates, it wasn't surprising to see all but two of Lipper's fixed income fund classifications post returns in the red; Loan Participation Funds gained 0.53% for the month and High Yield Funds rose 0.10%. Continued central bank intervention, now from Vietnam and Sri Lanka—both reducing interest rates mid-month—accompanied by Treasury yield increases pushed the world bond funds macro-group (-3.62%) to the bottom of the fixed income groups, underperforming taxable domestic bond CEFs (-0.68% on a NAV basis) and municipal bond CEFs (-1.90%).

Only five of Lipper's twelve equity CEF classifications posted returns in the black for May, with Convertible Funds (+2.02%) and Core Funds (+1.95%) leading the way. As a result of the continued strengthening in the U.S. dollar and on reports of a rotation out of dividend plays, investors pushed Emerging Markets Funds (-3.05%) and Real Estate Funds (-4.30%, April's leader) to the bottom of the pack. For the remaining equity classifications returns ranged from negative 1.84% (Developed Markets Funds) to 1.50% (Value Funds).

Three of the five top-performing individual funds were housed in Lipper's Core CEFs classification: **Central Securities Corporation (AMEX: CET)**, gaining 5.81% on a NAV basis and traded at a 21.05% discount at month-end, **Royce Micro-Cap Trust, Inc. (NYSE: RMT)**, posting a 4.82 return and traded at a 10.16% discount on May 31, and **Royce Focus Trust, Inc. (OTC: FUND)**, rising 4.70% on a NAV basis and traded at an 11.22% discount at month-end, rose to the number one, three, and four positions for the month. Coming in at the number two position for May was **John Hancock Financial Opportunities Fund (NYSE: BTOI,** housed in Lipper's Sector Equity Funds classification), chalking up a 4.93% return and traded at a 1.08% premium at

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	46	49	49	20	79
Bond Funds	14	6	94	19	81
ALL CEFS	**26**	**23**	**76**	**19**	**81**

TABLE 2 AVERAGE NAV RETURNS, SELECTED PERIODS (%)

	May	YTD	3-MONTH	CALENDAR-2012
Equity Funds	-0.67	8.34	3.50	15.42
Bond Funds	-1.55	1.69	0.12	15.04
ALL CEFS	**-1.21**	**4.26**	**1.43**	**15.18**

TABLE 3 NUMBER OF IPOs, SELECTED 12-MONTH PERIODS

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

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

3 MONTHS THROUGH 4/30/2013	581
COMPARABLE YEAR-EARLIER 3 MONTHS	309
CALENDAR 2012 AVERAGE	506

Source: Lipper, a Thomson Reuters company month-end. **Morgan Stanley China A Share Fund, Inc. (NYSE: CAF,** housed in Lipper's Pacific ex-Japan Funds classification), rose 4.65% and traded at a 1.09% premium on May 31.

For the month the dispersion of performance in individual equity CEFs—ranging from minus 10.15% to positive 5.81%—was narrower than April's spread and negatively skewed. The 20 top-performing equity funds posted returns in excess of 3.22%, while the 20 lagging funds were at or below minus 5.40%. For the month 107 equity funds posted positive NAV-based returns. At the bottom of the equity CEF group was **Aberdeen Australia Equity Fund, Inc. (AMEX: IAF),** housed in Lipper's Developed Markets Funds classification. IAF shed 10.15% of its April month-end value and traded at a 5.07% premium on May 31. The next poorest performing equity fund was warehoused in Lipper's Sector Equity Funds classification: **Reaves Utility Income Fund (AMEX: UTG)** declined 8.10% and traded at a 4.56% discount at month-end.

Caught up in the flight out of Treasuries and mortgages, all of Lipper's municipal debt CEF classifications posted negative NAV-based returns for May. April's leaders became May's laggards, with Michigan Municipal Debt Funds (-2.21%) and General & Insured Municipal Debt Funds (Leveraged) (-2.07%) taking the brunt of the beating. However, April's laggards mitigated losses better in May than the other groups as High Yield Municipal Debt Funds (-0.79%) and General & Insured Municipal Debt Funds (Unleveraged) (-0.80%) jumped to the top. The municipal debt funds macro-group (-1.90%) underperformed its taxable domestic CEFs counterpart (-0.68%) by 122 basis points. National municipal debt funds (-1.83%) mitigated losses slightly better than their single-state municipal debt fund counterparts (-1.98%).

For May all but two of Lipper's taxable bond fund classifications posted returns in the red, with the two classifications making up the World Income Funds macro-group (-3.62%) dragging the group down: Emerging Markets Debt Funds (-4.69%) and Global Income Funds (-2.95%). Loan Participation Funds (+0.53%, April's laggard) and High Yield Funds (+0.10%) rose to the top of the domestic bond funds macro-group (-0.68%), with Corporate Debt BBB- Rated Funds (-2.30%) and Corporate Debt BBB-Rated Funds (Leveraged) (-1.42%) weighing on the group. With investors becoming generally more sure toward month-end that the Fed would start removing its quantitative easing, the two-/ten-year Treasury spread widened a whopping 38 bps from April's month-end 148 bps.

The yield on the ten-year Treasury note finished the month 46 bps higher at 2.16%—its highest point this year.

In the domestic taxable fixed income CEFs universe (-0.68%) the remaining classification returns ranged from minus 1.40% (General Bond Funds) to minus 0.43% (Flexible Income Funds). In the whole fixed income universe only 52 individual CEFs posted positive NAV-basis returns for the month.

At the head of the fixed income CEFs class was **PIMCO Dynamic Income Fund (NYSE: PDI)**, housed in Lipper's Global Income Funds classification, rising 2.70% and traded at a 5.64% discount on May 31. In the runner-up slot **NexPoint Credit Strategies Fund (NYSE: NHF)** (housed in Lipper's High Yield Funds [Leveraged] classification) tacked 2.66% onto its April month-end value. NHF traded at an 8.12% discount at month-end.

For the remaining funds in the fixed income CEFs universe monthly NAV-basis performance ranged from minus 8.81% **(Legg Mason BW Global Income Opportunities Fund, Inc. [NYSE: BWG],** housed in Lipper's Global Income Funds classification and traded at an 8.19% discount) to 2.42% for **Western Asset Mortgage Defined Opportunity Fund Inc. (NYSE: MDO),** housed in Lipper's U.S. Mortgage Funds classification and traded at a 2.64% discount on May 31. The 20 top-performing fixed income CEFs posted returns at or above 0.60%, while the 20 lagging funds were at or below minus 4.02%.

PREMIUM AND DISCOUNT BEHAVIOR

For May the median discount of all CEFs widened 320 bps to 6.23%—much lower than the 12-month moving average discount (1.57%). Equity CEFs' median discount widened just 2 bps to 7.16%, while fixed income CEFs' median discount widened an eye-popping 413 bps to 5.66%. Municipal bond funds' median discount widened 421 bps to 5.73%. World Income Funds' median discount suffered the largest widening—471 bps to 6.48%. None of the macro- groups witnessed a narrowing of discounts. Domestic equity funds' discount widened 57 bps to 6.45%, while their world equity CEF counterparts' discount widened 81 bps to 10.29%.

For the month 23% of all funds' discounts or premiums improved, while 76% worsened. In particular, 49% of equity funds and only 6% of fixed income funds saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on May 31 (113) was 100 less than on April 30.

CEF Events and Corporate Actions

LIPPER

IPOs

The initial public offering of Ivy High Income Opportunities Fund (NYSE: IVH) raised $317 million of gross proceeds in its common share offering. If underwriters fully exercise their overallotment options, the fund could raise up to $365 million. The investment process substantially replicates that of the open-end Ivy High Income Fund.

The initial public offering of Blackstone Mortgage Trust (NYSE: BXMT) raised $574 million of gross proceeds in its common share offering. If underwriters fully exercise their overallotment options, the fund could raise up to $660 million.

The initial public offering of First Trust Intermediate Duration Preferred & Income Fund (NYSE: FPF) raised $1.42 billion. If underwriters fully exercise their overallotment options, the fund could raise up to $1.63 billion.

RIGHTS, REPURCHASES, TENDER OFFERS

An upcoming tender offer for The Thai Fund (NYSE: TTF) is expected to occur around the end of third quarter 2013. The offer for up to 15% (with pro rata conditions) of the fund's outstanding shares at 98.5% of NAV is subject to shareholder approval of a restructuring of the fund. If the fund's shares trade at a premium after the restructuring, the tender offer will be canceled. TTF ended May with a discount of 13.1%.

Trustees of The Gabelli Healthcare & Wellness Trust (NYSE: GRX) approved a transferable three-for-one rights offering to common shareholders. The rights are expected to trade "when issued" on the NYSE on June 12, 2013, and the offering expires July 17, 2013. The fund's discount stood at 6.4% at the end of the month.

The recent rights offering for **Avenue Income Credit Strategies Fund (NYSE: ACP)** was oversubscribed. The offer entitled rights holders to subscribe for an aggregate of up to 3.3 million common shares at $16.55 each. The fund had a discount of 5.4% at the end of May.

MERGERS AND REORGANIZATIONS

Trustees of certain Nuveen municipal bond CEFs approved a series of mergers, subject to shareholder approval: **Nuveen Pennsylvania Premium Income Municipal Fund 2 (NYSE: NPY), Nuveen Pennsylvania Dividend Advantage Municipal (NYSE: NXM),** and **Nuveen Pennsylvania Dividend Advantage Municipal 2 (NYSE: NVY)** will be merged into **Nuveen Pennsylvania Investment Quality Municipal Fund (NYSE: NQP). Nuveen Massachusetts Dividend Advantage Municipal Fund (NYSE: NMB)** and **Nuveen Massachusetts AMT-Free Municipal Income Fund (NYSE: NGX)** will be merged into **Nuveen Massachusetts Premium Income Municipal Fund (NYSE: NMT).**

OTHER

Bulldog Investors has proposed that shareholders remove Kevin Landis as investment manager of **Firsthand Technology Value Fund (NASDAQ: SVVC)**. Bulldog Investors (and related investors) owns 9.8% of the fund's shares and is the fund's largest shareholder.

The India Fund (NYSE: IFN) and **The Asia Tigers Fund (NYSE: GRR)** jointly announced that they will discontinue the practice of accepting all shares tendered by shareholders with less than 100 shares before prorating shares tendered by others. Both funds conduct semiannual repurchase offers at NAV (less a 2% repurchase fee). At the end of May IFN had a discount of 13.8% and GRR's discount was 9.6%.

Authored by:

JEFF TJORNEHOJ
HEAD OF LIPPER AMERICAS RESEARCH LIPPER, DENVER

THOMSON REUTERS

CEF Performance Statistics

LIPPER

Category	Average of 1MO NAV Change	Average of 1MO Mkt Change	Average P/D 4/30/2013	Average P/D 5/31/2013	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	-0.36	-1.01	-1.09	-5.50	-4.41	-0.24	-0.08	-1.23
Convertible Securities Funds	0.21	0.13	-5.43	-6.10	-0.67	0.95	0.90	7.62
Core Funds	0.28	0.32	-9.46	-7.62	0.96	1.71	1.53	13.03
Corporate BBB-Rated Debt Funds(Leveraged)	-0.26	-1.12	1.60	-4.00	-5.60	0.03	0.62	-0.74
Corporate Debt Funds BBB-Rated	-0.45	-0.68	-5.63	-7.76	-2.13	-0.34	-0.23	3.43
Developed Market Funds	-0.27	-0.09	-10.34	-8.74	1.60	1.05	1.17	10.30
Emerging Markets Debt Funds	-0.90	-1.16	-3.54	-5.70	-2.16	-0.96	-0.04	2.66
Emerging Markets Funds	-0.74	-0.93	-7.13	-7.81	-0.69	-0.29	0.74	7.68
Flexible Income Funds	-0.13	-0.39	-3.97	-6.33	-2.36	0.06	0.18	3.73
General & Insured Muni Debt Funds (Leveraged)	-0.39	-0.98	-1.30	-5.49	-4.07	-0.31	-0.14	-0.86
General & Insured Muni Fds (Unleveraged)	-0.18	-0.83	-1.00	-4.80	-3.80	-0.12	0.17	0.72
General Bond Funds	-0.36	-0.93	0.95	-3.22	-4.36	-0.43	0.51	-2.65
Global Funds	-0.14	-0.18	-8.47	-8.13	0.34	0.70	1.05	9.43
Global Income Funds	-0.52	-1.12	-1.25	-4.61	-3.35	-0.12	0.34	-0.41
Growth Funds	-0.11	0.04	-4.97	-3.85	1.12	0.19	0.48	12.02
High Yield Funds	0.62	-0.47	0.69	-2.86	-3.55	3.66	0.49	0.33
High Yield Funds (Leveraged)	-0.18	-0.54	1.87	-1.36	-3.41	0.24	0.64	-0.34
High Yield Municipal Debt Funds	-0.15	-0.60	2.45	-2.04	-4.49	-0.08	0.12	-2.27
Income & Preferred Stock Funds	-0.15	-0.74	-0.04	-3.06	-3.49	0.73	1.29	1.77
Intermediate Municipal Debt Funds	-0.34	-0.99	-0.90	-5.38	-4.49	-0.28	-0.09	-0.79
Loan Participation Funds	-0.01	-0.40	4.83	2.29	-2.54	0.27	0.82	-1.51
Michigan Municipal Debt Funds	-0.41	-0.90	-5.10	-8.43	-3.33	-0.37	0.04	4.19
New Jersey Municipal Debt Funds	-0.38	-1.20	-2.22	-7.47	-5.26	-0.34	-0.60	-3.09
New York Municipal Debt Funds	-0.36	-0.98	-0.44	-4.80	-4.36	-0.33	-0.22	-2.16
Options Arbitrage/Opt Strategies Funds	0.00	0.03	-5.35	-5.06	0.29	0.67	1.00	8.29
Other States Municipal Debt Funds	-0.35	-0.83	-0.01	-3.15	-3.14	-0.31	-0.11	-1.82
Pacific Ex Japan Funds	-0.11	-0.31	-8.36	-9.68	-1.32	0.61	0.42	6.82
Pennsylvania Municipal Debt Funds	-0.38	-0.86	-4.99	-8.35	-3.36	-0.35	-0.52	0.55
Real Estate Funds	-0.56	-0.86	-4.04	-5.86	-1.82	0.67	1.76	6.53
Sector Equity Funds	-0.53	-0.24	-1.36	-0.21	1.15	1.61	2.17	2.37
U.S. Mortgage Funds	-0.08	-0.72	-2.40	-6.04	-3.63	0.59	0.80	2.78
Value Funds	0.06	-0.19	-10.67	-11.22	-0.55	1.63	2.25	13.07
Grand Total	-0.26	-0.61	-2.38	-4.63	-2.34	0.34	0.61	2.37

THOMSON REUTERS

Data as of April 30, 2013

Top 5 Performing CEFs

LIPPER

Fund Name	Category	Ticker Symbol	1-Month NAV Change	Rank
Western Asset Mid MD Inc	High Yield Funds	XWAMX	5.41	1
Central Securities Corp	Core Funds	CET	1.49	2
General American Investors	Core Funds	XGAMX	1.11	3
Boulder Total Return	Core Funds	BTF	1.07	4
Morgan Stanley China A	Pacific Ex Japan Funds	XCAFX	1.06	5

Fund Name	Category	Ticker Symbol	Year-to-Date NAV Change	Rank
Western Asset Mid MD Inc	High Yield Funds	XWAMX	27.77	1
Source Capital	Core Funds	SOR	7.68	2
Kayne Anderson MLP	Sector Equity Funds	XKYNX	6.17	3
Tortoise Energy Inf Corp	Sector Equity Funds	XTYGX	6.14	4
Kayne Anderson Mstr/Engy	Sector Equity Funds	XKMFX	5.69	5

Fund Name	Category	Ticker Symbol	1-Month Market Change	Rank
Tortoise NA Energy Corp	Sector Equity Funds	XTYNX	1.86	1
Kayne Anderson MLP	Sector Equity Funds	XKYNX	1.84	2
Source Capital	Core Funds	XSORX	1.59	3
Morgan Stanley China A	Pacific Ex Japan Funds	XCAFX	1.49	4
Denali Fund	Core Funds	DNY	1.12	5

Fund Name	Category	Ticker Symbol	Year-to-Date Market Change	Rank
Source Capital	Core Funds	SOR	8.04	1
Mexico Fund	Emerging Markets Funds	MXF	6.75	2
Tortoise Energy Inf Corp	Sector Equity Funds	XTYGX	6.74	3
Kayne Anderson Mstr/Engy	Sector Equity Funds	XKMFX	6.4	4
Kayne Anderson MLP	Sector Equity Funds	XKYNX	5.9	5

Fund Name	Category	Ticker Symbol	1-Month P/D Change	Rank
Tortoise NA Energy Corp	Sector Equity Funds	XTYNX	9.88	1
Aberdeen Chile	Emerging Markets Funds	XXCHX	9.13	2
Gabelli Multimedia Trust	Global Funds	XGGTX	7.01	3
Cornerstone Total Return	Core Funds	XCRFX	6.45	4
Cornerstone Prog Return	Growth Funds	XCFPX	5.48	5

Fund Name	Category	Ticker Symbol	Year-to-Date P/D Change	Rank
RENN Global Entrepreneurs	Global Funds	RCG	44.1	1
Engex Inc	Core Funds	EXGI	43.8	2
Foxby Corp	Growth Funds	FXBY	30.6	3
Equus Total Return	Core Funds	EQS	28.91	4
Firsthand Technology Val	Sector Equity Funds	XSVCX	24.84	5

Highlights (US$):[1]

Global ETP flows during May reached $26.5bn, the second strongest month this year. Investors exhibited an increased appetite for economically sensitive assets compared to last month as the majority of flows were in Equity funds — $26.9bn or more than 100%. However, Fixed Income funds still posted a third solid month in a row, gathering $5.6bn

The key themes during the month were the acceleration of flows into Japanese Equity ETPs, continued redemptions from Gold funds, shifting investor preference within Sector Equities, and more robust flows into Intermediate-Maturity Fixed Income funds.

- **Funds with Japanese Equity exposure accumulated $10.2bn.** This was the largest single monthly inflow on record. Flows were not materially impacted by the late-May turbulence in the Japanese Equity markets.
- **Investors further trimmed Gold exposure in the face of more moderate inflation expectations.** Gold ETP outflows continued in May to the tune of ($5.7bn), half the level seen in April, but still the fifth straight month with outflows of more than ($1bn).
- **US Listed U.S. Sector Equity flows shifted toward riskier categories.** Cyclical and Sensitive sector funds gathered $6.6bn while redemptions in defensive sector funds totaled ($1.4bn). This pattern was apparent in January and February but had reversed in March and April.
- **Short-Maturity Fixed Income funds brought in a healthy $2.8bn in May,** but for the first time this year were eclipsed by Intermediate-Maturity funds (see below) which registered flows of $4.2bn.

MAY RESULTS AT A GLANCE[1]

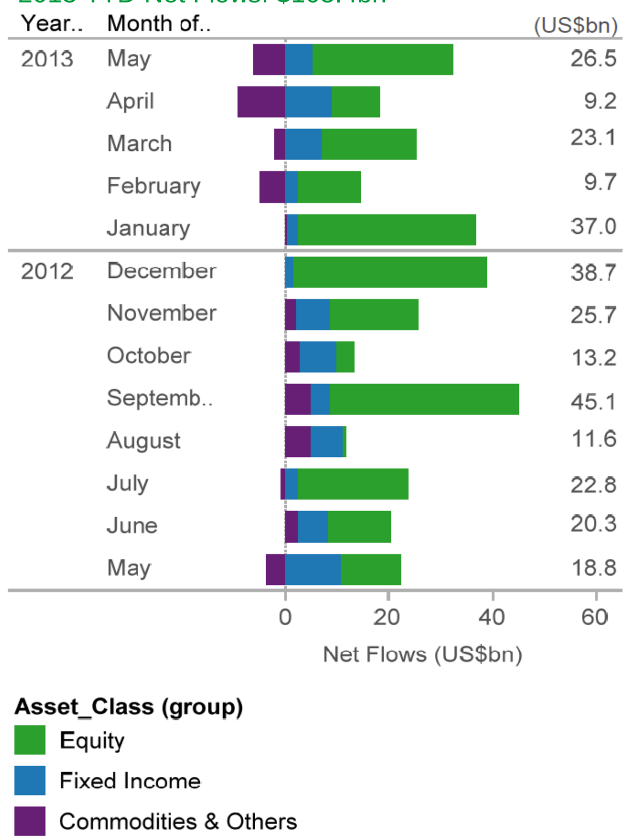
(US $billions)

	May 2013	April 2013*	December 2012	May 2012
Monthly Flows	26.5	9.2	38.7	18.8
Assets	2,126	2,114	1,944	1,619
# of ETPs	4,871	4,855	4,759	4,697

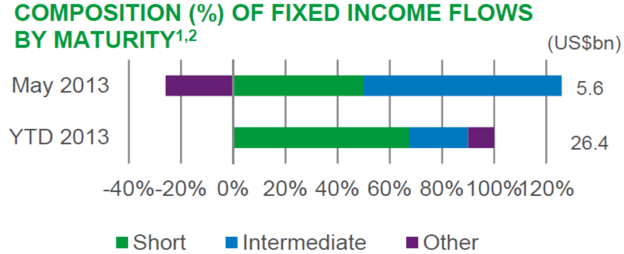
*Apr-2013 restated with additional Asia Pacific data

GLOBAL 13-MONTH ROLLING NET FLOWS[1]

2013 YTD Net Flows: $105.4bn



COMPOSITION (%) OF FIXED INCOME FLOWS BY MATURITY[1,2]

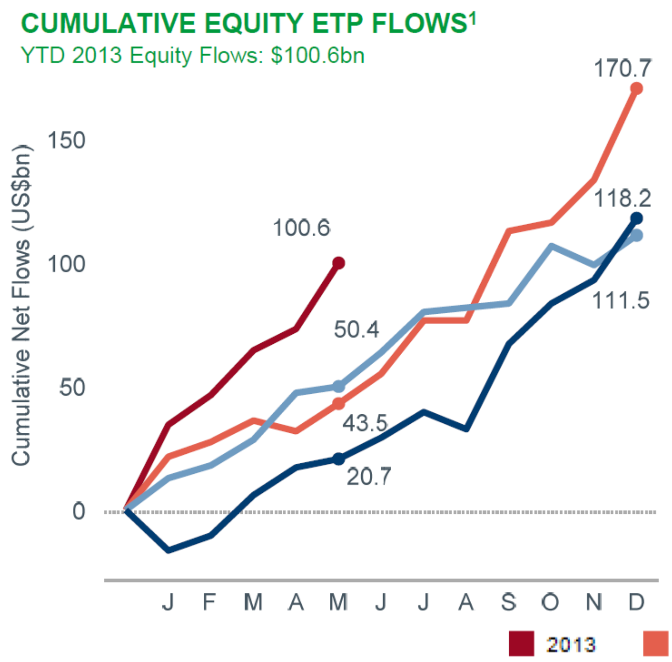


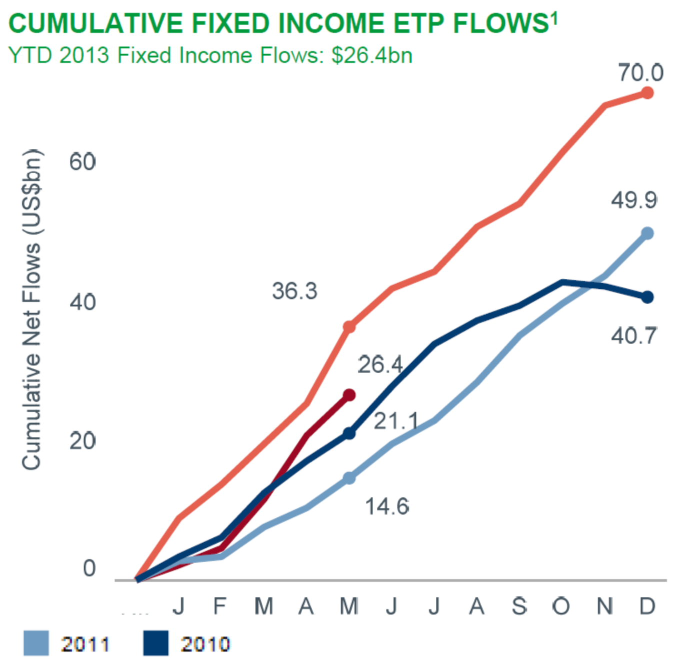
Source: BlackRock

Year-To-Date Highlights (US$):[1]

Year-to-date global ETP inflows passed the $100 billion mark and continued at a record-setting pace

- YTD flows of $105.4bn are up 24% over the previous YTD record high of $85.1bn set in May 2012.
- **Equity funds led with more than $100 billion** of YTD flows which are up more than 100% over last year's YTD flows of $43.5bn.
- **US and Japanese Equity exposures account for the bulk of the year-over-year growth.** Both equity markets have been bolstered by accommodative Central Bank monetary policies.
- **Japanese Equities appeal to investors outside of Asia who account for 72% of the YTD flows into the category**. Funds domiciled in Asia attracted $6.5bn of the total flows while offshore funds domiciled in the US and Europe drew in $16.5bn, or 72%. In contrast, these offshore funds account for only 35% Japanese Equity ETP assets.
- **Short Maturity funds (Floating Rate, Ultra-Short-Term and Short-Term) have been the engine for Fixed Income growth this year,** accumulating $17.8bn. Last May, the duration picture was completely different with YTD inflows of $2.6bn for Short Maturity funds.[2]
- **Yield remains the most noteworthy Equity theme this year.** May saw record-high monthly flows of $3.7bn into Dividend Income funds, bringing the YTD total to a record- breaking level of $14.5bn. When added to the $6.9bn from Real Estate and $3.3bn from Preferred Stock, yield-oriented Equity funds have accumulated $24.7bn YTD.
- **US Listed US Sector Equity ETPs have brought in $19.0bn YTD.** Investors have put the most money to work in Real Estate with $3.8bn and Financials with $3.9bn.





Source: BlackRock

Largest Asset Gathering ETPs Launched in 2013

BLACKROCK®

Highlights (US$):[1]

- 183 new ETPs and 18 individual share class listings debuted around the globe so far this year and have accumulated $10.6bn in assets.
- 73 products and 8 individual share class listings were delisted this year with combined assets of less than $730mn

Product Name (US$mn)[1]	Bloomberg Ticker	Exposure	Listing Region	Launch Date	Assets as of May 2013
ChinaAMC CSI 300 Index ETF	510330 CH	Emerging Markets Equity	Asia Pacific	January	2,940
FI Enhanced Global High Yield ETN	FIGY US	Other Developed/ Global	US	May	1,066
China Southern Kaiyuan CSI 300 Index ETF	159925 CH	Emerging Markets Equity	Asia Pacific	April	606
Guotai SSE 5-Year China Treasury Note ETF	511010 CH	Fixed Income	Asia Pacific	March	410
Yinhua Traded Money Market Fund ETF	511880 CH	Fixed Income	Asia Pacific	April	359
SPDR MSCI EMU UCITS	ZPRE GY	Other Developed/ Global	Europe	January	300
FI Enhanced Europe 50 ETN	FEEU US	Other Developed/ Global	US	May	294
SPDR Blackstone/GSO Senior Loan ETF	SRLN US	Fixed Income	US	April	248
BMO Mid-Term US IG Corporate Bond Index ETF	ZIC CN	Fixed Income	Canada	March	203
Lyxor MTS Spain Gov Bond All-Maturity	ES10 FP	Fixed Income	Europe	February	201
ChinaAMC SSE Health Care ETF Index Sponsor Fund	510660 CH	Emerging Markets Equity	Asia Pacific	May	201
ChinaAMC SSE Financials ETF Index Sponsor Fund	510650 CH	Emerging Markets Equity	Asia Pacific	May	180
Samsung KODEX FTSE China A50 ETF	169950 KS	Emerging Markets Equity	Asia Pacific	January	163
KyoboAXA POWER KTB ETF(Bond)	176710 KS	Fixed Income	Asia Pacific	May	161
BMO Long Provincial Bond Index ETF	ZPL CN	Fixed Income	Canada	March	143
Others					3,101
Total					10,575

Source: BlackRock

Largest Year-to-Date Fund Inflows and Outflows

BLACKROCK®

ETPs as of May (US$mn)[1]	Bloomberg Ticker	2013 YTD Inflows	May-13 Assets
WisdomTree Japan Hedged Equity Fund	DXJ US	7,784	9,901
iShares MSCI Japan	EWJ US	5,388	11,230
Daiwa ETF TOPIX	1305 JP	4,447	8,814
Vanguard Short-Term Bond	BSV US	3,064	12,306
PowerShares Senior Loan Portfolio	BKLN US	2,893	4,398
Vanguard Total Stock Market	VTI US	2,864	30,938
iShares MSCI USA Minimum Volatility	USMV US	2,732	3,646
Vanguard REIT	VNQ US	2,636	19,190
Financial Select SPDR	XLF US	2,625	13,940
ChinaAMC CSI 300 Index ETF	510330 CH	2,624	2,940
Grand Total		37,058	117,304

ETPs as of May (US$mn)[1]	Bloomberg Ticker	2013 YTD Outflows	May-13 Assets
SPDR Gold	GLD US	(16,343)	45,404
iShares MSCI Emerging Markets	EEM US	(4,404)	41,780
iShares Barclays TIPS Bond	TIP US	(2,891)	18,516
iShares MSCI Brazil	EWZ US	(2,486)	6,329
SPDR S&P 500	SPY US	(2,062)	138,507
iShares iBoxx $ Investment Grade Corporate Bond	LQD US	(1,983)	22,695
SPDR Barclays Capital High Yield Bond	JNK US	(1,798)	10,812
iShares S&P/TSX 60	XIU CN	(1,797)	10,532
ETFS Physical Gold	PHAU LN	(1,547)	5,730
iShares FTSE China 25	FXI US	(1,445)	6,382
Grand Total		(36,758)	306,686

Source: BlackRock

Global ETP Flows by Exposure – Developed Equity

BLACKROCK®

Exposure (US$mn)[1]		May 2013 Net Flows	2013 YTD Net Flows	% of YTD Flows	Assets	% of Assets	# ETPs
US Size and Style	Large Cap	7,966	15,807	15.0	389,570	18.3	222
	Mid Cap	1,063	2,713	2.6	65,152	3.1	50
	Small Cap	(1,366)	6,499	6.2	66,555	3.1	64
	Micro Cap	57	129	0.1	773	0.0	4
	Total Market	470	7,500	7.1	54,322	2.6	60
	Extended Market	(41)	572	0.5	2,907	0.1	2
	Preferred Stock	95	2,061	2.0	17,321	0.8	5
	US Size and Style Total	8,244	35,280	33.5	596,602	28.1	407
US Sector	Basic Materials	7	(90)	(0.1)	5,252	0.2	14
	Consumer Cyclicals	1,199	2,283	2.2	14,047	0.7	18
	Consumer Non-cyclicals	(411)	674	0.6	9,573	0.5	12
	Energy	704	2,470	2.3	28,797	1.4	41
	Financials	2,272	4,224	4.0	26,047	1.2	37
	Health Care	(819)	1,813	1.7	17,893	0.8	28
	Industrials	650	857	0.8	8,206	0.4	17
	Real Estate	520	4,108	3.9	32,815	1.5	22
	Technology	1,492	2,951	2.8	18,976	0.9	31
	Telecommunications	(61)	49	0.0	1,082	0.1	5
	Utilities	(188)	229	0.2	8,644	0.4	11
	Theme	(8)	291	0.3	1,232	0.1	9
	US Sector Total	5,358	19,860	18.9	172,562	8.1	245
US Strategy		1,698	8,172	7.8	59,461	2.8	53
US Total		15,301	63,312	60.1	828,625	39.0	705
Canada Equity		(126)	(838)	(0.8)	32,127	1.5	83
North America Regional Equity		183	627	0.6	7,152	0.3	19
North America Total		15,358	63,101	59.9	867,905	40.8	807
Pan European Size and Style	Large Cap	204	(428)	(0.4)	31,145	1.5	76
	Mid Cap	(13)	(20)	(0.0)	707	0.0	8
	Small Cap	67	151	0.1	1,561	0.1	13
	Total Market	425	(16)	(0.0)	26,630	1.3	68
	Pan European Size and Style Total	680	(331)	(0.3)	59,996	2.8	164
Pan European Sector		85	(306)	(0.3)	11,620	0.5	158
Pan European Strategy		34	197	0.2	2,689	0.1	19
Pan European Total		802	(423)	(0.4)	74,352	3.5	342
Country	Germany	319	(1,797)	(1.7)	38,332	1.8	62
	U.K.	68	259	0.2	15,239	0.7	50
	Switzerland	(91)	99	0.1	9,205	0.4	23
	France	(467)	(730)	(0.7)	5,156	0.2	19
	Others	119	872	0.8	8,509	0.4	71
	Europe Single Country Total	(51)	(1,297)	(1.2)	76,440	3.6	225
Europe Total		751	(1,720)	(1.6)	150,793	7.1	567
Asia-Pacific	Regional	(458)	1,749	1.7	16,852	0.8	57
	Country	9,891	23,408	22.2	117,419	5.5	226
Asia Pacific Total		9,434	25,157	23.9	134,270	6.3	283
Broad-Based Global /Global ex-US		4,897	17,543	16.7	163,911	7.7	444
Developed Equity Total		30,439	104,080	98.8	1,316,879	61.9	2,101

Source: BlackRock

Endnotes

BLACKROCK®

Endnotes: BlackRock's ETP Landscape: Monthly Highlights report

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

The data for this report are captured from a number of sources by the BlackRock Investment Institute including provider websites, fund prospectuses, provider press releases, provider surveys, Bloomberg, the National Stock Exchange, Strategic Insight Simfund, Wind and the Bank of Israel. All amounts are reported in US dollars. 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 May 30, 2013 for Europe and May 31, 2013 for the US, Canada, Latin America, Israel and some Asia ETPs. Some Asia ETP data is as of April 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.

2. We classify maturity buckets of a Fixed Income ETP if the fund invests at least 70% of its assets in the corresponding maturity/exposure range: Short maturity includes: underlying security maturities < 3 years and floating rate where the fund holds floating rate securities and/or bank loans. Intermediate includes: 3 years < underlying security maturities < 10 years. The "other" category includes Long-Term: underlying security maturities > 10 years; Broad Maturities: The fund invests in more than two maturity buckets without emphasizing one; Selected Maturities: The fund holds securities with multiple selected range of maturity buckets, i.e. barbell strategy which 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

Disclosures:

 The ETF Sector Review is for informational purposes only, and does not constitute investment advice or an offer to sell or the solicitation of an offer to buy any security of any entity in any jurisdiction. The ETF Sector Review represents an assessment of the market environment at a specific time and is not intended to be relied upon by the reader as research, a forecast of future events or a guarantee of future results.

The ETF Sector Review does not provide financial, investment or tax advice or information relating to the securities of any particular fund or other issuer. The information and opinions included are based on publicly available information, are subject to change and should not be relied upon for any purpose other than general information and education. This Review has been prepared without regard to the individual financial circumstances and objectives of those who receive it and the types of securities discussed in this publication may not be suitable for all investors.

The information included in the ETF Sector Review has been taken from trade and other sources considered to be reliable. This document is published in good faith but no representation or warranty, express or implied, is made by BlackRock or by any person as to its accuracy or completeness and it should not be relied on as such. BlackRock or any of its directors, officers, employees or agents shall have no liability for any loss or damage arising out of the use or reliance on the material provided including without limitation, any loss of profit or any other damage, direct or consequential. Any opinions expressed in this document reflect our analysis at this date and are subject to change.

Market Videos

Click on picture to access video

June 11, 2013
Mike Taggart from Morningstar on CEF News: *Choices abound in the Investment Universe*

May 08, 2013
Capital Link CEF-ETF Forum 2013 - *Interviews*

May 20, 2013
Piers Currie, Aberdeen and Tony Iagleggio, Cohen & Steers on CEF News: *Apple & oranges, not exactly. Closed-End Funds are different from ETFs but blend well*

May 10, 2013
John Calamos, Sr. from Calamos Investments on Milken Panel "*Reading The Tea Leaves" - Rates and Velocity of Money*

May 13, 2013
Yield & Income and insight at the *Capital Link's CEF & ETF Forum 2013*

May 10, 2013
Cara Esser from Morningstar on *MLP Closed-End Funds Gain Energy*

Maria Eugenia Pirchardo (Maru)

CEO of Pichardo Asset Management & Portfolio Manager of Mexico Equity and Income Fund, Inc.

Mexico: A New Gateway of Opportunity for Investment in the Emerging Markets

New York Times Columnist Thomas Friedman declared earlier this year that Mexico will become a “more dominant economic power in the 21st century” than China. He noted how Richard Fisher, president of the Federal Reserve Bank of Dallas, argued that the Mexican economy’s vital signs look a lot healthier. “The U.S. deficit is 7 percent of gross domestic product,” said Fisher. “Mexico’s deficit is about 2 percent of their G.D.P.” Meanwhile, he added, America “is growing slowly, weighed down by debt and the pervasive uncertainty caused by our nation’s fiscal imbalances and growing regulatory complexity. Mexico, in contrast, is growing robustly, and, in contrast to their Washington counterparts, Mexican policy makers are demonstrating remarkable commitment to fiscal discipline.” The Financial Times also reported back in September that “today, Mexico exports more manufactured products than the rest of Latin America put together.”

With this growing investor sentiment, the question that continues to be raised by followers of Capital Link’s Closed-End Fund Forums has been, how do international investors tap into this viable, attractive emerging economy without having to go through the tedious steps of investing in individual Mexican equities?

To answer this question, we sought after one of the leading experts of the Mexican Economy, who has their “finger on the pulse” of the Mexican Capital Markets with a tremendous track record of investment performance. We are delighted to be interviewing Ms. Maria Eugenia Pichardo, President and General Partner of Pichardo Asset Management (PAM), a position she has held since 2003. PAM is the Adviser to the Mexico Equity & Income Fund, listed on the New York Stock Exchange under the ticker “MXE.” Since the fund’s inception in 1990, Ms. Pichardo has been the Fund’s Portfolio Manager and in 2004, she was elected as the Fund’s President. Ms. Pichardo has more than 25 years of financial expertise, which includes serving as managing director of an investment bank and the portfolio manager of several funds.

Q: Thank you for joining us today. Can you give us a bit of background on Pichardo Asset Management and your role as Adviser to the Mexico Equity & Income Fund?

A: Pichardo Asset Management (PAM) was incorporated in 2003, and is an Independent Investment Advisory Firm, based in Mexico City, specializing in long-only equities. As a boutique firm with an extensive presence in Mexico, PAM brings 22 years of experience in the Mexican capital market, and is able to provide to investors a local perspective, as well as a dedicated, experienced independent portfolio manager. Our mission at PAM is to provide our clients with an independent advisory service that aims to maximize the returns of their investments in the Mexican stock market through ethical and responsible asset management, and by adhering to pre-established portfolio investment strategies based on our in-depth knowledge of the financial market. To achieve this mission, our vision is to continue to outperform the market benchmark and provide our clients with the highest return by offering a professional and unbiased Independent Advisor service, as well as, strengthen the academic qualities and experience of each member in our team.

As the founding Partner and President of The Board of Directors of PAM, I am responsible for the systematic factors of the investment strategies and equities percentage allocation, as well as risk management. Additionally, I am the President and Portfolio Manager of the Closed-End Fund listed on the NYSE, The Mexico Equity Income Fund, Inc. (MXE). Our team at PAM has had the privilege to advise MXE for 22 years since its inception in 1990.

To read the complete interview with Ms. Pichardo, and the burgeoning economic development in Mexico, please visit:
http://cdn.capitallink.com/files/docs/cef/Pichardo_FullInterview.pdf

Click here for complete reading

FitchRatings

Municipal Closed-End Funds Dashboard

June 4, 2013

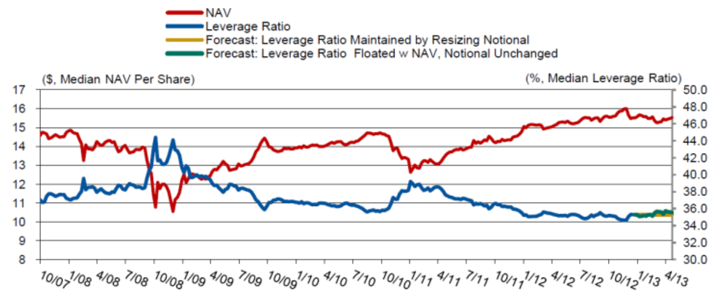
Leverage Ratios Remain Near Record Lows

There were 217 leveraged municipal closed-end funds (CEFs) as of Dec. 31, 2012, managing $91 billion in assets and drawing on $30 billion in balance sheet leverage. Municipal CEFs have maintained near stable nominal leverage since first-half 2009 (1H09), even as portfolio assets have increased significantly over the period. This caused the median leverage ratio for CEFs to fall to record lows of approximately 34.6% in December 2012.

Analyst
Yuriy Layvand, CFA
+1 212 908-9191
yuriy.layvand@fitchratings.com

More recently, net asset values (NAVs) of municipal CEFs have been under pressure. According to Lipper and Fitch data, CEFs investing in national and single-state investment- grade municipal bonds were near flat year to date (YTD), earning a median of just 0.4% and 0.9% on NAV, respectively. Funds investing in high yield municipal bonds fared slightly better, earning 2% on NAV.

Chart 1: U.S. Leveraged Municipal CEFs: NAVs and Leverage Ratio



Click here for complete reading

Sources: Fitch, public financial statements.

Taxable Closed-End Funds Dashboard

June 4, 2013

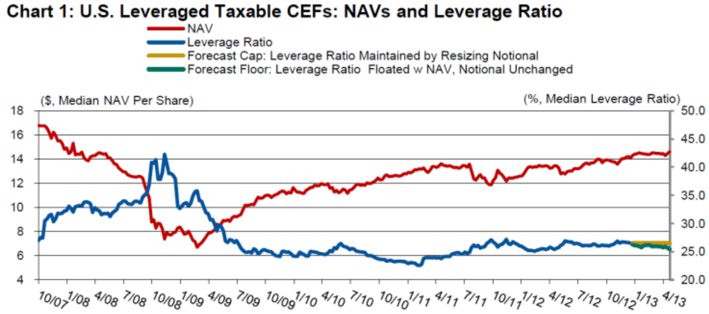
Leverage Issuances Moderates; Net Asset Values as Key Driver

There were 249 leveraged taxable closed-end fund (CEFs) as of Dec. 31, 2012, with $159 billion in assets under management and $38 billion in balance sheet leverage. While the sector has increased nominal leverage amounts dramatically over the last few years - up 40% since first-half 2009 (1H09) - actual leverage ratios remain well below pre-crisis levels due to increases in CEFs' net asset values (NAVs).

Analyst
Yuriy Layvand, CFA
+1 212 908-9191
yuriy.layvand@fitchratings.com

According to Lipper and Fitch data, taxable leveraged CEFs have recorded an aggregate 7% NAV year-to-date (YTD) returns as of May 31, 2013. Within sectors, the Fitch master limited partnership (MLP) and equity peer groups ranked first and second highest in returns, appreciating 21% and 14%, respectively, YTD. The emerging markets and global government investment-grade corporates peer groups were the worst performers, losing 1.3 and 0.2%, respectively, YTD.

Chart 1: U.S. Leveraged Taxable CEFs: NAVs and Leverage Ratio



Click here for complete reading

Sources: Fitch, public financial statements.

Click here for complete CEF Rating Actions

Municipal CEF Update and Overall CEF Marketplace

June 4 2013

Authored by:
Jeff Margolin
Senior Vice President
Closed-End Fund Strategist
First Trust Advisors, L.P.

Municipal CEF Update

It has been a volatile and weak period for municipal CEFs recently and I attribute the weakness to a few primary factors, with the first factor likely being more significant:

1. There has been a considerable increase in interest rates over the past month which has put pressure on the underlying municipal bond market. According to Bloomberg, over the past month, the yield on the average 10-year municipal bond has increased 42 basis points and the yield on the average 30-year municipal bond has increased 32 basis points. As yields move higher, bond prices move lower. The increase in yields in the U.S. Treasury market has been even more pronounced. According to Bloomberg, the yield on the 10-year U.S. Treasury has increased 46 basis points the past month and the 30-year has increased 40 basis points as of 5/31/13.
2. With U.S. equity markets surging so far year-to-date (according to Bloomberg the S&P 500 is up 14.34% as of 5/31/13), investors have been more inclined to have a "risk on" mentality and that is likely causing investors to sell higher credit quality asset classes and move into equities.

It is primarily these factors, and investors' overall concerns about rising interest rates, which has put pressure on municipal CEFs recently. As is often the case with closed-end funds, share prices have sold off more significantly than underlying net asset values (NAVs) and that has caused discounts to NAV to widen significantly. For example, according to Morningstar as of 5/31/13, the average share price of all municipal CEFs was lower by 3.13% last week, while the average NAV was only lower by 1.01%. While I am also concerned about interest-rate risk and have been actively encouraging investors who are not properly diversified to move into other less interest rate sensitive funds and asset classes (such as senior loan and limited duration CEFs) as well as to diversify into equity CEFs, I also believe the recent selling has been overdone and that there are opportunities available among municipal CEFs.

Indeed, as a result of the recent weakness, the average discount to NAV among all municipal CEFs has increased to a compelling 5.27% and several funds are at discounts in the high single digits (the five-year average discount to NAV is 2.98%, according to Morningstar). Furthermore, the average yield has increased to 5.70%. This represents a taxable equivalent yield of approximately 8.80% for someone in the 35% tax bracket, which is the second highest federal marginal tax bracket. These are compelling yields and discounts to NAV's, in my opinion, and I think should begin to attract buyers.

In short, as I have written before, investors who have not begun the process of diversifying into domestic equity CEFs and less interest rate sensitive funds and asset classes (such as senior loan and limited duration funds) should begin that process to create a diversified CEF portfolio. However, for investors who are properly diversified into these other areas and asset classes, I think municipal CEFs still have compelling characteristics that when combined with these other categories can help create a balanced, diversified portfolio. Those characteristics include high tax-free income from primarily investment-grade bonds and compelling discounts to NAV. It's also important to note that while intermediate and long-term interest rates have increased recently and that has put pressure on municipal bonds, leverage cost for funds that are borrowing at floating short- term rates still remain very low as they are more impacted by short-term rates and the Federal Funds rate (which remains at 0% to 0.25%).The Fed has indicated it doesn't intend to increase the Federal Funds rate until mid-2015 or until the unemployment rate gets down to 6.50%.

Click here for complete reading

What the Flows Show: No "Sell in May" for ETF Investors

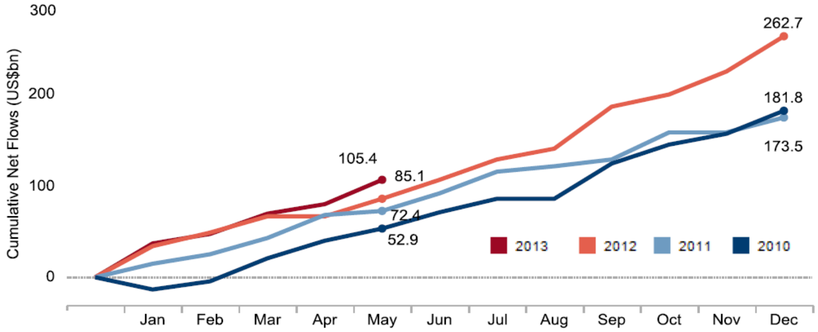
June 4 2013

What a difference 31 days can make. In my last post on month-end trends in exchange traded product (ETP) flows, I wrote that investor sentiment in April had cooled, giving way to a significant slowdown in global ETP inflows (a mere $9.2 billion, versus the average $23.2 billion of monthly inflows experienced in the first quarter of this year). Discouraged by less positive economic growth forecasts, investors seemed to be backing off from the market – and those that did participate acted in a decidedly risk-off manner.

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

Apparently this cautionary period was only temporary as May flows painted a much more confident picture. Despite a last-minute dip, ETP inflows in May finished the month at $26.5 billion, up substantially from April's number. And while April's subdued activity wasn't enough to knock ETP flows off their record-setting pace for the year, May flows certainly added fuel to the fire: Year-to-date, ETP flows are up 24% over the same time period last year – plus, they've broken through the $100 billion mark.

GLOBAL ETP CUMULATIVE NET FLOWS[1]



So what exactly was tempting investors back into the market in May? It seemed that economically-sensitive investments were the order of the month. Equity funds took the lead with $26.9 billion, or >100% of inflows for the month. We saw a significant shift away from defensive sectors and into cyclical ones, while investors continued to trim gold exposure in the face of more moderate inflation expectations. Fixed income flows posted a third strong month in a row with $5.6 billion in inflows, but for the first time this year the short maturity category with $2.8 billion inflows for the month was eclipsed by funds in the intermediate maturity range with $4.2 billion.

Another notable trend was the increased interest in ETPs offering exposure to Japanese equities. At $10.2 billion, this was the largest monthly inflow on record for the category. Year-to-date flows in Japan equity ETPs have reached $23.1 billion, or 22.9% of all global equity ETP flows. To put this in perspective, the pace of flows so far in 2013 is already more than double the levels seen annually in both 2011 and 2012. We'd conjecture this increased interest has been bolstered by the accommodative monetary policy adopted by the Japanese Central Bank.

CUMULATIVE JAPAN EQUITY ETP FLOWS[1]

Click here for complete reading

Source: BlackRock ETP Research and Bloomberg

No Need to Wait Three Years to Buy Fixed Income ETFs

May 20, 2013

With 1,100 ETFs in the market and a number of products having closed in the past year, it is easy to presume that investors have all the choices they need. But looking back at the last few years, the alternatives within the Fixed Income ETF universe has expanded significantly, and we know more products are in the works. Today there are various choices for investors seeking income both domestically and internationally

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

With defined maturity dates and credit quality exposure. While there are still ETFs diversified enough to cover the broader Fixed Income landscape, investors can be more tactical with their asset allocations.

iShares launched the first Fixed Income ETFs in July 2002 tied to Treasuries and Investment Grade Corporate Bonds with iShares Barclays 1-3 Year Treasury (SHY 84 Overweight), iShares 7-10 Year Treasury (IEF Overweight 107), iShares Barclays 20+ Treasury (TLT 117 Marketweight), and iShares iBoxx Investment Grade Corporate Bond (LQD 120 Marketweight). Since then, emerging- market, high-yield corporate and municipal bond ETFs have been launched by iShares, State Street, PowerShares, Vanguard, Market Vectors and others. An increasing number of them are fundamentally driven, such as having duration of less than 3 years or investing in certain sectors of the bond market such as Financials or Utilities.

According to BlackRock data, 17% of the total assets invested in exchange traded products are in Fixed Income, although in the first four months of 2013 they garnered 21% of the total inflows. The most popular investment style in April was U.S. Government ETFs, which, at $2.14 billion, was nearly a third of the $6.6 billion in assets the Fixed Income industry received in April. Meanwhile, investment-grade corporate bond ETFs and inflation-focused ETFs experienced over $200 million in outflows each in April.

S&P Capital IQ now ranks approximately 170 Fixed Income ETFs, using an approach that is not reliant on past performance. Instead we undertake holdings-level analysis regarding the credit quality and duration of an ETF relative to its yield, and support this with a comparison of an ETF's expense ratio, liquidity and bid/ask spread. One of the benefits for investors is that we starting ranking an ETF as early as two months into its life and do not wait three years, as others do. Indeed, S&P Capital IQ has rankings on 77 ETFs that launched in the last three years (since June 2010), and 17 of them currently have Overweight rankings.

While we are not waiting to rank them, advisors and investors have also not been shy about using them for income needs. Indeed, there is more than $26 billion invested in the 77 "young" ETFs already. Some $5 billion of that is tied to PIMCO Total Return Bond (BOND 110 Marketweight), but there are several others that have over $100 million in assets. Below we highlight a couple of them that earn a top Overweight ranking from S&P Capital IQ and offer a twist on the approach used by some of the older ETFs.

FlexShares iBoxx 3-year Target Duration TIPS Index (TDTT 25 Overweight)

Launched in September 2011, TDTT has over $1.5 billion in assets, as we think it appeals to investors concerned about both inflation and interest-rate risks. Duration for the ETF is modest at 2.98 years, and it holds only bonds with current AAA credit ratings (from agencies that operate independently from S&P Capital IQ). While it has lagged Fixed Income ETFs in the past year, up less than 1%, the gross expense ratio of 0.22% and the bid/ask spread of $0.03 are relatively low compared to peers.

Guggenheim BulletShares 2014 High Yield Corporate Bond (BSJE 27 Overweight)

Slightly older, having started trading in January 2011, BSJE is one of the Guggenheim products that is set up similar to the bond ladders that advisors have used for years to schedule maturities. There are ETF products that terminate in 2013, 2015, etc., and in April iShares launched its own series. We think part of the appeal of BSJE is that it offers investors what we view as a compelling 30-day SEC yield of 4.8% and average calculated duration of 3.7 years, while trading with a tight $0.01 bid/ask spread. This is partially offset by the credit risk of its exposure to speculative-grade bonds, with 50% in bonds with B ratings. In contrast to TDTT, which lagged the ETF universe in the past year, BSJE was up more than 8%. BSJE has approximately $300 million in assets.

Fixed Income ETFs continue to be rolled out by iShares, PowerShares and others. We think investors should not wait to learn about their risk/reward potential. To learn more about our new approach to analyzing Fixed Income ETFs, visit the ETF tab of MarketScope Advisor.

Key Takeaways

These are other Fixed Income ETFs that we rank favorably despite being less than three years old..

POSITIVE IMPLICATIONS

FLEXSHARES IBOXX 3-YR TRGT DUR TIPS INDX FND	OVERWEIGHT	[TDTT]
GUGGENHEIM BULLET-SHARES 2014 HI-YIELD CORPORATE BOND ETF	OVERWEIGHT	[BSJE]

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

What's Ahead for Gold ETFs

May 21, 2013

After experiencing several years of inflows, exchange-traded funds (ETFs) that own gold have witnessed outflows this year. However, Todd Rosenbluth, senior director of ETF research for S&P Capital IQ, thinks removing an allocation to gold from a diversified investment portfolio might be shortsighted.

Authored by:
Beth Piskora
S&P Capital IQ Equity Research

He points out, for example, the beta for SPDR Gold Shares ETF (GLD 133 NR) is 0.17 (over three years versus the S&P 500), thus suggesting very low correlation with U.S. large-cap stocks.

"Gold is a way to hedge your portfolio against inflation, and a way to add some diversification to your portfolio so you're not only in equities or fixed income," comments Rosenbluth, who notes past performance is no guarantee of future results.

In 2012, the gold price increased 7% to end the year at $1,675 per ounce. So far in 2013, gold prices have moved in the opposite direction, and gold recently traded for $1,374 per ounce with much of the year to date decline occurring in April amid signs the U.S. economy was improving and concerns that the Federal Reserve might slow down its bond buying program.

In the first four months of 2013, investors pulled $14.8 billion out of gold based exchange traded products, with more than half that amount occurring in April alone. Most of the outflows were from GLD ($13.3 billion), the largest and oldest of the products that still has over $45 billion in assets. However investors also pulled out of other smaller ETFs from iShares and PowerShares.

"Consensus estimates gathered by Capital IQ suggest gold is going to move higher as we progress throughout 2013," says Rosenbluth. "So while we've seen a pullback and we've seen analysts bring in their estimates, the outlook is still for gold to move higher between now and the end of the year."

Indeed, Johnson Imode, the S&P Capital IQ metals and mining equity analyst, forecasts gold prices will average $1,495 per ounce in 2013 - higher than current levels.

"Gold prices have come down, due to increasing U.S. economic confidence, lowering gold's role as a safe haven, and concerns about potential gold sales in Europe to help lower government debts," says Imode.

"We do still expect gold prices to remain historically high though, as recent IMF global growth cuts show that economic uncertainty remains."

If you're interested in gold or using a gold ETF, there are newly-launched reports on gold ETFs on MarketScope Advisor, including reports on GLD, iShares Gold Trust (IAU 13 NR), Physical Swiss Gold Shares ETF (SGOL 136 NR), and PowerShares DB Gold ETF (DGL 47 NR). Each report contains valuable information like price, past performance, average daily volume, and shows the trajectory of assets under management. The report also includes detailed data on each ETF's cost structure, including expense ratio, bid/ ask spread, and price-to-NAV five-day moving average, and how consensus forecasts for gold compare to other commodities you might be considering such as silver or platinum. Click on the ETFs tab in MarketScope Advisor to see reports on 40 commodity ETFs in addition to S&P Capital IQ rankings on 820 equity and fixed income ETFs.

Key Takeaways

While high yield bond ETFs have seen strong inflows, we think many still have appealing risk/ reward profiles.

POSITIVE IMPLICATIONS

ETFS PHYSICAL SWISS GOLD SHARES	NA	[SGOL]
I SHARES GOLD TRUST	NA	[IAU]
POWERSHARES DB GOLD FUND	NA	[DGL]
SPDR GOLD SHARES	NA	[GLD]

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

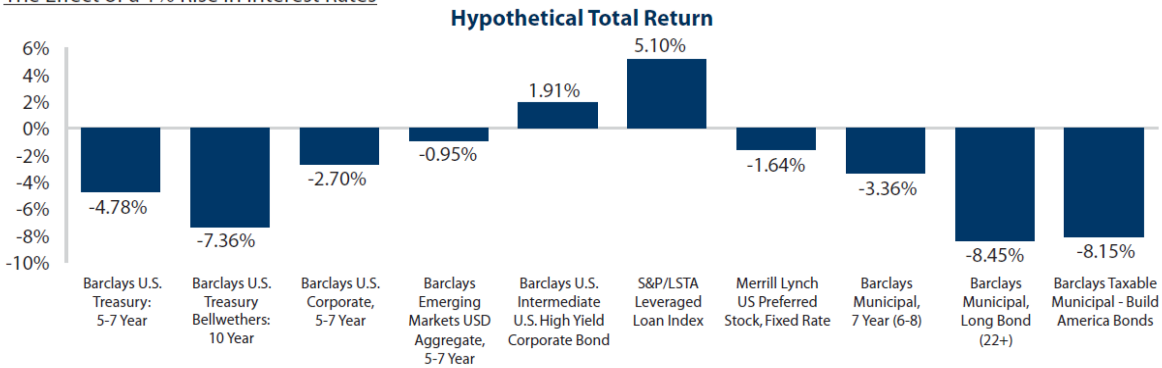
Navigating Opportunities in Senior Loan and High Yield Corporate Bond ETFs

May 6, 2013

Authored by:
Ryan Issakainen,
Senior Vice President
Exchange Traded Fund Strategist
First Trust Advisors, L.P.

Investors needing to generate income in today's low interest rate environment are faced with distinct challenges in seeking to meet their return objectives, while balancing the risks to which they are exposed. This situation is complicated by the tendency for investors to focus on certain risks, while ignoring others. Case in point: many bond investors have been conditioned to focus primarily on credit risk—the risk that a bond issuer will fail to repay its debt with interest—while failing to consider how an increase in interest rates may cause a significant decline in the value of bonds that were assumed to be relatively "safe" (see chart below). This concept is particularly challenging for the present generation of investors whose experience over the past 30+ years has been in the context of a secular bull market for bonds, in which yields have consistently trended lower while bond prices have trended higher.

The Effect of a 1% Rise in Interest Rates



	Barclays U.S. Treasury: 5-7 Year	Barclays U.S. Treasury Bellwethers: 10 Year	Barclays U.S. Corporate, 5-7 Year	Barclays Emerging Markets USD Aggregate, 5-7 Year	Barclays U.S. Intermediate U.S. High Yield Corporate Bond	S&P/LSTA Leveraged Loan Index	Merrill Lynch US Preferred Stock, Fixed Rate	Barclays Municipal, 7 Year (6-8)	Barclays Municipal, Long Bond (22+)	Barclays Taxable Municipal - Build America Bonds
Yield	1.03%	1.86%	2.39%	4.01%	5.60%	5.10%	4.77%	1.55%	3.40%	3.97%
Duration	5.81	9.22	5.09	4.97	3.69	0.25	6.4	4.91	11.85	12.12

Source: Barclays and Bank of America/Merrill Lynch. The table illustrates hypothetical examples and does not represent the return on any particular investment. Data as of 3/31/13. Effective duration is used for the preferred index and modified adjusted duration for all others. The performance figures are for illustrative purposes only and do not account for all factors that may potentially impact returns. Index returns do not include management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown. Indexes are unmanaged and an investor cannot invest directly in an index.

Source: Barclays and Bank of America/Merrill Lynch. The table illustrates hypothetical examples and does not represent the return on any particular investment. Data as of 3/31/13. Effective duration is used for the preferred index and modified adjusted duration for all others. The performance figures are for illustrative purposes only and do not account for all factors that may potentially impact returns. Index returns do not include management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown. Indexes are unmanaged and an investor cannot invest directly in an index.

Barclays U.S. Treasury: 5-7 Year contains securities in the Treasury Index with a maturity from 5 up to (but not including) 7 years. **Barclays U.S. Treasury Bellwethers: 10 Year** is an unmanaged index of U.S. Treasury bonds with 10 years' maturity. **Barclays US Corporate 5-7 years** is a broad-based benchmark that measures the investment grade, fixed-rate, taxable, corporate bond market. **Barclays EM USD Aggregate: 5-7 Year** is a flagship hard currency Emerging Markets debt benchmark that includes fixed and floating-rate US dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers. **Barclays Intermediate U.S. High Yield** is the Intermediate component of the U.S. Corporate High Yield index and covers the universe of fixed rate, non-investment grade debt. **Barclays Municipal Bond: 7 Year (6-8)** is the 7 Year (6-8) component of the Municipal Bond index. **Barclays Municipal Bond: Long Bond (22+)** is the Long Bond (22+) component of the Municipal Bond index. **Barclays Taxable Municipal - Build America Bonds** includes all direct pay Build America Bonds in the Barclays Capital Taxable Municipal Index. **The BofA Merrill Lynch Fixed Rate Preferred Securities Index** tracks the performance of fixed rate US dollar denominated preferred securities issued in the US domestic market. **The S&P/LSTA (Loan Syndications and Trading Association) U.S. Leveraged Loan Index** tracks the current outstanding balance and spread over LIBOR for fully funded term loans. **Duration** is a measure of its price sensitivity to interest rate movements based on the weighted average term to maturity of its interest and principal cash flows.

Click here for complete reading

Cohen & Steers Large Cap Value Strategy

We would like to share with you our review and outlook for the U.S. large cap value market as of April 30, 2013. For the month, the Russell 1000 Value Index had a total return of 1.5%, compared with 1.9% for the S&P 500 Index. Year to date, the Russell 1000 Value Index had a total return of 14.0%, compared with 12.7% for the S&P 500 Index.

Investment Review

Equity markets continued to advance in April amid decent economic data and first-quarter earnings reports that exceeded subdued forecasts. The effects of sequestration slowed, but did not stall, GDP growth. Gold and other metals continued to slide, Treasury yields plunged and more investors moved out of cash and into equities. The Standard & Poor's 500 Index and the Dow Jones Industrial Average both rose 1.9% in April, while the Russell 1000 Value Index rose 1.5%.

The search for yield was a dominant factor in the index's three top-performing sectors—utilities, telecommunications services and health care. Utilities (with a total return of 5.7% in the Russell 1000 Value Index) profited from lower debt costs and low natural gas prices, while telecommunication services' outperformance (4.8%) was sparked by merger & acquisition activity. The health care sector (2.6%) seems to have emerged from the overhang of the Affordable Care Act; many of the Act's more costly elements have already taken place, and investors looked past them to the coming increase in demand for health care services.

The consumer discretionary sector (3.3%) mirrored an uptick in consumer optimism and spending. Housing starts rose to their highest level since 2008, which energized the sector's housing-related companies. Financial services (2.4%) outperformed on good earnings and no surprises. Companies with capital markets businesses did better than commercial and mortgage banks, which faced tighter interest margins. Real estate investment trusts (REITs) were buoyed by high dividends and positive housing trends.

Once again, the index's laggards were tied to global trade. The drop in gold prices and slowing demand in China and Europe hit materials (-2.5%) and industrials (-1.8%) companies particularly hard. Industrial giant General Electric lost ground when it announced that Europe's ailing economy had sapped its industrial businesses, putting the company's performance targets into question. The sector's aerospace and transportation companies had a better month;

Index Performance (USD)

Period	Russell 1000 Value Index
April	1.5%
YTD 2013	14.0%
1 Year	21.8%
3 Years	12.4%
5 Years	4.2%
10 Years	8.4%

Performance data quoted represents past performance. Past performance does not guarantee future results. Total returns of the Russell 1000 Value Index, which measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. Periods greater than one year are annualized. Past performance does not guarantee future results. This information is not representative of any Cohen & Steers account and no such account will seek to replicate an index. You cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes.

Index Characteristics

Historical Five-Year Cash Flow Growth	3.4%
Historical Five-Year Dividend Growth	1.9%
Consensus Long-Term EPS Growth	8.2%
Forward Price-to-Earnings	13.3x
Price-to-Book	1.7x
Price-to-Sales	1.2x
Dividend Yield	2.3%
Weighted-Average Market Capitalization	$95.8
Median Market Capitalization	$5.8
Number of Securities	698

Source: Mellon Analytics.

Characteristics are market capitalization-weighted averages of estimates for companies in the Russell 1000 Value Index.

General Dynamics was a case in point, with aerospace operations pushing first-quarter earnings 8% above estimates. The energy sector (-0.9%) fell along with the price of oil. News that Exxon Mobil, the sector's largest component, reduced its stock buyback by 20% disappointed investors and drove the

(1) Sector returns in USD as measured by the Russell 1000 Value Index, which measures the performance of those Russell 1000 companies with lower price–to–book ratios and lower forecasted growth values

Cohen & Steers Large Cap Value Strategy

Index Sector Performance

	April	YTD 2013
Utilities	5.7%	20.0%
Consumer Staples	1.7%	18.8%
Health Care	2.6%	17.6%
Information Technology	0.0%	16.9%
Consumer Discretionary	3.3%	16.2%
Financials	2.4%	14.8%
Telecom Services	4.8%	12.6%
Industrials	-1.8%	10.5%
Energy	-0.9%	8.8%
Materials	-2.5%	0.4%

Source: Wilshire Atlas using GICS Sectors.

Total returns of the Russell 1000 Value Index, which measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. Periods greater than one year are annualized. Performance data quoted represents past performance. Past performance does not guarantee future results. This information is not representative of any Cohen & Steers account and no such account will seek to replicate an index. You cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes.

stock, and the sector, down. A decline in IBM's first-quarter earnings triggered a decline in the information technology sector (0.0%), as IBM has long been a bellwether of corporate and government technology spending. Microsoft, on the other hand, bounced on better-than-expected earnings.

Investment Outlook

The Federal Reserve's commitment to low interest rates, improving U.S. economic data, yield-hungry investors and resilient consumers could help mitigate or even avoid a spring slump this year. The wealth factor created by more jobs, higher home prices and a rebound in 401(k) plans may provide additional economic momentum, especially among consumer discretionary companies, including those that provide professional services.

There are, of course, no guarantees. The economy is healing—in fact, the U.S. debt went down a bit in April—but it is healing slowly, and we remain watchful. Europe is still struggling and growth in China is slowing, and that poses challenges for multinational companies, as General Electric's announcement illustrated. High valuations in some sectors remain cause for concern.

We do not anticipate any significant changes in our strategy at present, although we are concentrating some of the portfolio in higher-yielding names. As the economy strengthens, commodities are likely to rebound, which would spill over into materials companies and affect our allocation there. We think the IT and financial institutions sectors still have room to grow. Traditionally defensive stocks—consumer staples, utilities and telecommunications services—are less appealing because of their high valuations.

We continue to believe that housing-related stocks that meet our criteria will benefit from the Federal Reserve's open- ended quantitative easing policy. Modest inflation may be on the horizon, but the Fed seems willing to accept the risk for now in the service of improving the economy. On balance, while valuations have risen, we still see attractive investment opportunities, and note that the universe of dividend growers—our investment focus—is expanding, if somewhat more slowly. As long-term, relatively conservative investors, we have a natural defensiveness built into our strategy, and we have tempered that with more opportunistic stocks in our portfolio.

Performance data quoted represents past performance. Past performance is no guarantee of future results. The performance information in the preceding commentary does not reflect the performance of any fund, product or account managed or serviced by Cohen & Steers.

The views and opinions in the preceding commentary are as of the date of publication and are subject to change. There is no guarantee that any market forecast set forth in this presentation will be realized. This material should not be relied upon as investment advice, does not constitute a recommendation to buy or sell a security or other investment and is not intended to predict or depict performance of any investment.

LMP Capital and Income Fund (SCD) commentary

According to a new survey* of 500 affluent U.S. investors by Legg Mason, 74% said "now is a good time to be invested in equities" with 52% adding that they are more inclined to use equities to generate investment income.

Combining this optimism with the fact that fully 66% reported that income investing was a "top priority," 25% of those who use income generating investments said they planned to increase their allocation to equity income funds over the next 12 months.

Interestingly, 60% also believed it was a good time to be invested in real estate for income, and 15% intended to increase their allocation to this asset class.

LMP Capital and Income Fund (SCD)
Investors seeking to optimize their opportunities may want to consider a distinctive blend of income-generating securities. Sub-advised by ClearBridge Investments & Western Asset Management, SCD seeks to provide total return, emphasizing income, while investing in a broad-based portfolio of potential income-producing securities, including master limited partnerships (MLPs), U.S. stocks, Real Estate Investment Trusts (REITs) and fixed income.

During the first quarter of 2013, the Fund returned 18.19% (based on net asset value (NAV); market price returns were 18.02%). Within the equity market, ClearBridge continued to emphasize common stocks with strong dividend profiles, energy MLPs and REITs. At the end of the first quarter, 35.7% of the Fund was invested in common stocks, 24.87% in MLPs, 21.1% in REITs, 14.7% in convertible preferred stocks, 2.5% in cash and 1.3% in fixed-to-floater bonds. **Past performance is no guarantee of future results.**

ClearBridge has a positive outlook for the market and feels the Fund is positioned accordingly.

Fund performance and positioning
Driving the Fund's performance were its allocations to the energy sector--led by MLPs--and information technology. In contrast, the Fund's underperforming sectors were utilities and telecommunication services.

During the quarter, ClearBridge increased their allocation to the financial sector, which is now inclusive of REITs, bringing it from 26.1% to 31.9% of the portfolio at the end of March. The increase was driven by adding to the Fund's positions in MetLife Convertible Preferred and Ares Corp. Other additions to the portfolio included Intel and United Technologies convertibles. Other decreases in the portfolio included Heinz, which got a takeover bid from Berkshire Hathaway, LINN Energy and EQT Midstream Partners. At the end of the first quarter, 35.7% of the portfolio was in common stocks, 24.8% was in energy MLPs, 21.1% was in REITs, 14.7% was in convertible preferred stocks, 2.5% in cash and 1.3% in fixed-to-floater bonds.

Market review
Equities rallied sharply in the first quarter, with the S&P 500 Index (the "Index") returning 10.6%. In contrast, REITs, as measured by the MSCI U.S. REIT Index, gained 8.1% percent and MLPs, as measured by the Alerian MLP Index, rose 19.7%. For comparison purposes, the fixed income market, as measured by the Barclays U.S. Aggregate Bond Index, declined 0.12%. An investor cannot invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges.

According to ClearBridge, the market's ascent was driven by the ongoing economic expansion. In particular, the housing market continued to rebound. In addition, automobiles are starting to sell well and, despite concerns about sequestration and increased tax rates, consumer spending has remained firm.

Within the Index for the quarter, the best performing sectors were health care, consumer staples, utilities, consumer discretionary, financials and industrials. While all 10 sectors in the Index posted positive absolute returns, the relative laggards were information technology, materials, telecommunication services and energy.

According to ClearBridge, more conservative sectors and higher dividend-paying equities seemed to be in favor.

Outlook
In ClearBridge's view, we're still a good bit away from the Federal Reserve Board[1] starting to tighten the reins on monetary policy. ClearBridge believes the prospects for common stocks, MLPs and REITs remain strong. They also point out that the correlations between MLPs and common stocks are low.[2]

According to Clearbridge, the P/E ratio of the S&P 500 Index is still reasonable, at roughly 15 times 2013 earnings and 13 times 2014 earnings. In addition, stock yields, overall are significantly higher than the 10-year Treasury note.[3] In ClearBridge's view, corporate balance sheets remain strong, free cash flow is abundant and dividend payout ratios remain near record lows. These factors are driving their positive view for high quality companies with strong dividend profiles.

ClearBridge is also positive on the prospects for energy MLPs, as its secular growth story appears intact. There are very strong industry fundamentals in the space, as the U.S. has been undergoing a "renaissance" in energy production, and MLPs could be well positioned to capitalize on this opportunity. In addition, energy MLPs can potentially provide an attractive current distribution. Of course, MLP investing involves risk. MLP Distributions are not guaranteed and are subject to change.

According to ClearBridge, REITs have been experiencing a cyclical rebound. The economic outlook for the U.S. seems brighter, especially for the residential housing and the commercial real estate markets. This could provide a tailwind for many REITs.

ClearBridge feels the current backdrop bodes well for continued dividend coverage and future dividend growth. They remain positive on the composition of the portfolio, feeling the Fund provides a compelling value proposition for investors seeking income and capital appreciation potential.

Dividends and yields represent past performance, can fluctuate, and there is no guarantee they will continue to be paid. Diversification does not assure a profit or protect against market loss.

Important Information
All investments are subject to risks, including the possible loss of principal. Additionally, **equity securities** are subject to price fluctuation. 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. The Fund's **fixed-income investment**s are subject to credit risk, inflation risk, and interest-rate risk. As interest rates rise, bond prices fall, reducing the value of a 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. **Leverage** may result in greater volatility of NAV and the market price of common shares and increases a shareholder's risk of loss.

The Fund's **investments in energy-related MLPs** subject it to risks in addition to those present in other equities, including tax risks. Energy-related MLPs may be considered to be part of the energy industry, which is highly volatile and subject to specific risks, including commodity price fluctuations and regulatory or political developments. An MLP's ability to grow and increase cash distributions may be dependent on its ability to make growth investments that generate new cash flow.

Real estate investment trusts (REITs) are closely linked to the performance of the real estate markets. REITs are subject to illiquidity, credit and interest-rate risks, and risks associated with small- and mid-cap investments. 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.

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

Average annual total returns (%) as of June 30, 2013

	1-year	5-year	Since inception
Market price	29.90	7.87	5.65
NAV	26.99	5.46	5.96

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. Average annual total returns based on Market Price assume the reinvestment of all distributions at the Dividend Reinvestment Plan Price and the deduction of management fees, operating expenses and all other fund expenses. Average annual total returns based on NAV assume the reinvestment of all distributions at net asset value and the deduction management fees, operating expenses and all other fund expenses. Inception date: 2/24/04. For current month-end performance, visit www.lmcef.com.

Distribution rates: Market price: 7.2%; NAV: 6.8%. **Distribution rate** is calculated by annualizing the most recent distribution amount paid, excluding special distributions, divided by the closing market price or NAV as of 6/30/13. The fund estimates that the distributions will be paid from: 51.40% investment income; 0% realized capital gains; and, 48.60% return of capital. These estimates are not for tax purposes and a 1099 will be issued following yearend. The Distribution Rate is subject to change and is not a quotation of Fund performance. The Board of Directors may terminate or suspend the Fund's managed distribution policy at any time. Any such termination or suspension could have an adverse effect on the market price of the Fund's shares. A return of capital is not taxable and results in a reduction in the tax basis of a shareholder's investment. For more information about a distribution's composition refer to the Fund's distribution press release or, if applicable, the Section 19 notice located in the press release section of www.lmcef.com.

MLP cash distributions are generally tax deferred. Non-cash expenses, such as depreciation or depletion, usually offset income derived from an MLP's operations. To the extent that these expenses exceed income, cash distributions are considered return of capital under tax law. As such, they are not taxed when received. Instead, the distribution, in the form of return of capital, reduces a unit holder's cost basis. This adjusted cost basis, in turn, results in a higher capital gain or lower capital loss when the units are sold. Of course, there can be no assurances that distributions from an MLP. will be tax deferred.

As a limited partner in the MLPs, the Fund reports its allocable share of the MLP's taxable income in computing its own taxable income. The distributions paid by the MLPs generally do not constitute income for tax purposes. Each MLP may allocate losses to the Fund which are generally not deductible in computing the Fund's taxable income until such time as that particular MLP either generates income to offset those losses or the Fund disposes of units in that MLP. This may result in the Fund's taxable income being substantially different than its book income in any given year. As a result, the Fund may have insufficient taxable income to support its distributions paid resulting in a return of capital to shareholders. A return of capital distribution is generally not treated as taxable income to shareholders and instead reduces a shareholder's basis in their shares of the Fund.

Legg Mason, its affiliates, and its employees are not in the business of providing tax or legal advice. These materials and any tax-related statements are for informational purposes only and are not intended or written to be used, and cannot be used or relied upon, by any taxpayer for the purpose of avoiding tax penalties. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax adviser. All information and underlying data have been obtained from sources considered to be reliable, but their accuracy and completeness cannot be assured

Portfolio allocations, holdings and characteristics referenced are as of June 30, 2013 and are subject to change at any time. Percentages based on the equity sleeve of the portfolio.

Equity Sector Allocations (%): Energy - MLPs 26.3, Financials - REITs 21.8, Financials - Other 12.2, Utilities 10.6, Industrials 8.5, Telecommunication Services 5.9, Health Care 4.5, Information Technology 3.4, Energy - Other 3.0, Consumer Staples 1.4, Consumer Discretionary 1.2, Materials 0.6, Cash & Other Securities 0.7.

Top Equity Holdings (%): TAL International Group Inc. 3.0, Vodafone Group PLC 2.8, Ares Capital Corp. 2.8, Och-Ziff Capital Management Group 2.7, Seagate Technology 2.3.

The **price-to-earnings (P/E) ratio** is a stock's price divided by its earnings per share.

Free cash flow is a company's cash from operations less any capital expenditures.

The views expressed are those of the portfolio managers as of May 14, 2013 and are subject to change based on market and other conditions. These views may differ from other portfolio managers or the firm as a whole, and are not intended to be a forecast of future events, a guarantee of future results, or investment advice. Discussions of individual securities are intended to inform shareholders as to the basis (in whole or in part) for previously made decisions by a portfolio manager to buy, sell or hold a security in a portfolio. References to specific securities are not intended and should not be relied upon as the basis for anyone to buy, sell or hold any security. Forecasts are inherently limited and should not be relied upon as an indication of actual or future performance.

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

***Survey Methodology:**
The research was conducted by Northstar Research Partners, an independent global marketing research firm with offices in New York, Toronto and London. Northstar conducts research across a wide range of industry sectors and is a recognized leader in financial services marketing research. For more information, please visit www.northstarhub.com. Legg Mason was not identified as sponsor of the survey to respondents. Respondents were not screened or selected based on usage of Legg Mason products or familiarity with Legg Mason. Respondents received a token payment (less than $10 USD) to incent them to complete the survey. The Legg Mason Global Income Survey was conducted between December 1, 2012 and January 30, 2013 utilizing responses from a total of over 3,000 investors as follows: 500 in the U.S.; 200 each in Canada, U.K., France, Spain, Italy, Germany, Hong Kong, Singapore, Japan, Taiwan, China and Australia. Screening criteria used for respondents:

1) Sole or joint decision-maker for household investment decisions.
2) $200,000+ investable assets, including investment real estate but not primary residence/vacation property (note: In each market, half the sample consisted of investors with $1MM+ assets).
3) Age 40-75. Statistical testing was conducted at the 95% confidence level.

Legg Mason Investor Services, LLC, ClearBridge Investments, LLC and Western Asset Mgmt. are subsidiaries of Legg Mason, Inc.

INVESTMENT PRODUCTS: NOT FDIC INSURED | NO BANK VALUE | MAY LOSE VALUE

Legg Mason is not affiliated with Capital Link.

Endnotes:

1. 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.

2. Source: Zephyr, for the 5-year period as of 3/31/13. There was a 57% performance correlation between the Alerian MLP Index and the S&P 500. **For illustrative purposes only and not intended to represent performance of the Fund or any specific investment. Past performance is no guarantee of future results.**

3. Unlike stocks, U.S. Treasuries are backed by the "full faith and credit" of the United States government and offer return of principal value if held to maturity. The U.S. government guarantees the principal and interest payments on U.S. Treasuries when the securities are held to maturity.

Aberdeen
Simply asset management.

Guanxi, mianzi, and business:

The impact of culture on corporate governance in China

By David Smith,
Head of corporate governance at Aberdeen Asset Management Asia Ltd.

- There are two key cultural and sociological issues of particular importance when evaluating Chinese companies: guanxi (relationships and networks) and mianzi (face).
- When analyzing the potential of a Chinese company, it's important to understand how guanzi and mianzi affect transactions, board composition and deliberations, and shareholder engagement, among other issues.
- While relationships matter everywhere, Chinese (and on a broader note, Asian) business is driven to a much greater extent by relationships and connections than is business in other economies.
- Given the close interpersonal relationships that are developed within China, business is often conducted between a set of individuals who share a very close bond or relationship.
- Aberdeen believes that investing in China means possessing a deep understanding of the cultural and social issues that govern not only personal interactions but those in business.
- It is unlikely that the influence of guanxi and mianzi will ever completely disappear even as China's corporate governance institutions develop and strengthen.

While understanding the fundamental drivers of a business is important when investing, understanding the cultural elements that drive behavior are of equal importance to investors. Much has been said about the explosive growth of China; less has been expressed about the strong influence that Chinese culture has on the way a business operates, how it is governed and how businesses interact with each other.

There are two key cultural and sociological issues of particular importance when evaluating Chinese companies: guanxi (relationships and networks) and mianzi (face). These issues, deeply ingrained in Chinese culture, have potential implications for investors. When analyzing the potential of a Chinese company, it's important to understand how these issues affect transactions, board composition and deliberations, and shareholder engagement, among others.

Introduction

Many investors may be familiar with the Chinese meaning of guanxi and the place of relationships and networks in the conducting of business in China. The concept of mianzi—and the business implications of individuals' saving, giving, or losing face is significantly less understood.

Understanding both of these concepts, and their importance in Chinese business relationships is of manifest importance.

It is possible, for example, to spend years developing a business relationship by applying a good understanding of guanxi, only to spectacularly fail because of a misunderstanding of mianzi.

In a society where cultural institutions are intertwined with commonly held understandings of corporate governance, and where a lack of public disagreement is found alongside a culture of state-ownership and related-party transactions, corporate governance implications for investors are significant.

> "It is possible to spend years developing a business relationship by applying a good understanding of guanxi, only to spectacularly fail because of a misunderstanding of mianzi."

Aberdeen
Simply asset management.

Guanxi and relationship-based business

Often thought to be a Chinese version of networking, guanxi (meaning connections or relations) has more to do with the building and maintaining of deep, complex interpersonal relationships and bonds between individuals.

What is important to understand about guanxi is that relationships are developed and nurtured over time, in many cases without a specific "need" or "use" for that relationship. Many businessmen new to China wait to develop relationships until they are faced with a problem; then they proceed to develop relationships to help with that particular problem. Or, if they recognize the importance of guanxi and establish relationships with appropriate individuals, they fail to maintain and cultivate those relationships. Both of those approaches miss the essence of guanxi: it must be cultivated over time.

In cultivating guanxi, both parties recognize that, as part of the developing relationship, a personal obligation is also developing. This obligation is reinforced when one party makes "use" of the relationship. By "using" the individual with whom one has guanxi, the moral code of reciprocity means that the user is likely to be called upon at a later, unspecified date to assist the other party. However, a moral code associated with guanxi does prevent an individual from exercising such obligations excessively.

While relationships matter everywhere, Chinese (and on a broader note, Asian) business is driven to a much greater extent by relationships and connections than is business in many other economies. This relationship-based approach to business has a number of ramifications for investors. For example, a lack of guanxi is a fundamental barrier to entry. Establishing the right guanxi with the right people can help an individual (and his or her business) tremendously—although having the right guanxi does not necessarily mean that success is a given.

Mianzi (face) and social norms

A related issue, mianzi, or face, is equally important within Chinese social settings and therefore of significant importance in a business context. Face is a sociological manifestation of a desire to retain social stability, hierarchy, and[1] respect, a need to be respected by others and not be embarrassed in social interactions.

Although other cultures have similar sociological constructs, the importance of face in China is such that a misunderstanding can have serious consequences for an individual or business. Face is fundamentally about perception, respect, and appropriate deference. Significantly, face is of equal importance in relationships with people of greater seniority, of similar seniority (peers), and of a junior standing.

Giving face involves an act that communicates an appropriate level of respect. Examples might include accepting an invitation to the wedding of a business partner's eldest son, stressing the accomplishments of a business partner in a social setting, avoiding direct conflict, and generally ensuring compliance with expected norms of etiquette.

The desire to save face is common in many business environments, yet it is of manifest importance in China. Situations in which an individual might lose face include open and public criticism by a peer or manager, or an open display of anger. One example of causing a counterparty to lose face illustrates the issue better than most: A friend recalled bringing his chief executive officer to China to discuss business with senior management of a large Chinese company. The chief executive officer thought the meeting had gone well but, on leaving the meeting, had left all the Chinese delegation's name cards on the table in the meeting room—a move that had not gone unnoticed by the Chinese hosts. Treating name cards with respect is a central element of face—looking at the name card, commenting on the individual's job, and treating the item with respect all give face to the individual. Leaving the name cards in the meeting room, however, does not.

What does this mean for corporate governance in China?

First, given the close interpersonal relationships that are developed within China, business is often conducted between a set of individuals who share a very close bond or relationship. These are relationships are sometimes formalized via equity-stakes, or the formation of joint ventures. As a result of these formalized business relationships, many subsequent transactions with these individuals are by definition related-party transactions.

Second, as a result of (or in order to develop) strong guanxi, corporate money may not be put to best use in the short term, if the manager is focusing instead on the deepening of bonds with an eye on the longer term. Over time, investors should not be surprised to see money from a listed entity used to support a supplier/partner in times of need, either through the extension of a loan or through acquiring assets to provide financial assistance.

Third, dominant chief executive officers in China may tap into their network of relationships when selecting directors, meaning that debate and discussion are perhaps less robust than in other boardrooms. Individuals deemed independent by a company may not, in fact, be independent of a chief executive officer. While not unique to China, investors considering independence must undertake due diligence on individuals, and look not only at current directorships but also at historical ties, including former board interlinks and overlaps, school and university education, birthplace, and so on. Indeed, understanding of the concept of independence in China may differ from the understanding of it in other countries and cultures.

Finally, the overriding consideration given to face means that in many cases direct conflict is avoided in the boardroom. While skilled directors can put points across outside the boardroom, the desire to give face may mean that the inexperienced or unskilled director does not challenge bad decisions or behaviors.

[1] The silent Chinese: The influence of face and kiasuism on student feedback-seeking behaviors, Hwang, Ang and Francesco, Journal of Management Education 26 (1): 70-98.

Culture and shareholder engagement

Faced with the dual challenge of guanxi and mianzi, how might non-Chinese shareholders engage with Chinese companies? We believe that investors engaging with Chinese companies should focus on three strategies:

First, engage early. In the context of guanxi, it is important to cultivate relationships early on and to maintain those relationships. Even where there are no immediate issues, shareholders, as owners, should seek to develop and cultivate relationships with management of Chinese companies.

Second, engagement should be constructive, not confrontational, and with respect for management. Many engagements in China take place in a room packed with company representatives. In our experience, two research analysts are often met by anywhere from four to 12 company representatives of varying seniority (with the most senior usually in the center of the table). The two senior individuals are usually most involved in the discussions, with the junior representatives more often taking copious notes. From time to time, others will be called into and out of the meeting as required, involving a cast of many.

Third, if engagement is not as productive as might be hoped, tapping into one's guanxi may help uncover the answer. We have heard stories of people having seemingly constructive and useful discussions with mid-ranking individuals at a State-owned enterprise, then returning from these meetings and reporting that, although things seemed to be going well, not much was being achieved. The reason? The people they talked with were not sufficiently senior to make any useful comments or offer solutions; they could only listen to concerns, offer platitudes, and agree (under duress) to follow-up meetings.

Guanxi versus corruption

One important—and widely discussed—issue related to business conducted on the basis of close personal bonds, as seen in many markets, is that of corruption. As the Chinese economy grows in size and influence, not only in Asia but also worldwide, it becomes increasingly important that corruption, or perceptions thereof, be addressed effectively. In this context, it is helpful to give careful consideration to the element of guanxi. And, corporate governance has a significant role in addressing this issue, not only for the benefit of the international community but also, perhaps more importantly, for the people of China. They, as well as investors from abroad, must feel comfortable bringing their capital to Chinese companies.

Moreover, the Chinese government speaks of "social harmony," an important component of which is an appropriate response to corruption—that is, adherence to good practices of corporate governance. This issue is also important for Chinese companies that seek to raise capital in other markets: some Chinese companies listed on NASDAQ, for example, have been perceived as being corrupt or fraudulent, leading to their being de-listed. The business leadership of China, which, as we have seen, functions to an important extent on the basis of relationships, will need to carefully balance this tradition while keeping to practices that are free of the risks associated with corruption.

"One important—and widely discussed—issue related to business conducted on the basis of close personal bonds, as seen in many markets, is that of corruption."

Final thoughts

Aberdeen believes that investing in China means possessing a deep understanding of the cultural and social issues that govern not only personal interactions but those in business. Over time, and as China's corporate governance institutions develop and strengthen, guanxi and mianzi may decline in importance. It is unlikely, however, that the influence of personal relationships or the importance of giving face will ever completely disappear.

For more information on Aberdeen's closed-end funds, please see www.aberdeen-asset.us/cef

"Much has been said about the explosive growth of China; less has been expressed about the strong influence that Chinese culture has on the way a business operates, how it is governed and how businesses interact with each other."

A version of this article first appeared as a Private Sector Opinion, published by the Global Corporate Governance Forum. The Global Corporate Governance Forum supports corporate governance reforms in emerging markets and developing countries. It is part of the Corporate Governance Group of the International Finance Corporation.

Upcoming CEF & ETF Webinars

To join our **COMPLIMENTARY** webinars, sign up at:
http://webinars.capitallink.com/sectors/cef-etf.htm

Topic: CEF Analyst Roundtable
Date: Tuesday, June 11th, 2013
Time: 11 AM EST

Moderator: **Robert F. Bush, Jr.**, *Senior Vice President of Closed-End Funds* - Calamos Investments

Panelists:

Alex Reiss, *Director, Closed-End Fund Research* - Stifel Nicolaus;

Dan Brown, *Closed-End Fund and Exchange-Traded Tracking Product Analyst* – Wells Fargo Advisors

David Perlman, *Vice President, ETF & CEF Research* – Morgan Stanley Wealth Management;

Elias Lanik, *Senior Closed-End Fund Analyst* – Bank of America, Merrill Lynch;

Topic: Mexico- The Smart Alternative Investment
Date: Wednesday, June 19th, 2013
Time: TBD

Speakers:

Maria Eugenia Pichardo, *Senior Portfolio Manager* - Pichardo Asset Management

Arnulfo Rodriguez, *Debt Analyst* – Accival Banamex

Topic: ETFs Outlook & Minimum Volatility
Date: Tuesday, July 2nd, 2013
Time: 11 AM EST

Speakers: **Joseph Nelesen**, **Ph.D,** *Director, iShares Product Research & Development* - BlackRock ; **Raman Aylur Subramanian, CFA,** *Executive Director, Index Research* - MSCI

Topic: Investment Opportunities in the MLP Space
Date: Tuesday, July 9th, 2013
Time: 11 AM EST

Speaker: **Kenny Feng,** *President & CEO* - Alerian

Topic: Alternative Strategies using ETPs
Date: Tuesday, July 23rd, 2013
Time: 11 AM EST

Speaker: **Michael Akins,** *Portfolio Manager* - ALPS ETF Trust

Topic: TBD
Date: Tuesday, August 20th, 2013
Time: 11 AM EST

Speaker: **Cohen & Steers**

12th Annual Capital Link Closed-End Funds and Global ETFs Forum

12th Annual Capital Link Closed-End Funds and Global ETFs Forum
Wednesday, April 24, 2013
The Metropolitan Club, One East 60th St.,New York City

Another record year at Capital Link's 12th Annual Closed-End Funds & Global ETFs Forum- Attendance Surpasses **1,000+** Delegates

On Wednesday, April 24, 2013, at the Metropolitan Club in New York City, Capital Link hosted another prestigious and hugely successful Closed-End Funds & Global ETFs Forum for the twelfth year in a row. The event was organized in cooperation with the NYSE Euronext. As in previous years, it attracted more than **1,000+** delegates comprised mainly of financial advisors and wealth managers, institutional investors, portfolio managers, analysts, media and other industry participants, who gathered to discuss, debate and exchange information on critical industry topics, and to network.

The opening address of the forum was delivered by John Calamos, *CEO & Global Co-CIO* of Calamos Investments on, "The State of the CEF Industry in 2013" and by Dodd Kittsley, Director, *Global Head of ETP Research* of BlackRock on, "The State of the ETF/ETP Industry in 2013." The forum was followed with distinguished presenters and panelists from CEF and ETF industry heavyweights, covering on a range of topics from international investing to energy investments, as well as commodity ETFs, equity volatility management, preferred securities, high yield and convertibles, currency hedging, use of leverage in closed-end funds, risk mitigation strategies, and a dedicated CEF and ETF industry roundtable.

In additional, the Annual Closed-End Fund & ETF awards was held during the luncheon. The keynote address was delivered by Piers Currie, *Group Head of Brand* of Aberdeen Asset Management on, "Bridging the Transparency Gap," which focused on the importance of best practices in investor relations for closed-end funds.

Capital Link's Annual Closed-End Funds & Global ETFS Forum is the only industry, marketing, and networking event to combine closed-end funds and ETFs. The event served not only as a resource for sharing and evaluating the latest CEF and ETF products and trends, but also as an interactive platform for enhancing visibility and establishing the right connections.

Click here to access the audio files and presentations of Capital Link's 12th Annual Closed-End Funds and Global ETFs Forum.

Lead Sponsor:	Aberdeen
Gold Sponsors:	ALPS Distributors, Inc.; Calamos; Deutsche Asset & Wealth Management
Silver Sponsors:	Cohen & Steers; Cushing MLP Asset Management; FourWood Capital Partners, L.L.C.; iShares by BlackRock; Legg Mason Global Asset Management; Morningstar; Nuveen Investments

SAVE THE DATE:

13th ANNUAL CAPITAL LINK CLOSED-END FUNDS & GLOBAL ETFs FORUM
Thursday, April 24th, 2014
Metropolitan Club, New York City

For participation opportunities, contact Nicolas Bornozis at funds@capitallink.com