Capital Link's
CEF & ETF Monthly Newsletter

October 2013
Volume 1 | Issue 5

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Capital Link's Closed-End Funds & Global ETFs Webinar Series

Please join us for our complimentary webinar

Case for Strategic Convertible Allocations

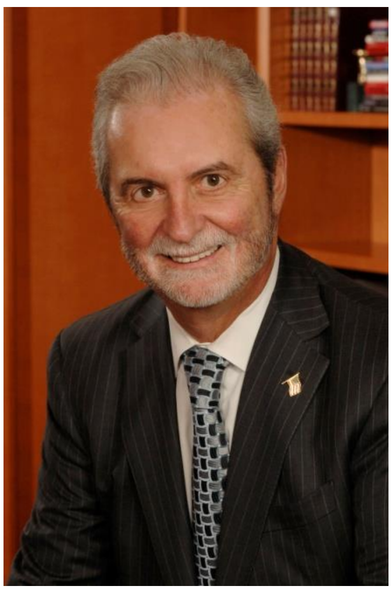
Presented by:

CALAMOS

Webcast: Tuesday| October 29, 2013 | 4:00 pm – 5:00 pm ET

(Discussion, followed by a Q&A Session)

»Register NOW



John P. Calamos, Sr.
CEO & Global Co-CIO

CALAMOS

Overview:

In more uncertain times, the greater the need to manage risk. With today's market conditions, we believe the case for convertible securities is as strong as ever, presenting global market opportunities. Join John as he discusses why, focusing on:

- The role of convertible securities within asset allocation
- Encouraging global trends within the convertible market
- Why a growing economy provides a favorable environment for a widening pool of convertibles

Featured Speaker:

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

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NOTE: This webinar will be made available for replay after the live broadcast.

***Participants can submit questions prior to or during the event through the special feature on the event page or by emailing Capital Link at questions@capitallink.com.**

The Month in Closed-End Funds: September 2013

PERFORMANCE

In the early part of September after President Obama reiterated that the U.S. response to Syria's use of chemical weapons would be limited and proportional—with no American boots on the ground, U.S. stocks gradually began to erase losses from the prior weeks' market declines caused primarily by geopolitical uncertainty. Investors began turning their attention back to the September Federal Open Market Committee meeting, evaluating the odds of when the Federal Reserve would begin curbing its monetary support. Despite conflicting messages from Fed governors about when the Fed should cut back on its $85-billion monthly asset purchases, a lower-than-expected nonfarm payrolls report led many investors to speculate that the Fed might hold off until December, leading to strong plus-side returns in the equity markets.

On September 18 the FOMC threw the market a curve ball when it announced its decision to hold its monthly bond-buying program steady at $85 billion. The S&P 500 jumped to an all-time high that afternoon, closing at 1,725.52, and the yield on the benchmark ten-year Treasury note plummeted 17 basis points (bps) for the day. A few days earlier Fed chairman heir-apparent Larry Summers took his name off the list to be considered for the top spot at the Fed, leaving room for current Vice Chair Janet Yellen to get the nod from President Obama to be the next head of the Fed. The markets rallied for a third consecutive week because both events were perceived as signals the Fed would be more likely to maintain its accommodative polices until the unemployment rate makes significant improvements. However, by Friday, September 20, the market indices began to sell off as investors reevaluated the Fed's move and focused on the upcoming debates over the debt ceiling and the federal budget, which set the tone for the remainder of the month. For the first month in six, both equity and fixed income CEFs were in the black, gaining on average 3.36% and 2.88%, respectively, on a NAV basis and 2.55% and 3.00% on a market basis.

The lack of progress in budget negotiations and the likelihood of a government shutdown stretching into days kept equities subdued and Treasury prices comparatively high. The ten-year Treasury yield declined 34 bps from its September 5 closing high of 2.98% (a closing high not seen since July 28, 2011) to 2.64% on September 30. For the month the benchmark yield declined 14 bps from its August close of 2.78%. At maturities of one year or greater the Treasury yield curve shifted downward, with the five- and seven-year yields declining the most—23 bps and 22 bps, respectively, to 1.39% and 2.02% on September 30.

For September the dollar weakened against the euro (-2.50%) and the pound (-4.40%), but it gained slightly against the yen (+0.09%). For the month commodities prices were on the decline, with the near-month crude oil price dropping 4.94% to close the month at $102.33/barrel, and gold prices slipped 4.99% to end the month at $1,326.50/ounce.

For September 96% of all CEFs posted NAV-basis returns in the black, with 92% of equity CEFs and 98% of fixed income CEFs chalking up returns in the plus column. The reduction in geopolitical tensions over Syria and the surprise decision by the Federal Reserve to hold off cutting its monthly bond purchases in September lifted the broad markets, pushing the world equity CEFs macro-group to the top of the charts (+5.76%), outperforming both the domestic equity CEFs macro-group (+2.82%) and the mixed-asset CEFs macro-group (+1.30%).

The Month in Closed-End Funds: Sept. 2013

- For September only 10% of all closed-end funds (CEFs) traded at a premium, with 9% of equity funds and 10% of fixed income funds trading in premium territory to their NAVs. The taxable bond funds, high yield bond funds, and world bond funds macro-groups witnessed a narrowing of discounts for September.
- For the first month since April all of Lipper's equity CEF and fixed income CEF classifications were in the black
- For the first month in five all of the municipal bond fund groups posted plus-side returns, with single-state municipal bond fund (+4.17%) outpacing their national municipal debt fund brethren (+4.02%).
- With geopolitical uncertainties on the mend and the decision by the Fed to not taper in September, the world equity CEFs macro-group (+5.76%) jumped to the head of the class, with the Emerging Markets CEFs (+7.15%) classification posting the strongest return in the universe.

THOMSON REUTERS

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

For the first month since April 2013 all of Lipper's equity CEF and fixed income CEF classifications were in the black. Given the large decline in Treasury yields over the month, it wasn't surprising to see the municipal bond funds macro-group (+3.04%) catapulted to the top of the fixed income group, outperforming taxable domestic bond CEFs (+1.17 on a NAV basis) and world bond CEFs (+2.99%).

Only 19 equity CEFs posted returns in the red for September, with all of the 10 top funds being housed in Lipper's World Equity Funds macro-group. Late in the month overseas markets perked up after data showed German business confidence rose in September and China's purchasing managers index jumped to a six-month high, pushing Emerging Markets Funds up 7.15%, Developed Markets Funds up 6.39%, Pacific ex-Japan Funds up 4.99%, and Global Funds up 4.68%. 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 laggard) returning 1.11%, Energy MLPs returning 1.42%, and Natural Resources Funds returning 2.35%. Income & Preferred Stock Funds posted the lowest return for the month, returning 0.66%. For the remaining equity classifications returns ranged from 2.93% (Core Funds) to 4.66% (Utility Funds).

Three of the five top-performing individual equity funds were housed in Lipper's Emerging Markets CEFs classification, but no one particular geo-focus dominated the winner's list for September. At the top of the chart was **Thai Fund, Inc. (NYSE: TTF,** housed in Lipper's Pacific ex-Japan CEFs classification and one of August's laggards), gaining 13.63% on a NAV basis and traded at a 13.64% discount at month-end. Following TTF were **Turkish Investment Fund, Inc. (NYSE: TKF**, housed in Lipper's Emerging Markets CEFs classification), posting a 12.85% return and traded at a 13.06% discount on September 30; **Morgan Stanley India Investment Fund, Inc. (NYSE: IIF**, also housed in Lipper's Emerging Markets CEFs classification), rising 10.91% on a NAV basis and traded at a 13.84% discount at month-end; **Aberdeen Latin America Equity Fund, Inc. (AMEX: LAQ**, housed in Lipper's Emerging Markets CEFs classification), chalking up a 10.19% return and traded at a 9.84% discount at month-end; and **Japan Equity Fund, Inc. (NYSE: JED,** housed in Lipper's Developed Markets Funds classification), rising 9.96% and traded at a 10.50% discount on September 30.

For the month the dispersion of performance in individual equity CEFs—ranging from minus 11.53% to positive 13.63%—was wider than August's spread and more positively skewed. The 20 top-performing equity funds posted returns in excess of 7.10%, while the 20 lagging funds were at or below 0.02%.

Given its super-concentrated portfolio, it wasn't surprising to see **ENGEX Inc. (OTC: EXGI**), housed in Lipper's Core Funds classification, at the bottom of the equity CEF group. EXGI shed 11.53% of its August month-end value. The next three poorest performing equity funds were gold-oriented

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	92	32	65	9	91
Bond Funds	98	48	50	10	89
ALL CEFS	**96**	**42**	**56**	**10**	**90**

TABLE 2 AVERAGE NAV RETURNS, SELECTED PERIODS (%)

	SEPTEMBER	YTD	3-MONTH	CALENDAR-2012
Equity Funds	3.36	9.99	3.90	15.42
Bond Funds	2.88	-2.90	0.00	15.04
ALL CEFS	**3.07**	**2.08**	**1.51**	**15.18**

TABLE 3 NUMBER OF IPOs, SELECTED 12-MONTH PERIODS

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

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

3 MONTHS THROUGH 8/31/2013	292
COMPARABLE YEAR-EARLIER 3 MONTHS	672
CALENDAR 2012 AVERAGE	506

Source: Lipper, a Thomson Reuters company funds warehoused in Lipper's Sector Equity CEFs classification. **Central Fund of Canada Limited (AMEX: CEF)** declined 6.33% and traded at a 5.34% discount at month-end; it posted the next poorest return for September.

For the first month in five all of Lipper's municipal debt CEF classifications posted plus-side NAV-based returns, with California Municipal Debt Funds (+4.49%) and General & Insured Municipal Debt Funds (Leveraged) (+4.38%) rising to the top of the group, while General & Insured Municipal Debt Funds (+2.74%) and Intermediate Municipal Debt Funds (+3.02%) were the laggards. The municipal debt funds macro-group (+4.09%) significantly outpaced its taxable domestic CEFs counterpart (+1.17%). Single-state municipal debt funds (+4.17%) outperformed their national municipal debt fund counterparts (+4.02%).

As conditions improved for the world markets, the two classifications making up Lipper's World Income Funds macro-group (+2.99%) jumped forward in standing, with Emerging Markets Debt Funds (+3.78%) outpacing its Global Income Funds (+2.50%) counterpart. With fears of rising interest rates on the decline, the adjustable-rate Loan Participation Funds (+0.41%) classification became the laggard of the group, while investors bid up High Yield Funds (Leveraged) (+1.77%) and Corporate BBB-Rated Debt Funds (+1.59%) for September. The Fed's decision to keep pumping money into the markets at the current rates pushed yields lower. The two-/ten-year Treasury spread narrowed 8 bps from August's month-end 2.39 bps. The yield on the ten-year Treasury note finished the month 14 bps lower at 2.64%.

In the domestic taxable fixed income CEFs universe (+1.17%) the remaining classification returns ranged from 0.96% (General Bond Funds) to 1.22% (High Yield Funds). Only five 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 General & Insured Municipal Debt Funds (Leveraged) classification. At the top of the list was **Eaton Vance Municipal Income Term Trust (NYSE: ETX**), rising 8.71% and traded at a 9.84% discount on September 30. Following ETX were **BlackRock Municipal Target Term Trust (NYSE: BTT),** tacking 7.52% onto its August month-end value and traded at a 4.02% discount at month-end, and **MFS Intermediate Income Trust (NYSE: MIN**, housed in Lipper's Corporate BBB-Rated Debt Funds classifications), posting a 7.16% return and traded at a 7.65% discount on September 30.

For the remaining funds in the fixed income CEFs universe monthly NAV-basis performance ranged from minus 0.62% **(Putnam Master Intermediate Income Trust [NYSE: PIM],** housed in Lipper's General Funds classification and traded at an 11.27% discount), to 6.93% for **PIMCO California Municipal Income Fund II (NYSE: PCK),** housed in Lipper's California Municipal Debt Funds classification and traded at a 17.16% premium on September 30. The 20 top-performing fixed income CEFs posted returns at or above 5.30%, while the 20 lagging funds were at or below 0.27%.

PREMIUM AND DISCOUNT BEHAVIOR

For September the median discount of all CEFs narrowed 5 bps to 7.85%—considerably lower than the 12-month moving average discount (3.48%). Equity CEFs' median discount widened 38 bps to 9.94%, while fixed income CEFs' median discount widened 1 bp to 7.16%. Municipal bond funds' median discount widened 6 bps to 6.84%. National municipal debt funds experienced a 95-bp narrowing of discounts, while single-state municipal debt funds' discount widened 86 basis points to 7.63%. High-yield funds and world bond funds witnessed the largest narrowing of discounts—148 bps to 7.40% and 122 bps to 9.04%, respectively, while taxable bond funds' median discount narrowed 126 bps to 7.54%.

For the month 42% of all funds' discounts or premiums improved, while 56% worsened. In particular, 32% of equity funds and 48% 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 (57) was 15 less than on August 30.

IPOs

Center Coast MLP & Infrastructure Fund (NYSE: CEN) sold 14.5 million shares at $20 each to raise $290 million in its initial public offering. Up to $334 million in gross proceeds could be raised if underwriters exercise their overallotment options.

THL Credit Senior Loan Fund (NYSE: TSLF) sold 6.6 million common shares at $20 each to raise $132 million in its IPO. Up to $152 million in gross proceeds could be raised if underwriters exercise their overallotment options.

RIGHTS, REPURCHASES, TENDER OFFERS

Directors of **Swiss Helvetia Fund (NYSE: SWZ)** increased the authorization for open-market repurchases from 500,000 to 750,000 of the fund's common shares. The discount on SWZ ended in the middle of September's range at 9.9%.

Final results of the tender offer for **Liberty All-Star Equity Fund (NYSE: USA)** saw approximately 64.6 million shares (about 34.2%) of the fund's outstanding shares tendered, of which 14.1 million shares were accepted for payment at $5.98 each. On a *pro rata* basis the fund accepted approximately 21.9% of the shares properly tendered. The fund's discount widened three percentage points to end at 12.7%.

The semiannual repurchase offer for up to 5% (about 1.9 million shares) of **The India Fund (NYSE: IFN)** saw approximately 13.4 million shares tendered. On a *pro rata* basis 14.1% of the shares tendered were accepted for payment at $22.30 each. The discount on IFN varied considerably in September, from 6.9% to 15.7% before ending at 13.2%.

Directors of **DWS High Income Opportunities Fund (NYSE: DHG)** extended the fund's repurchase program for an additional 12-month period. The fund may continue to purchase up to 5% of its outstanding common shares in open-market transactions from December 1, 2013, until November 30, 2014. The fund's discount narrowed from 13.6% at the start of September to 11.4% at the end.

Tender offers for **The Central Europe, Russia, and Turkey Fund (NYSE: CEE)** and **The New Germany Fund (NYSE: GF)** were oversubscribed. CEE accepted 608,323 of the 8.7 million tendered shares, and GF accepted 801,417 of the 9.9 million tendered shares. Under the final *pro rata* calculations 7% of CEE's shares and 8% of GF's shares that were tendered have been accepted for payment. Both funds saw their discounts widen just slightly to about 10.5%.

MERGERS AND REORGANIZATIONS

Shareholders of **Royce Value Trust (NYS: RVT)** approved the spin-off of Royce Global Value Trust. RVT shareholders will receive one common share of Royce Global Value Trust for every seven shares of RVT. The distribution will be made on October 17, 2013, to Value Trust shareholders of record as of the official close of business on October 10, 2013. The discount on RVT was very steady in September and ended at 12.5%.

Trustees of **AllianzGI Global Equity & Convertible Income Fund (NYSE: NGZ)** and **AllianzGI Equity & Convertible Income Fund (NYSE: NIE)** approved the reorganization of NGZ into NIE. The reorganization, expected to be completed in first quarter 2014, is subject to shareholder approval and other customary closing conditions. The discount on NIE narrowed slightly in September to end at 12.3%.

OTHER

Trustees approved several changes to **John Hancock Hedged Equity & Income Fund (NYSE: HEQ)**. Along with a 16% increase in the fund's distribution rate, HEQ will have no restriction on investing in foreign issuers, its benchmark will change from the Russell 3000 Index to the MSCI ACWI Index, it will replace its put option with a "beta hedge" strategy, and it will reduce the use of call writing. At the end of September the fund's discount was 12.5%.

In an effort to ensure more valid relative-performance comparisons **JF China Region Fund (NYSE: JFC)** will revise its composite benchmark. Because dividends received from securities in which the fund invests are subject to dividend withholding taxes, the revised benchmark will include both the MSCI Golden Dragon Index and the CSI 300 Index on a net basis (rather than gross), thereby incorporating the deduction of dividend withholding taxes. Henceforth, the fund's benchmark will be 80% MSCI Golden Dragon Index (Net Dividends) and 20% CSI 300 Index (Net Dividends). The fund's discount was fairly steady in September and ended at 12.0%.

Directors of **Fort Dearborn Income Securities (NYSE: FDI)** approved changes to certain investment policies of the fund (effective December 31, 2013), such as permitting the purchase of non-U.S. dollar-denominated securities, investing up to 10% of the fund's assets in collateralized loan obligations, and investing up to 25% of the fund's assets in junk bonds, preferred stock, and convertible securities. The discount on FDI held steady to end September at 12.1%.

Trustees of **AllianzGI International & Premium Strategy Fund (NYSE: NAI)** approved the liquidation of the fund on or about October 16, 2013. The fund has already begun liquidating assets, and it is currently anticipated the liquidation will be completed on or about October 28, 2013.

The Taiwan Fund (NYSE: TWN) was notified by its investment advisor—Martin Currie—that on September 4, 2013, its subadvisor—APS Asset Management—terminated the subadvisory agreement between Martin Currie and APS. The fund's board of directors is considering alternatives for the fund's investment advisory arrangements. The discount on TWN jumped from 7.9% shortly before the announcement to 11.0% at the end of the month.

Authored by:
JEFF TJORNEHOJ
HEAD OF LIPPER AMERICAS RESEARCH
LIPPER, DENVER

THOMSON REUTERS

CEF Performance Statistics

LIPPER

Category	Average of 1MO NAV Change	Average of 1MO MKT Change	Average P/D 8/31/2013	Average P/D 9/30/2013	Average of 1 MO P/D Change	Average of YTD NAV Change	Average of YTD MKT Change	Average of YTD P/D Change
California Municipal Debt Funds	-3.78%	-2.31%	-5.15	-3.66	1.49	-10.39%	-15.19%	-5.38
Convertible Securities Funds	-1.96%	-1.90%	-7.56	-7.5	0.06	8.28%	8.08%	-0.07
Core Funds	-2.04%	-5.67%	-8.08	-6.82	1.26	6.33%	3.55%	5.57
Corporate BBB-Rated Debt Funds(Leveraged)	-0.54%	-2.90%	-6.28	-8.54	-2.26	-4.17%	-9.79%	-5.91
Corporate Debt Funds BBB-Rated	-0.72%	-1.44%	-11.51	-12.15	-0.64	-5.80%	-12.93%	-7.40
Developed Market Funds	-6.09%	-4.98%	-8.98	-7.85	1.13	15.96%	17.31%	1.41
Emerging Markets Funds	-6.06%	-6.28%	-8.27	-8.46	-0.19	-5.56%	-5.36%	0.35
Emerging Mrkts Hard Currency Debt Funds	-2.63%	-3.61%	-8.65	-9.5	-0.85	-12.82%	-17.09%	-4.83
Energy MLP Funds	-5.76%	-2.98%	-0.34	2.45	2.79	9.25%	10.83%	-3.87
General & Insured Muni Debt Funds (Leveraged)	-3.65%	-3.75%	-5.65	-5.78	-0.13	-11.95%	-17.77%	-5.41
General & Insured Muni Funds (Unleveraged)	-2.29%	-2.24%	-5.59	-5.55	0.04	-6.54%	-10.37%	-4.04
General Bond Funds	0.42%	-3.50%	-6.31	-5.89	0.42	-12.30%	-9.33%	-5.55
Global Funds	-3.64%	-2.91%	-12.04	-11.43	0.61	6.38%	4.53%	-1.71
Global Income Funds	-1.61%	-2.16%	-7.76	-8.24	-0.48	-6.80%	-13.39%	-7.08
Growth Funds	-2.89%	-3.32%	3.7	3.69	-0.01	6.48%	-25.47%	10.84
High Yield Funds	-0.36%	-2.31%	-4.83	-6.48	-1.65	-0.14%	-4.43%	-3.73
High Yield Funds (Leveraged)	-1.10%	-2.63%	-4.26	-5.76	-1.5	0.01%	-4.23%	-4.06
High Yield Municipal Debt Funds	-2.39%	-3.57%	-3.18	-4.42	-1.24	-10.08%	-14.40%	-4.78
Income & Preferred Stock Funds	0.13%	-0.12%	-7.55	-7.82	-0.27	-12.09%	-5.45%	-4.22
Intermediate Municipal Debt Funds	-2.50%	-3.18%	-3.86	-4.53	-0.67	-7.34%	-10.45%	-4.07
Loan Participation Funds	-2.91%	-2.55%	-2.86	-1.52	1.34	1.05%	-3.22%	-2.70
Natural Resources Funds	-1.61%	0.16%	-10.01	-7.56	2.45	8.13%	3.94%	-4.28
New Jersey Municipal Debt Funds	-3.51%	-2.39%	-8.47	-7.42	1.05	-10.60%	-19.60%	-10.37
New York Municipal Debt Funds	-3.39%	-2.79%	-4.77	-4.22	0.55	-10.94%	-16.21%	-5.95
Options Arbitrage/Opt Strategies Funds	-2.07%	-0.67%	-7.45	-6.15	1.3	4.73%	5.52%	0.81
Other States Municipal Debt Funds	-3.41%	-1.88%	-7.15	-5.38	1.77	-11.11%	-19.90%	-6.89
Pacific Ex Japan Funds	-4.16%	-4.26%	-11.03	-11.09	-0.06	-0.37%	-4.15%	-3.52
Pennsylvania Municipal Debt Funds	-3.40%	-2.81%	-10.31	-9.78	0.53	-11.22%	-19.18%	-8.89
Real Estate Funds	-2.02%	-2.06%	-9.03	-9.35	-0.32	-9.53%	-4.68%	-1.20
Sector Equity Funds	-0.38%	-6.31%	-6.03	-2.58	3.45	-4.95%	3.63%	1.02
U.S. Mortgage Funds	-0.37%	-1.53%	-9.27	-10.32	-1.05	-3.43%	-9.51%	-5.61
Utility Funds	-3.60%	-1.58%	-6.46	-4.51	1.95	6.51%	2.90%	-3.35
Value Funds	-2.01%	-1.28%	-12.42	-11.84	0.58	13.38%	13.63%	0.52

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Top 5 Performing CEFs

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Fund Name	Category	Ticker Symbol	1-Month NAV Change	Rank
BlackRock FI Val Opp	General Bond Funds	FIV	22.24%	1
Engex Inc	Core Funds	EGI	13.03%	2
Central Fund of Canada	Sector Equity Funds	CEF	6.76%	3
ASA Gold & Prec Met Ltd	Sector Equity Funds	ASA	6.37%	4
Central Gold Trust	Sector Equity Funds	GTU	5.10%	5

Fund Name	Category	Ticker Symbol	Year-to-Date NAV Change	Rank
H&Q Healthcare Investors	Sector Equity Funds	HQH	35.03%	1
H&Q Life Sciences Invtrs	Sector Equity Funds	HQL	34.49%	2
New Ireland Fund	Developed Market Funds	IRL	32.56%	3
New Germany Fund	Developed Market Funds	GFN	31.69%	4
Japan Small Cap	Developed Market Funds	JOF	25.86%	5

Fund Name	Category	Ticker Symbol	1-Month Market Change	Rank
Cushing Royalty & Inc Fd	Energy MLP Funds	SRF	11.70%	1
Central Fund of Canada	Sector Equity Funds	CEF	8.84%	2
Cohen & Steers MLP Inc&E	Energy MLP Funds	MIE	8.44%	3
ASA Gold & Prec Met Ltd	Sector Equity Funds	ASA	8.23%	4
DWS Multi-Mkt Income Tr	General Bond Funds	KMM	8.19%	5

Fund Name	Category	Ticker Symbol	Year-to-Date Market Change	Rank
Firsthand Technology Val	Sector Equity Funds	SVC	40.37%	1
H&Q Healthcare Investors	Sector Equity Funds	HQH	38.47%	2
H&Q Life Sciences Invtrs	Sector Equity Funds	HQL	32.76%	3
New Germany Fund	Developed Market Funds	GFN	32.16%	4
New Ireland Fund	Developed Market Funds	IRL	29.45%	5

Fund Name	Category	Ticker Symbol	1-Month P/D Change	Rank
GAMCO Gl Gld NR & Inc	Sector Equity Funds	GGN	6.87	1
Flrty&Crumrine Pfd Secs	Income & Preferred Stock Funds	FFC	6.15	2
Pimco Muni Income II	General & Insured Muni Debt Funds (Leveraged)	PML	5.25	3
Dreyfus Strat Municipals	General & Insured Muni Debt Funds (Leveraged)	LEO	5.17	4
DWS Multi-Mkt Income Tr	General Bond Funds	KMM	4.43	5

Fund Name	Category	Ticker Symbol	Year-to-Date P/D Change	Rank
Engex Inc	Core Funds	EGI	43.56	1
Cornerstone Total Return	Core Funds	CRF	32.35	2
Foxby Corp	Growth Funds	FXBY	30.62	3
Equus Total Return	Core Funds	EQS	28.92	4
Cornerstone Strat Value	Core Funds	CLM	28.20	5

Highlights (US$):[1,2]

Global ETP flows in September surged to $35.0bn on strength in Equities just one month after August's record outflows of ($16.0bn). Notably, strengthening **Emerging Markets Equity** inflows provided a welcome boost during the month and may be a sign the tide has turned for a category that has been out of favor most of the year.

September played out similarly to July in a number of ways for the Global ETP Industry. Both were characterized by accommodative Fed signals following periods of concern that tapering was imminent. As a result, both saw significant jumps in Equity flows and a return to Fixed Income inflows aided by a pause in the upward trajectory of interest rates.

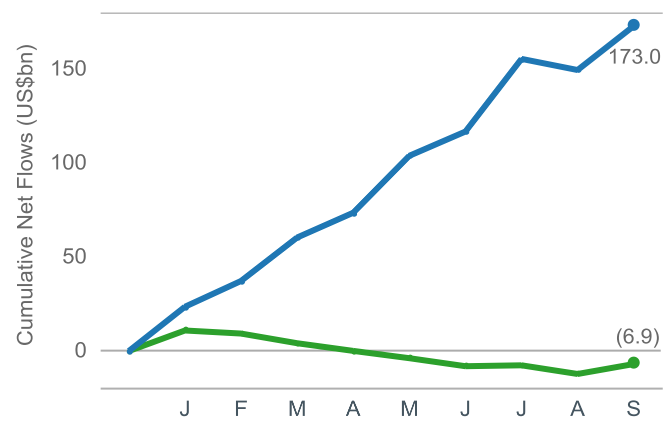
The main difference versus July was the September pickup in Emerging Markets exposure flows. Both Emerging Markets Equity and Emerging Markets Fixed Income funds gained traction during this month gathering $5.3bn and $0.9bn, respectively.

Global Equity inflows in September reached $28.7bn, eclipsing $25bn for the fourth time in 2013. Asset gathering picked up steam during the middle of the month, spurred by the Fed's decision, and then slowed in the final week on uncertainty about future Fed direction and concern over US debt ceiling negotiations.

Developed Markets Equities took in $23.4bn concentrated in **US exposures** where inflows of $12.8bn were clustered in Large Cap with $8.9bn and Sectors (primarily growth sectors such as Industrials and Technology) with $3.7bn.

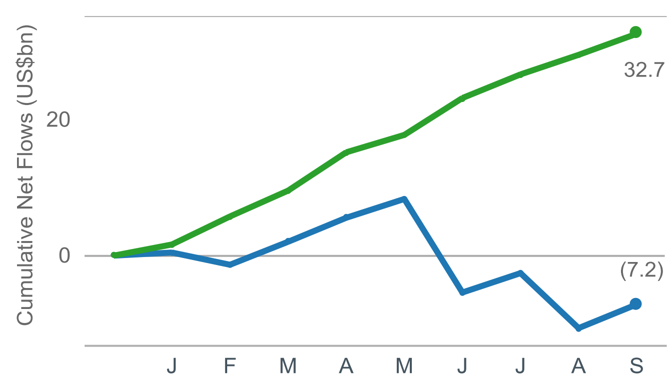
GLOBAL EQUITY CUMULATIVE ETP FLOWS[1]

2013 YTD Flows: $166.1bn



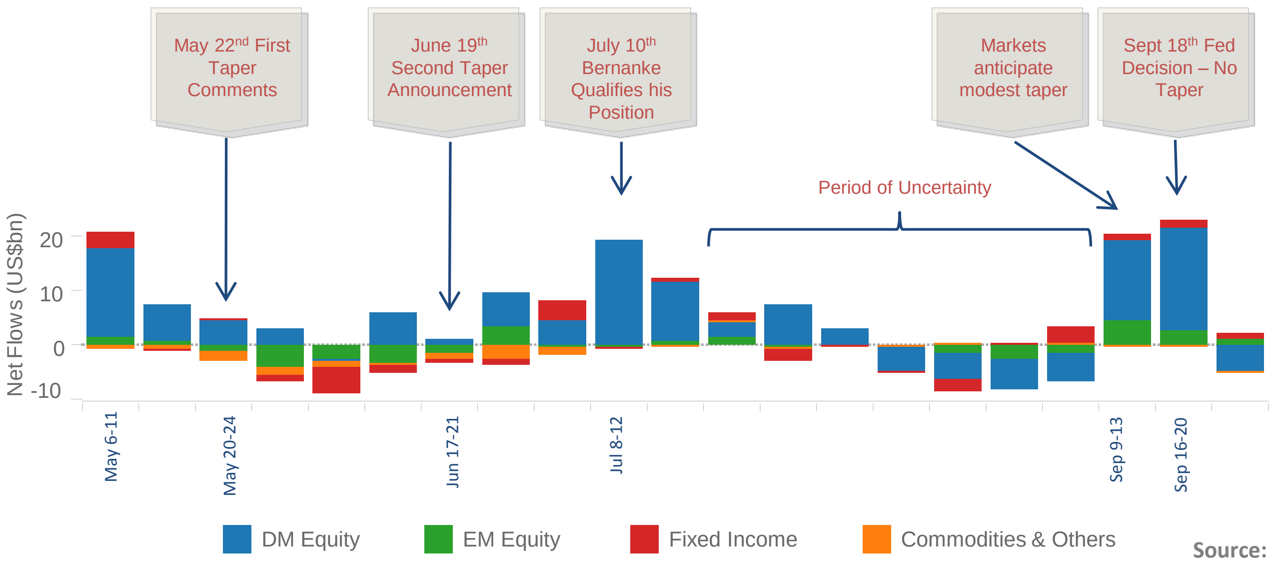
GLOBAL FIXED INCOME CUMULATIVE ETP FLOWS[1,2]

2013 YTD Flows: $25.5bn



TAPER POLICY IMPACT ON GLOBAL ETP FLOWS[1]

2013 Recent Weekly Trends



Source: BlackRock

Highlights (US$):[1,2]

Pan-European Equity ETP flows remained strong at $5.3bn, beating the record set last month on news of reviving economic growth in the region.

Japanese Equity funds maintained momentum with $2.8bn on continued asset purchases by the Bank of Japan and have now experienced 19 months of inflows in a row.

While Developed Markets Equity inflows were large, their composition indicated investors remain cautious. The **Emerging Markets** inflows in September on the other hand may embody a nascent move back into a riskier asset class.

The MSCI Emerging Markets Equity Index is still down 6.4% this year but up 6.2% in September alone, the largest gain since January 2012.[3] It is still too early to call a trend, but the case for Emerging Markets holds promise. Valuations are favorable relative to Developed Markets Equities and a string of recent data indicates growth prospects in China could be improving and may reach the government's target of 7.5% for 2013.

Emerging Markets Equity flows this month were highly focused in broad funds but **Emerging Markets Country funds** also saw an uptick with China and India together gathering $1.0bn. China flows were aided by local new product launches.

Fixed Income flows returned to positive territory following redemptions in August. **Short-Maturity Fixed Income ETP flows** continued, totalling $3.1bn led by Floating Rate, Bank Loans and Short-Term High Yield funds.

High Yield ETPs overall gathered $2.1bn and continue to benefit from the pullback in interest rates in the wake of the Fed's decision to delay tapering. 10-Year Treasuries are now yielding 2.61%, largely unchanged since early July.[5]

Emerging Markets Fixed Income was also helped by the pause in rates, adding $0.9bn largely from Europe-listed ETPs. It was the first material flow for the category since spring.

Money Market mutual funds have drawn in $60bn since May when uncertainty over Fed tapering began in earnest.[4]

AUGUST RESULTS AT A GLANCE[1]

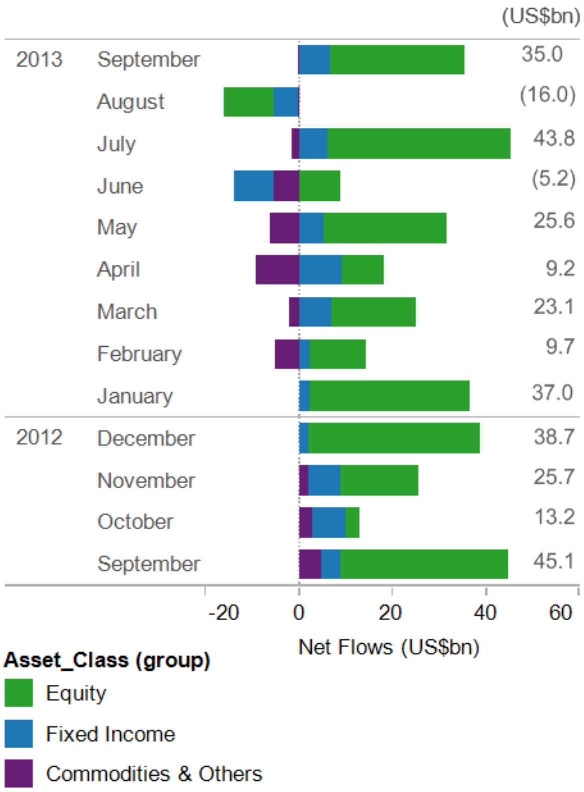
(US $billions)

	September 2013	August* 2013	December 2012	September 2012
Monthly Flows	35.0	(16.0)	38.7	45.1
Assets	2,226	2,117	1,944	1,853
# of ETPs	4,937	4,918	4,759	4,721

*Aug-2013 restated with additional Asia Pacific data

GLOBAL 13-MONTH ROLLING NET FLOWS[1]

2013 YTD Net Flows: $162.0bn



Source: BlackRock

Global ETP Year-To-Date Overview

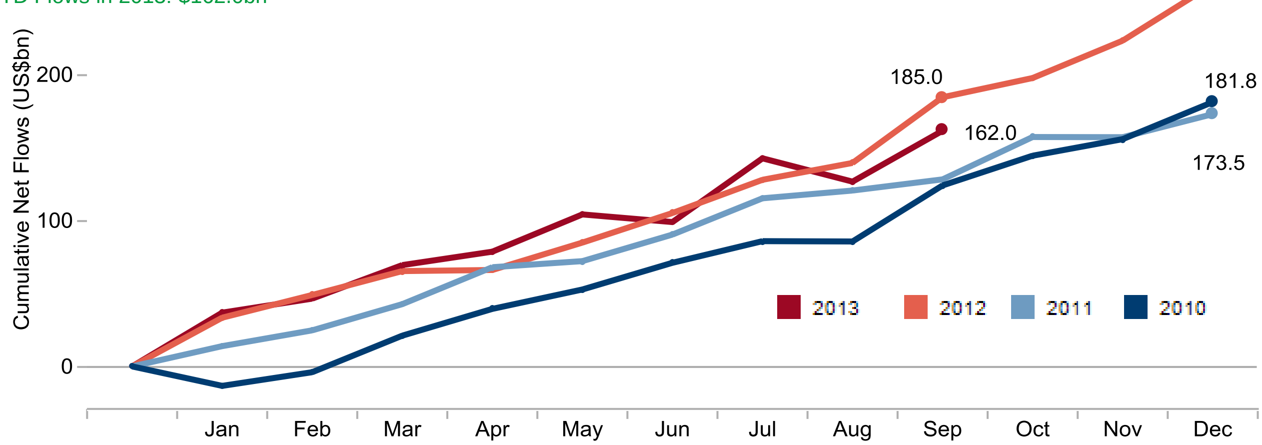
BlackRock

GLOBAL ETP YTD FLOWS BY EXPOSURE[1]

(US$bn)			Jan-Sep 2013	Jan-Sep 2012	Annual 2012
Fixed Income	**Total**		25.5	54.2	70.0
Developed Markets Equity	North America Equity	**Total**	101.1	62.6	76.3
	Other Developed/ Global Equity	Asia Pacific Equity	31.0	7.4	12.1
		Europe Equity	14.1	4.6	9.7
		Global/Global ex-US	26.7	11.2	17.8
		Total	71.9	23.3	39.6
	Total		173.0	85.9	115.9
Emerging Markets Equity	**Total**		(6.9)	27.7	54.8
Commodities	**Total**		(32.5)	13.4	19.3
Others	**Total**		3.0	3.8	2.7
Global ETP Total			162.0	185.0	262.7

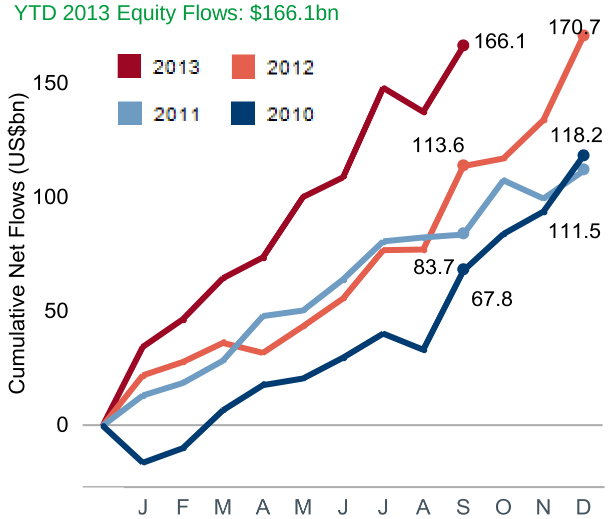
GLOBAL ETP CUMULATIVE FLOWS[1]

YTD Flows in 2013: $162.0bn



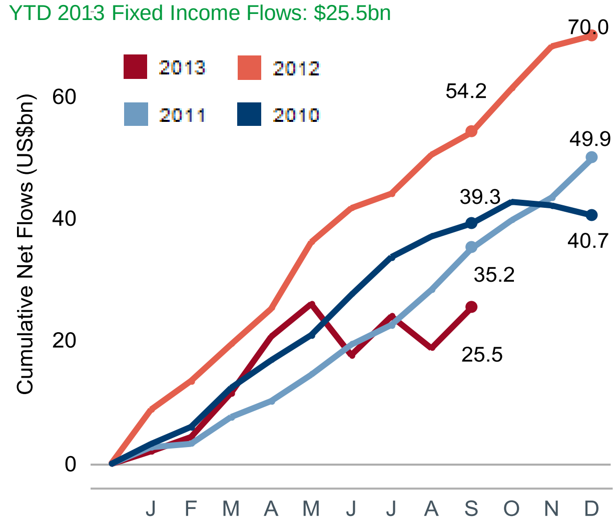
CUMULATIVE EQUITY ETP FLOWS[1]

YTD 2013 Equity Flows: $166.1bn



CUMULATIVE FIXED INCOME ETP FLOWS[1]

YTD 2013 Fixed Income Flows: $25.5bn



Source: BlackRock

Largest Asset Gathering ETPs Launched in 2013

BLACKROCK®

Highlights (US$):[1]

- 336 new ETPs and 35 individual share class listings debuted around the globe so far this year and have accumulated $17.6bn in assets.
- 149 products and 11 individual share class listing were delisted this year with combined assets of less than $1.7bn.

Product Name (US$mn)[1]	Bloomberg Ticker	Exposure	Listing Region	Launch Date	Assets as of September 2013
ChinaAMC CSI 300 Index ETF	510330 CH	Emerging Markets Equity	Asia Pacific	January	3,110
FI Enhanced Global High Yield ETN	FIGY US	Other Developed/ Global	US	May	1,246
FI Enhanced Europe 50 ETN	FEEU US	Other Developed/ Global	US	May	915
Vanguard Total International Bond ETF	BNDX US	Fixed Income	US	June	595
Bosera SSE Corporate Bond 30 ETF	511210 CH	Fixed Income	Asia Pacific	August	552
SPDR Blackstone/GSO Senior Loan ETF	SRLN US	Fixed Income	US	April	525
China Southern Kaiyuan CSI 300 Index ETF	159925 CH	Emerging Markets Equity	Asia Pacific	April	492
BMO Mid-Term US IG Corporate Bond Index ETF	ZIC CN	Fixed Income	Canada	March	367
SPDR MSCI EMU UCITS	ZPRE GY	Other Developed/ Global	Europe	January	355
Lyxor EURO STOXX 300 (DR) D-EUR (Share Class)	MFDD FP	Other Developed/ Global	Europe	June	352
db x-trackers II IBOXX SOVEREIGNS EUROZONE YIELD PLUS 1-3 UCITS ETF	XYP1 GY	Fixed Income	Europe	August	275
STOXX Europe 600 THEAM Easy UCITS ETF	ETZ FP	Other Developed/ Global	Europe	September	250
BMO Mid-Term US IG Corporate Bond Hedged to CAD Index ETF	ZMU CN	Fixed Income	Canada	March	232
Guotai SSE 5-Year China Treasury Note ETF	511010 CH	Fixed Income	Asia Pacific	March	224
Harvest MSCI China A 50 Index ETF	83136 HK	Emerging Markets Equity	Asia Pacific	June	212
Others					7,910
Total - 336 Primary ETPs + 35 Share Classes					17,612

Source: BlackRock

Largest Year-to-Date Fund Inflows and Outflows

BLACKROCK®

ETPs as of September (US$mn)[1]	Bloomberg Ticker	2013 YTD Inflows	Sep-13 Assets
WisdomTree Japan Hedged Equity Fund	DXJ US	8,832	11,024
iShares Russell 2000	IWM US	6,566	27,919
iShares MSCI Japan	EWJ US	5,407	12,096
Vanguard Total Stock Market	VTI US	4,623	33,957
Vanguard European	VGK US	4,389	10,287
PowerShares Senior Loan Portfolio	BKLN US	4,372	5,800
Vanguard Short-Term Bond	BSV US	4,347	13,551
iShares Core S&P 500	IVV US	3,745	45,325
Vanguard S&P 500	VOO US	3,724	11,700
Vanguard FTSE Developed Markets ETF	VEA US	3,684	16,308
Grand Total		49,689	187,966

ETPs as of September (US$mn)[1]	Bloomberg Ticker	2013 YTD Outflows	Sep-13 Assets
SPDR Gold	GLD US	(20,730)	38,624
iShares iBoxx $ Investment Grade Corporate Bond	LQD US	(6,691)	17,190
iShares Barclays TIPS Bond	TIP US	(6,672)	14,109
Vanguard FTSE Emerging Markets	VWO US	(4,127)	50,185
iShares MSCI Emerging Markets	EEM US	(3,701)	41,442
SPDR Barclays Capital High Yield Bond	JNK US	(3,110)	9,192
iShares MSCI Brazil	EWZ US	(2,618)	5,753
iShares J.P. Morgan USD Emerging Markets Bond	EMB US	(2,267)	3,970
iShares FTSE China 25	FXI US	(2,237)	5,620
db x-trackers DAX ETF	XDAX GY	(2,172)	8,145
Grand Total		(54,324)	194,227

Source: BlackRock

Global ETP Flows by Exposure – Developed Equity

BLACKROCK®

Exposure (US$mn)[1]		September 2013 Net Flows	2013 YTD Net Flows	% of YTD Flows	Assets	% of Assets	# ETPs
US Size and Style	Large Cap	8,897	29,797	18.4	416,601	18.7	231
	Mid Cap	(2,363)	6,653	4.1	72,238	3.2	49
	Small Cap	2,709	17,083	10.5	83,618	3.8	69
	Micro Cap	-	271	0.2	1,015	0.0	4
	Total Market	(291)	8,121	5.0	57,887	2.6	62
	Extended Market	67	809	0.5	3,429	0.2	2
	Preferred Stock	(542)	(831)	(0.5)	13,395	0.6	5
	US Size and Style Total	8,476	61,904	38.2	648,183	29.1	422
US Sector	Basic Materials	596	699	0.4	6,216	0.3	14
	Consumer Cyclicals	677	2,371	1.5	14,588	0.7	18
	Consumer Non-cyclicals	(214)	(680)	(0.4)	8,251	0.4	12
	Energy	668	4,157	2.6	31,160	1.4	43
	Financials	(425)	6,232	3.8	28,499	1.3	37
	Health Care	586	4,155	2.6	21,864	1.0	28
	Industrials	1,225	3,185	2.0	11,132	0.5	17
	Real Estate	(192)	1,995	1.2	28,568	1.3	23
	Technology	799	5,301	3.3	22,051	1.0	27
	Telecommunications	(37)	(103)	(0.1)	977	0.0	5
	Utilities	(94)	(141)	(0.1)	8,157	0.4	12
	Theme	84	382	0.2	1,166	0.1	8
	US Sector Total	3,673	27,553	17.0	182,629	8.2	244
US Strategy		671	11,461	7.1	64,155	2.9	57
US Total		12,820	100,918	62.3	894,966	40.2	723
Canada Equity		567	(561)	(0.3)	32,479	1.5	85
North America Regional Equity		21	776	0.5	7,522	0.3	20
North America Total		13,409	101,133	62.4	934,967	42.0	828
Pan European Size and Style	Large Cap	1,085	2,973	1.8	36,703	1.6	79
	Mid Cap	43	212	0.1	1,010	0.0	9
	Small Cap	283	622	0.4	2,191	0.1	12
	Total Market	3,623	8,103	5.0	36,987	1.7	68
	Pan European Size and Style Total	5,035	11,890	7.3	76,837	3.5	166
Pan European Sector		293	277	0.2	12,811	0.6	150
Pan European Strategy		(70)	297	0.2	2,914	0.1	21
Pan European Total		5,258	12,484	7.7	92,617	4.2	339
Country	Germany	(1,935)	(2,049)	(1.3)	40,812	1.8	63
	U.K.	642	3,055	1.9	19,094	0.9	50
	Switzerland	(49)	165	0.1	9,956	0.4	23
	France	(118)	(831)	(0.5)	5,414	0.2	19
	Others	177	1,298	0.8	9,373	0.4	66
	Europe Single Country Total	(1,283)	1,636	1.0	84,650	3.8	221
Europe Total		3,975	14,121	8.7	177,266	8.0	560
Asia-Pacific	Regional	309	544	0.3	16,173	0.7	59
	Country	2,558	30,503	18.8	132,903	6.0	231
Asia Pacific Total		2,867	31,047	19.2	149,076	6.7	290
Broad-Based Global /Global ex-US		3,163	26,691	16.5	178,989	8.0	447
Developed Equity Total		23,413	172,992	106.8	1,440,299	64.7	2,125

Source: BlackRock

Endnotes

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Endnotes: BlackRock's ETP Landscape: Monthly Highlights report

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

The data for this report are captured from a number of sources by the BlackRock Investment Institute including provider websites, fund prospectuses, provider press releases, provider surveys, Bloomberg, the National Stock Exchange, Strategic Insight Simfund, Wind and the Bank of Israel. All amounts are reported in US dollars. Net flows are derived using daily net asset values and shares outstanding using the most recent data we can capture at month-end. For products with cross-listings, we attribute net flows and assets to the primary listings. Where price is not available, we use an approximation.

1. Data is as of September 27, 2013 for Europe and September 30, 2013 for the US, Canada, Latin America, Israel, and some Asia ETPs. Some Asia ETP data is as of August 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 MSCI EM Index (MXEF Index), as of September 2013
4. Mutual fund data is sourced from EPFR (excluding Money Market funds and ETFs). Full year 2012 and January-August 2013 data is sourced from EPFR monthly data. September 2013 data is sourced from EPFR weekly data for the four weeks ended Sep 25, 2013. Money Market mutual fund flows is sourced from EPFR weekly data for the four weeks ended Sep 25, 2013.
5. Source: Bloomberg US Generic Govt 10 Year Yield Index (USGG10YR Index), as of September 2013
6. Source: BlackRock, Bloomberg, Reuters

Disclosures:

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

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Q & A

ETF INTERVIEW:
FEATURING INVESCO POWERSHARES

Dan Draper is the Managing Director of Global ETFs for Invesco PowerShares Capital Management, LLC. Prior to joining Invesco PowerShares, Dan was the Global Head of ETFs at Credit Suisse Asset Management and Lyxor Asset Management/Societe Generale.

Dan Draper, CFA, CMT, CAIA, FRM, CFP®
Managing Director
Invesco PowerShares Global ETFs

Interviewed by Capital Link Media
Wednesday, October 9, 2013

Q: Thank you for joining us today. Can you give us a bit of background on Invesco PowerShares and your role as Managing Director of Invesco PowerShares Global Exchange-Traded Funds (ETF)?

Dan Draper: Early on, the founders of PowerShares saw an opportunity to spark creative ideas in the ETF industry and introduced many of the first ETFs to offer dynamic strategies that could do more than simply track a cap-weighted benchmark. In 2003, PowerShares introduced the first dynamic ETFs, beginning what the firm called "the Intelligent ETF Revolution". Since then, Invesco PowerShares has introduced a number of leading industry products, including nearly 50 Smart Beta strategies. Today, through the global platform afforded in its acquisition by Invesco Ltd., in 2006, PowerShares ETFs are now listed on multiple exchanges worldwide and represent over $85 billion in franchise assets.

It was Invesco PowerShares' innovation, growth and entrepreneurial culture that led me to join the firm. Through my experience expanding the presence of ETFs in global markets, I see a number of opportunities to scale the Invesco PowerShares' successes more broadly in Europe and Asia. I lead an exceptional team of portfolio management, product development, strategy and research, sales, and marketing professionals, who have contributed to Invesco PowerShares' strong history of meeting the growing demands of today's more sophisticated institutions and advisors.

Q: With nearly a decade of experience in leadership positions in the ETF Industry, what interesting trends are you seeing in recent ETF flows? And what should people think about when trading ETFs?

Dan Draper: ETFs have seen tremendous growth in recent years, now topping $1.5 trillion in the US and $2 trillion globally as of August. With this acceleration of growth expected to continue, it's an exciting time to work in ETFs. The increasing flows into equities indicate a general lift on risk aversion. We're experiencing increased interest in Smart Beta products, such as PowerShares DWA Momentum Portfolios (PDP, DWAS, PIZ and PIE) and PowerShares FTSE RAFI US 100 Portfolio (PRF). Given market expectations of higher interest rates longer-term, we are also seeing increased interest in shorter duration strategies such as our Senior Loan Portfolio (BKLN). On a global front, we have begun to see renewed interest in international and emerging markets equities as well.

With tax season around the corner, it's important to remind investors that ETFs may be quite tax efficient due to their unique in-kind structure, even in high turnover strategies. There are a number of nuances when trading ETFs that one should consider including, liquidity, pricing policies and best methods of execution. We find that the more sophisticated the investor, the better experience they have in executing a tax-efficient trade. Regardless of sophistication, a prudent approach would be to discuss with your ETF sponsor, such as the Invesco PowerShares' Capital Markets Team, the mechanical nuances before executing a trade.

Q: What new product development trends are we seeing in today's market place?

Dan Draper: We continue to see new products providing exposure to opportunities in China. Currently, most investors gain exposure to these opportunities by either investing in China A-Shares (listed in mainland China) or H-Shares (listed in Hong Kong). A-Shares have historically outperformed H-Shares, which can trade at steep discounts. However, A-Shares have historically been very difficult for foreign investors to access due to governmental restrictions surrounding qualified foreign institutional investor (QFII) license requirements and capacity limits.

In order to facilitate trading and investment in mainland China by offshore participants, the Singapore Exchange (SGX) launched the SGX FTSE China A50 Index Futures contracts in 2010. These futures contracts provide offshore investors an effective and cost-efficient means by which to obtain exposure to the China A-Share market. The China A50 Index itself is a real-time, tradable index providing exposure to the largest 50 A-Share companies on a market-cap-weighted basis and has a high correlation to the broader Chinese domestic equity market.

Recognizing the opportunity, yet also understanding limitations of current products available, on October 10, 2013, Invesco PowerShares launched the first ETF that is designed to provide exposure to the China A-Share market using SGX FTSE China A50 Index futures contracts – PowerShares China A-Share Portfolio (CHNA). CHNA provides:

- Exposure to China A-Shares through investments in SGX FTSE China A50 Index futures
- A liquid & efficient alternative to direct investment in China A-Share market
- A cost effective option
- The ability to reduce counter party risk, as futures are exchange traded on the SGX

Q: What are Invesco PowerShares' core products?

Dan Draper: While the Invesco PowerShares QQQ is our most globally recognized ETF, we have a number of non-market cap weighted flagship funds that includes the only ETFs utilizing the technical expertise of Dorsey Wright & Associates (DWA). The suite recently surpassed the $2 billion mark and was renamed from Technical Leaders to Momentum ETFs to help investors better understand how they fit within our broader suite of Smart Beta solutions, and ultimately how investors may use them in a portfolio. The Invesco PowerShares Senior Loan Portfolio and PowerShares S&P 500 Low Volatility Portfolio have been two of the ETF industry's most successful new product launches in the past couple of years. Also of note, we have good client demand in our various factor driven ETFs that provide low volatility, high beta, high quality, and high dividend tilts on traditional domestic and international benchmarks.

ABOUT DAN DRAPER

Dan Draper is Managing Director of Global ETFs for Invesco PowerShares Capital Management, LLC. He has over two decades of diverse financial services experience, including eight years in leadership positions in the exchange-traded fund (ETF) industry. Prior to joining Invesco PowerShares, Dan was the Global Head of ETFs at Credit Suisse Asset Management and Lyxor Asset Management/Societe Generale. He was also Director of Business Development for UK and Ireland at iShares/Barclays Global Investors. Earlier in his career Dan held various investment banking and private banking positions at UBS, Goldman Sachs and Salomon Brothers in the US, Europe and Asia.

Dan received his MBA from the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill and his BA from the College of William and Mary in Virginia. He holds the Chartered Financial Analyst, Chartered Market Technician, Chartered Alternative Investment Analyst, Financial Risk Manager and Certified Financial Planner® designations and is currently a board member of the CFA Society of the United Kingdom.

About Invesco PowerShares Capital Management LLC

powerSHARES®

Invesco PowerShares Capital Management LLC is leading the Intelligent ETF Revolution® through its family of more than 140 domestic and international exchange-traded funds, which seek to outperform traditional benchmark indexes while providing advisors and investors access to an innovative array of focused investment opportunities. With franchise assets over $78 billion as of June 30, 2013, PowerShares ETFs trade on both US stock exchanges. For more information, please visit us at invescopowershares.com or follow us on Twitter @PowerShares.

ABOUT CAPITAL LINK, INC.

Capital Link

Capital Link is a New York-based investor relations and financial communications firm, which, among other activities, maintains a strategic focus on closed-end funds and ETFs.

Capital Link has developed specific investor outreach programs and IR tools focused on CEFs and ETFs in order to enhance their profiles among analysts, investors, and financial media.

In pursuit of this objective, Capital Link maintains websites dedicated to CEFs (cef.capitallink.com) and ETFs (etf.capitallink.com) that track the news and developments of all U.S. listed CEFs and ETFs, providing investors with a free information resource on these topics. The 12th Annual Closed-End Funds & Global ETFs Forum (www.capitallinkforum.com), considered a premier industry annual event, will take place in New York City on April 24, 2013, bringing together investors, analysts, wealth management professionals, and CEF and ETF industry participants. Capital Link also offers the "Closed-End Funds & Global ETFs Webinar Series (www.capitallinkwebinars.com)," an online interactive platform that is on CEFs, ETFs, and other pertinent industry topics. Open to the public, these virtual events provide an in-depth look into the CEF & ETF industry, and ground issues and timely topics in the context of the global economy, fostering a better understanding among participants.

FitchRatings

Fitch: Closed-End Funds Rebound as Fed Shows Taper Torpor

September 27, 2013

Fitch Ratings-New York-27 September 2013: Municipal closed-end funds (CEFs) rebounded in September following the large sell-off in muni bonds that began in June, according to Fitch Ratings. Investors resumed purchasing bonds that were seen as oversold, as the U.S. Federal Reserve announced it would not taper its $85 billion monthly bond purchase program just yet.

Fitch published its special report, "NAV Declines Show Interest Rate Impact on Leveraged Municipal Closed-End Funds" in August. The 130 leveraged municipal CEFs in the analysis manage approximately $70 billion in assets and operate with a total leverage of $28 billion.

Net asset value (NAV) performance across the 130 Fitch-rated funds varied during the period driven by portfolio maturities, which ranged from 9 to 26 years, and fund leverage, which ranged from 23% to 43%.The jump in U.S. Treasury rates in June forced longer positioned and more highly levered funds to take sell positions and reduce leverage in face of strong NAV declines. However, funds more conservatively positioned capitalized on the opportunity to re-leverage and purchase bonds opportunistically following the sell-off.

Funds with average portfolio maturities 19 years or less lost 12.0%-12.5% in NAV through August 30 before rebounding 3.0%-3.5% in September whereas funds with maturities longer than 19 years lost an average of 13.0%-14.0% before rebounding by more than 3.5%.

Operating leverage ratios going into June also played a key role in how funds navigated the environment. Funds that levered less than 39.0% suffered 12.0%-13.0% NAV declines through end of August before rebounding by 3.0%-3.5% since then whereas funds that leveraged above 39.0% fell more than 14.0% first before rebounding by 4.0% in September.

Fitch observed that the longer dated funds also were most prone to forced deleveraging during the period, unwinding 5%-20% of their leverage (primarily tender option bond floaters [TOBs]) in the process. Alternatively, shorter funds remained nearly unchanged. In fact, many of the funds levered under 35% were actually able to add leverage during the period, as they capitalized on more attractive bond pricing and utilized their capacity to add leverage. On the other hand, selected funds levered on the high end (above 39%) were forced to take down up to 30% of their TOB leverage to avoid hitting maximum leverage triggers.

For more information, see "NAV Declines Show Interest Rate Impact on Leveraged Municipal Closed-End Funds" originally published Aug. 9, 2013 and available on www.fitchratings.com.

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

Contact:

Yuriy Layvand, CFA
Director
+1 212 908-9191

Ben Han
Analyst
+1 212 908-9177

Kellie Geressy-Nilsen
Senior Director
+1 212 908-9123

Rating Actions

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

- **Fitch Affs MainStay DefinedTerm Muni Opp Fund FMTPs at 'AAA‘ - September 30, 2013**
- **Fitch Rates Tortoise Closed-End Fund Notes 'AAA'; Affirms Existing Ratings –September 27, 2013**
- **Fitch Rates VRDP Shares Issued by 2 Nuveen Funds to Refinance Outstanding Preferred Shares – September 26, 2013**
- **Fitch Affirms Neuberger Berman Real Estate Securities Income Fund Preferred Stock at 'AA‘ – September 24, 2013**
- **Fitch Rates Neuberger Berman High Yield Strategies Fund Preferred Stock and Debt – September 19, 2013**
- **Fitch Rates Kayne Anderson MLP Investment Company's Preferred Shares 'AA'; Affirms Existing Ratings – September 16, 2013**

Modest Improvement in Many CEF Categories; Potential for Tax-loss Selling

September 27, 2013

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

The wider than average discounts to net asset value (NAV), compelling yields and the recent announcement from the Federal Reserve that it is not going to begin reducing its bond purchasing program known as Quantitative Easing just yet as many market participants had expected as well as their firm commitment to keep short-term interest rates very low at 0-0.25% for a considerable time (likely to 2015) has helped to lead to modest improvement in the share price performance of many fixed-income closed-end funds recently. For example, according to Morningstar, high yield CEFs are up 2.84% in the past month, limited duration CEFs are up 3.46% over the past month and national leveraged municipal CEFs are up 3.77% over the past month (all data is on a share price total return basis). Even with the recent improvement in share price total return performance, the average fixed income closed-end fund (CEF) is lower by 8.87% year-to-date (YTD) while all equity CEFs remain positive YTD on a share price total return basis by 8.70% according to Morningstar.

I believe the fact the Federal Reserve again reiterated that they don't intend to raise the Federal Funds level anytime soon remains a significant positive factor for the CEF structure as roughly 70% of all CEFs employ the use of leverage and of those 70% the overwhelming majority of funds borrow at rates which are pegged off of some short term benchmark. With the Federal Funds rate remaining at 0-0.25% it means leverage cost should also remain very low for the overwhelming majority of funds which are employing the use of leverage and this dynamic helps funds to be able to continue to deliver very high income to shareholders. In fact, partially as a result of this dynamic, the average CEF has a share price distribution yield of 6.75% which is higher than the 1 year average yield of 6.21% and the 3 year average yield of 6.46% according to Morningstar.

In addition to these compelling yields and the fact that leverage cost should remain low for most CEFs until the Fed begins to raise the Federal Funds rate (which may not be until 2015), average discounts to NAV still remain wider than historical averages for most categories of the CEF marketplace. The average discount to NAV for all CEFs according to Morningstar is 6.62%. Much wider than the 1 year average premium to NAV of 0.30%, three year average discount to NAV of 1.42% and 10 year average discount to NAV of 3.43%. Based on the compelling fundamentals, yields and valuations, I continue to advocate CEF investors have diversified exposure to domestic equity CEFs, shorter duration credit sensitive funds such as senior loan, limited duration and high yield CEFs and municipal CEFs. (See blogs from 9/16/13, 9/3/13 and 8/16/13 for more on these categories.)

While the recent reiteration from the Fed that they don't intend to raise the Federal Funds rate anytime soon remains a positive for many CEFs as it keeps leverage cost low and yields, fundamentals and discounts to NAV remain attractive for the categories of the CEF marketplace I continue to favor (see paragraph above), there is the potential for enhanced volatility for many CEFs towards the end of the fourth quarter due to the potential for tax-loss selling. Tax-loss selling is when investors sell securities to realize losses in order to offset gains within their portfolios. Tax-loss selling tends to be more pronounced in CEFs in years when investors have losses to take and when investors have gains in parts of their portfolios they wish to offset. Given the fact that the universe of 189 taxable fixed income CEFs is lower on average by 4.55% YTD on a share price total return basis according to Morningstar and that the universe of 208 municipal CEFs is lower by 12.46% YTD on a share price total return basis according to Morningstar coupled with the fact that it has been a very good year for equities thus far in 2013 (YTD the S&P 500 Index is up 21% according to Bloomberg) means this year could see more tax-loss selling in CEFs than in recent prior years.

While it is hard to know when it will begin and how long it will last, typically tax-loss selling tends to occur from mid-November through mid to late December. Historically, when tax-loss selling is prevalent, discounts to NAV widen. The share price weakness and discount widening from tax-loss selling tends to be a short-lived, technical phenomenon that historically reverses at the beginning of the following year in January and February when discounts to NAV tend to narrow and share prices tend to bounce back as the tax-loss selling is over and investors look to take advantage of the discounts and opportunities that were created during the prior months' tax-loss selling.

Click here for complete reading

Closed-End Fund Advisors

Quarterly CEF Review and Outlook

October 9, 2013

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

Current Closed-End Fund Options & Assets

3Q 2013 Ended with ***601* US listed Closed-End Funds***

- 41 (-1) US Equity Funds
- 121 (+4) Specialty Equity Funds
- 62 Non US Equity Funds

224 Total Equity Funds

- 168 (+2) Taxable Bond Funds
- 105 (-1) National Municipal Bond
- 104 State Specific Municipal Bond

377 Total Bond Funds

Assets of Closed-End Funds by Type, End of Period

Millions of dollars

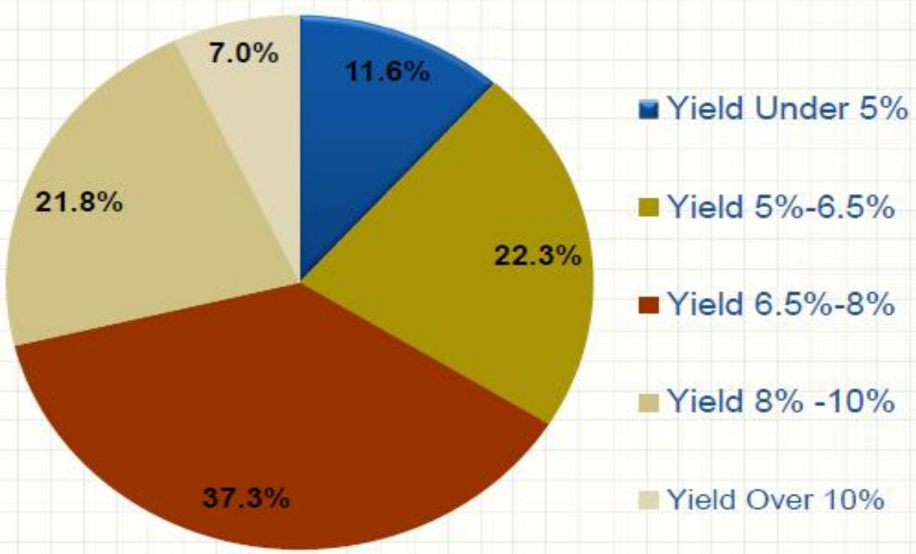
	3Q 2013	2Q 2013	1Q 2013	4Q 2012	3Q 2012	2Q 2012
Total Equity	**115,742**	**110,672**	**114,078**	**105,938**	**106,627**	**98,982**
U.S. Equity	21,529	20,698	22,265	20,241	21,001	21,478
Non U.S. Equity	17,863	16,799	17,842	17,367	17,392	16,886
Specialty Equity	76,350	73,176	73,971	68,329	68,234	60,619
Total Bond	**133,059**	**134,101**	**136,242**	**129,395**	**126,377**	**121,876**
Taxable Bond	72,223	71,420	69,135	62,720	61,215	58,893
National Municipal	43,590	45,008	47,929	47,334	45,544	42,237
Single State Municipal	17,246	17,673	19,177	19,341	19,619	20,746
All	**248,801**	**244,773**	**250,319**	**235,333**	**232,355**	**220,859**

Source: CEF Universe Data

Source: CEFA's CEF Universe Report 9/30/13 (cefuniverse.com)

Closed-End Funds: By Yield

(Total Market Price Distribution Yield)



Note: 601 closed-end funds; data as of 9/30/13 , Source: CEFA's Closed-End Fund Universe (www.cefuniverse.com)

3Q & YTD 2013 Closed-End Fund NAV / Market Price Performance

Fund Grouping	3Q NAV	3Q Mkt Pr	YTD NAV	YTD Mkt Pr
US Equity Funds	5.6%	3.1%	14%	15.3%
Non-US Equity Funds	5.8%	3.9%	4.4%	2.7%
Specialty Equity Funds	3.1%	-0.9%	7.9%	4.4%
Ave Equity CEF	*4.4%*	*1.2%*	*8.1%*	*6%*
Taxable Bond Funds	2.1%	-0.6%	2.5%	-3.1%
National Muni Bond Funds	-1.7%	-3.5%	-6.8%	-13.3%
State Muni Bond Funds	-1.3%	-4.3%	-6.9%	-14.5%
Ave Bond CEF	0.2%	-2.5%	-2.7%	-9.2%
Average CEF	**1.7%**	**-1%**	**1.3%**	**-3.5%**

Source: CEFA's Closed-End Fund Universe Report

Closed-End Fund Historical IPOs

	2013 YTD	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Number of IPOs	21	23	19	17	13	2	40	21	47	50	48
Average Assets In $ millions	$634	$517	$316	$451	$200	$131	$690	$506	$452	$462	$591
Total New CEF IPO Assets in $ Billions	$13.3	$11.9	$6.0	$7.7	$2.6	$0.3	$27.6	$10.6	$21.2	$23.1	$28.4

10 Year Average: 28 Funds per year, $432M Ave Fund, $13.9 Billion Per Year

Source: Fund Press Releases, CEF Association

What the Flows Show: Emerging Markets Ride the Fed Rollercoaster

October 4, 2013

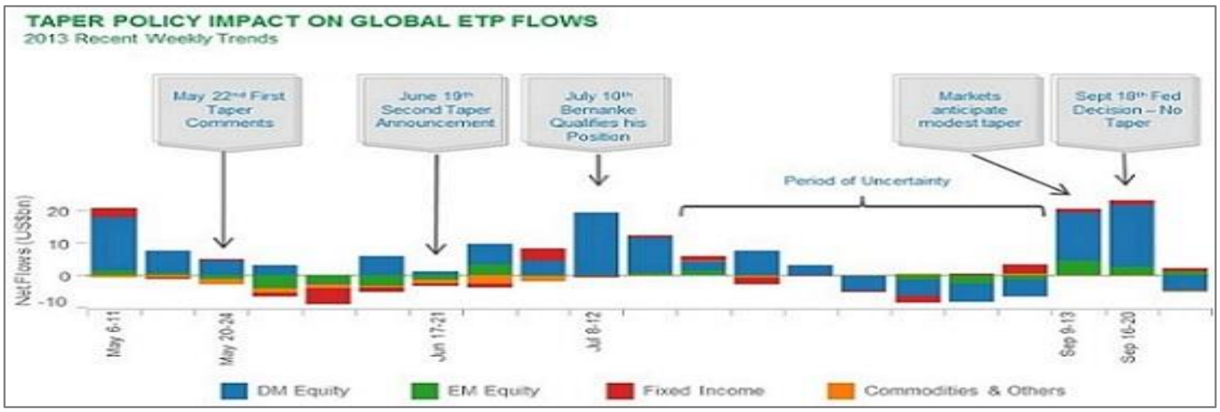
The year of the policy-driven market continued in September, with the Fed's shifting signals impacting global ETF flows yet once again – particularly in emerging markets. Dodd Kittsley dissects the numbers and shares what the implications are for emerging markets investors.

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

The year of the policy-driven market continued in September, with the Fed's shifting signals impacting global ETF flows yet once again. While concerns over an imminent taper caused investor uncertainty and modest outflows at the beginning of the month, things quickly turned around following the Fed's surprise announcement that it would maintain its current pace of monetary stimulus.

Global ETF flows in September surged to $35.0 billion. The month saw a jump in equity inflows the equity side, developed markets ($23.4 billion) ($6.6 billion) following redemptions in August. On led ($28.7 billion) and a return to fixed income inflows the charge, with two-thirds of flows going into funds with US exposure. Meanwhile, fixed income flows continued to trend toward shorter maturity exposures ($3.1 billion).

One notable development in September was the pickup in emerging market (EM) ETF inflows on both the equity ($5.3 billion) and EM fixed income sides ($0.9 billion). While it's still too early to call it a trend, this may indicate that some investors are warming up to EMs again – with the Fed's actions a likely tailwind. We saw the same turnaround in EM flows after the Fed's no-taper announcement in June (see below).



So what are the implications for EMs investors? For one thing, it's important to understand what's driving EM investment behavior. Clearly, expectations regarding US monetary policy have been a major influence on EM ETF flows this year. When investors have been worried about tapering, we saw outflows in EM funds. When the Fed backed off, investors edged back into them. We may see this dance again, depending on what happens at the next FOMC meeting.

But these delays are simply postponing the inevitable: eventually, tapering will occur. And while there's certainly evidence to suggest that the end of US stimulus might be negative in the short-term for some EM economies, not all EMs are alike – and some may be better suited to weather the end of easy money than others (Russ K's pick: China). This is where knowing what you own in an ETF becomes key.

It's also important to understand that the end of QE3 doesn't necessarily signal disaster for EMs. As Russ points out in a recent post, the impact of tapering on emerging economies will depend largely on the pace and the expected path of rates – two factors that are, for now, unknown.

Click here for complete reading

Source: BlackRock as of 9/30/13

The Government Shutdown in Perspective

October 11, 2013

- ***During the last shutdown in 1995, debt to GDP was 65%. Now it is 100%.***
- ***In 1995, GDP was growing at 5% and CPI was near 3%. Now, they are both below 2%.***
- ***In 1995, the stock market was on the verge of a significant rally having just ended a tightening cycle. Now, markets are on QE life support.***
- ***With gold down near 24% and near its all-in cost of production and the S&P 500 up about 19% and near its all-time high, some asset reallocation into gold may be considered prudent.***

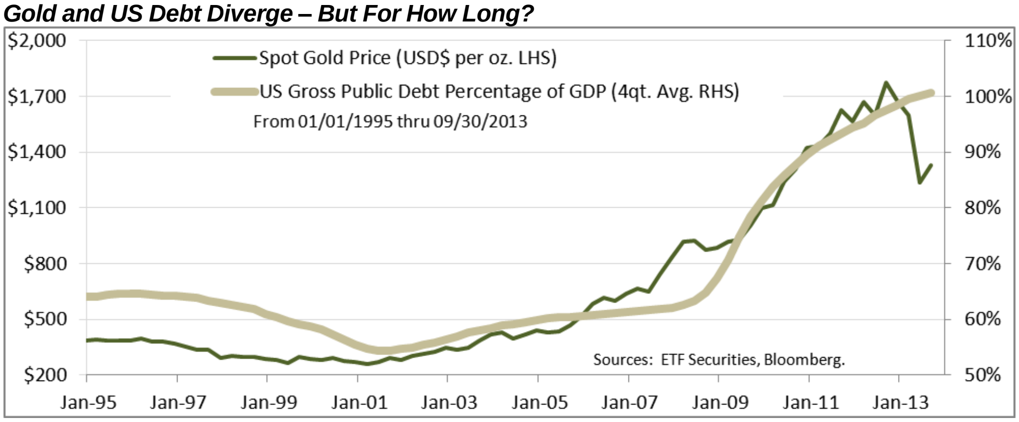
Authored by:
Mike McGlone, CFA, FRM
Director Research US,
ETF Securities

Below the political maneuvering, it has to be remembered that the underlying cause of the current US government shutdown is that the US has too much debt and insufficient revenues to match spending. In our view, targeting moderate to high inflation is the likely long-term route the US and other major indebted developed economies will have to take in order to control rising real debt burdens. Deflation is bad for debtors, but moderate inflation is good. Whether explicit or not, this is the most likely path the US and other major indebted developed economies will take in order to boost revenues and control rising real debt burdens. In late 1995, the last significant government shutdown, when Newt Gingrich's Contract with America clashed with Clinton administration policies, GDP was running near 5% and CPI was just below 3%. The ratio of total US Debt to GDP was about 65% and the stock market was on the verge of one of the most substantial rallies in history as the FOMC ended a tightening cycle.

This time is very different. The 2013 government shutdown occurred with GDP growth and CPI running at less than 2% and the debt to GDP ratio around 100%, despite quantitative easing. At this level, there is a real risk that debt becomes a structural hindrance to economic growth. On top of that, every day the shutdown continues, economic growth and confidence are hit. The next hurdle is the debt ceiling debate. Political misjudgment on this issue would likely not just severely damage the US economy and the longer term faith in the US government's commitment to repaying its debt, but also would likely have large negative reverberations across global financial markets and economies.

With the price of gold down about 24% this year and trading near its all-in cost of production, and the S&P 500 up about 19% and near its all-time high, some asset reallocation into gold to augment portfolios, as a hedge against worst case debt scenarios and longer term inflation risks may be a prudent policy for investors.

Gold and US Debt Diverge – But For How Long?



Mike McGlone is a representative of ALPS Distributors, Inc.

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• Commodities generally are volatile and are not suitable for all investors.
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Crossing Over In Fixed Income Offers Some Searching for Yield Internationally

September 20, 2013

Even though the yield on the 10-year Treasury bond has fallen from its near 3% level this week, many overseas securities still yield far more than 3%, making them potentially appealing for U.S. income seeking investors.

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

While the announced continuation of the Federal Reserve's bond buying program has a more direct impact on fixed income investors, we believe it also plays a role in the mindset of equity investors who often compare the dividend yield of a potential security with the 10-year Treasury.

S&P Capital IQ Global Equity Strategist Alec Young notes that with the exception of Japan, major foreign stock markets in Europe, Latin America, Canada, Australia and emerging Asia all yield more than their U.S. counterpart, with payouts ranging from 3.0%-4.5%, vs. only 2.0% for the S&P 500 Index. Young adds that the year to date international equity underperformance relative to U.S. stocks has left foreign dividend yields higher due to limited capital appreciation. He sees better equity appreciation potential ahead as growth in Europe and China accelerates, likely boosting international earnings growth and unlocking foreign equity multiple expansion. However, this greater income potential also comes with greater risk, given higher standard deviations for international equity securities compared to the S&P 500 Index.

S&P Capital IQ Equity Research has Strong Buy or Buy recommendations on eight ADSs of foreign companies that offer a dividend yield of 3% or more and many more locally traded shares listed in Europe and Asia. The ADSs with the highest yields are Total (TOT 57 ****) and Vale (VALE 17 ****).
You can find others using the Stocks screener on MarketScope Advisor.

Among the numerous benefits of ETFs is that they offer exposure to a wide range of stocks with a common investment theme and at a low cost. Of course not all holdings of dividend ETFs will be the same, since they seek to track different indices, and as such, the ETFs will have different country and sector exposures. Further, not all stocks have the same risk/reward characteristics. In ranking equity ETFs, S&P Capital IQ takes this into account by leveraging our S&P Capital IQ STARS, S&P Capital IQ Quality Rankings and other proprietary research to analyze securities.

For example, First Trust Dow Jones Global Select Dividend ETF (FGD 26 Marketweight), seeks to track a Dow Jones developed market index that is constructed using companies that have provided relatively high dividend yields. For inclusion, a company must have increased its dividend compared to its last three year average and there's also a focus on the company's dividend payout ratio. FGD has an above-average 12-month yield of 5.0%, and while it has 19% of its assets in U.S stocks, companies domiciled in Australia, United Kingdom, France and Canada are also well represented.

From a sector exposure perspective, Telecom Services, Industrials, and Financials stocks have the largest weightings. One of the local shares within the top-10 holdings considered undervalued by S&P Capital IQ equity analysts is KPN (KPN EUR 2.4 Buy) The ETF's standard deviation of 15 is higher than the 13 of the SPDR S&P 500 Index (SPY 173 Overweight).

In contrast, SPDR S&P International Dividend (DWX 48 Marketweight) seeks to track an S&P index that measures the highest dividend yielding stocks in a broader S&P broad market index, which includes emerging market exposure. The 12-month yield, at 6.8%, is higher than FGD due to exposure to China and South Africa among others and different criteria for constituents.

Key Takeaways

Takeaway: Investors looking for above-average yields can find some good stock and ETFs overseas.

POSITIVE IMPLICATIONS

FIRST TRUST DOW JONES GLOBAL SELECT DIVIDEND INDEX FUND	UNDERWEIGHT	[FGD]
SPDR S&P INTERNATIONAL DIVIDEND ETF	MARKETWEIGHT	[DWX]
TOTAL 'B' ADS	★★★★★	[TOT]
VALE SA ADS	★★★★	[VALE]

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

Unlike FGD, DWX holds companies based on their earnings growth, but not payout of earnings. The standard deviation for the ETF is 20. While Australian companies again are well represented in DWX, Canadian and Finnish companies make up more the portfolio relative to FGD . Meanwhile, Financials and Telecom Services stocks such as Belgacom (BELG 19 ***) comprise large weightings here.

Both of these ETFs track an index run by S&P Dow Jones Indices, which operates independently of S&P Capital IQ.

International income investing will be one of the topics discussed on an S&P Capital IQ Equity Outlook webinar on September 24 at 11 am. Alec Young and I will be joined by Sam Stovall, Chief Equity Strategist, S&P Capital IQ and Mark Arbeter, Chief Technical Strategist, S&P Capital IQ. To register for the event, visit http://bit.ly/17ohF81 or call 877-219-1247.

Wait, Aren't Rates Moving Higher?

September 19, 2013

Contrary to expectations in the broader investment community, the Federal Reserve refrained from reducing the $85 billion pace of monthly bond buying, saying it needs to see more signs of lasting improvement in the economy. Below, we look at what we think is ahead for interest rates and what it means for ETF and mutual fund investors.

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

Conditions in the job market today are still far from what all of us would like to see," Fed Chairman Ben S. Bernanke said at a press conference
yesterday after the Federal Open Market Committee (FOMC) meeting. "The committee has concern that rapid tightening of financial
conditions in recent months would have the effect of slowing growth."

The FOMC now sees U.S. GDP growth between 2% and 2.3% this year, down from 2.3% to 2.6%. It also nudged down its 2014 growth forecast to between 2.9% and 3.1%, from 3.0% to 3.5%.

Chairman Bernanke said the Fed wanted to see three things: evidence that the drag from fiscal policy is diminishing; that inflation is returning to a healthy level; and that job growth is sustainable. "If it does," he said, "we'll take the first step at some point, possibly later this year."

After rising over 100 basis points since the beginning of May and climbing as high as 2.98% in early September, the 10-year Treasury rate declined yesterday 16 basis points to 2.69%. That's a welcome sign for fixed income investors, who normally see the value of their assets fall as interest rates move higher. Such interest rate moves have caused some investors to reallocate their portfolios. For example, during the month of August, investors pulled over $6.6 billion out U.S. fixed income exchange-traded products, according to BlackRock data, with over $4.5 billion in U.S. government securities offerings alone, on what we think was an expectation that the Federal Reserve would begin to unwind its bond buying program.

According to Investment Company Institute data, investors removed more than $7.5 billion from taxable bond mutual funds in the first two weeks of September, on the heels of outflows in August. How interest-rate sensitive a fixed income security is can be measured through duration, a metric used by S&P Capital IQ to assess the risk of fixed income mutual funds and ETFs. While investors pulled out of fixed income products in August, we believe money flowed favorably into those that offered short durations (less than 4 years), suchas PIMCO Enhanced Short Maturity (MINT 101 Marketweight), which has duration of 1.2 years.

But that's in the the past. What's ahead of investors? According to S&P Capital IQ's Investment Policy Committee (IPC), even though the FOMC's decision to delay the reduction of its bond purchases came as a surprise to many, tapering remains inevitable. However, the IPC thinks investors will be more accepting of tapering once they feel the recovery is healthy enough to proceed without assistance

Key Takeaways

While tapering is inevitable, intermediate-term bond portfolios may have appeal as Fed bond buying continues.

POSITIVE IMPLICATIONS		
GUGGENHEIM BULLETSHARES 2016 HIGH YIELD CORPORATE BOND ETF	MARKETWEIGHT	[BSJG]
ISHARES 3-7 YEAR TREASURY BOND ETF	OVERWEIGHT	[IEI]
METROPOLITAN WEST TOTAL RETURN BOND FUND;M	★★★★★	[MWTRX]
VANGUARD INTERMEDIATE-TERM INVESTMENT-GRADE FUND;INVESTOR	★★★★★	[VFICX]
NEGATIVE IMPLICATIONS		
PIMCO ENHANCED SHORT MATURITY EXCHANGE-TRADED FUND	MARKETWEIGHT	[MINT]

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

From a technical perspective, the yield on the 10- year bond looks toppy to the IPC. Also, sentiment is very bearish toward bonds, with the Consensus poll down at 25% bulls, the lowest level since early 2011. To confirm a minor top, the IPC think that the 2.7% level will have to give way.

While we are cognizant of the likelihood of rates moving higher over time, we believe investors may be searching for portfolios that offer higher yields while incurring some additional interest risk. Using MarketScope Advisor's ETF screener, we found 11 ETFs garnering a top overall ranking of Overweight from S&P Capital IQ while having durations of 4 to 6 years.

The list included maturity-specific ETFs such as Guggenheim BulletShares 2016 High Yield Corporate (BSJG 27 Overweight), with a duration of 4.3 years and a yield of 4.9%, and iShares 3-7 Year Treasury Bond ETF (IEI 121 Overweight), with a duration of 4.5 years but a yield of just 1.4%. Of course, there are significant credit quality differences between these two ETFs that investors should consider.

Meanwhile, using the MarketScope Advisor Mutual Fund Screener and seeking out intermediate-term investment grade bond funds ranked five star by S&P Capital IQ, we found 21 mutual funds open to retail investors. Since we're highlighting mutual funds side by side with ETFs, we highlight two with below-average expense ratios. Vanguard Intermediate-Term Investment- Grade Fund (VFICX 10 *****) and Metropolitan West Total Return Bond Fund (MWTRX 10 *****), have expense ratios of 0.20% and 0.61%, respectively. VFICX has a duration of 5.8 years and a yield of 2.8%, while MWTRX has a duration of 5.0 years and a yield of 2.7%.

To see these reports and others, please visit the ETF and Funds tab of MarketScope Advisor. To read more from the IPC, visit the Investment Strategy tab on the left side of MarketScope Advisor.

Note: The mutual fund rankings in this article - from five star (highest) to one star (lowest) - are quantitatively derived from performance, holdings, risk, and expense analysis. S&P Capital IQ stock rankings or STARS - using a scale of 5-STARS (Strong Buy) to 1-STARS (Strong Sell) - are based on S&P Capital IQ equity analysts' qualitative and fundamentally driven outlooks for stocks over the next 12 months; NR stands for not ranked. S&P Capital IQ's views on mutual funds and ETFs are constantly re-evaluated. Please refer to our most recent publication on these funds to see our current view.

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Morningstar on: *Investors Still Exiting Bonds*

September 3, 2013
Cara Esser from Morningstar:
What Will Higher Rates Mean for Levered Closed-End Funds?

Legg Mason's Closed-End Funds: Seeking Income

October 9, 2013

Are your clients looking for income? They're not alone. Persistently low interest rates and changing economic conditions have left investors wondering how to reach their income goals. That's why Legg Mason commissioned a Global Income Survey with over 3,000 affluent investors in 13 markets around the world.[1]

The survey shows that income is a growing priority worldwide, with investors placing a greater emphasis on income than they did five years ago. Other key findings for U.S. investors include:

- 52% are more inclined to use equity to generate income
- 60% are open to investing globally
- 76% are on the lookout for better income opportunities

The good news: Most U.S. investors say they want to become more knowledgeable about investing for income. Closed-end funds may be an attractive alternative to more traditional income investments, for many of these investors.

Closed-end funds: An attractive income alternative

Most CEFs are designed with the primary goal of providing income. Income-focused CEFs can pay out monthly or quarterly distributions, potentially providing a regular, attractive stream of income to investors. Investors can choose to receive distribution payments or have them reinvested in the fund through a dividend reinvestment program. Over time, reinvested distributions can potentially help drive total return through the power of compounding.

Legg Mason has a full suite of closed-end funds, including global fixed-income, high-yield bonds and equity portfolios that can help meet the changing income needs of investors.

Look for equity-based income opportunities

Investors are increasingly interested in income-focused equity investments. With low interest rates among fixed-income investments, many investors are considering a wider range of investments, including equities: dividend-paying stocks, master limited partnerships (MLPs) or Real Estate Investment Trusts (REITs).

- **LMP Capital and Income Fund Inc. (SCD)** seeks to provide total return, emphasizing income, while investing in a broad range of equity and fixed income securities of both U.S. and foreign issuers, including MLPs, stocks, REITs and fixed income.

- **LMP Real Estate Income Fund Inc. (RIT)** seeks high current income with capital appreciation as a secondary objective while providing a portfolio of real estate investment trusts (REITs).

Open up to global investing

Low interest rates in the U.S. are encouraging investors to seek opportunities abroad. 60% of U.S. investors expressed interest in global investing, with 65% opting for a fund that invests in multiple countries.

- **Legg Mason BW Global Income Opportunities Fund Inc. (BWG)**, a global fixed-income portfolio that invests in countries, credits and currencies with the goal of providing attractive monthly income and long-term capital appreciation.

- **Western Asset Global Corporate Defined Opportunity Fund Inc. (GDO)** seeks current income and capital appreciation through investments in the global bond universe while maintaining an overall bias towards investment grade credit quality.[2]

Go beyond the usual income investments

Investors' expectations for returns remain well above actual performance. Investors in the U.S. reported actual returns of 5.9%, while expecting 8.5%. To compensate, many investors (51%) believe more income is worth taking on greater risk.

- **Western Asset Variable Rate Strategic Fund Inc. (GFY)** provides a leveraged portfolio that invests in variable rate instruments, including U.S. and non-U.S. investment grade and high yield debt and senior loans, while seeking a high level of current income.

- **Western Asset Global High Income Fund Inc. (EHI)** seeks high current income, with a secondary objective of total return, providing a global, leveraged portfolio of investment grade, below investment grade and emerging market fixed income securities.

For more information on income opportunities from Legg Mason's family of closed-end funds, call or visit www.lmcef.com. You can also find out more about Legg Mason's global income survey at [www.lmincome.com.](www.lmincome.com)

[1]Survey Methodology
The research was conducted by Northstar Research Partners, an independent global marketing research firm with offices in New York, Toronto and London. Northstar conducts research across a wide range of industry sectors and is a recognized leader in financial services marketing research. For more information, please visit www.northstarhub.com. Legg Mason was not identified as sponsor of the survey to respondents. Respondents were not screened or selected based on usage of Legg Mason products or familiarity with Legg Mason. Respondents received a token payment (less than $10 USD) to incent them to complete the survey. The Legg Mason Global Income Survey was conducted between December 1, 2012 and January 30, 2013 utilizing responses from a total of over 3,000

investors as follows: 500 in the U.S.; 200 each in Canada, U.K., France, Spain, Italy, Germany, Hong Kong, Singapore, Japan, Taiwan, China and Australia. Screening criteria used for respondents:

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

[2]GDO has a limited term structure that will liquidate on or about December 2, 2024.

Important Information:

Distributions are not guaranteed and are subject to change.

All investments are subject to risks, including the possible loss of principal. Fixed-income investments are subject to credit risk, inflation risk and interest-rate risk. As interest rates rise, bond prices fall, reducing the value of a fund's share price. Lower-rated high-yield bonds, are subject to greater credit risk (risk of default) than higher-rated obligations. Equity securities are subject to price fluctuation. International investments involve risks, including the possibility of losses due to changes in currency exchange rates and negative developments in the political, economic, or regulatory structure of specific countries or regions. These risks are greater for emerging markets securities. Leverage may result in greater volatility of NAV and the market price of common shares, and increases a shareholder's risk of loss. Derivative instruments can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance.

Investments in MLP securities are subject to unique risks. The Fund's concentration of investments in energy related MLPs subject it to the risks of MLPs and the energy sector, including the risks of declines in energy and commodity prices, decreases in energy demand, adverse weather conditions, natural or other disasters, changes in government regulation, and changes in tax laws. MLP cash distributions are generally tax deferred. Non-cash expenses, such as depreciation or depletion, usually offset income derived from an MLP's operations. To the extent that these expenses exceed income, cash distributions are considered return of capital under tax law. As such, they are not taxed when received. Instead, the distribution, in the form of return of capital, reduces a unit holder's cost basis. This adjusted cost basis, in turn, results in a higher capital gain or lower capital loss when the units are sold. Of course, there can be no assurances that distributions from an MLP will be tax deferred. **Distributions are not guaranteed and are subject to change.**

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

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The Case for Strategic Convertible Allocations

An Analysis of Global Convertible Market Opportunities

September 2013

Authored by:
John P. Calamos, Sr.
CEO & Global Co-CIO
Calamos Investments

Convertible security allocations may be particularly beneficial in the current environment. Our experience with convertibles dates to the volatile financial markets of the 1970s. During this period, convertible strategies often provided better returns than either the stock market or bond markets. As a fixed-income security with equity attributes, convertibles may be viewed as offering the best of both worlds.

Today's market conditions are similar to those of the 1970s, as macro events fuel uncertainty and volatility. And, the more uncertain the times, the greater the need to manage risk. We therefore believe the case for convertible securities is as strong as ever, and the use of convertibles in a risk-managed strategy may provide benefits that stock and bond allocations alone cannot.

As we will discuss in this paper, economic growth supports convertible issuance, and recent global trends have affirmed this relationship. We expect that economic growth will continue, providing a tailwind for issuance. Moreover, we believe that a growing economy, even a slow-growth one, provides a favorable environment for a widening pool of convertibles.

In our view, convertible yields remain very competitive relative to traditional fixed income investments, particularly in light of the other potential structural benefits of convertibles. Although coupon rates of convertibles may be lower than at points in the past, this reflects a global low interest rate environment—the impact of which has been felt across the fixed income market as a whole.

I. INTRODUCTION: CONVERTIBLES AND ASSET ALLOCATION

Convertible securities are equity-linked instruments that offer the upside for equity market participation with potential downside resilience in periods of equity market declines. In simplest terms, a convertible is a fixed income security that includes an embedded option. Structurally, the risk/reward characteristics of convertibles allow them to support a range of asset allocation goals. However, convertible securities are also complex—not only because the attributes of convertibles may differ considerably, but also because a convertible may be more equity-like at certain periods and more fixed income-like in others.

Because of their structural complexities, convertible securities demand active management within asset allocations. Often, convertible securities are thought of as a single asset class; this ignores the variations within the convertible universe. Our approach is to use different convertibles within specific investment strategies. It is not simply the convertibles that make a strategy work, but how convertibles are managed to achieve a particular investment objective.

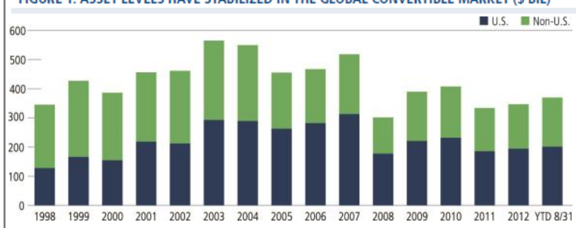
Convertibles with higher levels of equity sensitivity may be utilized within lower-volatility equity allocations, providing an innovative solution for investors who wish to participate in equity markets but are concerned about downside equity volatility. (In volatile markets, the bond value provides a floor, and through coupon income, investors are "paid to wait" for the markets to turn.)

Convertibles may serve a role within enhanced fixed income allocations. Convertibles have historically performed well during periods of rising interest rates and inflation, and therefore convertible strategies may be used to diversify a traditional fixed-income portfolio (i.e., government bonds) as a high yield corporate bond allocation might. In such cases, we would expect to utilize a greater proportion of convertibles with more pronounced fixed-income characteristics, such as "busted convertibles." Additionally, convertibles with a range of characteristics can be used within alternative allocations, such as hedge strategies that employ convertible arbitrage.

II. AN EVOLVING MARKET ENVIRONMENT

The dynamics of all asset classes ebb and flow due to economic and market factors, issuance trends and investor sentiment. Convertible securities are no exception. Over recent years and against a global backdrop of low interest rates, many companies chose to issue non-convertible debt. However, the size of the convertible market has risen from 2008 lows (Figure 1).

FIGURE 1. ASSET LEVELS HAVE STABILIZED IN THE GLOBAL CONVERTIBLE MARKET ($ BIL)



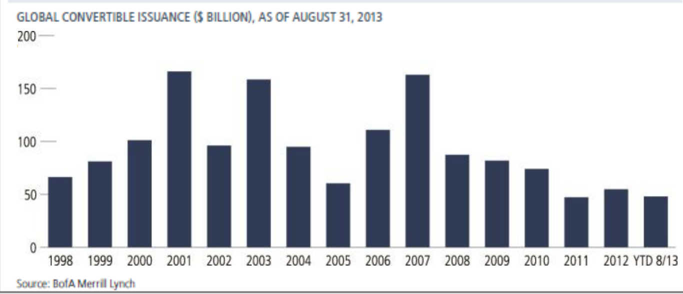
Source: BofA Merrill Lynch

III. ECONOMIC RECOVERY: A TAILWIND FOR CONVERTIBLE ISSUANCE

Convertible market issuance is about capital market access; capital market access is closely tied with economic growth. As better economic prospects spur

increased interest in risk assets, we would expect a resurgence in convertible issuance. This has been born out lately, as we have seen favorable issuance trends (Figure 2) as global recovery progresses. Certainly, some of this will be offset by maturing securities,
which are expected to increase over these next quarters. We will be closely monitoring retirement and call activity. However, we believe that economic growth trends support the long-term viability of the asset class.

FIGURE 2. ECONOMIC RECOVERY HAS SUPPORTED MORE ROBUST ISSUANCE



Euro zone. As the resolve of the ECB and euro zone members have mitigated the tail risk of break-up and help set the stage for recovery, European convertible issuance ramped up notably in the final months of 2012. For 2012, issuance totaled $23.6 billion, surpassing annual U.S. issuance of $21.1 billion. Through August of 2013, European issuance maintained a brisk clip, with $15.1 billion in issuance, although the monthly pace has ebbed and flowed.

A number of factors support the growing role of the euro zone within the convertible market. In countries with higher risk premiums —and hence, higher interest rates — convertible securities may provide companies with a more cost-effective way to access the capital markets. (In exchange for the equity participation afforded by the conversion feature, convertible coupons may be lower than those of non-convertible securities that do not offer the opportunity for equity upside.) For example, companies in Spain and Italy have contributed to 2013 issuance.

With the rebound in the equity markets since the Great Recession, equity valuations are better, which may make companies more comfortable with including an option on their equity in their debt. Lastly, an improved global market environment raises the probability of convertibles' underlying equities reaching their conversion prices. Issuers prefer to see the debt retired by conversion than by refinancing so the improved confidence in higher future equity valuations is a positive. Moreover, issuers can bring convertibles to market quickly by going directly to investors and this disintermediation may provide a strong incentive versus other forms of financing with more lengthy IPO windows.

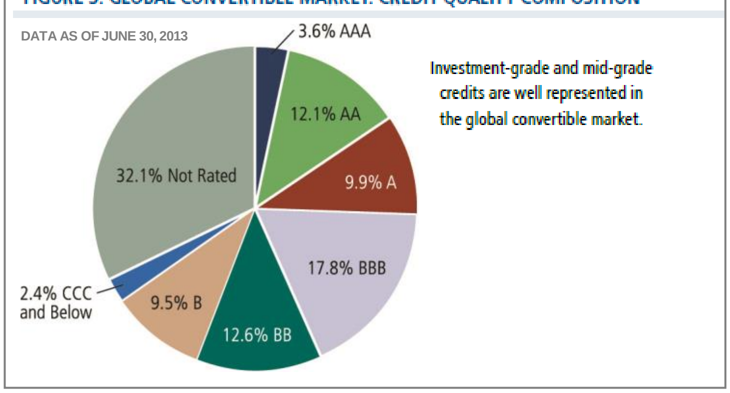
United States. Just as improved economic prospects have contributed to increased convertible issuance in Europe, we are seeing similar trends in the U.S. market. Through August, year-to-date U.S. issuance stands at $23.4 billion, already surpassing issuance for all of 2012. As investors, we are encouraged that issuance has been broad-based from a sector perspective, including recovering market sectors such as financials and homebuilders.

Japan. We are watching Japan with great interest. Before its deflationary malaise set in, Japan was an important participant in the convertible market, especially in the late 1980s when a friendly regulatory environment helped fuel a tremendous surge of issuance. Significantly, interest rates were low during this period; issuance was supported by economic growth. Prime Minister Abe's commitment to pushing through economic growth initiatives could set the stage for increased convertible issuance.

Emerging Markets. Turning from the developed markets, we are often asked for our views on convertibles issued by companies based in emerging markets (EMs). At present, the size of the EM convertible market remains relatively small. Presently, the BofA Merrill Lynch Emerging Markets Convertible Index comprises 76 issues, with a market value of $24.9 billion (USD). However, we expect opportunities to grow over time as (1) EM economies continue to prosper, (2) their capital markets mature and (3) EM companies rely less on bank financing. This trend, while fledgling, is underway: companies based in emerging Asia—China, India, Taiwan, Hong Kong—have made notable contributions to 2013 issuance. While we cannot forecast the magnitude of near-term EM convertible expansion, we believe it remains a compelling long-term trend to watch.

A Global Evolution. We do not view the larger role of non-U.S. issues as a negative for U.S. convertible strategies. Increased global acceptance and growing interest in convertibles may help spur other companies, including U.S.-based ones, to issue convertibles. However, as investors who believe wholeheartedly in the global growth story, we do believe that the evolution of the convertible market should prompt investors to consider broader geographic participation as well—akin to the expanding role of non- U.S. companies within equity allocations.

FIGURE 3. GLOBAL CONVERTIBLE MARKET: CREDIT QUALITY COMPOSITION



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Real Assets Review

October 2013

A Message From Martin Cohen and Robert Steers

The *Real Assets Review* was launched earlier this year as a means of keeping our investors informed about Cohen & Steers' diversified real assets strategy, along with its global real estate, commodity, natural resource equity, global listed infrastructure and fixed income components. This "Special Edition" serves a different purpose, as it marks an important milestone in our Firm's 26-year history.

Martin Cohen
Co-Chairman and Co-Executive Officer,
Cohen & Steers

Since the 1980s, Cohen & Steers has been recognized as an industry-leading asset manager of U.S. listed real estate. Building on this specialized expertise, we then established dedicated investment teams in global real estate, global listed infrastructure, large-cap dividend-growth equities and preferred securities. But this was just the first step in the implementation of our long-term vision for Cohen & Steers: to become a leading manager of real asset strategies.

Robert Steers
Co-Chairman and Co-Executive Officer,
Cohen & Steers

Traditionally, investors have sought real assets exposure through standalone allocations that treat each category as a separate asset class. But history has shown that single-strategy solutions can be volatile, which, in our view, can make it difficult to effectively manage risk and maintain adequate diversification. Cohen & Steers believes in treating the core real asset categories as a single, unified asset class that is best managed by pursuing both traditional active security selection and tactical asset allocation opportunities within a diversified, risk-managed framework.

Vince Childers, CFA
Senior Vice President and Portfolio Manager
Cohen & Steers

In 2012, we launched the Cohen & Steers Real Assets Fund (RAPIX), which is managed with a risk sensitive approach to multiple real asset categories. Since that time, we have continued to build out our in-house capabilities, most recently with the acquisition of a commodities management team from GE Asset Management and several additions to our natural resource equities team. And now, we are pleased to introduce portfolio manager Vince Childers, who joined Cohen & Steers in August 2013 to lead our managed real assets strategy solutions, which includes his role as lead portfolio manager for RAPIX.

Vince Childers joined Cohen & Steers from AllianceBernstein, where he co-managed $2 billion dedicated to real assets. In his new role, he will drive the active allocations for the Firm's real assets strategy, which combines real estate, commodities, listed infrastructure and natural resource equities in a diversified framework. By way of this brief interview, we introduce you to Vince as we open a new chapter in the long history of Cohen & Steers.

Let's start by putting an investment in real assets into the framework of a broader asset-allocation strategy. Vince, why are these asset classes so important to investors, from a long-term planning perspective?

A generation ago, diversification meant simply building a balanced allocation to stocks and bonds. Investors then discovered that expanding globally could enhance return potential, often without adding to risk. Over the past decade, investors have begun to gravitate towards real assets as a means of

broadening portfolio diversification. In part, this trend has been driven by the large scale shift from defined-benefit to defined-contribution plans, which has placed more of the onus on the investor (and the financial advisor) to plan for the long term and manage risk. More recently, the legacy of the financial crisis has left investors with a greater appreciation for liquidity, which has increased the appeal of publicly traded assets. All in all, we see these as sensible shifts that can help investors maintain the long-term purchasing power of their investable assets.

How has this evolution influenced your strategy for managing a diversified portfolio of real assets?

Our process is grounded in a risk-sensitive mindset that intelligently brings together exchange-listed investments with the potential to deliver attractive inflation-adjusted returns— not just for the near term but over the years and decades ahead. Remember that people are living longer, so the time frame for building and spending retirement

assets is likely to span multiple market and inflation cycles. If history is a guide, real assets like real estate, commodities, natural resource equities and global listed infrastructure have the potential to perform well across many market regimes. And these asset classes may perform particularly well if we eventually head into another inflationary cycle, perhaps as a long-term consequence of quantitative easing.

What are the characteristics that define a tactical allocation to real assets?

Any successful active allocation strategy has at its core a prudent starting point. Ours is to be balanced at the outset—not just across positions or asset categories, but also across underlying exposures. But the reality, in my opinion, is that managers of real asset portfolios often take large directional bets right out of the gate. By and large, there are the "bondheavy" managers, typically concentrated in TIPS[1] that carry relatively high interest-rate risk. Then there are the "risk-heavy" managers who tend to employ pure-play strategies heavily concentrated in high-equity-beta sectors[2]. In contrast, our approach considers real assets to be a coherent asset class that isn't dominated by a single source of risk or return. To me, this represents actual diversification, and few other managers actually embrace the idea.

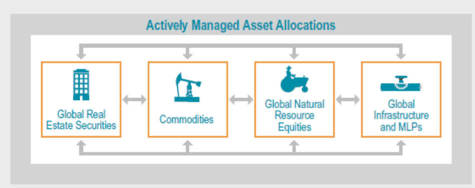
How do you approach the tradeoff between risk and return?

We have a deep appreciation for the fact that the fundamental characteristics defining each real asset category—the drivers of risk and return—aren't static through time. Historically, their correlations, volatilities and return potential have been highly variable over short- and medium-return (cyclical) horizons. Said differently, compensation for risk is constantly changing. While these types of relationships can drive opportunity both within and among various categories, they also elevate risk management as an important and ever-present part of the equation. At the same time, I believe it's difficult to manage risk from the top-down if you have little influence or insight into the processes, positioning, and risk budgeting at the underlying portfolio or "sleeve" level. To get this right, my view is that core real asset categories should be managed under a shared umbrella, and within a single portfolio. Only then does it make sense to bring more tactical views into the equation.

In closing, I believe investors underestimate the complexity of optimizing the return potential from real assets. Success with real assets takes broad knowledge, an active approach, and a focus on risk discipline.

Cohen & Steers' diversified real assets framework is constructed through extensive research into each asset class, the macro environment and the ongoing assessment of risk and opportunity.

Investing in Real Assets



Source: Cohen & Steers.

Endnotes:

(1) TIPS (or Treasury Inflation Protected Securities), are U.S. government securities,
adjusted for inflation, as measured by the Consumer Price Index.
(2) Beta measures volatility in relation to the overall market.

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- Aberdeen Asia-Pacific Income Investment Company Limited Announces Monthly Distribution: Oct. 9, 2013
- BlackRock Announces Shareholder Approval of the Reorganization of Six Taxable Fixed Income Closed-End Funds: Oct. 11, 2013
- iShares Rolls Out Active Short-Duration Bond ETF: Sept. 27, 2013
- Put volume in iShares Japan ETF hits record on volatility outlook: Oct. 10, 2013
- Calamos Asset Management, Inc. Announces Third Quarter 2013 Investor Conference Call: Oct. 9, 2013
- Cohen & Steers, Inc. to Report Third Quarter 2013 Results on October 16, 2013; Announces September 30, 2013 Assets Under Managemen: Oct. 8, 2013
- Credit Suisse Announces October Monthly Coupon Payments of $0.0829 per ETN on its Gold Shares Covered Call ETN (ticker symbol "GLDI") and $0.1554 per ETN on its Silver Shares Covered Call ETN (ticker symbol "SLVO"): Oct. 14, 2013
- Credit Suisse Adds New Services To Insurance Hedging Platform: Oct. 15, 2013
- The Credit Suisse Hedge Fund Index Finished up 1.27% in September: Oct. 15, 2013
- First Trust Energy Income and Growth Fund Increases its Quarterly Distribution to $0.525 Per Share: Oct. 10, 2013
- First Trust Dividend and Income Fund Declares Quarterly Distribution of $0.15 Per Share: Oct. 10, 2013
- Certain DWS Closed-End Funds Declare Monthly Distributions: Oct. 8, 2013
- ING High Income Floating Rate Fund files final prospectus: September 27, 2013
- Kayne Anderson MLP Investment Company Provides Unaudited Balance Sheet Information and Announces its Net Asset Value and Asset Coverage Ratios at September 30, 2013: Sept. 30, 2013
- Kayne Anderson Midstream/Energy Fund Increases its Quarterly Distribution to $0.46 per Share for Q3 2013: Sept. 26, 2013
- Legg Mason Hosting Conference Call To Discuss Fiscal Second Quarter 2014 Results: Oct. 11, 2013
- Legg Mason Reports Assets Under Management For September 2013: Oct. 10, 2013
- Nuveen Closed-End Funds' Board Approves Fund Mergers: Oct. 14, 2013
- Nuveen Energy MLP Total Return Fund Declares Quarterly Distribution: Oct. 2, 2013
- PowerShares Launches New China A-Shares ETF (CHNA): Oct. 11. 2013
- CORRECTING and REPLACING Wells Fargo Advantage Closed-End Funds Declare Monthly Dividends: Oct. 3, 2013

Leverage in Closed-End Funds Through Recent Market Developments

Tuesday, September 10, 2013 | 11:00 AM ET

Ian Rasmussen - I'm Ian Rasmussen. I'm joined here with my colleague Yuriy Layvand and we're analyts at Fitch ratings. As Nicolas mentioned we're in the Fund and Asset Manager Rating Group. We want to welcome everybody that's participating with us today through the webinar. We very much appreciate your presentation.

The closed-end fund sector is one that's very dynamic, there are many investment managers both large and small managing funds that invest in a lot of very different asset types. Our focus in the closed-end fund market is specific to the leverage that these funds issue and they are of different types. We focus on the closed-end funds leverage which Fitch rates approximately $30 billion of notes and preferred stock and other types of securities both in taxable and tax exempt closed-end funds.

We also regularly publish special reports on difficult developments in the closed-end fund market. If you would now turn to page 2 of the presentation at the very top we have a link that is a link that will – if you would like to receive our research going forward a lot of the things that we talk about today I things that are found in special reports that we published recently. If you like to receive special reports going forward put that link in and you can put in your e-mail address and then we can send you directly any forthcoming research.

The other link is to our methodology for rating the preferred shares and notes issued by closed-end funds. And so if you're interested in that analysis feel free to download that report, it's also free as well. Our main goal today is to give an update on closed-end fund leverage given recent market developments. I would like to just remind you as we go through you're going to have to advance the slide that you downloaded. Slide 3 of the presentation shows the agenda for our webcast which is really just three major topics that we wanted to discuss.

The first one is how recent performance has impacted fund leverage ratios and leverage expectations. We then wanted to give a general update to closed-end fund leverage generally for both taxable and tax exempt closed-end funds. And lastly we wanted to talk about our leverage cost for closed-end funding. And this is important not only to investors in the leverage and to closed-end fund managers but also has an impact on the types of yield that the funds can provide to common share holders. So this is important I think for everybody that's involved in the closed-end fund market.

So some quick performance steps before we get into how recent performance has impacted closed-end fund leverage. Investors in closed-end funds have seen volatility in both net asset values and common share prices of the funds as markets have reacted to comments in June that the Federal Reserve may begin scaling back its $85 billion a month bond buying program.

This certainly represents a change in monetary policy which would be inflationary and so markets are anticipating higher interest rates. And so therefore the markets, there's been different performance on different types of asset classes within the market. As one would expect given heightened interest rate risk, negative performance since early June is particularly pronounced for fixed income funds investing in assets having longer durations. The reaction of the markets during the month of June was significant and we recorded that for funds that most funds had meaningful declines to NAVs and to the common share prices.

Participants

Ian Rasmussen
Senior Director, Fund & Asset Manager Rating Group
Fitch Ratings

Yuriy Layvand, CFA
Director, Fund & Asset Manager Rating Group
Fitch Ratings

FitchRatings

The volatility hasn't stayed as pronounced since June but overall fixed income funds have continued to see erosion in their NAVs albeit at a slower rate and that's stayed true all the way through August. Taxable funds overall the NAVs were down 2.5 percent in June and another 1 percent by the end of August which includes all funds including equity funds which haven't experienced quite the erosion to NAVs as fixed income funds have.

On the tax exempt municipal closed-end fund side performance has been worse with NAVs down a little over 6.5 percent in June and then down another, a little under 6.5 percent by the end of August on average. So that kind of sets the backdrop for what we've seen in terms of asset performance and this certainly impacts the leverage that the closed-end funds have issued.

So, Yuriy, maybe to begin with let's start off by talking about the taxable market and corporate bonds, funds that invest in corporate bonds. Could you talk a little bit about the performance of that group and how that relates to the funds leverage ratios?

Yuriy Layvand - Sure. Thank you, Ian. So if we can turn to slide 4 and what we're about to discuss is a series of five slides and we try to break out the closed-end fund market into kind of risk groups. So the first one is going to be long term corporate bond sectors, the second one will be corporate loan sectors, then equity sector and then we're going to get into investor grade municipal bonds and then high yield bonds.

So on slide 4 we try to compare how this sector's NAV performance has compared to the leverage ratio impact and then the secondary market stock. So the corporate debt is longer duration obviously and thereby the 70 something funds in the sector from May when the interest rate hike started to permeate the markets we've seen that NAVs have fallen 8 percent towards the bottom and that has caused leverage ratios to rise by 5.5 percent to an average of 28.2 percent.

Looking at the funds in the sector leverage ratios, they really run the gamut from low 20s to high 30s. And the capital structures consist of preferred leverage, bank and repos and a mix of them. So it depends on each individual fund the leverage restrictions will be different. So if the fund is more geared towards preferred stock you will have kind of a 50 percent leverage cap introduced by the [0:09:07] [Inaudible]. If it's more geared towards bank then you can have a 33 percent and if it's more a nontraditional leverage like repos then its more flexible, there're different regulatory rules for that.

Ian Rasmussen - And I guess that's an important point, right, because as assets have declined in value managers don't always decline their leverage at the same pace, at the same rate, so what we've seen is leverage ratios go up. And there are covenants that these funds have to maintain and if you approach these covenants then you're kind of under a forced deleveraging scenario where you have to reduce your leverage.

Yuriy Layvand - Yes, exactly. And that's why looking at these leverage ratios it's important for everybody, all the market participants like you alluded to earlier both investors in this space on the debt side but also on the equity side. And then if you look at the secondary market stock performance which has just been interesting proxy is that the discount has widened to a 5.5 percent discount from a 2.5 percent premium and stock price in general falling 16 percent from early May and finishing off for both NAVs leverage ratios and equities at the bottom point towards kind of the end of August.

So it's an interesting time period we're in and remains to be seen what's going to happen in the market over the next month.

Ian Rasmussen - And one of the things we've observed is performance hasn't been bad for all of the corporate fixed income markets. So there are securities that don't have fixed – they don't pay fixed interest rates so their interest rate risk is much less, they're much lower durations. So why don't we talk about corporate loans which is -- have experienced a much different type of performance.

Yuriy Layvand - Exactly. So if everybody can flip to slide 5 we try to present the statistics for the corporate loan market which is at 20 something fund sector and this is a floating rate product so it's a much shorter duration although the tradeoff is usually a lower credit quality but given the kind of the recent few months that its really been kind of on a interest rate stress these funds have performed much better.

So looking at the NAVs they remain relatively stable losing maybe only 3 percent in June before we rebounding slightly leverage ratios have rose 1.5 percent from its 33 percent but this change has actually been the lowest of any taxable sector because of just you know, the contagion effect.

The selloff that we did see in the market was actually due to many of the corporate bond managers, they also have pockets that they can invest in leverage bonds. So when they're in need of liquidity they want to sell loans first. So that had an impact.

And then another reason why this sector also suffered is because investors fear that there could be some Libor floors and that could also impact the interest rate resets kind of the yield that will get on these investments.

Ian Rasmussen - So if you're a Libor reset, Libor is below that Libor floor then you could have some interest rate risk while Libor rises above the floor essentially. There could be some interest rate risk kind of at the beginning.

Click here for complete reading

Transcript: ETP Analyst Webinar

Tuesday, October 1, 2013 | 11:00 AM ET

Dodd Kittsley - Thank you very much. Welcome, everyone, and thank you, Nicolas, for putting this together. Good morning to everyone. It is really an honor to host such an accomplished panel if ETF analysts and experts. I have known Mariana, Michael and John for many years. They have really been pioneers in terms of the many topics and areas that we are going to dive into today, particularly on the education front, in getting the word out on exchange-traded products, helping investors understand the risks and understand the trends and opportunities.

We have seen dramatic and continued evolution with ETFs here in the US. The industry has grown to now $1.5 trillion. There are over 1,500 choices and the growth from our vantage point is really just at the beginning stages here and, from the penetration standpoint, ETFs account for just around 6% of equity markets, very low compared to mutual funds and other investment vehicles. In the fixed income market that number is even lower. It is six-tenths of one percent so, certainly, there is a lot of runway despite the great growth we have already seen.

Assets have doubled over the last 5 years and we firmly believe that the industry will grow and double over the next 5 years to come, which should bring us to $3-3.5 trillion by 2017. Hopefully we are going to dive into a lot of the drivers of that today. In general we see a lot of that growth being driven by increased investor adoption across all channels, institutional; retail and self-directed. We see fixed income being a major engine for growth, even in the headwinds of rising interest rates, and core funds and innovation as well.

With that, I am going to start the questions but, as Nicolas mentioned, please send what is on your mind in and I'll be able to see those questions coming in and we'll be able to make this your webinar and make sure that what we are talking about is top of mind and relevant to your needs. Let's start with Michael – Mike, there has been a significant amount of press and attention around new products, new issuance and even ETF closures – we'd love to get your thoughts on what we have seen this year in terms of new issuance and just what you would expect going forward.

Michael Jabara – Absolutely. Thanks Dodd. Good morning to everyone. The first thing I'd do is I'd set the stage and give you a kind of feel for what's been going on this year as far as new product launches go. So far we have seen 95 new US-listed ETFs launched here in the US, obviously, and I think I checked my Blackberry this morning and we have an additional 4 come into the market today, so essentially you are looking at 99 US-listed ETFs that have been launched this year.

As far as some of the bigger categories, we have seen 21 fixed income ETFs come to market, which has clearly been the biggest category as far as number of launches; 19 US custom ETFs and we sort of classify US custom ETFs as those that track fundamental indices and products like that. We have also seen 13 actively-managed ETFs come to market; 13 emerging market equity ETFs and the last category I wanted to highlight as far as robust offerings is that we have seen 10 international developed market equity ETFs also come to market.

Notably, the two most successful launches year-to-date have a fixed income tilt and the first one is an international bond fund that hedges currency out. The second is an actively-managed senior loan fund, so clearly fixed income having a big footprint this

Participants

Moderator:

Dodd Kittsley, CFA
Director, Global Head of ETP Research, BlackRock

Panelists:

Jon Maier
Head of ETF Strategy
Bank of America Merrill Lynch

Michael Jabara
Executive Director
Morgan Stanley

Mariana Bush, CFA
Senior Analyst
Wells Fargo Advisors

year, and this year's launches (or you can even say the lack thereof) stack up against prior years. In 2012 we had 155 products come to market; 225 in 2011; 179 in 2010 and 125 in 2009 and, therefore, we are clearly behind previous years' issuance. You have seen that more than three-quarters of the year is over. I often get the question: Mike, why is issuance slowing a little bit this year? I think one of the reasons is it's becoming a lot more difficult to find untapped areas of the market as major asset classes are currently occupied with ETFs already.

I mentioned earlier that we have seen heavy fixed income issuance this year. In 2012 the story was very similar; fixed issuance led the way last year, but in 2011 and 2010 US equity issuance was the most popular category. Clearly this year and last year we have seen a shift from US equity launches to fixed income launches. Interestingly, out of the 95 products that have come to market so far this year, the average fund has a market cap of 37 million and, therefore, not every ETF gains traction right out of the gate. Quite frankly, we may even see some of these products that they don't gain traction over time and we may actually see some of them close.

As far as where I see issuance going in the future, I often get a lot of questions from both investors as well as fund sponsors and they say Mike, where do you think we go from here? A few things: number one, we will continue to see heavy fixed income issuance as investors want narrower or more targeted exposure to this market. Dodd had mentioned about rising rates and fears of rising rates and, despite those two headwinds, our clients need income. They are really willing to look at certain areas of the market and we have seen a lot of interest this year within fixed income in areas such as floating rate exposure as well as short duration products.

Another area where I think you will see more issuance is in the actively-managed space. With the right strategy and the right manager, I think actively-managed ETFs can be very successful. In fact, we have already seen successful actively-managed products come to market. When you look at SEC filings, many of the major mutual fund houses have filed for actively-managed products, so there is no question about it; we will see more as time goes on.

Dodd had also briefly touched on ETF closures and here are some brief thoughts on how I feel about ETF closures: In 2013 we have witnessed 31 ETF closures already and an additional 12 are scheduled to stop trading this Friday and close in coming weeks. I would not say that's a ton of closures, nonetheless it is meaningful, and this compares to 82 closures last year; 26 fund closures in 2011; 49 liquidations in 2010 and 51 closures in 2009. I don't view ETF closures as a negative, but simply as part of a growing industry; weaker funds and weaker sponsors will inevitably close while viable funds can drive. I don't know the exact number but I know, as is the case in mutual funds, mutual funds also close, so this phenomenon as far as ETF closures go is not unique to ETFs.

We also see mutual funds close and, at the end of the day, it's not an enormous deal. The investors essentially get their money back at NAV and it can result in reputational risk for say an advisor that just bought a product and say it closes in 2-3 months; obviously that is a negative. It can result in an unwanted tax burden, especially if you have a gain in the product and it has to be liquidated. Those are negatives but, nonetheless, not the end of the world. The big take-away here is, as this space grows, we will continue to see more closures and I think it is a function of a growing industry and not necessarily a negative.

Dodd Kittsley - Thank you very much, Michael. That was very thorough and I think you really hit on that, you know, it's a maturing industry and it's a natural evolution and progression. I look at your weekly reports all the time and highlighting the growth of newly-issued products I think is encouraging to the industry that there is still room for growth in areas like you highlighted, fixed income and ones that dovetail with a lot of the themes like short duration that's taken in over $30bn this year – I remember 5 years ago, even longer than that, there were a lot of articles saying the growth is going to end; all the good indexes are taken and we have certainly blown through that and seen innovation continue, so really appreciate those comments.

Let's transition over to John, and maybe this is kind of late a little bit in terms of what are some of the key themes we are seeing in 2013? What's resonating with investors, particularly now in this year, that's different than the past? Certainly, John, I know you manage a lot of very popular model portfolios, so we'd love your thoughts on the growth of the model portfolio distribution of ETFs.

John Maier - I'll talk about the models but I want to kind of throw the market into a little bit of context for a moment and it slightly veers from the question a little bit, but just to get to the main point, it's been another solid year for the US-listed ETF market in terms of growth. We have seen inflows of over $150bn, which is about 12% growth. We were expecting about 15% growth for the year, so we're certainly ahead of that target. If you look at the overall market since '93, the ETF market has experienced inflows through up and down, correlated and uncorrelated markets, and this reflects interest from both retail and institutional investors as well as the increased potential growth.

In 1993 there was one provider and today there are about 47 providers with dramatic exponential growth since 2006. The US ETF market is dominated by three large players: BlackRock, iShares and State Street Global, and advisors there are SSgA and Vanguard. Collectively, those 3 providers have bought $1.3 trillion in assets and the market is about $1.53 trillion, so it has been difficult to move the needle if you are either a top 3 provider or you're the other 40+ providers out there. There are about 90+ ETFs that were introduced in 2013 with about $3.3 billion in net new assets, as of the middle of last month. Approximately a third of those assets were iShares and Vanguard and State Street are still in the top 3 in terms of new issuance.

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