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The Month in Closed-End Funds: October 2013

PERFORMANCE

For the second consecutive month both equity and fixed income CEFs were in the black. They gained on average 2.99% and 1.58%, respectively, on a NAV basis and 3.63% and 1.18% on a market basis. Investors shrugged off their concerns over the 16-day partial shutdown of the government and the brinkmanship that took the U.S. government to the edge of default—resolved only by a last-minute bipartisan agreement on Capitol Hill to fund the U.S. government through January 15 and to raise the debt ceiling through February 7. Investors breathed a sigh of relief after the fiscal disagreements hindered the Federal Reserve's case for tapering in October, and they pushed the S&P 500 to multiple record closes during the month. A soft nonfarm payrolls report (that was released mid-month because of the partial government shutdown) provided further support that the Fed probably wouldn't start tapering anytime soon, with the U.S. economy creating just 148,000 jobs for September—below consensus estimates of 180,000.

While September existing home sales and retail sales generally disappointed, investors cheered better-than-expected industrial production, capacity utilization, and durable goods orders reports. On the earnings front strong third quarter results from the likes of Amazon, Microsoft, Pfizer, and IBM helped push the S&P 500 to an all-time high on October 29 , closing at 1,771.95—for its thirty-third record close of the year. According to the Thomson Reuters Proprietary Research team, of the 365 S&P 500 constituents reporting Q3 earnings thus far, 69% beat analyst expectations.

Longer-dated Treasury debt rallied on the nonfarm payrolls news, with many investors speculating that the U.S. recovery was progressing too slowly for the Fed to cut back on its $85-billion monthly asset purchases. The ten-year Treasury yield declined to a 2.51% closing low on October 23 before gradually regaining some ground and closing at 2.57% on October 31—7 bps below its September month-end value. In the last few days of trading and after the Fed released its meeting statement, investors contemplated the possibility that the Fed may taper its bond buying sooner than expected after reports showed that manufacturing and consumer spending grew faster than originally anticipated. Nonetheless, at maturities of two years or greater the Treasury yield curve shifted downward, with the five- and twenty-year yields declining the most—8 bps each—to 1.31% and 3.33%, respectively, on October 31.

For October the dollar weakened modestly against the euro (-0.42%) and the yen (-0.15%), but it gained slightly against the pound (+0.81%). For the second consecutive month commodities prices were on the decline, with the near-month crude oil price dropping 5.81% to close the month at $96.38/barrel and with gold prices slipping 0.22% to end the month at $1,323.60/ounce.

The Month in Closed-End Funds: Oct. 2013

- For October only 11% of all closed-end funds (CEFs) traded at a premium, with 10% of equity funds and 12% of fixed income funds trading in premium territory to their NAVs. The high-yield bond funds, domestic equity funds, and world equity funds macro-groups witnessed a narrowing of discounts for the month.
- All of Lipper's equity CEF and fixed income CEF classifications were in the black for the second consecutive month.
- For a second month in a row all of the municipal bond fund groups posted plus-side returns, with single-state municipal bond funds (+1.20%) marginally outpacing their national municipal debt fund brethren (+1.14%).
- With global economics improving and the Federal Reserve holding steady on its easy money policy in October, the world equity CEFs macro-group (+3.39%) remained at the head of the class for the second month in a row, with the Emerging Markets CEFs (+4.21%) classification posting the strongest return in the universe.

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THOMSON REUTERS

For October 97% of all CEFs posted NAV-basis returns in the black, with 95% of equity CEFs and 99% of fixed income CEFs chalking up returns in the plus column. An upbeat assessment by India's finance minister about India's attempts to reduce its current account deficit and lower inflation, along with news that China's September purchasing managers index posted better-than-expected results, lifted the broad markets. This helped the world equity CEFs macro-group remain at the top of the charts (+3.39%) for the second month in a row, outperforming both domestic equity CEFs (+2.95%) and mixed-asset CEFs (+2.42%).

For the second consecutive month all of Lipper's equity CEF and fixed income CEF classifications were in the black. Given the upbeat news in the world economies along with the U.S. Fed's decision to maintain its loose monetary policy, it wasn't surprising to see the world bond CEFs macro-group (+2.30%) rising to the top of the fixed income group; it outperformed taxable domestic bond CEFs (+2.01 on a NAV basis) and municipal bond CEFs (+1.17%).

Only 13 individual equity CEFs posted returns in the red for October. Seven of the ten top funds were housed in Lipper's World Equity Funds macro-group. Late in the month overseas markets perked up after data showed China's October purchasing managers index rose to 50.9 on a rise in new orders. And India reported that overseas investors were net buyers of Indian assets for the nineteenth consecutive session on October 30, pushing Emerging Markets Funds up 4.21%. Despite the drop in oil and gold prices during the month, equities tied to energy- and commodity-related issues still managed to stay in the plus column, with Sector Equity Funds (the domestic equity macro-group's laggard for the second month in a row) returning 1.54% and Energy MLPs returning 2.18%. Income & Preferred Stock Funds posted the third lowest return for the month (+2.36%). For the remaining equity classifications returns ranged from 2.55% (Convertible Securities Funds) to 3.86% (Value Funds).

Three of the five top-performing individual equity funds were housed in Lipper's Emerging Markets CEFs classification, with India geo-focused funds taking the two top spots for October: **Morgan Stanley India Investment Fund, Inc. (NYSE: IIF**, the bronze medal winner for September), gaining 11.32% on a NAV basis and traded at a 12.12% discount at month-end, and **India Fund, Inc. (NYSE: IFN)**, posting a 9.64% return and traded at a 13.10% discount on October 31. Following those two were **ENGEX Inc. (OTC: EXGI**, housed in Lipper's Core CEFs classification and September's laggard), rising 8.22% on a NAV basis; **New Germany Fund, Inc. (NYSE:** GF, housed in Lipper's Developed Markets CEFs classification), chalking up a 7.35% return and traded at an 8.03% discount at month-end; and **Templeton Emerging Markets Fund (NYSE: EMF**, housed in Lipper's Emerging Markets Funds classification), rising 7.32% and traded at a 5.98% discount on October 31.

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	95	66	32	10	89
Bond Funds	99	36	62	12	87
ALL CEFS	**97**	**48**	**50**	**11**	**88**

TABLE 2 AVERAGE NAV RETURNS, SELECTED PERIODS (%)

	OCTOBER	YTD	3-MONTH	CALENDAR-2012
Equity Funds	2.99	13.39	3.91	15.42
Bond Funds	1.58	-1.40	2.32	15.04
ALL CEFS	**2.12**	**4.31**	**2.94**	**15.18**

TABLE 3 NUMBER OF IPOs, SELECTED 12-MONTH PERIODS

	OCTOBER 2013	CALENDAR-2012
ALL CEFS	**31**	**31**

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

3 MONTHS THROUGH 9/30/2013	231
COMPARABLE YEAR-EARLIER 3 MONTHS	637
CALENDAR 2012 AVERAGE	506

Source: Lipper, a Thomson Reuters company

For the month the dispersion of performance in individual equity CEFs—ranging from minus 6.16% to positive 11.32%—was narrower than September's spread but similarly skewed to the plus side. The 20 top-performing equity funds posted returns in excess of 5.03%, while the 20 lagging funds were at or below 1.09%.

For the month **RENN Global Entrepreneurs Fund, Inc. (AMEX: RCGI)**, housed in Lipper's Global Funds classification, was at the bottom of the equity CEFs group, shedding 6.16% of its September month-end value and trading at a 43.24% discount (the largest discount in the CEFs universe) on October 31. **Royce Value Trust, Inc. (NYSE: RVT**, warehoused in Lipper's Core CEFs classification) was the next poorest performing equity fund, declining 4.72% and traded at a 13.04% discount at month-end.

For the second month in a row all of Lipper's municipal debt CEF classifications posted plus-side NAV-based returns, with California Municipal Debt Funds (+1.35%) and New Jersey Municipal Debt Funds (+1.31%) rising to the top of the group. General & Insured Municipal Debt Funds (+0.81%) and High Yield Municipal Debt Funds (+0.94%) were the laggards. The municipal debt funds macro-group (+1.17%) underperformed its taxable domestic CEFs counterpart (+2.01%). Single-state municipal debt funds (+1.20%) outpaced their national municipal debt fund counterparts (+1.14%) by just 6 bps.

As conditions continued to improve for the world markets, the two classifications making up Lipper's World Income Funds macro-group (+3.30%) jumped forward in standing, with Emerging Markets Debt Funds (+2.79%) outpacing its Global Income Funds (+2.00%) counterpart. With fears of rising interest rates on the decline for the near term, the adjustable-rate Loan Participation Funds (+1.25%) classification became the laggard of the taxable group, while investors once again bid up High Yield Funds (Leveraged) (+2.91%) and High Yield Funds (+2.32%) for October. The Fed's decision to keep pumping money into the markets at the current rate pushed yields lower. The two-/ten-year Treasury spread narrowed 5 bps from September's month-end 2.26%. The yield on the ten-year Treasury note finished the month 7 bps lower at 2.57%.

In the domestic taxable fixed income CEFs universe (+2.01%) the remaining classification returns ranged from 1.31% (Corporate BBB-Rated Debt Funds) to 2.07% (Corporate BBB-Rated Debt Funds [Leveraged]). Only 16 individual fixed income CEFs posted returns in the red for September.

The two top-performing CEFs in the fixed income universe were housed in Lipper's High Yield Funds (Leveraged) classification. At the top of the list was **NexPoint Credit Strategies Fund (NYSE: NHF)**, rising 9.56% and traded at a 14.95% discount on October 31. Following NHF were **Neuberger Berman High Yield Strategies Fund Inc. (NYSE: NHS)**, tacking 4.33% onto its September month-end value and traded at a 7.56% discount at month-end, and **BlackRock Multi-Sector Income Trust (NYSE: BIT**, housed in Lipper's General Bond Funds classification), posting a 4.32% return and traded at a 10.08% discount on October 31.

PREMIUM AND DISCOUNT BEHAVIOR

For October the median discount of all CEFs widened 71 bps to 8.57%—considerably lower than the 12-month moving average discount (4.19%). Equity CEFs' median discount narrowed 38 bps to 9.56%, while fixed income CEFs' median discount widened 65 bps to 7.81%. Municipal bond funds' median discount widened 105 bps to 7.89%. National municipal debt funds experienced the largest widening of discount, 165 bps to 7.48%, while single-state municipal debt funds' discount widened 94 basis points to 8.57%. High Yield Funds witnessed the only narrowing of discounts in the fixed income universe, narrowing 28 bps to 7.12%, while World Equity Funds experienced the largest narrowing in the equity universe—by 49 bps to 10.37%.

For the month 48% of all funds' discounts or premiums improved, while 50% worsened. In particular, 66% of equity funds and 36% of fixed income funds saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on September 30 (68) was 11 more than on October 31.

CEF EVENTS AND CORPORATE ACTIONS

IPOs

The IPO of **Ares Multi-Strategy Credit Fund (NYSE: ARMF)** priced an offering of 5.2 million shares at $25 and raised $130 million in gross proceeds. The fund could raise up to $149.5 million, should the underwriters exercise their over-allotment options.

RIGHTS, REPURCHASES, TENDER OFFERS

Directors of **The Taiwan Fund (NYSE: TWN)** established a process for identifying an investment manager to replace the existing investment advisory arrangements with Martin Currie and APS Asset Management PTE Ltd. The board intends to make a determination on the selection of a replacement investment manager in the middle of January 2014. After that, shareholders will be asked to approve the selection at a special meeting in March 2014. The fund's discount stood at 10.8% at the end of October.

MERGERS AND REORGANIZATIONS

Shareholders of **BlackRock Senior High Income Fund (NYSE: ARK)** and **BlackRock Strategic Bond Trust (NYSE: BHD)** approved the reorganization of their funds into **BlackRock Debt Strategies Fund (NYSE: DSU).** The reorganizations are expected to be completed by December 9, 2013. The discount on DSU narrowed to 7.0% by the end of October.

BlackRock Advisors announced special distributions for **BlackRock High Yield Trust (NYSE: BHY), BlackRock Corporate High Yield Fund (NYSE: COY), BlackRock Corporate High Yield Fund III (NYSE: CYE), BlackRock High Income Shares (NYSE: HIS), BlackRock Corporate High Yield Fund V (NYSE: HYV), and BlackRock Corporate High Yield Fund VI (NYSE: HYT)** in connection with the reorganization of BHY, COY, CYE, HIS, and HYV into HYT.

The boards of several Nuveen California municipal debt CEFs approved a series of mergers, subject to shareholder approval at annual shareholder meetings in early 2014: **Nuveen California Performance Plus Municipal Fund (NYSE: NCP), Nuveen California Municipal Market Opportunity Fund (NYSE: NCO), Nuveen California Investment Quality Municipal Fund (NYSE: NQC), Nuveen California Quality Income (NYSE: NUC),** and **Nuveen California Select Quality Municipal Fund (NYSE: NVC)** into **Nuveen California Dividend Advantage Municipal Fund (NYSE: NAC);** and **Nuveen California Premium Income Municipal Fund (NYSE: NCU) into Nuveen California AMT-Free Municipal Income Fund (NYSE: NKX).**

OTHER

Directors of **The Japan Equity Fund (NYSE: JEQ)** approved and recommended that shareholders approve an investment management agreement between JEQ and Aberdeen Asset Management Asia Limited, which will replace the fund's current investment manager, Daiwa SB Investments (USA) Ltd. Management fee breakpoints will remain the same. The fund's discount stood at 9.5% at the end of October.

Trustees of **Eaton Vance Enhanced Equity Income Fund (NYSE: EOI), Eaton Vance Enhanced Equity Income II Fund (NYSE: EOS), Eaton Vance Tax-Managed Buy-Write Income Fund (NYSE: ETB), Eaton Vance Tax-Managed Buy-Write Opportunities Fund (NYSE: ETV), Eaton Vance Tax-Managed Global Buy-Write Opportunities Fund (NYSE: ETW), Eaton Vance Tax-Managed Diversified Equity Income Fund (NYSE: ETY), Eaton Vance Tax-Managed Global Diversified Equity Income Fund (NYSE: EXG),** and **Eaton Vance Risk-Managed Diversified Equity Income Fund (NYSE: ETJ)** approved the continuation of each fund's share repurchase program. The funds may repurchase up to 10% of their common shares outstanding as of September 30, 2013, in open-market transactions at a discount to NAV.

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CEF Performance Statistics

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Category	Average of 1MO NAV Change	Average of 1MO MKT Change	Average P/D 9/30/2013	Average P/D 10/31/2013	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	-0.8%	-1.7%	-5.15	-4.26	-0.89	-9.66%	-13.75%	-4.49
Convertible Securities Funds	-2.0%	-2.5%	-7.56	-7.12	-0.44	10.48%	10.81%	0.37
Core Funds	-2.8%	-7.3%	-7.96	-7.48	-0.48	9.26%	11.45%	5.86
Corporate BBB-Rated Debt Funds(Leveraged)	-1.5%	-1.4%	-6.28	-6.29	0.01	-2.68%	-8.47%	-5.92
Corporate Debt Funds BBB-Rated	-0.8%	-1.0%	-11.51	-11.38	-0.13	-5.01%	-12.07%	-7.27
Developed Market Funds	-2.4%	-3.7%	-8.98	-7.82	-1.16	18.97%	22.02%	2.57
Emerging Markets Funds	-3.7%	-3.8%	-8.27	-8.23	-0.04	-1.87%	-1.61%	0.39
Emerging Mrkts Hard Currency Debt Funds	-2.2%	-1.4%	-8.65	-9.36	0.71	-10.88%	-15.90%	-5.54
Energy MLP Funds	-1.9%	-7.0%	-0.34	-0.08	-0.26	11.42%	13.61%	-3.64
General & Insured Muni Debt Funds (Leverage)	-0.7%	-1.1%	-5.65	-6.48	0.83	-11.38%	-16.91%	-6.32
General & Insured Muni Funds (Unleveraged)	-0.4%	0.0%	-5.59	-5.99	0.4	-6.14%	-10.35%	-4.45
General Bond Funds	-1.5%	-1.3%	-5.26	-6.35	1.09	-11.09%	-8.24%	-5.37
Global Funds	-6.2%	-7.5%	-12.04	-10.84	-1.2	8.49%	8.18%	-0.96
Global Income Funds	-1.5%	-1.9%	-7.75	-7.29	-0.46	-5.49%	-11.70%	-6.61
Growth Funds	-2.2%	-1.7%	3.7	3.74	-0.04	8.88%	-24.14%	10.85
High Yield Funds	-1.7%	-0.9%	-4.83	-5.55	0.72	1.61%	-3.51%	-4.35
High Yield Funds (Leveraged)	-2.0%	-1.8%	-4.26	-4.36	0.1	2.01%	-2.29%	-4.16
High Yield Municipal Debt Funds	-0.4%	-0.1%	-3.18	-3.31	0.13	-9.75%	-14.25%	-4.91
Income & Preferred Stock Funds	-1.7%	-1.8%	-7.55	-7.84	0.29	-10.48%	-3.20%	-4.22
Intermediate Municipal Debt Funds	-0.6%	0.5%	-3.86	-4.89	1.03	-6.80%	-10.82%	-5.10
Loan Participation Funds	-0.7%	-0.6%	-2.86	-3.08	0.22	1.76%	-2.64%	-2.85
Natural Resources Funds	-2.3%	-3.4%	-10.01	-8.85	-1.16	10.72%	7.73%	-3.22
New Jersey Municipal Debt Funds	-0.8%	0.7%	-8.47	-9.84	1.37	-9.85%	-20.13%	-11.74
New York Municipal Debt Funds	-0.7%	0.2%	-4.77	-5.68	0.91	-10.33%	-16.41%	-6.85
Options Arbitrage/Opt Strategies Funds	-2.6%	-3.7%	-7.63	-6.54	-1.09	7.62%	9.52%	1.73
Other States Municipal Debt Funds	-0.6%	-2.8%	-7.15	-7.91	0.76	-10.59%	-17.55%	-7.89
Pacific Ex Japan Funds	-3.5%	-3.8%	-11.03	-10.74	-0.29	3.24%	-0.28%	-3.24
Pennsylvania Municipal Debt Funds	-0.6%	0.3%	-10.31	-11.09	0.78	-10.67%	-19.40%	-9.67
Real Estate Funds	-3.0%	-3.3%	-9.03	-8.93	-0.1	-6.66%	-1.02%	-1.13
Sector Equity Funds	-1.3%	-1.4%	-6.03	-5.42	-0.61	-3.19%	5.17%	1.38
U.S. Mortgage Funds	-1.1%	-1.4%	-9.27	-8.92	-0.35	-2.39%	-7.99%	-5.29
Utility Funds	-3.1%	-2.9%	-6.46	-6.77	0.31	10.38%	6.48%	-3.53
Value Funds	-3.4%	-4.2%	-12.14	-11.27	-0.87	16.99%	18.24%	1.19

Top 5 Performing CEFs

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Fund Name	Category	Ticker Symbol	1-Month NAV Change	Rank
RENN Glbl Entrepreneurs	Global Funds	RCG	6.56%	1
Royce Value Trust	Core Funds	RVT	4.95%	2
Dividend & Income	Income & Preferred Stock Funds	DNI	4.14%	3
Clough Glbl Opptys	Global Funds	GLO	3.22%	4
Clough Glbl Allocation	Global Funds	GLV	3.05%	5

Fund Name	Category	Ticker Symbol	Year-to-Date NAV Change	Rank
New Germany Fund	Developed Market Funds	GFN	41.38%	1
New Ireland Fund	Developed Market Funds	IRL	37.98%	2
H&Q Healthcare Investors	Sector Equity Funds	HQH	33.24%	3
H&Q Life Sciences Invtrs	Sector Equity Funds	HQL	31.02%	4
NexPoint Credit Strat	High Yield Funds (Leveraged)	NHF	30.38%	5

Fund Name	Category	Ticker Symbol	1-Month Market Change	Rank
Babson Cap Part Inv	General Bond Funds	MPV	5.63%	1
Royce Value Trust	Core Funds	RVT	5.50%	2
Firsthand Technology Val	Sector Equity Funds	SVC	5.02%	3
Kayne Anderson Enrgy TR	Energy MLP Funds	KYE	4.94%	4
Nuveen MA AMT-F Muni Inc	Other States Municipal Debt Funds	NMS	4.61%	5

Fund Name	Category	Ticker Symbol	Year-to-Date Market Change	Rank
New Germany Fund	Developed Market Funds	GFN	45.64%	1
H&Q Healthcare Investors	Sector Equity Funds	HQH	41.59%	2
New Ireland Fund	Developed Market Funds	IRL	36.26%	3
Firsthand Technology Val	Sector Equity Funds	SVC	33.66%	4
PIMCO Gl StksPLUS & Inc	Options Arbitrage/Opt Strategies Funds	PGP	32.58%	5

Fund Name	Category	Ticker Symbol	1-Month P/D Change	Rank
Tortoise Energy Cap Corp	Energy MLP Funds	TYY	6.70	1
Pimco CA Muni Income II	California Municipal Debt Funds	PCK	6.59	2
Tortoise NA Energy Corp	Natural Resources Funds	TYN	6.52	3
Dividend & Income	Income & Preferred Stock Funds	DNI	6.40	4
J Hancock Tx-Ad Gl Sh Yd	Global Funds	JTG	5.47	5

Fund Name	Category	Ticker Symbol	Year-to-Date P/D Change	Rank
Engex Inc	Core Funds	EXGI	43.56	1
Foxby Corp	Growth Funds	FXBY	30.62	2
Equus Total Return	Core Funds	EQS	28.92	3
PIMCO Gl StksPLUS & Inc	Options Arbitrage/Opt Strategies Funds	PGP	28.87	4
PIMCO High Income	High Yield Funds (Leveraged)	PHK	28.69	5

Highlights (US$):[1,2]

Global ETP flows in October totaled $32.9bn aided by a substantial tailwind from a second straight month of attractive Equity market returns worldwide. Fed tapering is now expected to be delayed until March according to consensus estimates3, although the door was left open for tapering in December at the latest FOMC meeting. Concern over the US debt ceiling has eased, leading flows to recover in the second half of October after 4 weeks in a holding pattern (see below).

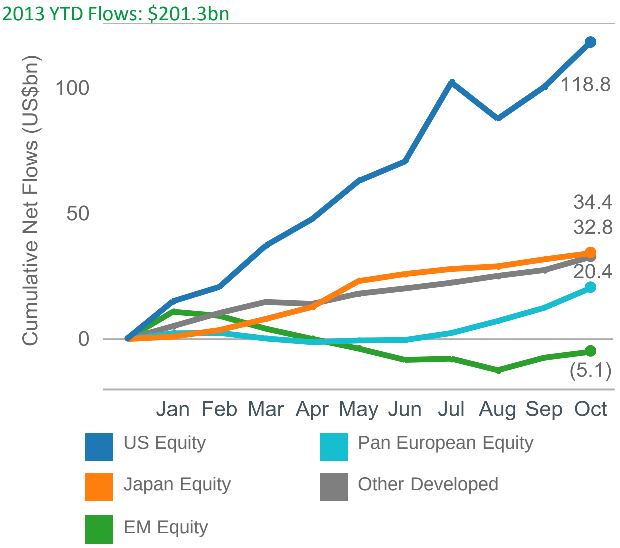
Equity flows of $35.9bn in October were broad-based, with strong contributions from US, Developed Markets outside US (particularly Europe) and Emerging Markets exposures.

European Equities have seen the highest growth in recent months after a slow first half of the year. October flows into Pan-European exposures totalled $7.9bn representing a fourth consecutive monthly increase and a new record.

- Improved growth expectations in the region and attractive valuations have led to double digit returns in the second half of the year – including 6.6% in October4 – following flat returns in the first half.
- Additionally total assets for Europe listed products reached a milestone, surpassing $400bn during the month. All of this year's growth has come quickly in the second half following a 3% drop during the first half to $356bn in June.

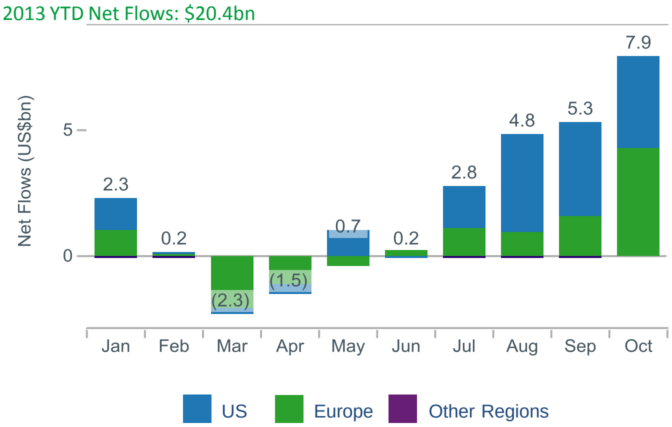
GLOBAL EQUITY CUMULATIVE ETP FLOWS[1]

2013 YTD Flows: $201.3bn



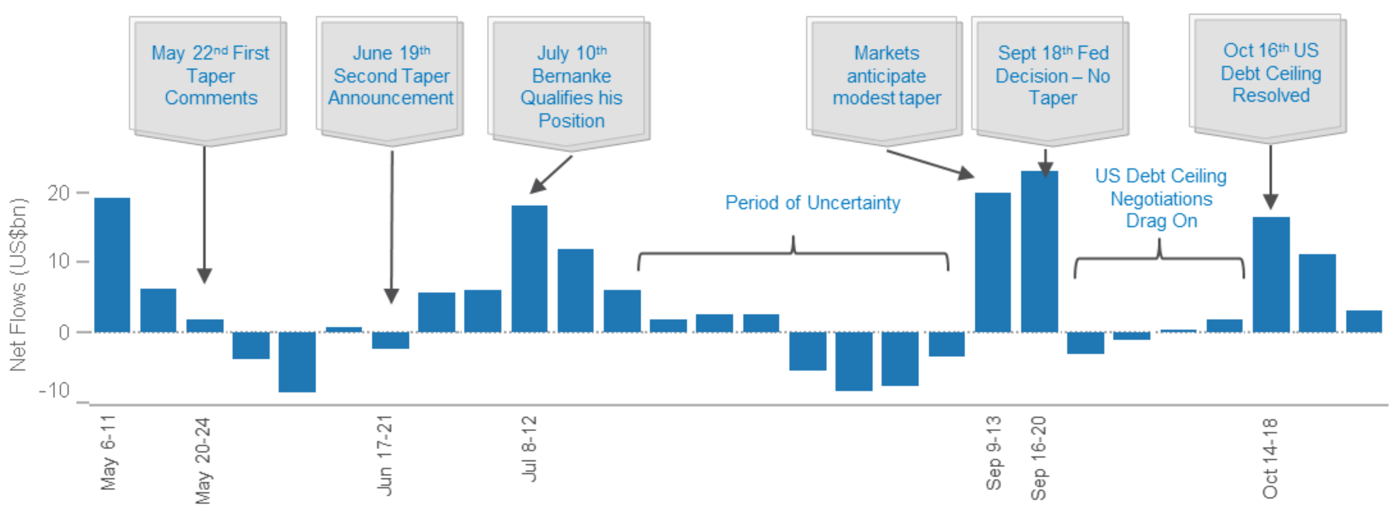
GLOBAL FIXED INCOME CUMULATIVE ETP FLOWS[1,2]

2013 YTD Net Flows: $20.4bn



ECONOMIC POLICY IMPACT ON GLOBAL ETP FLOWS[1]

2013 Recent Weekly Trends



Source: BlackRock

Highlights (US$):[1,2]

Emerging Markets Equities flows of $2.4bn in October built upon a strong September, bringing the category closer to break even for the year after net redemptions hit a year-to-date low of ($12.4bn) in August.

- The MSCI Emerging Markets Index rose 4.8% during the month[5] helped by positive signs of growth in China.
- Both Broad Emerging Markets and Single Country ETPs benefitted, gathering $1.6bn and $0.5bn, respectively. The Single Country flows were driven by China, including a boost from new product launches.

US Equity ETPs accumulated $18.0bn concentrated mostly in Large Cap and Mid Cap exposures. Sectors contributed $3.1bn driven by Consumer Non-Cyclicals and Technology. Year-to-date US Equity flows have reached $118.8bn, up substantially from $48.7bn though October of last year.

A key theme in October was investor appetite for yield, whether from Equity Income or High Yield Fixed Income ETPs. Demand continues unabated – the 10-Year Treasury rate[6], while higher than it was prior to May, has pulled back from its early September highs – and interest rates now look likely to remain lower for longer than they did earlier in the year.

- **Equity Income** (Dividend Income, Preferred Stocks and Real Estate) flows of $2.5bn in October were predominantly from Dividend Income ETPs and have now reached $24.8bn YTD.
- **High Yield Fixed Income** flows reached a 21-month high in October of $2.8bn and totalled $4.9bn in the past two months. Year-to-date flows were $5.6bn.

Fixed Income overall experienced outflows of ($0.7bn) in October and has been held to $24.8bn year-to-date. **Floating Rate** flows were strong during the month at $0.8bn and have reached $9.4bn for the year indicating that investors still remain on the lookout for signs of rising rates. While **Short-Maturity Fixed Income ETPs** more broadly had modest inflows in October, they have gathered an impressive $32.9bn so far in 2013 vs. $6.7bn through October of last year.

AUGUST RESULTS AT A GLANCE[1]

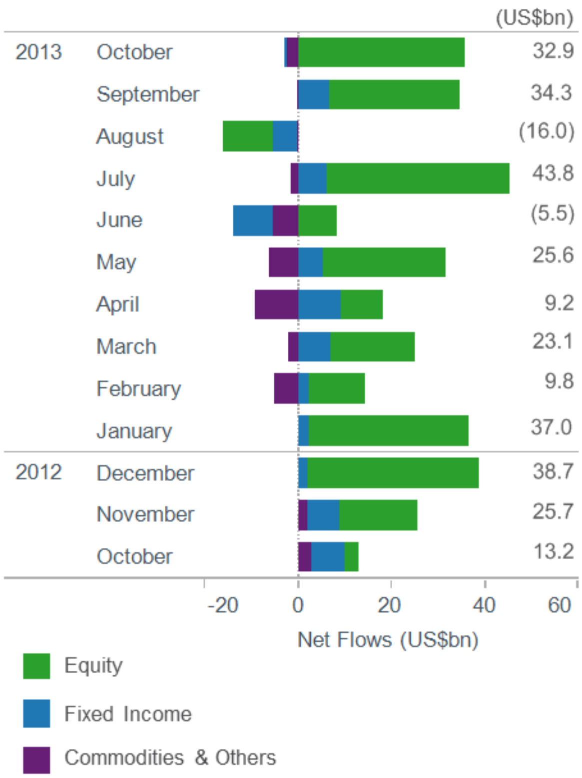
(US $billions)

	October 2013	September 2013*	December 2012	October 2012
Monthly Flows	32.9	34.3	38.7	13.2
Assets	2,328	2,232	1,944	1,843
# of ETPs	4,969	4,937	4,759	4,728

*Sep-2013 restated with additional Asia Pacific data

GLOBAL 13-MONTH ROLLING NET FLOWS[1]

2013 YTD Net Flows: $194.2bn



Source: BlackRock

Global ETP Year-To-Date Overview

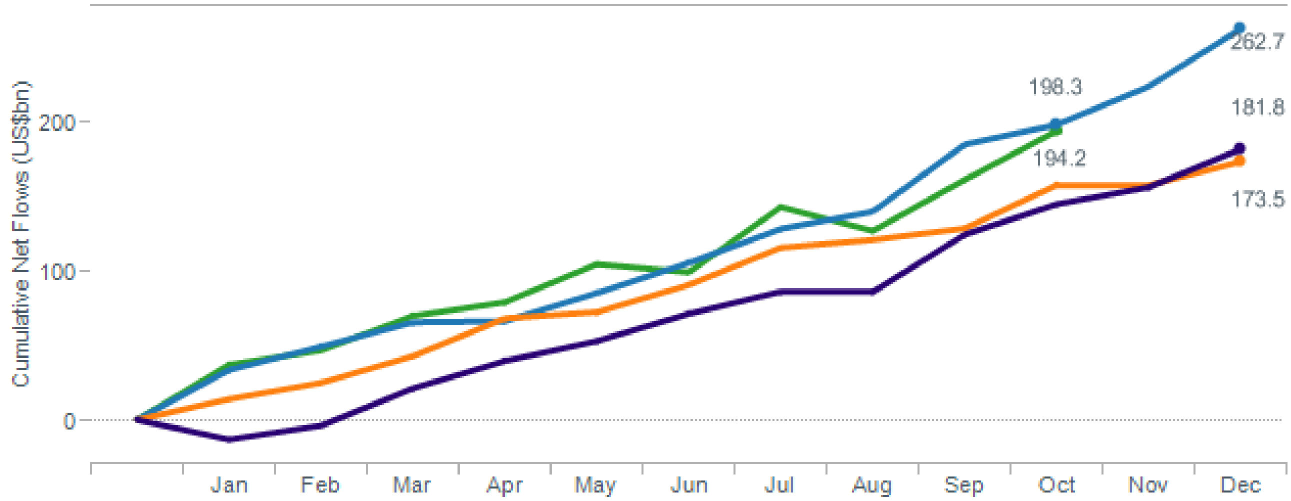
BLACKROCK®

GLOBAL ETP YTD FLOWS BY EXPOSURE[1]

(US$bn)			Jan-Oct 2013	Jan-Oct 2012	Annual 2012
Fixed Income	**Total**		24.8	61.4	70.0
Developed Markets Equity	North America Equity	**Total**	118.7	52.2	76.3
	Other Developed/ Global Equity	Asia Pacific Equity	33.9	8.8	12.1
		Europe Equity	19.9	6.0	9.7
		Global/Global ex-US	33.9	13.6	17.8
		Total	87.7	28.4	39.6
	Total		206.4	80.6	115.9
Emerging Markets Equity	**Total**		(5.1)	36.4	54.8
Commodities	**Total**		(35.3)	16.6	19.3
Others	**Total**		3.4	3.4	2.7
Global ETP Total			194.2	198.3	262.7

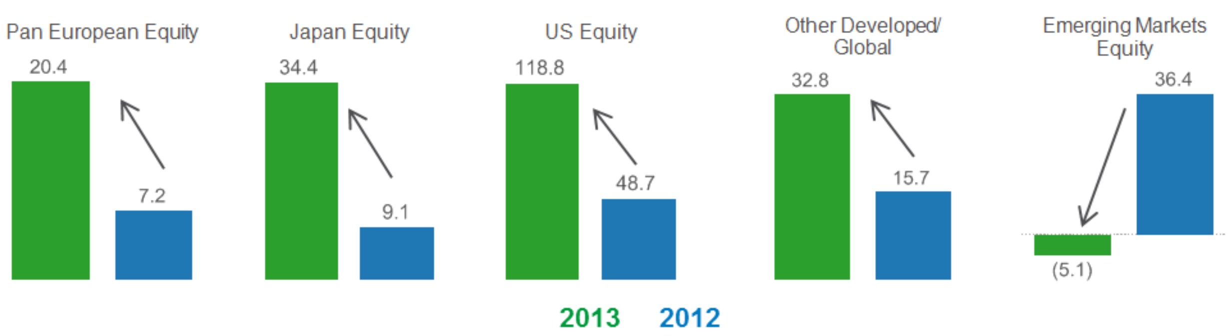
GLOBAL ETP CUMULATIVE FLOWS[1]

YTD Flows in 2013: $194.2bn



GLOBAL ETP YTD EQUITY FLOWS BY EXPOSURE[1]

YTD Flows in 2013: $201.3bn (up 72% from $117.0bn YTD 2012)



Source: BlackRock

Largest Year-to-Date Fund Inflows and Outflows

BLACKROCK®

ETPs as of October (US$mn)[1]	Bloomberg Ticker	2013 YTD Inflows	Oct-13 Assets
WisdomTree Japan Hedged Equity Fund	DXJ US	8,563	10,727
SPDR S&P 500	SPY US	6,739	157,234
iShares MSCI Japan	EWJ US	5,816	12,485
Vanguard Total Stock Market	VTI US	5,739	36,531
Vanguard European	VGK US	5,722	12,061
iShares Russell 2000	IWM US	4,874	26,911
Vanguard FTSE Developed Markets ETF	VEA US	4,657	17,807
PowerShares Senior Loan Portfolio	BKLN US	4,605	6,065
Vanguard Short-Term Bond	BSV US	4,563	13,799
iShares Core S&P Mid-Cap	IJH US	4,074	21,285
Grand Total		55,352	314,904

ETPs as of October (US$mn)[1]	Bloomberg Ticker	2013 YTD Outflows	Oct-13 Assets
SPDR Gold	GLD US	(22,140)	37,106
iShares iBoxx $ Investment Grade Corporate Bond	LQD US	(7,486)	16,655
iShares Barclays TIPS Bond	TIP US	(7,043)	13,806
db x-trackers DAX ETF	XDAX GY	(5,810)	4,844
Vanguard FTSE Emerging Markets	VWO US	(4,887)	51,759
iShares MSCI Brazil	EWZ US	(2,907)	5,787
iShares FTSE China 25	FXI US	(2,577)	5,377
SPDR Barclays Capital High Yield Bond	JNK US	(2,506)	10,005
iShares J.P. Morgan USD Emerging Markets Bond	EMB US	(2,479)	3,850
iShares MSCI Emerging Markets	EEM US	(2,408)	44,740
Grand Total		(60,244)	193,930

Source: BlackRock

Largest Asset Gathering ETPs Launched in 2013

BLACKROCK®

Highlights (US$):[1]

- 405 new ETPs and 45 individual share class listings debuted around the globe so far this year and have accumulated $22.2bn in assets.
- 185 products and 11 individual share class listings were delisted this year with combined assets of less than $2.1bn

Product Name (US$mn)[1]	Bloomberg Ticker	Exposure	Listing Region	Launch Date	Assets as of October 2013
ChinaAMC CSI 300 Index ETF	510330 CH	Emerging Markets Equity	Asia Pacific	January	3,122
FI Enhanced Global High Yield ETN	FIGY US	Other Developed/ Global	US	May	1,350
FI Enhanced Europe 50 ETN	FEEU US	Other Developed/ Global	US	May	992
E Fund CSI 300 ETF	510310 CH	Emerging Markets Equity	Asia Pacific	March	791
China CSI 500 ETF	510500 CH	Emerging Markets Equity	Asia Pacific	February	741
Vanguard Total International Bond ETF	BNDX US	Fixed Income	US	June	644
SPDR Blackstone/GSO Senior Loan ETF	SRLN US	Fixed Income	US	April	553
Guangfa CSI 500 ETF	510510 CH	Emerging Markets Equity	Asia Pacific	April	523
China Southern Kaiyuan CSI 300 Index ETF	159925 CH	Emerging Markets Equity	Asia Pacific	April	462
SPDR MSCI EMU UCITS	ZPRE GY	Other Developed/ Global	Europe	January	389
BMO Mid-Term US IG Corporate Bond Index ETF	ZIC CN	Fixed Income	Canada	March	382
Lyxor EURO STOXX 300 (DR) D-EUR (Share Class)	MFDD FP	Other Developed/ Global	Europe	June	372
db x-trackers II IBOXX SOVEREIGNS EUROZONE YIELD PLUS 1-3 UCITS ETF	XYP1 GY	Fixed Income	Europe	August	340
Bosera SSE Corporate Bond 30 ETF	511210 CH	Fixed Income	Asia Pacific	August	310
STOXX Europe 600 THEAM Easy UCITS ETF	ETZ FP	Other Developed/ Global	Europe	September	294
Others					10,896
Total - 405 Primary ETPs + 45 Share Classes					

Source: BlackRock

Global ETP by Exposure – Developed Equity

BLACKROCK®

Exposure (US$mn)[1]		Oct 2013 Net Flows	2013 YTD Net Flows	% of YTD Flows	Assets	% of Assets	# ETPs
US Size and Style	Large Cap	5,618	35,415	18.2	440,433	18.9	235
	Mid Cap	6,444	13,097	6.7	81,482	3.5	49
	Small Cap	(94)	16,989	8.7	85,919	3.7	69
	Micro Cap	16	288	0.1	1,051	0.0	4
	Total Market	1,151	9,208	4.7	61,424	2.6	62
	Extended Market	293	1,103	0.6	3,818	0.2	2
	Preferred Stock	(226)	(1,057)	(0.5)	13,266	0.6	5
	US Size and Style Total	13,203	75,043	38.7	687,394	29.5	426
US Sector	Basic Materials	229	929	0.5	6,730	0.3	15
	Consumer Cyclicals	(103)	2,269	1.2	14,953	0.6	19
	Consumer Non-cyclicals	1,307	627	0.3	10,040	0.4	13
	Energy	473	4,630	2.4	32,619	1.4	44
	Financials	58	6,283	3.2	29,522	1.3	38
	Health Care	331	4,486	2.3	22,592	1.0	29
	Industrials	476	3,661	1.9	12,150	0.5	18
	Real Estate	142	2,136	1.1	29,932	1.3	24
	Technology	830	6,131	3.2	23,813	1.0	28
	Telecommunications	53	(49)	(0.0)	1,094	0.0	6
	Utilities	(627)	(768)	(0.4)	7,828	0.3	13
	Theme	(32)	350	0.2	1,137	0.0	8
	US Sector Total	3,138	30,684	15.8	192,410	8.3	255
US Strategy		1,612	13,079	6.7	68,765	3.0	59
US Total		17,954	118,807	61.2	948,569	40.7	740
Canada Equity		(352)	(911)	(0.5)	32,976	1.4	87
North America Regional Equity		(22)	754	0.4	7,740	0.3	20
North America Total		17,579	118,650	61.1	989,285	42.5	847
Pan European Size and Style	Large Cap	2,723	5,659	2.9	41,386	1.8	79
	Mid Cap	150	363	0.2	1,218	0.1	9
	Small Cap	552	1,176	0.6	2,946	0.1	12
	Total Market	4,074	12,140	6.3	42,852	1.8	69
	Pan European Size and Style Total	7,500	19,304	9.9	88,331	3.8	167
Pan European Sector		190	466	0.2	13,663	0.6	150
Pan European Strategy		210	587	0.3	3,278	0.1	21
Pan European Total		7,900	20,392	10.5	105,343	4.5	340
Country	Germany	(2,994)	(5,087)	(2.6)	39,974	1.7	64
	U.K.	295	3,319	1.7	20,125	0.9	51
	Switzerland	52	217	0.1	10,324	0.4	23
	France	(54)	(991)	(0.5)	5,421	0.2	19
	Others	741	2,046	1.1	10,361	0.4	67
	Europe Single Country Total	(1,959)	(496)	(0.3)	86,206	3.7	224
Europe Total		5,941	19,895	10.2	191,548	8.2	564
Asia-Pacific	Regional	388	1,027	0.5	17,242	0.7	60
	Country	2,332	32,843	16.9	135,230	5.8	236
Asia Pacific Total		2,720	33,870	17.4	152,472	6.5	296
Broad-Based Global /Global ex-US		7,285	33,942	17.5	191,936	8.2	451
Developed Equity Total		33,525	206,357	106.3	1,525,240	65.5	2,158

Source: BlackRock

Endnotes: BlackRock's ETP Landscape: Monthly Highlights report

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

The data for this report are captured from a number of sources by the BlackRock Investment Institute including provider websites, fund prospectuses, provider press releases, provider surveys, Bloomberg, the National Stock Exchange, Strategic Insight Simfund, Wind and the Bank of Israel. All amounts are reported in US dollars. 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 October 30, 2013 for Europe and October 31, 2013 for the US, Canada, Latin America, Israel, and some Asia ETPs. Some Asia ETP data is as of September 30, 2013. Global ETP flows and assets are sourced using shares outstanding and net asset values from Bloomberg for the US, Canada, Europe, Latin America and some ETPs in Asia. Middle East ETP assets are sourced from the Bank of Israel. ETP flows and assets in China are sourced from Wind. Inflows for years prior to 2010 are sourced from Strategic Insights Simfund. Asset classifications are assigned by the BlackRock based on product definitions from provider websites and product prospectuses. Other static product information is obtained from provider websites, product prospectuses, provider press releases, and provider surveys. Market returns are sourced from Bloomberg.
2. We classify maturity buckets of a Fixed Income ETP if the fund invests at least 70% of its assets in the corresponding maturity/exposure range: Short maturity includes: underlying security maturities < 3 years and floating rate where the fund holds floating rate securities and/or bank loans. Intermediate includes: 3 years < underlying security maturities < 10 years. The "other" category includes Long-Term: underlying security maturities > 10 years; Broad Maturities: The fund invests in more than two maturity buckets without emphasizing one; Selected Maturities: The fund holds securities with multiple selected range of maturity buckets, i.e. barbell strategy which focuses on the specific short-term and long-term buckets with even weights; and Fixed Maturity: The fund itself has a target maturity date and arranged holdings correspondingly.
3. Source: Bloomberg
4. Source: Bloomberg (Euro STOXX 50 index returns in US dollars)
5. Source: Bloomberg (MSCI EM index returns in US dollars)
6. Source: Bloomberg (US Treasury Generic 10 Year yield index)
7. Source: Eurostat
8. Source: Bank of Spain
9. Source: UK Office for National Statistics
10. Source: Bloomberg (Nikkei 225 index returns in JPY)
11. Source: Bloomberg (S&P 500 index returns in US dollars)
12. Source: BlackRock, Bloomberg, Reuters
13. Mutual fund data is sourced from EPFR (excluding Money Market funds and ETFs). Full year 2012 and January-September 2013 data is sourced from EPFR monthly data. October 2013 data is sourced from EPFR weekly data for the four weeks ended Oct 30, 2013. Money Market mutual fund flows is sourced from EPFR weekly data for the four weeks ended Oct 30, 2013.

Disclosures:

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FitchRatings

Fitch: Rocked Puerto Rico Muni Bonds Hold Tight

October 17, 2013

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Fitch Ratings-New York-17 October 2013: Ratings on short- and medium-term notes issued by Puerto Rico (PR) municipal bond funds remain stable despite severe price volatility in the island's muni market, according to Fitch Ratings. Stability in ratings has been helped by sufficient overcollateralization at the rated sub-account level within the fund and prudent portfolio management. We expect ratings will remain stable given the tight deleveraging triggers in place to protect noteholders from further collateral erosion but are mindful that excess volatility in pricing could hurt the rest of the portfolio and depress fund net asset values (NAVs) further.

The PR bond selloff that started in late August follows an already deep price stress experienced in the broader muni market. Bond prices on top PR debt fell to below $0.65 on the dollar, and yields spiked closer to 9% as of Oct.15, 2013, according to the Municipal Securities Rulemaking Board. Total assets managed by the major PR mutual funds lost $6 billion toward the second week of October from the $13 billion they managed in May 2013.

Recent price pressure has caused severe NAV erosion for the PR funds and, at times, forced asset sales. Funds have benefited to the extent they held U.S. agency mortgages and non-PR municipal bonds for liquidity but took big haircuts when needing to sell PR bonds. Local PR municipal obligations (non-103 bonds) initially traded wider, but the pricing converged as PR municipal bonds originally sold to U.S. fund companies (103 bonds) experienced strong selling pressure in the U.S. market.

During the period of late August through early October, many PR funds took advantage of the 5% additional borrowing capacity that funds can utilize for temporary, emergency or defensive purposes beyond the standard 50% fund-level leverage cap set forth in the prospectus of each fund. More recently, the Office of the Commissioner of Financial Institutions (OCFI) in Puerto Rico issued rulings to each fund manager that waived even this deleveraging limit, which ultimately may be a benefit for funds' common shareholders if asset prices rebound, but added credit risk to the funds' repo and margin lenders from the shrinking collateral base. Rated notes issued by these funds were unaffected, as the relevant fund sub-accounts supporting the notes operate at leverage levels consistent with Fitch's 'A' and 'AA' ratings criteria.

Many U.S. mutual funds slashed their holdings of the island's bonds by more 20% from end of May to end of August, per Fitch data, while some fund managers removed their exposure entirely anticipating the price contagion effects of the Detroit bankruptcy. Noise on the street also caused financial advisors to stop recommending PR bonds to their investors altogether, which further depressed asset prices. Opportunistic investors have purchased bonds at current depressed levels, with over $1 billion traded in such activity over the past few weeks, but so far this has not translated into a meaningful price pickup.

Opt-in to receive Fitch's forthcoming research on CEFs:
http://pages.fitchemail.fitchratings.com/FAMCEFBlankOptin/

Rating Actions

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

- **Fitch Rates Dreyfus Municipal Bond Infrastructure Fund, Inc. VMTP Shares 'AAA' - November 1, 2013**
- **Fitch Affirms VRTP Shares Issued by Invesco Senior Income Trust –October 23, 2013**
- **Fitch Rates Clearbridge American Energy MLP Fund Inc.'s Senior Notes 'AAA'– October 16, 2013**

Closed-End Funds

Loan CEFs: Distribution Expectations

October 31, 2013

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A Popular Asset Class Lately

Corporate loans, as an asset class, have been quite popular in the past year as retail assets have flowed into mutual funds and exchange-traded funds (ETFs) that hold loans. In fact, according to Morningstar, loan ETFs and mutual funds, in aggregate, have received a net inflow of $63 billion in the past year through September 30, 2013, making it the asset class that received the most asset flows. See Chart I below. Interestingly, even though it is only two and a half years old, the first and oldest loan ETF — the PowerShares Senior Loan Portfolio (BKLN, $24.83) — is now the eighth-largest in the universe of almost 200 ETFs and mutual funds that invest in loans. Portfolio managers are scrambling to put abundant cash to work. Less discipline in the underwriting of loans may eventually, if uncontrolled, result in an increase in credit defaults in the future. Note that the credit quality of loans is typically rated as below-investment grade.

Investor Fear

In our opinion, investors — primarily retail investors — probably expect loans to protect their fixed-income portfolios against the negative effects of rising interest-rates, partly as a result of the inherently short duration of loans. Furthermore, we suspect that investors are probably anticipating increases in distributions if rates were to rise. We are concerned that investors may not fully understand the implication of some changes that the loan market undertook in the past few years — i.e. LIBOR floors — given the persistence of low rates, and may have incorrect assumptions about the expectation of distributions among loan CEFs. This report describes recent trends among distributions as well as our expectations on the possible trends in distributions based on changes in rates.

Recent Trends among Distributions

First of all, we should clarify that the interest on loans is linked to short rates, particularly LIBOR, not long rates. In other words, if LIBOR were to rise, one would typically expect the interest from loans to eventually rise. Note that changes in long rates would not necessarily have a direct and immediate effect on the interest income from loans. For example, even though longer-rates have generally increased (until lately) in response to concerns for the tapering of the Federal Reserve's bond-buying program, LIBOR has continued to decline (see Chart II), which is one of the reasons why a number of loan CEFs have been reducing their distributions in the past year. In addition, spreads over LIBOR have also been narrowing, further reducing the interest income from loans. The substantial asset flows into the category has allowed loan issuers to refinance their loans at more attractive (tighter) spreads for the loan issuer, but less attractive for investors. Thus, it should be no surprise that 16 out of 24 loan CEFs have reduced their monthly distribution at least once in the past twelve months, eight of which were reduced by more than 10%. The average reduction was 9%.

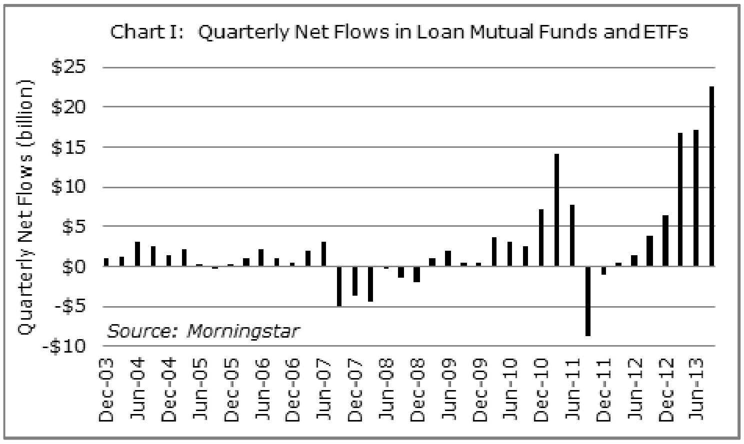
Note that only a few loan CEFs — primarily those managed by Eaton Vance and ING — allow their distributions to float on a monthly basis. In other words, the level of their distributions changes almost every month. The rest of loan CEFs have maintained a stable distribution for a number of months — even more than one year — until they possibly need to modify it because of changing market conditions. The average current NAV distribution rate is 6.5%, and most range between 5.7% and 7.5% depending on varying leverage ratios (of the CEFs) as well as exposures (different credit quality breakdown; varying exposures to second lien loans, CLOs and high yield bonds, etc.).

Impact on Valuations

The reduction in distributions among loan CEFs in the past year as well as the weakness in fixed-income markets are probably the two major factors that have put pressure on the average valuation of loan CEFs (see Chart III). Usually, heavy flows into mutual funds and ETPs coincide with richer valuations among similar CEFs, and vice versa. However, in the past few months, valuations among loan CEFs have cheapened while flows have continued into mutual funds and ETFs.

Expected Changes in Distributions if LIBOR Were to Rise

We believe that some investors expect distributions of loan CEFs to rise, with perhaps about a 2-3 month lag, once short rates start to rise. On the contrary, distributions may continue to decline at first. This should become clear once one understands the moving parts of the income flow of a leveraged CEF that invests in loans. Given the persistence of low rates in the past few years, loans have been issued with LIBOR floors, lately typically 100-125 basis points (100 basis points = 1%). About three quarters of the loan market has LIBOR floors. In other words, investors have chosen to receive a higher interest rate from loans now, but income will not rise at first when LIBOR rises. In addition, investors should note that all loan CEFs are leveraged. If LIBOR were to rise, the cost of borrowing

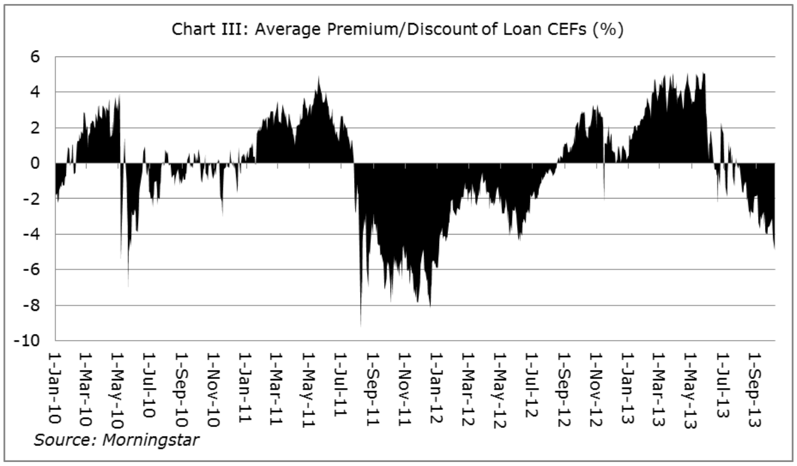


Please see the next page of this report for Important Disclosures, Analyst Certification and Disclaimers would rise, which would reduce the earnings of a loan CEF. Therefore, assuming other variables are held constant, in order for the earnings of a loan CEF to increase, LIBOR — currently at 24 basis points for 3-month LIBOR — would need to rise above the floors. Until then, we would not be surprised to see more distribution reductions than increases.

Incorrect Assumptions

Usually, taking a risk is not necessarily undesirable as long as investors are aware of the risk they are taking and are able and willing to tolerate the potential consequences of such risk. However, what is likely to create disappointment is an incorrect assumption about a risk, i.e. not being aware that one was taking such risk. Therefore, investors should recognize the impact of rising short rates on the earnings of a loan CEF to better understand expected changes in its distributions.

Chart II: 3-month LIBOR vs. 10-year Treasury



Source: Bloomberg, L.P.

IMPORTANT DISCLOSURES

PowerShares Senior Loan Portfolio:
Wells Fargo Advisors has no known applicable relationships with this Fund.

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Disclaimers

All prices are as of October 31, 2013 unless indicated otherwise.

Closed-End Funds (CEFs) are actively managed and can employ a number of investment strategies in pursuit of the fund's objectives some strategies may increase the overall risk of the fund outlined in the prospectus under the heading "Risk Factors." A CEF has both a market price and net asset value (NAV), and these two values and their respective performances may differ. Changes in investor demand for a particular fund may cause the fund to trade at a price that is greater (lower) than it's NAV, creating a share price premium (discount) to its NAV.

Bank loans have speculative characteristics including the risk of non-payment of principal and interest. Other risks include insolvency, collateral impairment, illiquidity and the risk of bankruptcy.

A fund that is concentrated in one sector or industry may present more risks than a portfolio that is broadly diversified over numerous sectors or industries of the economy. This will increase the fund's vulnerability to any single economic, political or regulatory development affecting the sector or industry. This may result in greater price volatility.

Leverage is a speculative technique that exposes a portfolio to increased risk of loss, may cause fluctuations in the market value of the fund's portfolio which could have a disproportionately large effect on the fund's NAV or cause the NAV of the fund generally to decline faster than it would otherwise.

The sources of closed-end fund distributions can include portfolio income, capital gains/losses, and/or return of capital. The final determination of tax characteristics of each CEF's distributions will occur after the end of the year, at which time it will be reported to the shareholders.

All figures are subject to market fluctuation and change.

LIBOR, London Interbank Offered Rate, is the rate of interest at which banks offer to lend money to one another in the wholesale money markets in London.

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What is the deal with premiums in MLP CEFs?

November 8, 2013

Authored by:
John Cole Scott, CFS
Portfolio Manage, EVP,
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There are currently 25 closed-end funds with a combined $19.6 billion in assets under management that focus on master limited partnership (MLP) investing in a US listed closed-end fund structure. This equals about 8% of the $250 billion in total assets in the CEF structure.

Avg. CEF MLP Fund

	Discount	Tot Yield	% RoC (30Day)	Net Assets	Leverage	1 Yr NAV TR	1 Year Mkt Pr TR
Avg CEF MLP Fund	-0.43%	6.6%	58%	$784MM	23%	+20.1%	+14.1%

Source: CEFA's Closed-End Fund Universe November 1, 2013

However, if we break out the MLP CEFs that are C-Corps which can have 100% true MLP exposure vs. the RICs MLP funds which can only have 25% true MLP exposure, we see some differences. The RIC MLP funds retain tax benefits from being a regulated investment company, and therefore have a slightly different structure. There are a few key differences in how they are priced by investors in the secondary market.

A Regulated Investment Company is an open-end or closed-end fund, real estate investment trust (REIT) or unit investment trust (UIT) that is eligible to pass through the taxes on capital gains, dividends or interest earned on fund investments which they pay directly to shareholders. A regulated investment company is qualified under Regulation M. of the Internal Revenue Service (IRS) to pass taxes onto investors to be taxed at the individual level. Regulated investment companies are required to distribute 98% of net investment income to avoid paying a 4% excise tax.

In looking at the RIC MLP CEFs vs. the C-Corp MLP CEFs we see the following differences. The key differences we want to point out is that with a RIC MLP CEF, you can buy a MLP fund at more of an absolute discount, with essentially the same indicated distribution yield and historically a slightly better 1 year NAV performance. We believe this is because more of the RIC MLPS funds have larger deferred tax liability (DTL) write downs helping increase comparable NAV performance.

Dedicated MLP funds do not qualify for pass-through treatment as RICs. A fund may qualify as a RIC only if less than 25% of its portfolio is invested in MLPs. A dedicated MLP fund typically exceeds this 25% threshold and by default has no choice but to be treated as a taxable C-corp.

The deferred tax liability generally reflects taxes on net unrealized gains, which are attributable to the difference between fair market value and tax basis of the portfolio and the net tax benefit of accumulated capital or net operating losses. The return of capital portion of the distribution reduces the tax basis of the asset, creating additional deferred taxes

We believe that an undiscounted deferred write down is overstated in a fund's NAV, and the NAV should be higher. This means that you can buy more real MLP assets, in our opinion, by looking at this date point from the balance sheet of the fund.

If you look at the MLP closed-end fund that have a DTL vs. those that do not, we see a adjusted average discount of -9.33% for the write downs being fully added back to the NAV. The average fund without a DTL is trading at a premium to NAV.

In a sector looking to meet about a 6% yield expectation and modest capital appreciation, we feel that such a large difference is important to understand when selecting funds to make-up part of your diversified portfolio. The key risk you will want to avoid is that MLP funds regularly offer secondary offerings when the premium goes over 4%-5% of NAV. This will usually knock the market prices closer to NAV in a short and dramatic fashion. In this case, we would look to own MLP funds with good NAV performance, a good adjusted discount due to the DTL and yet no more than a 4% actual premium. We tell investors that to be successful in CEFs you need to be patient and diligent; they are a special part of the capital markets where the smaller investors can add tremendous value to their portfolios by holding to some simple rules and watching for key information on an ongoing basis.

	Disc	Tot Yield	Avg Lev	30 Day RoC	Avg Net Assets	1 Yr NAV TR	1 Yr Mkt Pr TR
C-Corp MLP CEF	+1.4%	6.6%	22%	58%	$784M	19.5%	14.1%
RIC MLP CEF	-6.1%	6.5%	26%	61%	$533M	22.0%	13.9%

Source: CEFA's Closed-End Fund Universe November 1, 2013

Beyond U.S. Borders: 3 International Investment Trends Happening Now

October 31, 2013

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

Despite the potential benefits of international investing, the typical U.S. investor's portfolio is disproportionately weighted toward domestic securities. Dodd Kittsley digs into ETF flows to highlight three investment ideas outside the U.S. that are trending now.

Does your portfolio suffer from home country bias? If so, you're not alone. Despite the fact that almost 80% of global economic output and about two-thirds of the world's equity market capitalization come from countries outside of the United States, the typical U.S. investment portfolio is disproportionately weighted toward domestic securities.

Whether this home bias is inadvertent or intended, it's a phenomenon worth addressing. A strategic allocation to international securities can help enhance a portfolio's risk-adjusted returns, provide portfolio diversification and even offer opportunities for higher performance. And in light of the economic uncertainty and market volatility happening in the U.S. right now, it may be an ideal time to look beyond our borders for investing ideas abroad.

So what are the current international investment trends? We analyzed recent ETF flow data to identify the big themes we're seeing right now, then asked our Chief Investment Strategist Russ Koesterich to weigh in:

- **Japan**

What the flows show: Riding the wave of Prime Minister Abe's growth-oriented economic policies, Japan has experienced the largest stock rally in the developed world this year (year-to-date, the Nikkei 225 Index is up nearly 40%). Japanese equity ETFs have been huge beneficiaries of this upward momentum, experiencing 20 straight months of inflows and $2.3 billion in October alone.

What Russ K says: "We continue to believe that Japan offers more upside potential, particularly if investors can hedge out the foreign currency exposure. However, while we like the near-term prospects, the longer-term outlook remains unclear. For Japan to represent more than just a trade, it will need to address both lagging productivity and a shrinking workforce."

Potential iShares solution: iShares MSCI Japan ETF (EWJ)

- **Europe**

What the flows show: This past summer was the first in three years that the Eurozone did not experience an economic crisis, prompting speculation that a recovery could be on the horizon. As a result, pan-European equity ETF inflows have been building momentum, adding $19.9 billion this year.

What Russ K says: "Economic data continues to look promising, but we still only advocate a neutral weight to European equities until two major issues are resolved. First, the region must integrate its fragmented banking system. Also, critical structural reforms and budget cuts are still needed."

Potential iShares solution: iShares Europe ETF (IEV)

- **Emerging markets**

What the flows show: While it's too soon to call it a turnaround, emerging market (EM) equity ETFs have seen an uptick in flows the past two months ($8.5 billion since Sep 1st 2013). This is a marked improvement over the 7 months of outflows the category has experienced between February and August. Recent flows have been highly focused in broad funds, but emerging markets country funds also saw some action with China and India together gathering $2.4 billion since the beginning of September.

What Russ K says: "We continue to like emerging market stocks over the next three to five years. EM equities still look cheap considering their growth and corporate profit prospects, especially relative to U.S. stocks. EMs still face some headwinds and investing in them is not for everyone, but we believe that growth-oriented investors should maintain exposure to these stocks."

Potential iShares solution: iShares Core MSCI Emerging Markets ETF (IEMG)

Sources: World Bank, Bloomberg

Dodd Kittsley, CFA, is the Head of Global ETP Market Trends Research for BlackRock and a regulator contributor to the The Blog. You can find more of his posts here.

In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Securities focusing on a single country may be subject to higher volatility.

The Case for Managed Futures ETFs

November 8, 2013

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

After enduring one of the most tumultuous periods of modern US stock market history, investors have gained a renewed interest in strategies aimed at reducing the volatility of their investment portfolios. Traditionally, this has meant increased exposure to bonds along with decreased exposure to stocks. The problem with this strategy today, however, is twofold: first, in many cases bond yields are too low to meet investors' return objectives; second, after an extended period of low interest rates, many investors have concluded that the risk that rates will rise in the future (sending bond prices lower) is much greater than the likelihood that rates will continue to decline (sending bond prices higher). As a result, an increasing number of investors are considering "alternative" investment strategies in order to potentially decrease risk and enhance risk-adjusted returns in their investment portfolios.

In the past, alternative investment strategies were limited to certain high net worth investors and institutions. Often, these strategies came with relatively high fees and limited liquidity. Today, however, there is a growing number of mutual funds and exchange-traded funds (ETFs) that have opened the door for a broad range of investors to gain exposure to these strategies, generally with lower fees, and in the case of ETFs, with intraday liquidity.

In this newsletter, we will consider one such category of alternative investments known as "managed futures," which have increased in popularity over the past few decades, and can be accessed via ETFs. We will briefly define what is meant by a "managed futures" strategy, we will evaluate historical levels of risk and returns delivered by these strategies over the past 25 years, and we will consider how and why investors may utilize managed futures ETFs to potentially reduce risk and enhance risk-adjusted returns in an investment portfolio.

What is a Managed Futures Strategy?

Managed futures comprise a wide array of strategies involving both long and short positions^ in futures contracts, such as commodities, currencies, and equities, aimed at capturing positive returns, regardless of whether the underlying market is advancing or declining. These strategies often employ quantitative, rules-based approaches to accomplish this objective. While some investors may benefit from the addition of managed futures and other alternative investments, these strategies may not be suitable for all investors.

Historical Risk and Rewards of Managed Futures

The underlying futures contracts utilized by managed futures strategies can be highly volatile, with quick and dramatic price fluctuations. In some cases, derivative instruments utilized by these strategies may be less liquid than other types of investments. Attempting to mitigate these risks, many managed futures strategies seek diversification among a variety of futures contracts. For the 25 year period ending on 12/31/12, the standard deviation1 for the Barclay BTOP50 Index was 9.6%, compared to 14.8% for the S&P 500 Index. Even more important than the stand-alone risk of managed futures, in our opinion, has been the potential of these strategies to reduce risk within a diversified investment portfolio. This is primarily due to the low, and often negative, correlations2 between the returns of managed futures and other traditional asset classes, such as stocks and bonds (See Chart 1). Adding assets with low or negative correlations to an investment portfolio may help smooth out returns over time. Diversification does not guarantee a profit or protect against loss.

Chart 1: 25 Year Correlation Matrix as of 9/30/13

	Managed Futures	Developed Markets Int'l Equity	Emerging Markets Equity	US Equity	Fixed Income	Commodities	REITs
Managed Futures	1.00	-0.04	-0.08	-0.09	0.24	0.13	-0.04
Developed Markets Int'l Equity	-0.04	1.00	0.70	0.73	0.10	0.25	0.49
Emerging Markets Equity	-0.08	0.70	1.00	0.67	0.00	0.26	0.44
US Equity	-0.09	0.73	0.67	1.00	0.14	0.17	0.56
Fixed Income	0.24	0.10	0.00	0.14	1.00	-0.02	0.15
Commodities	0.13	0.25	0.26	0.17	-0.02	1.00	0.14
REITs	-0.04	0.49	0.44	0.56	0.15	0.14	1.00

Source: Bloomberg. Past performance is no guarantee of future results.

Click here for complete reading

Biotech Bull Market: How Long Can It Last?

October 21, 2013

Authored by:
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Biotechnology ETFs have been among the best performers thus far in 2013, after relatively strong years in 2011 and 2012. S&P Capital IQ has long argued that past performance is not indicative of future results when choosing ETFs for today. However, we believe this is one of those times where the fundamentals and valuation traits of their holdings suggest investors might still want to consider ETFs with high biotechnology exposure.

As of October 18, the S&P Biotechnology Index was up 64% compared to the 23% gain in the S&P 1500 Composite Index. Yet, despite these relative gains, S&P Capital IQ equity analyst Steve Silver remains positive on the sub-industry and sees a number of attractive stocks in his biotech coverage. He cites three key reasons for his positive stance: a strong period of late-stage pipeline advancement, and novel drugs coming to market; a more accommodating U.S. Federal Drug Administration (FDA); and a favorable merger and acquisition environment.

In 2012, the FDA approved 39 drugs, a 15-year high. Though the pace has slowed somewhat in 2013, with 19 new drugs approved through October 19, Silver cites the FDA's break-through therapy designation, established in late 2012, as boosting investor sentiment, as it has allowed accelerated development of promising programs. Separately, Silver believes that pharmaceutical companies have around $230 billion of global sales at risk due to patent expirations, which has spurred multiple $5 billion-plus acquisitions in the last couple of years from the pharma space, with perhaps more to come.

Among biotechnology companies, Silver has favorable recommendations on larger-caps Amgen (AMGN 114 ****), Celgene (CELG 160 *****) and Gilead Sciences (GILD 68 *****). In each case, these companies have received approval of key drugs and made their own acquisitions to boost their pipelines. Overall, Silver sees the biotechnology sub-industry as attractive, trading as a group at a P/E of approximately 20 times 2014 earnings estimates, with above-average earnings growth rates. However, he believes risks remain high for the industry, particularly for smaller-cap issues that typically rely on fewer and pre-commercial programs for most of their market value, evidenced by 50%-plus declines in one day by Ariad Pharma (ARIA 3 NR) and Achillion Pharma (ACHN 3 NR) due, we think, to FDA holds on their programs over safety concerns. These declines along with generally low S&P Capital IQ Qualitative Risk Assessments for biotech stocks under our coverage help, we think, to make the case for using ETFs and the diversification they offer, to gain biotech exposure.

To us, iShares Nasdaq Biotechnology ETF (IBB 207 Marketweight) is one such way. According to S&P Capital IQ research, Biotechnology makes up 77% of its assets, while Pharmaceuticals accounti for another 17%. The ETF recently had 124 positions with top-10 holdings making up 56% of its assets. CELG, GILD and AMGN collectively comprised 25% of the ETF's assets; five other stocks in the top-10 were also S&P Capital IQ Strong Buys or Buys, contributing favorably to the S&P Capital IQ ETF ranking. The ETF has an expense ratio of 0.48%.

Another ETF alternative focused almost exclusively on biotechnology companies is Market Vectors Biotech ETF (BBH 81 Marketweight). Biotechnology made up 90% of its assets and Life Science Tools the remaining 10%. However, this is a more concentrated portfolio with just 25 positions. The top-10 holdings were 68% of assets, with CELG, GILD and AMGN making up a combined 32%; four other stocks in the top-10 are S&P Capital IQ Strong Buys or Buys. BBH's gross expense ratio is 0.44% (net 0.35%), but it is much smaller than IBB and has less daily volume.

Investors that want to potentially benefit from what we consider biotechnology's strong fundamentals and appealing valuation but are concerned about the below-average qualitative risk assessments might want to consider more diversified health care ETFs. Biotechnology stocks are generally the second largest sub-industry in these offerings with approximately 20% of assets.

Key Takeaways

S&P Capital IQ sees continued growth for these biotech stocks and the ETFs that have large positions in them.

POSITIVE IMPLICATIONS

AMGEN INC	★★★★	[AMGN]
CELGENE CORP	★★★★★	[CELG]
GILEAD SCIENCES	★★★★★	[GILD]
HEALTH CARE SELECT SECTOR SPDR FUND	OVERWEIGHT	[XLV]
ISHARES NASDAQ BIOTECHNOLOGY ETF	MARKETWEIGHT	[IBB]
MARKET VECTORS BIOTECH ETF	MARKETWEIGHT	[BBH]
VANGUARD HEALTH CARE INDEX FUND; ETF CLASS SHARES	OVERWEIGHT	[VHT]

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

Investors that want to potentially benefit from what we consider biotechnology's strong fundamentals and appealing valuation but are concerned about the below-average qualitative risk assessments might want to consider more diversified health care ETFs. Biotechnology stocks are generally the second largest sub-industry in these offerings with approximately 20% of assets.

For example, Health Care Select Sector SPDR Fund (XLV 53 Overweight) has CELG, GILD and AMGN among its top-10 holdings (a combined 12% of assets), but they are surrounded by pharmaceutical companies Johnson & Johnson (JNJ 91 ****) and Pfizer (PFE 30 ****), which have strong risk-related ranking inputs according to S&P Capital IQ. XLV has an expense ratio of 0.18%.

Meanwhile, Vanguard Health Care Index Fund (VHT 97 Overweight) has 11% exposure to the combined CELG, GILD and AMGN trio along with exposure to mega-cap pharmaceuticals too. However, we found that VHT has more mid- and small-cap exposure than XLV. To us, this offers a little more growth potential, but also more volatility than XLV.

Steve Silver will join me on Wednesday, October 23 for an ETF Analyst Hour to discuss these topics and more beginning at 11 am. To register, see the attached pdf or email wealth@msa. com. As usual, we are offering 1 CFP continuing education credit for attending. To see reports on these stocks or ETFs, please see MarketScope Advisor.

October 22, 2013

Understanding How Fixed Income ETFs Are Similar and Different

Authored by:
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You might not have noticed given the concerns about higher interest rates of Treasuries, but the fixed income exchange-traded product universe has grown sharply and become more complicated in the last couple of years. While an investor still can get exposure to the same short-, intermediate- and long-term U.S. Treasuries they could a decade ago from iShares, these ETFs are now surrounded by a host of strategies.

S&P Capital IQ currently has research on approximately 220 fixed income exchanged-traded products, but one-third of this universe (74) is less than two years old. What's more, there's now approximately $250 billion invested in these products, an increase of more than 37% in that same two-year period.

S&P Capital IQ believes ETFs are fast-growing investment vehicles and that the market is finding it difficult to classify and analyze them. In this space, we have written about the new fixed income ETF research available to S&P Capital IQ clients, who now can look at the risk-reward traits of the ETF's holdings from a credit quality, duration and yield perspective and combine that with metrics about its liquidity and costs. But in September 2013, S&P Capital IQ introduced a new system called Exchanged Traded Funds Style Classifications. This comprehensive classification system classifies ETFs and ETNs with over 40 standardized descriptive characteristics to reveal the true exposure being provided by over 2,500 North American ETFs and ETNs.

The first level of classification in the S&P Capital IQ system defines the asset class, such as equity, fixed income, commodity, currency, real estate, and multi-asset. The next three levels further refine an asset class into very specific market segments exposure being provided by the ETF. For example, fixed income would be refined to corporate, municipal and sovereign. In addition, the system captures and provides multiple other dimensions and characteristics, such as geographic emphasis, tax efficiency, expense ratio, long/short exposure, leverage ratio, investing style, and target risk.

Let's look at the classification effort in practice, focused on the continually expanding fixed income universe. Filtering the fixed income offerings to just those with a U.S. geographic focus, and excluding increasingly popular diversified international and emerging market fixed income ETFs such as iShares International Treasury Bond (IGOV 102 Marketweight), the ETF classification system starts with a daunting 166 products. However, by choosing the Sovereign issuer emphasis, it further filtered the list down to 90 ETFs, and adding in a national focus only, at the exclusion of those ETFs with an Agency focus like SPDR Barclays Mortgage Backed Bond (MBG 27 Marketweight), brought us to 66 securities. Lastly, adding in an intermediate-term maturity emphasis, which is four to seven years, narrowed the universe to a more manageable 19, though two of these, from ProShares, are ETFs that short U.S. Treasuries, giving investors the chance to potentially benefit from a decline in Treasuries, rather than a rise.

As we look over the list of 17 ETFs, there are a number of ETFs offered by well-known providers, including iShares, State Street and Vanguard. However, there are some differences between them, according to our research, despite all holding mostly Treasuries.

iShares 3-7 Year Treasury Bond (IEI 121 Overweight) holds 67 securities and has an expense ratio of 0.15%. This ETF, which has a 30-day SEC yield of 1.3%, has declined 0.9% on a year-to-date basis through October 18. The ETF trades on average 1.8 million shares a day.

SPDR Barclays Intermediate Term Treasury (ITE 60 Overweight) has 197 securities inside and an expense ratio of 0.14%. The ETF, which has a 30-day SEC yield of 0.9%, has declined 0.7% thus far in 2013. The ETF trades on average 15,000 shares a day.

Click here for complete reading

Fourth Quarter Outlook: What's next in 2013?

The Critical Answers

Highlights

Amid mixed economic data, budget and geopolitical risks have spiked higher, threatening the outlook. The fragile recovery continues to rely on Fed policy. Consider international equities, but bond risks are rising (though munis offer more value now). We offer answers to the following questions:

- With a last-minute budget deal, should we expect smooth sailing or more future political rancor? Despite an 11th-hour fiscal deal to open the government and extend the debt ceiling, the longer term fiscal issues remain unresolved. Meanwhile, we believe political rancor is here to stay.
- How much should investors worry about the situation in Europe and ongoing mid-east turmoil? While the focus has been on events in Washington, the underlying risks in Europe and the Middle East have not gone away.
- The Fed delayed tapering its bond buying policy in September. Why, and what's next? The Fed now faces a Catch-22 of how to communicate its intent to taper without causing rates to rise again.
- Economic data in the U.S. are decidedly mixed: What is the outlook for the recovery? The recovery is real, but fragile. We expect the U.S. economy to continue on its path of slow growth.
- What can we expect from emerging markets? We like emerging markets for the long term and think that recent underperformance creates opportunities.
- Is Europe finally on the path to recovery? What are the opportunities? Europe looks better than a year ago, although significant long-term structural challenges remain.
- Should investors favor U.S. or other developed markets? What sectors do you favor? With U.S. stocks expensive and signs of improved conditions abroad, investors should consider increasing exposure to the non-U.S. markets. Within the U.S., we continue to prefer energy, technology and mega caps.
- Many moving parts: Where are the opportunities in fixed income? Fixed income credit sectors should do well but their long-run results will be challenged if and when the Fed decides to exit its QE program.
- What is the outlook for municipal bonds? The backdrop is likely to remain challenging, but the summertime correction restored value.

Russ Koesterich
Managing Director, Global Chief Investment Strategist, BlackRock

Jeff Rosenberg
Chief Investment Strategist for Fixed Income, BlackRock

Peter Hayes
Head of BlackRock's Municipal Bonds Group

1 With a temporary debt deal, what's next from D.C?

Despite an 11th-hour fiscal deal to open the government and extend the debt ceiling, the longer term fiscal issues remain unresolved. Meanwhile, we believe political rancor is here to stay.

At the 11th hour, Congress agreed to reopen the government through January 15, 2014, suspend the debt ceiling through February 7, 2014 and lay the groundwork for talks over broader budget issues. However, Washington's inability to strike a more substantial bargain will have negative repercussions, both over the short and longterm. It is an all too familiar script: several near-death experiences followed by a minimalist solution which avoids catastrophe, but fails to address the underlying problem. Events in Washington have again followed that pattern.

In the near-term, the tardiness and temporary nature of the deal may produce some drag on the economy, heighten volatility, and probably produce some modest drag on Q4 earnings. Indeed, economists have already shaved estimates of Q4 GDP from 2.3% to 2%. If growth does disappoint, earnings for Q4 are arguably too high as well. Second, lingering uncertainty over the next act of the drama, which will unfold in early 2014, is likely to keep market volatility elevated. Finally, the dysfunction in Washington has not gone unnoticed outside the United States. While the fundamentals remain positive, we may see further dollar weakness in the near-term, particularly if uncertainty over the fiscal situation leads to a slower pace of Fed tapering.

Longer term, the underlying political divisions will still be with us in early 2014; we may be looking at a series of short-term deals and patches rather than a longerlasting budget solution. This suggests that the Fed is likely to maintain an accommodative monetary environment for longer, and a slower rise in interest rates. This supports high yield bonds and mortgage-backed securities should benefit. Also, a weaker dollar and no taper could be supportive of emerging markets.

2 How much should we worry about the situation in Europe and ongoing Mid-East turmoil?

While the focus has been on events in Washington, the underlying risks in Europe and the Middle East have not gone away.

Throughout this year, both Europe and the Middle East—for different reasons obviously—have had the potential for impacting the markets. But in both cases, near-term acute crises have lessened, while the long term issues are still simmering and remain unresolved. In the Middle East, the prospects for an agreement with Syria over its chemical weapons and negotiations with Iran over its nuclear program offer some hope of lessened tensions. However, it is important to remember that the region is still engulfed in turmoil (including the recent terrorist attack in Kenya), all of which occurs against backdrop of higher oil prices, a result of a tighter oil market than most market-watchers realize. With respect to Europe, again, the near term acute crisis has lessened, but the long term issues remain. The longer-term structural challenges in Europe, in particular, financial reform, remain unresolved.

Click here for complete reading

Best practices for ETF trading

November 5, 2013

U.S. listed ETFs are often so liquid that many investors assume trading an ETF is no different than trading a stock. However, the fact that ETFs also represent baskets means there is more to consider when deciding how to trade an ETF.

- *Fair value of the underlying is important when considering what price to trade the ETF at. NAV is a useful (albeit flawed) tool for this.*
- *There is almost always more "hidden" liquidity available through the underlying, but accessing this requires arbitrageurs or a desk-based execution strategy. It's also important to realize that there is a limit to underlying liquidity – especially in less actively traded areas.*
- *We present a rules framework for consideration when trading ETFs.*

CREDIT SUISSE

Authored by:
Victor Lin
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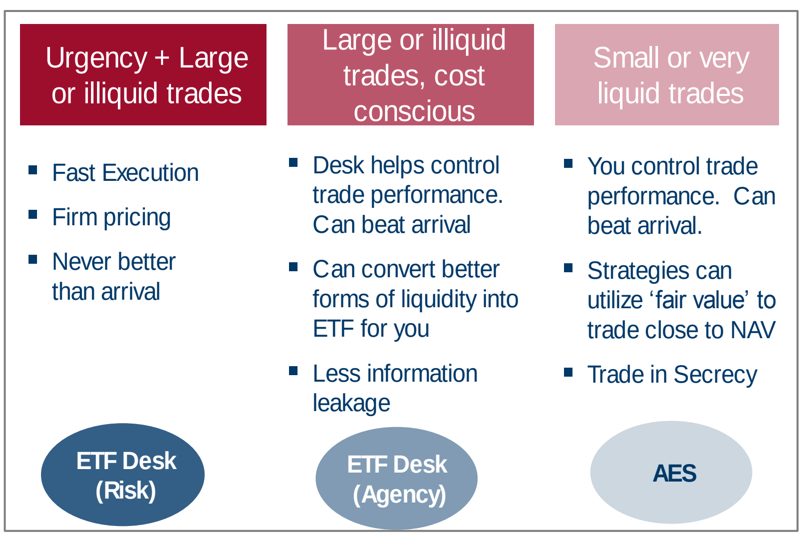
Phil Mackintosh
Managing Director, Trading Strategy, Credit Suisse

Execution strategies for ETFs

Given the intricacies involved in accessing liquidity and locating the best prices, there are several execution strategies available for ETFs – each with distinct advantages.

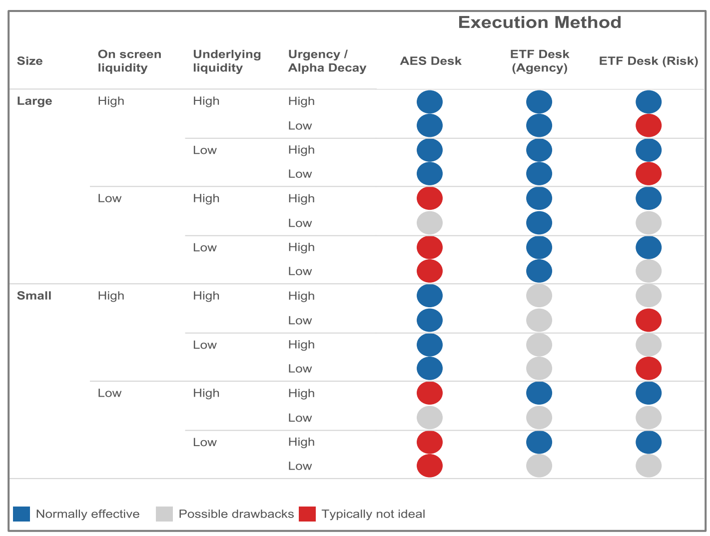
Ultimately, the best way to trade will depend on a number of factors including the size of the trade, liquidity of the ETF, liquidity of the underlying, and the urgency to get executed weighed against working an order to try to improve cost.

Ex 1: ETF execution strategies



Source: Credit Suisse Trading Strategy

Ex 2: Sample ETF trading decision matrix



Source: Credit Suisse Trading Strategy

Rules to remember

When considering execution strategies, it is helpful to keep in mind the following concepts.

Crossing the ETF spread might not be so bad

Crossing an ETF spread, even moving the ETF a few ticks, is often less expensive than trading the basket. This is because ETF spreads are often extremely tight, especially when compared to the underlying bid and offer NAV. Remember, the intraday NAV is usually determined using the last reported sale for its components and does not reflect where you would actually be executed at.

ETFs are not limited to on-screen liquidity

Aside from natural buyers and sellers, there is usually more liquidity that can be sourced through the underlying basket for most ETFs. Analyzing the basket liquidity is an informative proxy for the ETF's capacity and baseline trading costs.

ETFs can be limited by underlying liquidity

Large ETF trades need to consider the liquidity of the underlying basket, which acts as a constraint on the total order size and influences how much market impact there is.

NAV can be a useful guide, but has limitations

Comparing ETF prices to NAV is useful as a rough indication of whether an ETF is trading fairly. However, significant premiums/discounts to NAV often reflect the complexities faced by market makers in hedging a wide variety of ETFs - especially those with foreign or illiquid underlying. Large deviations warrant further investigation, but are often explained by an increase in hedging risk and costs.

"Arbitrageability"

Arbitrage helps to reduce trading costs and minimize tracking error in ETFs. The most liquid ETFs are often those that are most easily and widely arbitraged (with the underlying as well as other ETFs, futures, etc). Avoid situations where arbitrage is compromised like market-on-close (MOC) orders or when an ETF is closed to creations/redemptions.

Be adaptive with trading strategies

Adapt your trading strategy depending on the size of your ETF trade. In general, smaller trades (relative to the average daily volume of the ETF) might be traded more similarly to a stock while larger trades should be treated more like a basket.

Justify aggressive trading

Only trade ETFs aggressively if it is worth the extra cost. Usually, working an order costs less, but runs more risk. A more passive execution should have less market impact and may (when the market moves in your favor) beat arrival

CREDIT SUISSE

Fund Updates

To access the updates, please click on the links below.

- Alerian ETFs launched the Alerian Energy Infrastructure Exchange-Traded Fund: Nov. 1, 2013
- Ares Raises $130M in IPO for Closed-End Credit Fund: Oct. 29, 2013
- BlackRock Announces Special Distributions Related to the Reorganization of Three BlackRock Taxable Fixed Income Closed-End Funds: Nov. 6, 2013
- Calamos CEFs (NASDAQ: CHI, CHY, CSQ, CGO and CHW) Announce Monthly Distributions for Nov. 2013: Nov. 5, 2013
- Calamos Asset Management, Inc. Reports Third Quarter 2013 Results and Declares Dividend: October 22, 2013
- Cohen & Steers to separate Chairman and CEO roles: Nov. 11, 2013
- Cohen & Steers, Inc. Announces Quarterly and Special Dividends: Nov. 6, 2013
- Eaton Vance Tax-Managed Diversified Equity Income Fund Report Of Earnings: Nov. 4, 2013
- Kayne Anderson MLP Investment Company Provides Unaudited Balance Sheet Information and Announces its Net Asset Value and Asset Coverage Ratios at October 31, 2013: Nov. 1, 2013
- Legg Mason Reports Results For Second Fiscal Quarter 2014: Oct. 25, 2013
- Nuveen Energy MLP Total Return Fund (JMF) - Q3 2013 Commentary: Nov. 8, 2013
- Nuveen Floating Rate Funds (NSL, JFR, JRO, JSD, JQC) - Q3 2013 Commentary: Nov. 8, 2013

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October 18, 2013
John P. Calamos, Sr. on CNBC 10/18/13

October 30 2013
Barron's on: *Boo! Two Spooky Trends in Funds*

October 3, 2013
Rob Arnott on Morningstar: *The Key to Smart Beta*

Factor Investing

Tuesday, October 15, 2013 | 11:00 AM ET

Mark Carver - Great. Thank you, Paul. Good morning everybody. It's great to have a chance to speak to you today about factor investing and I appreciate the opportunity that Capital Link is providing us. What I'd like to do today is really cover three topics. First let's just set a foundation and talk about what are factors, that's a term that a lot of organizations use. I want to make sure we're all using it and defining it similarly. And then clearly we'll talk about why there's interest today in factor investing. Like to give you an overview of the iShare factor strategy in our suite and then finally we'll talk about the dynamics of factor strategies.

Clearly there's a lot of interest, Paul referenced it in the opening today but just by way of making that a little bit more tangible, so far this year in ETF flows here in the U.S. we've seen over 40 percent of equity flows into non market cap weighted strategies. And part of this is a reflection of investors rethinking the way they're putting portfolios together, rethinking their asset allocation, perhaps this is stemming from the financial crisis, we're all rethinking the way we build portfolios. But clearly there's tremendous interest in so called smart beta or non market cap strategies as a way to try to improve or change our overall asset allocation profiles.

And clearly factors allow us to do this, factors represent a tilt away from the traditional market cap portfolio, typically factors invest in ideas that are quite well documented and grounded in academic theory and often proven an investment practice. It's great when you have a theory but it's even better when that theory works in reality. BlackRock's been a pioneer in this space, we started running factor strategies as far back as 1979. I think when we consider the reasons for interest in factors it comes down to one of two things. Clients who are trying to hedge risk in portfolios and secondly clients who are trying to get some type of return enhancement or return premia.

The risk reduction can come in two flavors, one is simply building factors or introducing factors in a portfolio that are complimentary to one another that may in the best case have lower negative correlation. The second way to reduce risk is the actual factors strategy itself. We've seen a lot of interest this year in [0:04:39] [Inaudible] strategies. We're not going to talk about those ideas today but clearly there's a tremendous demand for that and that's clearly a way that investors can reduce risk by introducing a factor strategy.

So with that let's begin, I’m going to start on page 5 and let's just talk about what are factors and let's make sure we're defining this. When we think about factors really what we're talking about are investment characteristics that help us understand the risk return behavior of a stock or any asset. Most of us would say that the market factor is the first identified factor and measured by beta. Most of us on this call and clearly investors around the world use beta typically do the capital asset pricing model. We use CAPM to value projects that we might be doing if I’m a CFO. We use it as investors to try to forecast return but CAPM tells us something very straightforward. If we want to get a higher than average return we have to take higher than average risk.

And so consequently it's been grounded in theory that risk and return are almost linearly related, we're going to talk about that momentarily. Today factor strategies are used by institutional investors, by RIAs and others as a way to try to improve the investment characteristics of their portfolios to try to improve their strategic allocation. But increasingly we're seeing investors use factors as a way to get tactical exposure. We have clients that we're talking to that will build factor tactical portfolio rotated across factors to try to capture return premia.

Featured Speaker

Mark Carver
Director, Multi Asset Strategies Group
BlackRock

Factor combinations are an interesting field of study, we can talk a little bit about that on the call but clearly there are some factors that work very well together, they can become complimentary and when used in a strategic portfolio can actually improve not just your return but more importantly I think your risk adjusted return. And oftentimes when people talk about factors what they're really focused on is the risk adjusted results that they can get in their portfolios.

Let's look at an example on page 6. This example is designed to illustrate this idea of capital asset pricing model. As I mentioned a moment ago CAPM tells us if I want to get a higher return take higher than average risk. Implicit in that what it says is that two stocks with the same risk is measured by beta, systematic risk to the market. Those two stocks theoretically should give me the same return, so let's take a look at that and compare two companies, Time Warner and Direct TV. These are two companies that we can choose to get our cable service from, those two stocks have very similar betas over the last one and three years but their stock returns are quite different.

The reason I wanted to use this example and illustrate this is because what we know is to better understand the behavior of a stock we need to go beyond the simple CAPM framework and start looking at other anomalies, other factors if you will including volatility, momentum, size, leverage et cetera. Many of these are very well documented by academics. If we look on page 7 some of the most popular factors today are those we still here, size, value, volatility, quality and momentum. All of these have been used by investors for a long time, some of them are used by hedge funds to try to capture alpha. Some of them are used by all of you to try to build diverse portfolios.

For example some of you make style bets again growth versus value. What's important is that when we define and measure a factor that we recognize there are lots of ways to capture a particular factor. On this slide we illustrate some of the more common ways. Typically when we're thinking about size what we're talking about is small cap names, we're talking about the return difference you can get as you move from very large companies to smaller companies. We're talking about value, we're thinking about whether a stock is cheap or expensive often measured by price to book, price to earnings, price to cash flow but there are indeed other ways that we can try to capture the value anomaly. The value anomaly is the belief that over time and this is I think well shown by the results is that over time value stocks outperform growth stocks. Volatility, there are two ways to think about volatility, there are some factor strategies that try to capture high volatility, high beta. We're not going to talk about those, we don't offer those types of strategies at BlackRock.

The more common volatility strategies are to play the low val and low risk strategies. You can look at that simply through measuring the volatility of the stocks, you can look at variance and co variance among names et cetera. Quality is becoming a more common concept today, active managers have talked about this idea of quality for a long time, they'll typically define it by companies with unique competitive advantages perhaps through their brand, through pricing power, through having strong balance sheets et cetera, et cetera. We think about quality but we're really thinking about from a factor standpoint it’s a level of earnings quality of a company. Can we measure that and can we determine a company that has high earnings quality versus companies that have lower earnings quality. We can look at things like the amount of leverage, the variability of earnings, in other words how stable are those earnings.

That's going to give us a better idea of what separates a quality company, a high quality company from a lower quality company. And then finally momentum, momentum's the idea that we believe that companies that have positive price trends will continue to have positive price trends. In other words winners will continue to be winners in the short term. I'd liken momentum to the basketball coach who says give it to the player with the hot hands, that player keeps making the basket first, so give it into that player's hands. Momentum is similar and its shown that stocks that have good price momentum and are outperforming can outperform in the near future.

Now why would we even want to look at this, I used the example earlier of Time Warner and Direct TV, if we go to page 8 what we'll look at here is actually the factor exposures of those two stocks. While CAPM suggested that those two stocks would give the same return we know they don't, and the reason is when we look beyond beta we start measuring the level of exposure to value, to momentum et cetera we get a very different picture of those two names. And it helps us better understand the behavior of those two stocks relative to the market. So what you see on this slide on the left every company in the U.S. media industry and the relative factor exposures to momentum, to size, to value and volatility of those companies. And then on the right we isolate specifically Time Warner and Direct TV. What this illustrates is that if we move beyond the single market factor we're going to better understand the behavior of a stock more importantly from a factor standpoint and what we're able to do then is identify stocks with common characteristics by systematically investing in stocks in common characteristics we're able to capture those anomalies I mentioned earlier. The idea that value can outperform growth over time, the difference between high volatility and low volatility stocks, high quality stocks and low quality stocks. By systematically understanding them and capturing those characteristics we're able to then invest in those anomalies and hopefully be rewarded from those anomalies.

One of the things I mentioned earlier around the interest in factors is this idea of risk reduction. What you see on the next slide is the correlation of active returns of various factor strategies. One of the things that is important is that we get ideas in our portfolio that behave differently. Now when you look at the correlation of factor strategies you can clearly identify factors that don't behave the same, that don't move in tandem. Quality and value, value and momentum, quality and risk or risk weighted what we call size, looking at the correlation of those ideas gives us a sense of what factors we may pair with one another to try to introduce things to our portfolio that can improve our risk adjusted returns. So while this slide oftentimes you will just sort of skim over I'd suggest that this is a rather important slide as it relates to this concept of risk reduction through factor investing. So that was a whirlwind tour through this idea of factors, we talked about what they are; their characteristics that help us understand their behavior. We talked about why people are interested either return enhancement or risk reduction, showed a couple of examples.

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The Case for Strategic Convertible Allocations

Tuesday, October 29, 2013 | 4:00 PM ET

John P. Calamos, Sr. - Well thank you, Nicolas. It's a pleasure to be on with you all today, and on slide two what we'll cover is a quick Calamos overview of our company, and then I'll go into a global market economy outlook, then we'll get into convertible securities, and how they fit into the current economic outlook. Then I'll review the global convertible market and some of the attributes that's happening in that area. And then talk more specifically of how we're using convertibles within the asset allocation framework.

So our first is really just to give you a quick overview of Calamos Investments on page four. You'll see just a history. I began really in the 1970s as a financial advisor in a pretty difficult market environment, and really focused on convertibles as a way to manage risk. Worked very, very well during that period, and we utilised convertibles throughout our history, ended up writing two books that you see there on convertibles. And what we'll talk about today is convertibles are pretty complex, you know, they have fixed income, they have equity attributes, they have optionality. So I thought writing a book and then to explain them better would be helpful.

I have to warn you it's pretty technical, one of my associates said it's the kind of book that once you put it down you can't pick it up again. But it's very, very technical from that point of view. So on page five we'll talk a bit just quickly give you an overview of Calamos Investments. We're managing over $27 billion and as you can see from that pie chart, you know, various strategies and about $6 billion in closed-end funds as well. We are going global, we have an office in London now, we have offices around the US, and we're a public listed company. And our main office is here outside the Chicago area, Naperville, Illinois.

On page seven you can see our experience going back to the 1970s through the current environment. It just occurred to me when Nicolas was introducing me he said in uncertain times it's managing risk and that's what we're all about. And I was thinking, gee, I've only been in the market since the '70s, they've always been uncertain, so where's the certainty? You know, whatever period, whatever decade you look at whether it's the '70s, the '80s, the '90s, the present time, there's always uncertainty. And I learned that well in the 1970s getting into the market in 1970 Dow was $1,000 and in 1974 did almost 500, so the volatility of that market really taught me a lot of lessons that we needed to be able to manage risk, and the use of convertibles is a means to manage risks really throughout the '70s, and '80s, and well into the '90s, convertibles were really our main strategy.

1990 we stated a market neutral fund, one of the first alternative strategies where we used convertible arbitrage in that particular strategy. So we've been in the alternative area for a long time. We also of course in 1985 started one of the first open ended convertible funds in 1985, and then we went with global convertible opportunities in 1996. So over the years we've launched 2002 the first of five closed-end funds utilising convertibles in there as well. In 2008 we started our emerging market fund which is really a strategy to participate in emerging markets with hopefully less volatility, and we realised some convertibles in there as well.

So as you can see convertibles are a cross section of what we do.

So I'll get into now the global market and economic outlook on slide nine, there's some bullet points. You know, our view is that the QE stimulus will remain intact now, that's

Featured Speaker

John P. Calamos, Sr
Chief Executive Officer & Global Co-Chief Investment Officer
Calamos Investments

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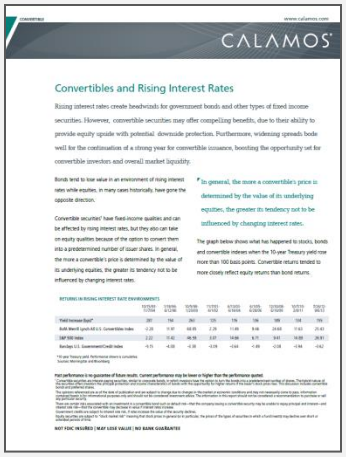
White Paper: *"Convertibles and Rising Interest Rates"* published by Calamos Investments, provides further insight into convertible securities in a rising interest rate environment. Download your copy of the white paper here.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Convertibles and Rising Interest Rates

Rising interest rates create headwinds for government bonds and other types of fixed income securities. However, convertible securities may offer compelling benefits, due to their ability to provide equity upside with potential downside protection. Furthermore, widening spreads bode well for the continuation of a strong year for convertible issuance, boosting the opportunity set for convertible investors and overall market liquidity.

Bonds tend to lose value in an environment of rising interest rates while equities, in many cases historically, have gone the opposite direction.

Convertible securities' have fixed-income qualities and can be affected by rising interest rates, but they also can take on equity qualities because of the option to convert them into a predetermined number of issuer shares. In general, the more a convertible's price is determined by the value of its underlying equities, the greater its tendency not to be influenced by changing interest rates.

In general, the more a convertible's price is determined by the value of its underlying equities, the greater its tendency not to be influenced by changing interest rates.

The graph below shows what has happened to stocks, bonds and convertible indexes when the 10-year Treasury yield rose more than 100 basis points. Convertible returns tended to more closely reflect equity returns than bond returns.

RETURNS IN RISING INTEREST RATE ENVIRONMENTS been debateable here over the last couple of months. Our view is not much is going to happen until Yellen steps in, in March. So, you know, during that period with what's going on in Washington, and what may happen again in February, market volatility will continue to persist. We have a lot of political uncertainty and that's a back drop for, you know, the financial markets in here. We look at the consumer very carefully in here, we do see that their position is support to recovery, but obviously what's going on in Washington is having some impact. So we're watching that very, very carefully as well.

The Euro zone does look like it may be turning a bit, one of the positives there in Europe is the valuations are pretty cheap in there, so we look at that. It might be more compelling going forward here, especially northern Europe seems to be turning a bit, so that's been positive. Chancellor Merkel, you know, has demonstrated to navigate a course with the rest of Europe, so that's been a positive.

Emerging markets, still a source of long term global growth. We shouldn't forget about that obviously, it's been back and forth in here, a bit more volatile. But the long term in emerging markets over is still a source of global growth in the growth of the middle class still persist.

Japan, they're really trying to restructure here and finally get back into the game here. You know, it may be, you know, got ahead of itself a little bit, but we're watching that carefully as well.

On slide 10, just to give you our view of the… where we feel we're in the secular phases of the US market. If you go back into history here, you'll see secular bull markets, bear markets, bull market, bear market. Our opinion is that we're sort of in the mid phase of a more bullish market environment. So we've gone from, you know, the initial start to the mid phase, and as the economy recovers in here, so we're cautiously optimistic going forward here.

As slide 11 shows, I will probably continue with the slower pace of 2% to 2.5%, obviously everybody would like to see more near 4% going global growth. But we feel with the regulations that are coming out of Washington, a lot of the programmes coming out of Washington, are not supporting a fast growth environment unfortunately. So we continue to watch for, you know, how companies are reacting in here. The earnings growth obviously margins are still high, but we're very careful in looking at any potential slow down in earnings growth.

The political uncertainty will again lead to volatility within the market, so the one certainty is we're going to have political uncertainty going forward for quite a bit here.

As far as the QE goes, on slide 12, I tracked this very carefully in the '70s, the money supply, and the factors in there. The top chart on slide 12 shows the increase in the money supply and how dramatic it has been. Years ago that was a positive that would be… that's what the Fed is trying to do is really increase the money supply, get people spending again. This is the one factor they have control over which is M. The velocity of money, in other words the way people spend money is what they don't have control over. So we must remember that the total money spots, supply that's out there, is a culmination of the two, so them simply increasing money does not necessarily work and that's been the problem is the velocity of money has come down so that we're not seeing the impact of QE as they had hoped, and we all hoped it would do, but people still are not spending at that rate. So that's one of the problems that the Fed has in here is no matter how much money they put into the system it really hasn't caused people's turnover to increase. Obviously that's what they're trying to do.

Now as it starts to work in here what the Fed would want to do is then raise rates, so our feeling is an increase in interest rates in here, in other words QE tapering going into effect, is not necessarily bad news. That means that the Fed has confidence that the economy is improving and therefore they want rates to go up to do that. So a good reference point would be going back to say the 1994 period where we came out of the recession in the 1990s, early 1990s, and then as the economy improved interest rates started going up. So if you look on slide 13 we see the S&P 500 versus the 10 year Treasury from the beginning of 1993 to the beginning of 1994. We can see the top green line there is the S&P 500 going up nicely as interest rates came down. But then as interest rates started going up we had a slight correction in the S&P in a sloppy sideways market, you know, throughout 1994. Again the same fear, wow, what's going on, interest rates going up, what's going to happen to the economy. So then if you turn to slide 14 this takes up not only from 1993, '94, it takes us from 1990 all the way through 1999, and as you can see the areas of rising interest rates, you see that the market continued to improve throughout that period and it's really a factor of the economy improving throughout that period riding the markets higher again.

The main point here I guess is on slide 15 that a rising interest rate environment is not necessarily bad for the equity markets. This chart on slide 15, the box and all the dots in there show that when the yields were on the 10 year were between 4.5% and 5% in that area, the vertical axis is the P/E, the P/Es were, you know, 17, 18 times. So currently the P/E looking backwards is now at 14.5 times. We have room to grow in this environment, so, you know, from that point of view the equity markets look reasonable. Slide 16 again shows equities remain undervalued relative to bonds as well. And I think what's very vulnerable in here is really the bond market not the equity markets, so we have a rise in interest rates, the bond market is very concerning in here. You know, you're keeping duration low because there's just no point to have high duration for, you know, a few basis points extra in yield.

On slide 17 we show that growth equity valuations are particularly compelling in the current market. If you see on the bottom of that chart 17, you see P/Es are relative the S&P are well below average. So we're in a market environment that shifted from a really almost a fixed income alternative market in the equities to more of a growth market going forward, and that's our feeling about the market. So the economic outlook is… the overview is on slide 18, we think we're in a mid cycle of a bull market, equity earning yields provide a good advantage, we're seeing there. You know, some of the areas are more the growth areas that we're looking to overweight, and a moderate rise in rates of a growing economy should not be a concern for the equity markets. It's obviously a concern for the bond market.

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