Capital Link's
CEF & ETF Monthly Newsletter

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The Month in Closed-End Funds: August 2013

PERFORMANCE

At the beginning of August some investors breathed a sigh of relief after the jobs report fell short of forecasts, coming in at just 162,000 for July compared to the analyst consensus of 180,000. The Dow Jones Industrial Average (DJIA) and the S&P 500 actually rallied on the news, recording their thirtieth and twenty-fifth record closes, respectively, as investors interpreted the employment results as being too soft for the Federal Reserve to reduce its asset purchases in September. To many investors' chagrin, however, economic news released later in the month was stronger than expected, spooking investors and causing Treasury yields at maturities greater than one year to rise for the month. Increased tensions in the Middle East and saber-rattling by the U.S. concerning the reported chemical weapons attack by the Syrian government on its own people pushed commodity prices higher and stocks lower as the world waited to see President Obama's response to the attacks. Low volume in the last weeks of summer, tapering fears, a three-hour NASDAQ trading glitch, spikes in Treasury yields, and late talks about the looming debt ceiling brought about the worst monthly equity fund returns in 16 months. Lipper's equity CEF macro-group posted its first set of negative returns since June, losing 2.33% on a NAV basis and 3.28% on a market basis. And, pulled down by continued rising-interest-rate fears and a hangover from the Detroit bankruptcy filing, it wasn't surprising to see fixed income CEFs post their fourth consecutive month of negative returns, losing 2.05% on a NAV basis and 2.03% on a market basis for August.

Despite the DJIA and the S&P 500 reaching record closes early in the month, they both posted their worst monthly returns since May 2012, with the DJIA returning minus 4.45%, while the S&P 500 lost 3.13% for the month. Both indices remained solidly in the black for the year-to–date period, returning 13.02% and 14.50%, respectively.

In the middle of the month speculation that the Fed would begin tapering its bond purchases as early as September sent Treasury prices spiraling, and yields approached their highest levels since 2011. The ten-year Treasury yield rose to 2.90% on August 22, before falling back to close at 2.78% on August 30, 18 basis points above the July closing value. The 135-bp increase in yield since its low on July 26, 2012 (+1.43%) represented an amazing 94% increase in yield in just over a year. At maturities of one year or greater the Treasury yield curve shifted upward, with the five- and seven-year yields rising the most—24 bps each to 1.62% and 2.24%, respectively, on August 30. Much as in July, the selloff in Treasuries also led to a significant selloff in municipal debt funds as investors contemplated the Fed's next move, future tax reforms, and the credit risk of municipalities.

For August the dollar weakened against the pound (-1.89%) and the yen (-0.18%), but it gained against the euro (+0.64%). Once again, commodities prices were on the rise for the month, with the near-month crude oil price gaining 2.49% to close the month at $107.65/barrel. Gold prices continued to strengthen, gaining 6.38% to end the month at $1,396.10/ounce.

The Month in Closed-End Funds: August 2013

- For August only 12% of all closed-end funds (CEFs) traded at a premium, with 13% of equity funds and 12% of fixed income funds trading in premium territory to their NAVs. Both the taxable bond funds and municipal bond funds macro-groups witnessed a narrowing of discounts for August.
- For the second month in three all of Lipper's equity CEF and fixed income CEF classifications were in the red.
- For the fourth consecutive month all of the municipal bond fund groups posted returns in the red, with single-state municipal bond funds (-2.97%) mitigating losses slightly better than their national municipal debt fund brethren (-3.10%).
- Equity funds tied to interest rate-sensitive issues (such as mortgages) and India Region plays lagged the other equity classifications, pushing Real Estate Funds (-5.51%), Emerging Markets Funds (-4.47%), and Value Funds (-2.78%) to the bottom of the pack.

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For August only 8% of all CEFs posted NAV-basis returns in the black, with 10% of equity CEFs and only 7% of fixed income CEFs chalking up returns in the plus column. For just about the entire month hand wringing over the timing of the Fed's future tapering cast a pall over the markets. And late-month worries over Syria, the U.S. approaching its debt limit in mid-October, the NASDAQ glitch, and the rise in the Chicago Board Options Exchange Volatility Index (VIX) kept investors on the sideline and ducking for cover. Despite hearing upbeat news concerning German and U.K. GDP data, investors generally focused on how the Fed tapering might impact the global economy. The concerns pushed the World Equity CEFs macro-group to the bottom of the barrel (-2.61%), underperforming both the domestic equity CEFs macro-group (-2.27%) and the mixed-asset CEFs macro-group (-2.10%).

For the second month in three all of Lipper's equity CEFs and taxable fixed income CEFs classifications were in the red (something we haven't seen since October 2008). Given the spike in Treasury yields and the impact on spread products, it wasn't surprising to see the municipal bond funds macro-group (-3.04%) pushed to the bottom of the fixed income group, underperforming taxable domestic bond CEFs (-0.59% on a NAV basis) and world bond CEFs (-2.56%).

Only 24 equity CEFs posted returns in the black for August, with 5 of the 10 top funds being housed in Lipper's Sector Equity Funds macro-group. In a late month flight to safety investors bid up the prices of gold (to a three-month high) and oil (rising to over $109 per barrel for the first time this year), while they pushed the yield on the benchmark ten-year Treasury note to 2.72% (down 7 bps in a day). Developed Markets Funds (-1.18%), Convertible Securities Funds (-1.37%, July's leader), and Sector Equity Funds (-1.64%) mitigated losses for August better than the other classifications in the universe. Equities tied to interest rate-sensitive issues (such as mortgages) and India Region plays lagged the other equity classifications, pushing Real Estate Funds (-5.51%), Emerging Markets Funds (-4.47%), and Value Funds (-2.78%) to the bottom of the pack. For the remaining equity classifications returns ranged from negative 2.39% (Income & Preferred Stock Funds) to negative 1.80% (Option Arbitrage/Option Strategies Funds).

Again, five of the ten top-performing individual funds were housed in Lipper's Sector Equity CEFs classification, with the two top-performers being precious metals-related funds. At the top of the chart was **Central Fund of Canada Limited (AMEX: CEF),** gaining 11.05% on a NAV basis and traded at a 3.50% discount at month-end. Following CEF were **ASA Gold & Precious Metals Limited (NYSE: ASA**, one of July's leaders), posting a 6.81% return and traded at a 6.70% discount on

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	10	29	69	13	86
Bond Funds	7	49	49	12	88
ALL CEFS	**8**	**42**	**56**	**12**	**87**

TABLE 2 AVERAGE NAV RETURNS, SELECTED PERIODS (%)

	AUGUST	YTD	3-MONTH	CALENDAR-2012
Equity Funds	-2.33	6.58	-1.93	15.42
Bond Funds	-2.05	-5.50	-7.17	15.04
ALL CEFS	**-2.16**	**-0.81**	**-5.14**	**15.18**

TABLE 3 NUMBER OF IPOs, SELECTED 12-MONTH PERIODS

	AUGUST 2013	CALENDAR-2012
ALL CEFS	**32**	**31**

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

3 MONTHS THROUGH 7/31/2013	434
COMPARABLE YEAR-EARLIER 3 MONTHS	528
CALENDAR 2012 AVERAGE	506

Source: Lipper, a Thomson Reuters company

August 30; **Morgan Stanley China A Share Fund, Inc. (NYSE: CAF**, housed in Lipper's Pacific ex-Japan Funds classification), rising 6.44% on a NAV basis and traded at an 8.29% discount at month-end; **Central GoldTrust (AMEX: GTU)**, chalking up a 6.00% return and traded at a 4.99% discount at month-end; and **RENN Global Entrepreneurs Fund, Inc. (NYSE: RCG**, housed in Lipper's Global Funds classification), rising 3.50% and traded at a 44.36% discount on August 30.

For the month the dispersion of performance in individual equity CEFs—ranging from minus 12.20% to positive 11.05%—was wider than August's spread and more negatively skewed. The 20 top-performing equity funds posted returns in excess of 0.25%, while the 20 lagging funds were at or below minus 5.51%.

Given the concerns about the Middle East, emerging markets, and the global economy, it wasn't surprising to see **Turkish Investment Fund, Inc. (NYSE: TKF),** housed in Lipper's Emerging Markets Funds classification, at the bottom of the equity CEF group. TKF shed 12.20% of its July month-end value and traded at a 13.57% discount on August 30. The next poorest performing equity fund was warehoused in Lipper's Pacific ex-Japan Funds classification: **Thai Fund, Inc. (NYSE: TTF)** declined 11.64% and traded at a 10.94% discount at month-end.

For the fourth consecutive month all of Lipper's municipal debt CEF classifications posted negative NAV-based returns, with—since investors are still reeling from Detroit's bankruptcy—Michigan Municipal Debt Funds (-3.93%) and General & Insured Municipal Debt Funds (Leveraged) (-3.32%) once again taking the worst of the beatings. For the second consecutive month the Intermediate Municipal Debt Funds (-2.04%) classification mitigated losses better than the other classifications in the group. The municipal debt funds macro-group (-3.04%) significantly underperformed by 245 bps its taxable domestic CEFs counterpart (-0.59%). Single-state municipal debt funds (-2.97%) mitigated losses slightly better than their national municipal debt fund counterparts (-3.10%).

As conditions deteriorated for the world markets, the two classifications making up Lipper's World Income Funds macro-group (-2.56%) took it on the chin, with Emerging Markets Debt Funds (-3.86%) taking the worst beating and Global Income Funds (-1.75%) faring a little better. With investors anticipating rising interest rates, the adjustable-rate Loan Participation Funds (-0.12%), Flexible Income Funds (-0.26%), and High Yield Funds (-0.52%) classifications mitigated losses better than the other classifications in the domestic bond funds group. Corporate BBB-Rated Debt Funds (Leveraged) and Corporate BBB-Rated Debt Funds (-0.86% each) were the laggards of the group Mixed comments by Fed officials at the Jackson Hole retreat during the month didn't help calm the "taper tantrum" investors were having. The two-/ten-year Treasury spread widened 10 bps from July's month-end 229 bps. The yield on the ten-year Treasury note finished the month 18 bps higher at 2.78%.

In the domestic taxable fixed income CEFs universe (-0.59%) the remaining classification returns ranged from minus 0.66% (U.S. Mortgage Funds) to minus 0.79% (General Bond Funds). Only 28 fixed income CEFs posted plus-side returns for August.

Two of the three CEFs at the head of the fixed income CEFs universe were housed in Lipper's U.S. Mortgage Funds classification. **Capstone Church Capital Fund (NASDAQ: XCBFX,** an interval hybrid CEF housed in Lipper's General Bond Fund classification) rose 2.76% to the top of the heap. Following XCBFX were **First Trust Mortgage Income Fund (NYSE: FMY),** tacking 1.30% onto its July month-end value and traded at a 12.62 discount at month-end, and **Western Asset Mortgage Defined Opportunity Fund Inc. (NYSE: DMO),** posting a 0.76% return and traded at a 7.34% discount on August 30.

For the remaining funds in the fixed income CEFs universe monthly NAV-basis performance ranged from minus 7.43% (**Dreyfus Municipal Bond Infrastructure Fund, Inc. [NYSE: DMB],** housed in Lipper's General & Insured Municipal Debt Funds (Leveraged) classification and traded at a 7.89% discount), to 0.75% for **Guggenheim Credit Allocation Fund (NYSE: GGM),** housed in Lipper's General Bond Funds classification and traded at a 0.33% premium on August 30. The 20 top-performing fixed income CEFs posted returns at or above 0.11%, while the 20 lagging funds were at or below negative 4.07%.

PREMIUM AND DISCOUNT BEHAVIOR

For August the median discount of all CEFs narrowed 15 bps to 7.91%—considerably lower than the 12-month moving average discount (2.92%). Equity CEFs' median discount widened 115 bps to 9.57%, while fixed income CEFs' median discount narrowed 72 bps to 7.15%. Municipal bond funds' median discount narrowed 107 bps to 6.78%. Single-state municipal debt funds witnessed the largest narrowing of discounts for the month, narrowing 113 basis points to 6.77%, while Domestic Equity Funds' median discount witnessed the largest widening—153 bps to 8.66%.

For the month 42% of all funds' discounts or premiums improved, while 56% worsened. In particular, 29% of equity funds and 49% of fixed income funds saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on August 30 (72) was 22 less than on July 31.

IPOs

KKR & Company launched its first listed CEF, **KKR Income Opportunities Fund (NYSE: KIO).** The fund raised $305 million in its common-share offering, which could go to $352 million if the underwriters exercise their options in full.

RIGHTS, REPURCHASES, TENDER OFFERS

Preliminary results of the tender offers for up to 5% of each of **The Central Europe, Russia and Turkey Fund (NYSE: CEE)** and **The New Germany Fund (NYSE: GF)** were oversubscribed. Approximately 72% of CEE's common shares and 62% of GF's common shares were tendered; on a pro rata basis just 7% and 8% of the tendered shares were accepted for payment.

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Liberty All-Star Equity Fund (NYSE: USA) has commenced a tender offer for up to 7.5% of its outstanding shares at 96% of NAV. The offer expires September 23. The fund's discount held steady in August to end at 9.9%.

The semiannual repurchase offer of **The India Fund (NYSE: IFN)** will end September 13, 2013; tendered shares will be subject to a repurchase fee of 2% of NAV. At the end of August the fund's discount was 13.3%.

MERGERS AND REORGANIZATIONS

Trustees approved the merger of **Nuveen New York Performance Plus Municipal Fund (NYSE: NNP)** and **Nuveen New York Dividend Advantage Municipal Fund 2 (NYSE MKT: NXK**) into **Nuveen New York Dividend Advantage Municipal Fund (NYSE: NAN)**. Shareholder approval is still required at the annual shareholder meetings scheduled for early 2014.

OTHER

Trustees of **The Gabelli Dividend & Income Trust (NYSE: GDV)** approved creation of a new CEF that would be a spinoff of Dividend & Income Trust. GDV would contribute approximately $100 million of its cash and/or securities and would then distribute all the shares of the new fund to the common shareholders of GDV. The fund's discount was 10.3% at the end of August.

Trustees of **BlackRock S&P Quality Rankings Global Equity Managed Trust (NYSE: BQY)** approved a name change to **BlackRock Dividend Income Trust.** The name of **Massachusetts Health & Education Tax- Exempt Trust (NYSE: MHE)** will change to **BlackRock Massachusetts Tax-Exempt Trust.** Neither ticker symbol will change.

Rocky Mountain Advisers launched a new website for Boulder Funds. Boulder Funds consists of four CEFs: **Boulder Growth & Income Fund (NYSE: BIF), Boulder Total Return Fund (NYSE: BTF), The Denali Fund (NYSE: DNY),** and **First Opportunity Fund (OTC: FOFI).**

Thai Capital Fund (NYSE: TF) paid an initial liquidating distribution of $10.93 per share to all shareholders of record as of August 16, 2013; that amount was approximately 90% of the proceeds of the fund's portfolio liquidation per share. The final liquidating distribution is expected to be made no later than September.

Duff & Phelps Utility and Corporate Bond Trust (NYSE: DUC) will reduce the amount of leverage used by $65 million (to approximately 29% of total assets) through a combination of reducing its outstanding credit and redeeming its auction rate preferred shares. The reduction in the amount of leverage is intended to lessen the potential volatility of the fund. At the end of August the fund's discount was 7.8%.

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CEF Performance Statistics

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Category	Average of 1MO NAV Change	Average of 1MO MKT Change	Average P/D 7/31/2013	Average P/D 8/31/2013	Average of 1 MO P/D Change	Average of YTD NAV Change	Average of YTD MKT Change	Average of YTD P/D Change
California Municipal Debt Funds	3.37%	1.24%	-5.58	-3.66	1.92	-13.63%	-17.20%	-3.89
Convertible Securities Funds	1.91%	2.92%	-6.70	-7.50	-0.80	6.53%	5.90%	0.00
Core Funds	2.78%	3.82%	-6.93	-6.82	0.11	13.21%	13.87%	5.90
Corporate BBB-Rated Debt Funds(Leveraged	1.38%	3.68%	-6.48	-8.54	-2.06	-4.48%	-12.25%	-8.17
Corporate Debt Funds BBB-Rated	1.19%	3.03%	-10.53	-12.15	-1.62	-6.16%	-13.90%	-8.05
Developed Market Funds	1.79%	0.39%	-8.89	-7.85	1.04	8.31%	10.66%	2.53
Emerging Markets Debt Funds	4.44%	6.90%	-7.72	-9.50	-1.78	-15.73%	-20.48%	-5.68
Emerging Markets Funds	4.83%	5.39%	-7.91	-8.46	-0.55	-12.14%	-12.43%	0.16
Flexible Income Funds	0.77%	2.39%	-9.37	-10.27	-0.90	-2.42%	-9.35%	-6.14
General & Insured Muni Debt Funds (Lever	3.99%	2.69%	-6.93	-5.78	1.15	-15.18%	-19.97%	-5.62
General & Insured Muni Fds (Unleveraged)	2.50%	1.45%	-6.45	-5.55	0.90	-8.77%	-12.47%	-4.01
General Bond Funds	1.27%	3.74%	-3.51	-4.73	-1.22	-9.53%	-8.01%	-6.46
Global Funds	2.86%	4.81%	-9.56	-11.03	-1.47	1.99%	1.04%	-1.42
Global Income Funds	2.35%	2.58%	-7.83	-8.24	-0.41	-4.19%	-11.49%	-7.52
Growth Funds	2.58%	-0.21%	1.00	3.69	2.69	0.71%	38.59%	15.68
High Yield Funds	1.09%	2.21%	-5.61	-6.48	-0.87	0.78%	-5.57%	-6.00
High Yield Funds (Leveraged)	1.45%	2.41%	-4.70	-5.76	-1.06	2.90%	-2.53%	-5.55
High Yield Municipal Debt Funds	3.66%	3.81%	-4.60	-4.42	0.18	-12.36%	-17.37%	-6.02
Income & Preferred Stock Funds	2.99%	6.09%	-4.18	-6.72	-2.54	8.15%	-0.42%	-4.17
Intermediate Municipal Debt Funds	2.54%	1.27%	-5.59	-4.53	1.06	-10.51%	-14.42%	-4.77
Loan Participation Funds	0.65%	2.48%	0.30	-1.52	-1.82	2.70%	0.05%	-2.62
Michigan Municipal Debt Funds	4.63%	1.16%	-12.77	-9.77	3.00	-16.27%	-20.41%	-4.69
New Jersey Municipal Debt Funds	3.41%	2.52%	-8.19	-7.42	0.77	-13.73%	-21.51%	-9.31
New York Municipal Debt Funds	3.48%	2.02%	-5.60	-4.22	1.38	-13.94%	-18.73%	-5.40
Options Arbitrage/Opt Strategies Funds	2.27%	2.96%	-5.47	-6.15	-0.68	2.74%	5.01%	2.12
Other States Municipal Debt Funds	3.72%	3.41%	-4.71	-4.50	0.21	-13.69%	-18.41%	-5.49
Pacific Ex Japan Funds	2.24%	1.01%	-11.14	-11.09	0.05	-4.49%	-7.90%	-3.59
Pennsylvania Municipal Debt Funds	3.64%	2.71%	-10.60	-9.78	0.82	-14.19%	-21.38%	-8.37
Real Estate Funds	6.10%	12.20%	-6.09	-9.35	-3.26	1.61%	-1.90%	-1.96
Sector Equity Funds	2.36%	2.07%	-2.22	-2.68	-0.46	-34.58%	6.83%	-0.08
U.S. Mortgage Funds	1.26%	2.48%	-9.20	-10.32	-1.12	-1.41%	-9.31%	-6.82
Value Funds	3.08%	5.66%	-11.13	-11.84	-0.71	10.05%	10.24%	1.42

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Top 5 Performing CEFs

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Fund Name	Category	Ticker Symbol	1-Month NAV Change	Rank
Central Fund of Canada	Sector Equity Funds	CEF	11.05%	1
ASA Gold & Prec Met Ltd	Sector Equity Funds	FZ6	6.81%	2
Morg Stan China A	Pacific Ex Japan Funds	CAF	6.44%	3
Central GoldTrust	Sector Equity Funds	GTU	5.97%	4
Engex Inc	Core Funds	EXGI	5.00%	5

Fund Name	Category	Ticker Symbol	Year-to-Date NAV Change	Rank
Foxby Corp	Growth Funds	FXBY	52.88%	1
Managed High Yield Plus	High Yield Funds (Leveraged)	HYF	43.45%	2
BlackRock Hi Inc Shares	High Yield Funds (Leveraged)	HIS	43.28%	3
RENN Glbl Entrepreneurs	Global Funds	RCG	41.23%	4
Credit Suisse Hi Yld Bd	High Yield Funds (Leveraged)	DHY	32.36%	5

Fund Name	Category	Ticker Symbol	1-Month Market Change	Rank
Central Fund of Canada	Sector Equity Funds	CEF	11.65%	1
Kayne Anderson Enrgy Dev	Sector Equity Funds	KED	8.08%	2
Morg Stan China A	Pacific Ex Japan Funds	CAF	7.22%	3
Swiss Helvetia Fund	Developed Market Funds	SWZ	5.99%	4
Firsthand Technology Val	Sector Equity Funds	SVVC	5.70%	5

Fund Name	Category	Ticker Symbol	Year-to-Date Market Change	Rank
H&Q Healthcare Investors	Sector Equity Funds	HQH	32.24%	1
Firsthand Technology Val	Sector Equity Funds	SVVC	29.82%	2
New Ireland Fund	Developed Market Funds	IRL	26.92%	3
H&Q Life Sciences Invtrs	Sector Equity Funds	HQL	26.55%	4
Cornerstone Total Return	Core Funds	CRF	24.63%	5

Fund Name	Category	Ticker Symbol	1-Month P/D Change	Rank
Cornerstone Total Return	Core Funds	CRF	7.73	1
Eaton Vance MA Muni Bd	Other States Municipal Debt Funds	MAB	7.50	2
Cornerstone Strat Value	Core Funds	CLM	7.24	3
DWS Multi-Mkt Income Tr	General Bond Funds	KMM	6.56	4
First Tr Spec Fin&Finl	Sector Equity Funds	FGB	6.24	5

Fund Name	Category	Ticker Symbol	Year-to-Date P/D Change	Rank
Cornerstone Total Return	Core Funds	CRF	33.59	1
Cornerstone Strat Value	Core Funds	CLM	31.11	2
PIMCO Gl StksPLUS & Inc	Options Arbitrage/Opt Strategies Funds	PGP	26.44	3
PIMCO High Income	High Yield Funds (Leveraged)	PHK	23.09	4
Aberdeen Chile	Emerging Markets Funds	CH	17.64	5

Global ETP Monthly Overview

BlackRock

Highlights (US$):[1,2]

Global ETP flows in August turned negative to the tune of ($15.0bn), heavily impacted by the Federal Reserve signals on the tapering of bond purchases and the resulting expectation of higher interest rates. The industry has now alternated between strong and weak flows over the past four months as investors continue to digest news which began to shift in late May.

- But investors embraced positive economic news in Europe. **Pan-European Equity ETP** flows hit an all time high of $4.7bn in August, spurred by Eurozone GDP growth of 0.3% in Q2 – the first economic expansion in 18 months.[3] Additionally, European single-country funds drew in $1.0bn.

- The 10-year Treasury yield hit a 2 year high of 2.89% in August.[6] Investors sought shelter from rising interest rates in **Short-Maturity Fixed Income ETPs** which gathered $2.8bn in August and likewise embraced **Money Market mutual funds** which drew in $52bn, the highest total this year, and $21bn higher than last month.[4]

- Investors could also be positioning for increased market volatility in September. There are a number of upcoming events and announcements with implications for the global economy including the release of US Non-Farm Payroll numbers ahead of the highly anticipated next meeting of the FOMC, the German elections, meetings of other major Central Banks, US debt ceiling negotiations, and the escalating conflict in Syria.

- **Equity** ETPs generated rare outflows of ($9.4bn). The last such occurrence was in April 2012.
  - Equity funds with **US exposure** saw redemptions of ($14.5bn), although excluding one fund, SPY (SPDR S&P 500), industry outflows were only ($0.5bn). SPY had seen inflows of $13.8bn in July and outflows of ($14.0bn) this month.
  - Fed tapering talk also impacted **Emerging Markets Equities** which saw outflows of ($3.5bn) in August, mostly from **Broad Emerging Markets funds and** single country funds (Brazil and South Korea).

- **Fixed Income ETPs** registered outflows of ($5.3bn).
  - **Short maturity** funds continued to gather assets at a steady pace with $2.8bn – including **Floating Rate** flows of $1.0bn – bringing the YTD total to $29.3bn.
  - All other maturities experienced outflows of ($8.1bn) for the month and have now shed ($10.4bn) YTD.

AUGUST RESULTS AT A GLANCE[1]

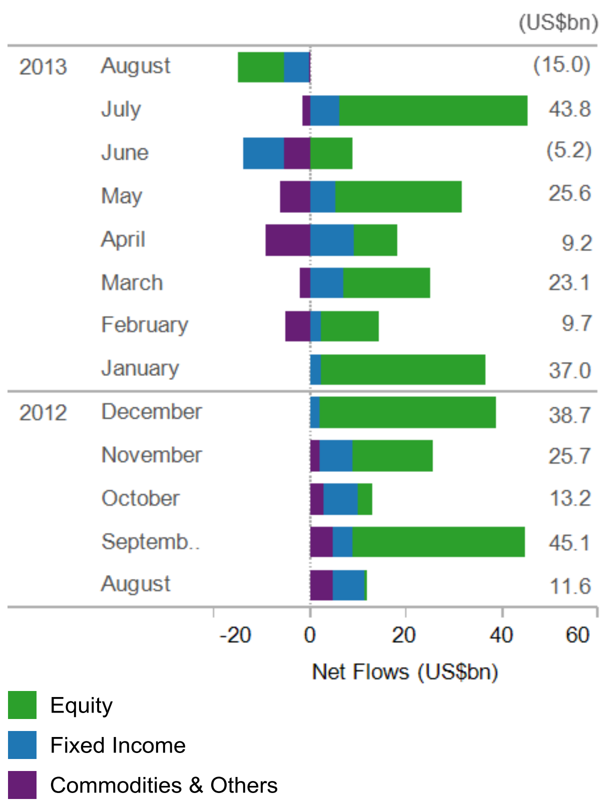
(US $billions)

	August 2013	July* 2013	December 2012	August 2012
Monthly Flows	(15.0)	43.8	38.7	11.6
Assets	2,114	2,164	1,944	1,761
# of ETPs	4,918	4,901	4,759	4,744

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

GLOBAL 13-MONTH ROLLING NET FLOWS[1]

2013 YTD Net Flows: $128.1bn



Source: BlackRock

Highlights (US$):[1, 2]

- Within Fixed Income, **Treasury ETPs** had the greatest outflows with ($4.3bn) heavily concentrated in a small number of intermediate maturity funds.

- **Gold ETPs** surrendered another ($0.7bn) in August, but the outflows have now slowed for four consecutive months after peaking at ($9.0bn) in April. YTD outflows reached ($31.8bn).

Year-to-date global ETP net inflows fell back below $130bn in August

- Year-to-date (YTD) flows are now $128.1bn, behind the previous record high of $139.9bn through August 2012. However, the 2013 composition remains much different with Equity gathering 80% more than last year, Fixed Income just a third as much and Commodity outflows adding a significant drag.

- **Equity funds led with $138.5 billion** which is 80% above last year's pace of $77.1bn.

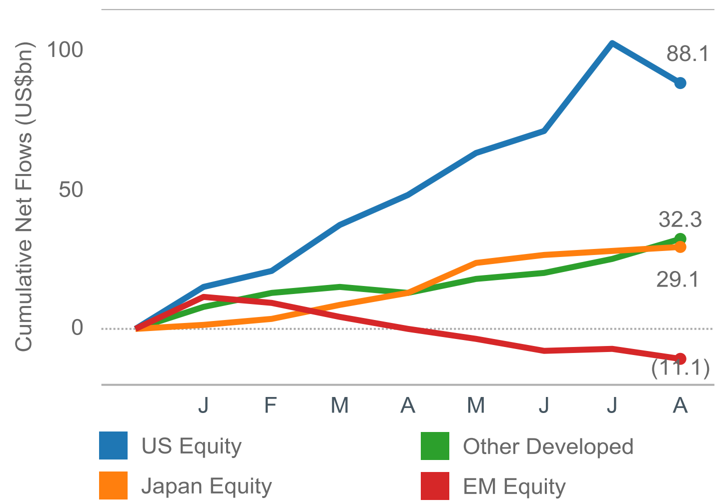
- **US and Japanese Equity exposures account for the bulk of the year-over-year Equity flow growth.** Equity markets in both countries have been bolstered by accommodative Central Bank monetary policies.

- The growth in year-over-year Equity flows was moderated **by EM Equity outflows** of ($11.1bn) YTD. The category had seen strong inflows in January of $10.9bn and then shifted to outflows since February, with the exception of a small positive uptick in July.

- **Short Maturity funds (Floating Rate, Ultra-Short-Term and Short-Term) have been the engine for Fixed Income flows this year,** accumulating $29.3bn. Last August, the duration picture was completely different with YTD inflows of $3.9bn for Short Maturity funds.[2]

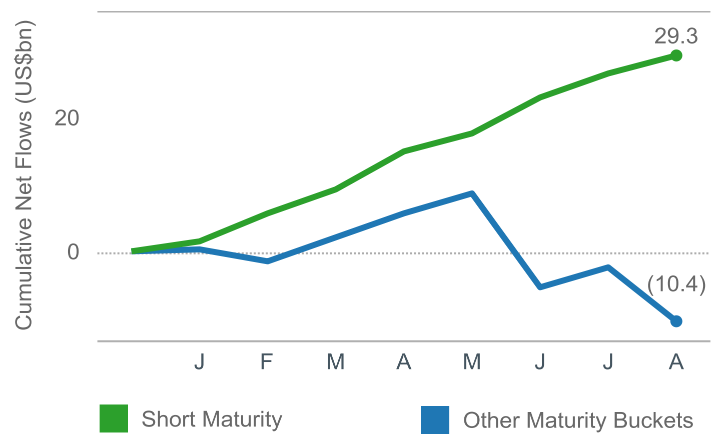
GLOBAL EQUITY CUMULATIVE ETP FLOWS[1]

2013 YTD Flows: $138.5bn



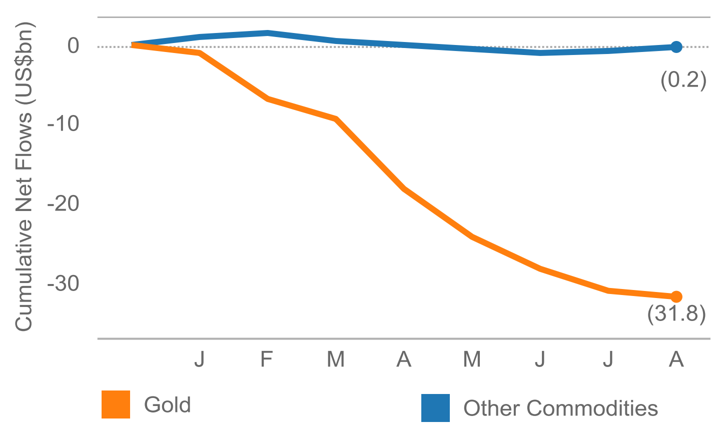
GLOBAL FIXED INCOME CUMULATIVE ETP FLOWS[1,2]

2013 YTD Flows: $18.9bn



GLOBAL COMMODITIES CUMULATIVE ETP FLOWS[1]

2013 YTD Flows: ($31.9bn)



Source: BlackRock

Global ETP Year-To-Date Overview

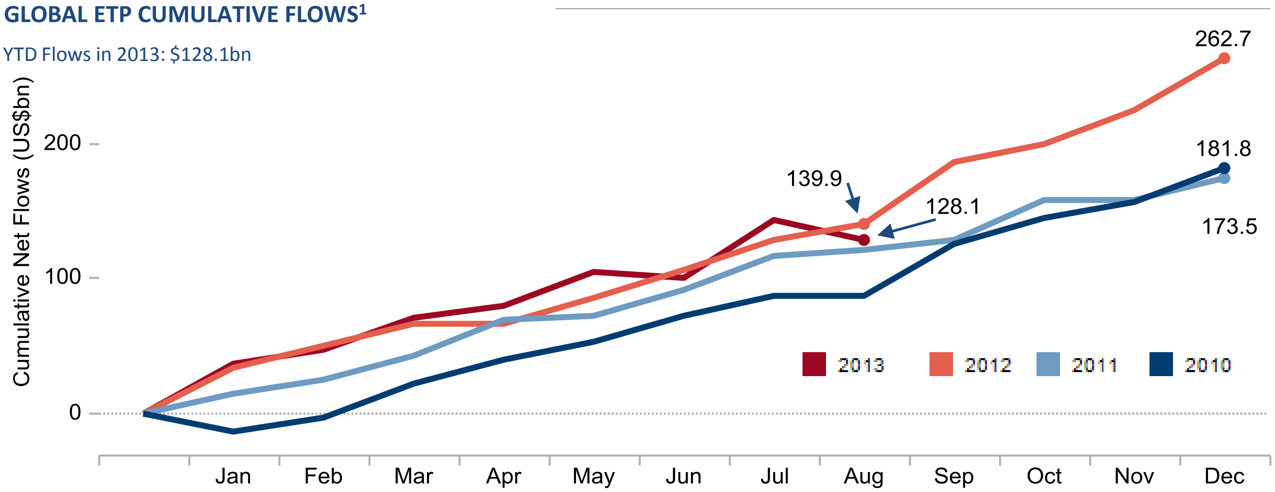
BLACKROCK

GLOBAL ETP YTD FLOWS BY EXPOSURE[1]

(US$bn)			Jan-Aug 2013	Jan-Aug 2012	Annual 2012
Fixed Income	**Total**		18.9	50.6	70.0
Developed Markets Equity	North America Equity	**Total**	87.8	38.4	76.3
	Other Developed/ Global Equity	Asia Pacific Equity	28.2	7.4	12.1
		Europe Equity	10.0	1.7	9.7
		Global/Global ex-US	23.7	8.1	17.8
		Total	61.8	17.2	39.6
	Total		149.6	55.5	115.9
Emerging Markets Equity	**Total**		(11.1)	21.6	54.8
Commodities	**Total**		(31.9)	8.8	19.3
Others	**Total**		2.6	3.4	2.7
Global ETP Total			128.1	139.9	262.7

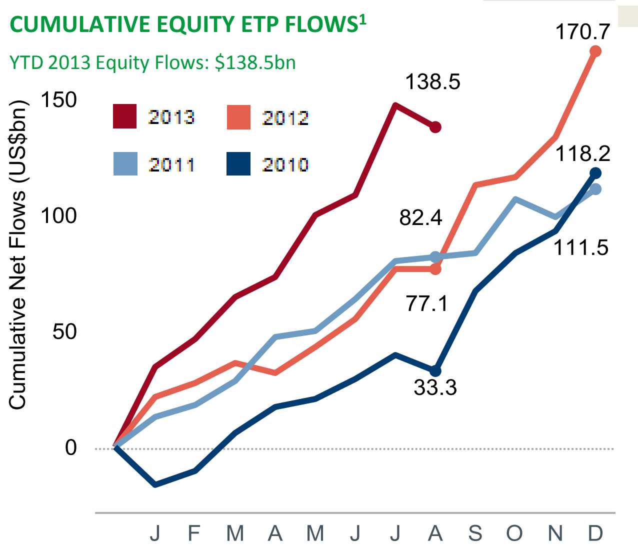
GLOBAL ETP CUMULATIVE FLOWS[1]

YTD Flows in 2013: $128.1bn



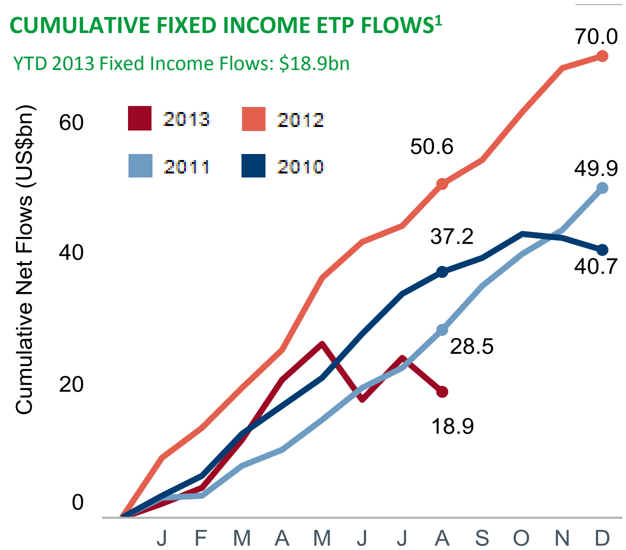
CUMULATIVE EQUITY ETP FLOWS[1]

YTD 2013 Equity Flows: $138.5bn



CUMULATIVE FIXED INCOME ETP FLOWS[1]

YTD 2013 Fixed Income Flows: $18.9bn



Source: BlackRock

Largest Asset Gathering ETPs Launched in 2013

BLACKROCK

Highlights (US$):[1]

- 282 new ETPs and 24 individual share class listings debuted around the globe so far this year and have accumulated $15.2bn in assets.
- 123 products and 9 individual share class listing were delisted this year with combined assets of less than $1.2bn.

Product Name (US$mn)[1]	Bloomberg Ticker	Exposure	Listing Region	Launch Date	Assets as of August 2013
ChinaAMC CSI 300 Index ETF	510330 CH	Emerging Markets Equity	Asia Pacific	January	3,247
FI Enhanced Global High Yield ETN	FIGY US	Other Developed/ Global	US	May	1,123
FI Enhanced Europe 50 ETN	FEEU US	Other Developed/ Global	US	May	787
Vanguard Total International Bond ETF	BNDX US	Fixed Income	US	June	559
Bosera SSE Corporate Bond 30 ETF	511210 CH	Fixed Income	Asia Pacific	August	552
China Southern Kaiyuan CSI 300 Index ETF	159925 CH	Emerging Markets Equity	Asia Pacific	April	528
SPDR Blackstone/GSO Senior Loan ETF	SRLN US	Fixed Income	US	April	516
BMO Mid-Term US IG Corporate Bond Index ETF	ZIC CN	Fixed Income	Canada	March	359
SPDR MSCI EMU UCITS	ZPRE GY	Other Developed/ Global	Europe	January	328
Lyxor EURO STOXX 300 (DR) D-EUR (Share Class)	MFDD FP	Other Developed/ Global	Europe	June	326
BMO Mid-Term US IG Corporate Bond Hedged to CAD Index ETF	ZMU CN	Fixed Income	Canada	March	221
Guotai SSE 5-Year China Treasury Note ETF	511010 CH	Fixed Income	Asia Pacific	March	211
Harvest MSCI China A 50 Index ETF	83136 HK	Emerging Markets Equity	Asia Pacific	June	209
Samsung KODEX FTSE China A50 ETF	169950 KS	Emerging Markets Equity	Asia Pacific	January	166
iShares 2018 Investment Grade Corporate Bond	IBCC US	Fixed Income	US	April	164
Others					5,907
Total - 282 Primary ETPs + 24 Share Classes					15,204

Source: BlackRock

Largest Year-to-Date Fund Inflows and Outflows

BLACKROCK®

ETPs as of August (US$mn)[1]	Bloomberg Ticker	2013 YTD Inflows	Aug-13 Assets
WisdomTree Japan Hedged Equity Fund	DXJ US	8,443	9,879
iShares MSCI Japan	EWJ US	4,655	10,465
iShares Russell 2000	IWM US	4,451	24,301
Vanguard Total Stock Market	VTI US	4,273	32,575
Daiwa ETF TOPIX	1305 JP	4,186	8,632
Vanguard Short-Term Bond	BSV US	4,114	13,250
PowerShares Senior Loan Portfolio	BKLN US	3,867	5,309
Financial Select SPDR	XLF US	3,865	14,890
Vanguard FTSE Developed Markets ETF	VEA US	3,249	14,821
ChinaAMC CSI 300 Index ETF	510330 CH	3,204	3,247
Grand Total		44,309	137,370

ETPs as of August (US$mn)[1]	Bloomberg Ticker	2013 YTD Outflows	Aug-13 Assets
SPDR Gold	GLD US	(20,094)	41,285
iShares MSCI Emerging Markets	EEM US	(8,163)	34,804
iShares iBoxx $ Investment Grade Corporate Bond	LQD US	(6,212)	17,635
iShares Barclays TIPS Bond	TIP US	(6,185)	14,406
SPDR S&P 500	SPY US	(4,772)	135,733
Vanguard FTSE Emerging Markets	VWO US	(4,133)	47,274
SPDR Barclays Capital High Yield Bond	JNK US	(3,329)	8,921
iShares MSCI Brazil	EWZ US	(2,761)	4,983
iShares J.P. Morgan USD Emerging Markets Bond	EMB US	(2,332)	3,810
iShares FTSE China 25	FXI US	(2,234)	5,325
Grand Total		(60,215)	314,176

Source: BlackRock

Global ETP Flows by Exposure – Developed Equity

BlackRock

Exposure (US$mn)[1]		August 2013 Net Flows	2013 YTD Net Flows	% of YTD Flows	Assets	% of Assets	# ETPs
US Size and Style	Large Cap	(14,555)	20,919	16.3	396,773	18.8	227
	Mid Cap	3,423	9,016	7.0	71,393	3.4	49
	Small Cap	358	14,402	11.2	76,510	3.6	68
	Micro Cap	8	271	0.2	953	0.0	4
	Total Market	(194)	8,431	6.6	56,322	2.7	63
	Extended Market	23	743	0.6	3,168	0.1	2
	Preferred Stock	(814)	(288)	(0.2)	13,984	0.7	5
	US Size and Style Total	(11,751)	53,494	41.8	619,103	29.3	418
US Sector	Basic Materials	156	104	0.1	5,412	0.3	14
	Consumer Cyclicals	(1,527)	1,694	1.3	13,142	0.6	18
	Consumer Non-cyclicals	(1,169)	(467)	(0.4)	8,373	0.4	12
	Energy	(99)	3,489	2.7	29,835	1.4	42
	Financials	(1,179)	6,657	5.2	28,279	1.3	37
	Health Care	277	3,569	2.8	20,382	1.0	28
	Industrials	286	1,960	1.5	9,399	0.4	17
	Real Estate	(215)	2,187	1.7	28,128	1.3	23
	Technology	481	4,502	3.5	20,598	1.0	27
	Telecommunications	(22)	(66)	(0.1)	986	0.0	5
	Utilities	(187)	(47)	(0.0)	8,245	0.4	12
	Theme	(21)	298	0.2	1,077	0.1	8
	US Sector Total	(3,220)	23,880	18.6	173,857	8.2	243
US Strategy		442	10,770	8.4	61,791	2.9	56
US Total		(14,528)	88,143	68.8	854,751	40.4	717
Canada Equity		(256)	(1,128)	(0.9)	30,844	1.5	84
North America Regional Equity		104	755	0.6	7,297	0.3	18
North America Total		(14,680)	87,770	68.5	892,892	42.2	819
Pan European Size and Style	Large Cap	1,287	1,835	1.4	32,964	1.6	76
	Mid Cap	138	169	0.1	916	0.0	8
	Small Cap	201	339	0.3	1,800	0.1	13
	Total Market	2,648	4,474	3.5	31,394	1.5	68
	Pan European Size and Style Total	4,271	6,797	5.3	67,023	3.2	164
Pan European Sector		314	(92)	(0.1)	11,451	0.5	154
Pan European Strategy		95	372	0.3	2,787	0.1	20
Pan European Total		4,684	7,097	5.5	81,311	3.8	339
Country	Germany	(18)	(119)	(0.1)	39,619	1.9	61
	U.K.	630	2,410	1.9	17,138	0.8	50
	Switzerland	(92)	203	0.2	9,405	0.4	23
	France	80	(718)	(0.6)	5,172	0.2	19
	Others	416	1,111	0.9	8,601	0.4	66
	Europe Single Country Total	1,016	2,889	2.3	79,936	3.8	219
Europe Total		5,700	9,986	7.8	161,247	7.6	558
Asia-Pacific	Regional	(140)	207	0.2	14,734	0.7	57
	Country	737	27,959	21.8	120,659	5.7	228
Asia Pacific Total		597	28,166	22.0	135,393	6.4	285
Broad-Based Global /Global ex-US		2,473	23,674	18.5	167,195	7.9	448
Developed Equity Total		(5,911)	149,597	116.8	1,356,728	64.2	2,110

Source: BlackRock

Endnotes

BLACKROCK

Endnotes: BlackRock's ETP Landscape: Monthly Highlights report

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

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

1. Data is as of August 29, 2013 for Europe and August 30, 2013 for the US, Canada, Latin America, Israel, and some Asia ETPs. Some Asia ETP data is as of July 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: Eurostat Flash Estimate as of Q2 2013
4. Mutual fund data is sourced from EPFR (excluding Money Market funds and ETFs). Full year 2012 and January-July 2013 data is sourced from EPFR monthly data. August 2013 data is sourced from EPFR weekly data for the four weeks ended Aug 28, 2013. Money Market mutual fund flows is sourced from EPFR weekly data for the four weeks ended Aug 28, 2013.
5. Source: BlackRock
6. Source: Bloomberg US Generic Govt 10 Year Yield Index (USGG10YR Index), as of August 2013
7. Source: BlackRock, Bloomberg, Reuters

Disclosures:

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Investing in a Rising Rate Environment

SEPTEMBER 2013

Executive Summary

US interest rates have spiked sharply higher in recent months. The yield on the US 10-year Treasury is now more than 100 bps above last summer's all-time low. For investors, this has important implications, potentially creating an investment landscape not seen in years—and impacting both stocks and bonds. This paper takes a look at what this means for investors, focusing on three areas:

Why rates are rising. Higher rates are not, as some might have expected a few years ago, a function of rising inflation expectations. By virtually every measure, inflation is flat or falling and investors have been downgrading their expectations for future inflation. Instead, rising real rates are responsible for the backup in nominal yields. As investors have repriced the timing and pace of a Federal Reserve (Fed) "tapering," real rates have risen from negative territory and are slowly normalizing, albeit at still low levels.

The outlook for rates. While we expect this process to continue over the next 12 to 18 months, we do not expect a "melt-up" in interest rates. There are several headwinds to a quick rise in rates, including: short-term rates still anchored at zero, few inflationary pressures, a dearth of private sector supply due to the ongoing deleveraging, less issuance from the US government thanks to smaller deficits, significant buying by other central banks, and demographics.

What it means for investors. We don't believe we are facing the bond market meltdown that some fear, but even a modest backup in yields will have a significant impact on asset allocation:

- Within fixed income portfolios, lower duration and employ more flexible strategies.
- Raise the allocation to equities. While not a panacea, in the past equities have offered some diversification and have outperformed bonds in a rising rate environment.
- Within equities, investors should avoid heavily indebted sectors and those viewed as bond proxies, which are the most vulnerable to multiple compression.
- From a style perspective, large and mega cap valuations typically withstand rising real yields better than small and mid cap names.

Authored by:
Russ Koesterich
Managing Director, BlackRock Chief Investment Strategist,

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THE END OF THE AFFAIR

"It was the best of times, it was the worst of times"
— Charles Dickens

Looking back a few years from now, investors are likely to have mixed emotions. Few are likely to feel nostalgic for the repeated summer swoons or dysfunctional public policy debates. That said, the volatility of the past four years had one consistent feature: whatever happened, it seemed to always trigger a rally in bonds, pushing US bond yields lower. So low in fact, that by the summer of 2012 the yield on the US 10-year note hit an all-time low, below 1.4%. For bond investors, those were the best of times.

At first, this low-rate regime seemed to persist into 2013. As recently as early May, interest rates were still flirting with all-time lows, with the 10-year yield back down to 1.6%. Since then yields have risen abruptly, although it is still important to highlight that compared to any period of the past 60 years, rates still remain unusually low (see Figure 1).

As Figure 1 illustrates, even today rates are a fraction of levels seen in the 1980s and 1990s. Interest rates even appear low compared to the 1950s and 1960s. Over the past three years, the yield on the 10-year Treasury note has averaged 2.3%, a level that is barely half the average of the period 1953 to 1970. While many investors have pointed out that the recent inflection point represents an end to the 30+ year bull market in bonds—a proposition we would agree with—long-term yields are only back to where they were two summers ago.

NOT THE USUAL SUSPECT

The rise in rates came abruptly, but not as a complete surprise. Investors had been expecting higher rates for years. But while the directional move was as expected, the cause was less so.

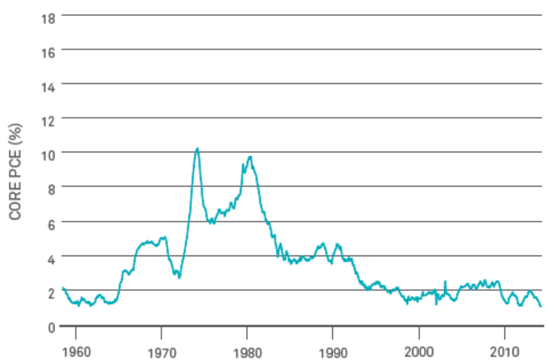
Most investors expected rates to rise on inflationary fears. Yet today, regardless of how you measure it, inflation is low. Headline inflation is currently running at 1.8%, and has averaged just 2.2% for the past three years. Stripping out more volatile factors like food and energy, so called core inflation is running around 1.6%, right in line with the three-year average. Finally, based on the Fed's preferred metric, the personal consumption expenditure, inflation is bouncing along at multi-decade lows of just over 1% (see Figure 2).

From the perspective of bond markets, even more important than actual inflation are inflation expectations. While the two are obviously closely related—for example, expectations for future inflation are heavily influenced by the recent past—it is the expectations component that is a key driver of nominal rates. Today, as you'd expect in an environment in which inflation is low and by some measures falling, inflation expectations are also low (see Figure 3). As of mid-July, breakeven rates on 10-year Treasury Inflation-Protected Securities (TIP S) were around 2%, in line with the 15-year average. Again, the interesting thing to note is that inflation expectations have actually been falling while nominal rates have been on the rise.

FIGURE 1: US LONG-TERM INTEREST RATES STILL UNUSUALLY LOW

Source: Bloomberg 7/15/13.

FIGURE 2: INFLATION AT MULTI-DECADE LOW: CORE PERSONAL CONSUMPTION EXPENDITURE (1960 TO PRESENT)



Source: Bloomberg 7/15/13.

THE REAL REASON

Rather than rising inflation expectations, the backup in yields can be wholly attributed to rising real, or inflation-adjusted, yields with investors anticipating an end to the Fed's quantitative easing (QE) program. The yield on 10-year TIP S—a proxy for real interest rates—ended June at 0.45%, up from a low of -0.86% in late 2012 (see Figure 4). That said, while real rates have backed up substantially, they are still extremely low by historical standards. In the 10 years between 1997 and 2007, real 10-year yields averaged 2.86%, close to where economic theory suggests they should be. It should come as no surprise that investors have been so fixated on Fed policy, particularly QE; historically, real rates are largely driven by the Fed. That has certainly been the case in recent years.

Why the backup in real rates? The likely answer is that real rates have been and, to a large extent, continue to be artificially low thanks to the Fed's asset purchase or QE programs. In recent months real yields have adjusted as investors began to anticipate an end to Fed buying, currently $40 billion a month in mortgage-backed securities and another $45 billion of long-dated US Treasuries. Investors always understood that the program came with an expiration date, but the timing of the Fed's statements took most by surprise—particularly considering that economic growth is still stuck below the 2% level. This led to a quick repricing based on the timing and speed of a Fed exit, pushing long-term rates up in the process.1

To the extent that the Fed's buying has kept rates lower than they would have otherwise been, the current repricing is a rational response to changing expectations. And while the recovery is still far from impressive, certain metrics—notably housing and the labor market—are improving. Home prices are up in the double digits year-over-year and job creation has accelerated modestly—from around 180,000 a month in 2012 to roughly 200,000 a month in 2013. In other words, while growth remains slow, it is still fast enough that, in the absence of Fed buying, real rates would likely be higher than they are today.

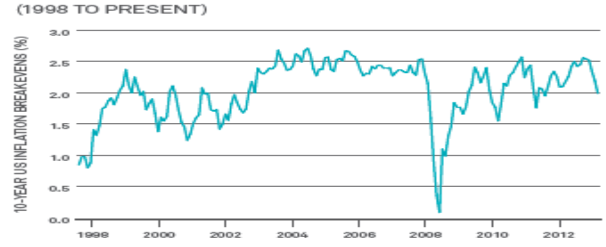
For example, the improvements in the housing and labor markets, coupled with a resurgent stock market, have led to a predictable surge in consumer confidence. From the end of January through the end of June, the Conference Board's Measure of Consumer Confidence improved from 58.4 to over 81, a 5+ year high. Based on the historical relationship between consumer confidence and real interest rates, you would expect real rates to rise by approximately 80 bps. As investors look to a future with a less aggressive Fed, this normalization in yields is starting to occur (see Figure 5).

HOW HIGH?

While the backup in rates has been contained to date, most investors are more worried about what happens next. The short answer is that interest rates, particularly real rates, are likely to continue to rise in the coming years. Without assuming any meaningful acceleration in inflation, rates still have more room to rise, as real interest rates remain exceptionally low by most standards.

Prior to the introduction of the TIP S markets in 1997, it was harder to calculate the real interest rate. A simple metric—10-year yield minus core inflation—provides a rough proxy. Over the past 60 years, US 10-year real rates have averaged around 2.50% (see Figure 6). Real rates were low or negative for much of the 1970s due to unexpected inflation and they were unusually high in the 1980s. But up until the start of the financial crisis, real yields were relatively stable over the long term.

FIGURE 3: US 10-YEAR INFLATION EXPECTATIONS (1998 TO PRESENT)



Source: Bloomberg 7/15/13.

FIGURE 4: US REAL INTEREST RATES (1997 TO PRESENT)

Source: Bloomberg 7/15/13.

1. Source: Bloomberg. Unless otherwise indicated, the source of data in this paper is Bloomberg as of 7/15/13.

United States Commodity Funds

ETF INTERVIEW:

FEATURING UNITED STATES COMMODITY FUNDS, LLC

John T. Hyland is the Chief Investment Officer for United States Commodity Funds. Prior to joining USCF, Mr. Hyland founded Towerhouse Capital Management, LLC, which provided portfolio management and new fund development expertise to non-US institutional investors.

John Hyland
Chief Investment Officer, United States Commodity Funds, LLC

Interviewed by Capital Link Media
Thursday, September 13, 2013

Capital Link: Thank you for joining us today. Can you give us a bit of background on the United States Commodity Funds and your role as Chief Investment Officer?

John Hyland: United States Commodity Funds launched our first ETF, United States Oil Fund, in 2006. At that time, the ETF market was expanding rapidly and we were at the forefront of this expansion. We now have 12 ETFs; 8 of them energy focused, and 4 broader basket commodity funds. The energy funds are typically used to implement tactical trades related to those commodities, such as oil, natural gas or unleaded gasoline. The broad basket funds are often used as part of an allocation strategy.

My most recent experience prior to this company, was managing a REIT portfolio- and the opportunity to be in start-up mode again was something I couldn't pass up. While I oversee the portfolio operations, I also spend time on education and marketing outreach as well.

Capital Link: Contango has dominated the futures markets for raw materials. Can you please shed some insight into the contango market? What are some of the strategies USCF is using in this market?

John Hyland: All commodity markets that involve futures contracts will find themselves with market prices on their futures that either trend lower than the spot price as you look forward, a state called "backwardation", or trend higher, a state called "contango". Whether the price of a futures contract that expires three months from now is higher or lower than the commodity's spot price today is mostly a function of the current levels of physical inventory. As inventories go up and down, commodity markets move in and out of backwardation and contango.

As an investor buying futures contracts, our investment's total return is typically helped when the commodity is in backwardation and hurt when the market is in contango. A number of our funds attempt to minimize the negative drag of contango in various ways. In some cases they invest in multiple contract months. In other cases, we buy the single contract month that displays the most backwardation or the least contango. However, no approach is perfect and investors will be impacted by backwardation and contango as they invest in commodities.

Capital Link: We have been seeing an upward investment trend in Latin America. What were some of the driving factors for USCF to list its five exchange traded products (ETPs) Mexican Stock Exchange, Bolsa Mexicana de Valores in Spanish (BMV)?

John Hyland: ETF use in Latin America is growing rapidly. That is clear. However many of the local markets still remain small in absolute terms and having a presence in each one will take time. We think the Bolsa Mexicana de Valores is evolving to be the dominant regional market serving the entire area, much like a Singapore or Frankfurt helps serve their regions. For USCF it seemed the logical first stop in attempting to serve the Latin American market.

Capital Link: What are some of the benefits for Mexican investors now that these ETPs can be traded in pesos?

John Hyland: One of the defining features of ETFs in general has always been convenience. The ETF structure tends to allow an investor to obtain a specific type of investment exposure in a manner that has more liquidity and transparency, and often lower cost, than other investment vehicles. By offering investors some of our funds, and allowing them to trade locally in Mexican pesos instead of dollars, we're simply offering them convenience and choice. They may still elect to trade in New York and in US dollars, and now they have more options.

ABOUT JOHN HYLAND

John T. Hyland is the Chief Investment Officer for United States Commodity Funds. Prior to joining USCF, Mr. Hyland founded Towerhouse Capital Management, LLC, which provided portfolio management and new fund development expertise to non-US institutional investors. Mr. Hyland's previous experience includes Roulac International and CB Richard Ellis. He has served on the board for the San Francisco Security Analysts, and is a member of the CFA Institute and the National Association of Petroleum Investment Analysts. He serves as an arbitrator for the FINRA as part of their dispute resolution program. Mr. Hyland was awarded his Chartered Financial Analyst (CFA) designation in 1994. He graduated from the University of California, Berkeley.

ABOUT UNITED STATES COMMODITY FUNDS, LLC

United States Commodity Funds® LLC is the manager of exchange traded securities that are designed to track the movements in the prices of different commodity futures. United States Commodity Funds LLC is registered with the CFTC as a commodity pool operator and has approximately $2.6 billion in assets under management as of August 30, 2013.

ABOUT CAPITAL LINK, INC.

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

Closed-End Funds Weather Rate Rise

August 23, 2013

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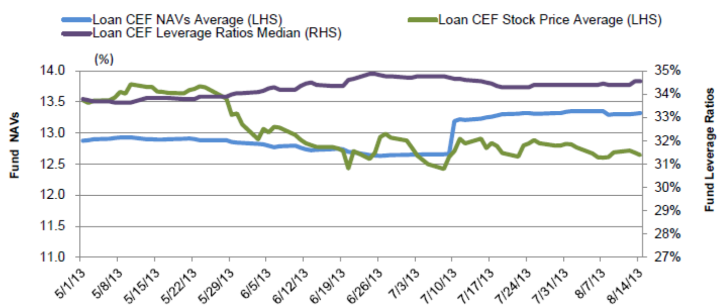
Loan Funds Sail through Volatility: Leveraged closed-end funds (CEFs) investing in loans fared well during recent market turbulence due to their floating-rate nature and low duration of the asset class. Net asset values (NAVs) for the 19 funds in the sector remained relatively stable, losing only 3% before rebounding to old highs. Leverage ratios also rose slightly higher to 34.9%. Notwithstanding, common stock prices traded down considerably to a discount of 2.3% on average from a 6.6% premium as the market switched from “risk on” to “risk off” across most asset classes.

Loan Closed-End Funds: Price Performance and Leverage Impact
(May 1, 2013–Aug. 14, 2013)



Sources: Fitch, public financial statements.

Corporate Bond CEFs Diverge in Performance: Leveraged bond CEFs, however, diverged in performance following the recent surge in U.S. Treasury yields from fears of a pullback in the Federal Reserve’s bond buying program. Longer duration bond funds were particularly affected (see chart, page 2). The 73 CEFs in the sector saw the average NAVs decline by 8% and pushing leverage ratios up by 1.4% at the end of June before coming down slightly. Funds’ common stock traded down to an average discount of more than 5% from a 2.4% premium.

Click here for complete reading

Rating Actions

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

- **Fitch Rates New VRTP Shares Issued by Invesco Dynamic Credit Opportunities Fund – August 29, 2013**
- **Fitch Rates VRDP Shares Issued by 3 Nuveen Funds to Refinance Outstanding Preferred Shares –August 29, 2013**
- **Fitch Assigns Rating to Franklin Universal Trust Notes – August 28, 2013**
- **Fitch Assigns Rating to Franklin Universal Trust Notes – August 28, 2013**
- **Fitch Affirms Western Asset Premier Bond Fund's $72MM Pfd at 'A' – August 27, 2013**
- **Fitch Rates Tortoise Closed-End Fund Notes 'AAA'; Affirms Existing Ratings – August 22, 2013**
- **Fitch Rates DTF Tax-Free Income Inc. VMTP Shares 'AAA‘ – August 22, 2013**
- **Fitch: UBS Puerto Rico CEF Indexed Medium-Term Notes Paid In Full – August 22, 2013**

Share Prices Historically Track NAVs

August 28, 2013

Authored by:
Jeff Margolin
Senior Vice President
Closed-End Fund Strategist
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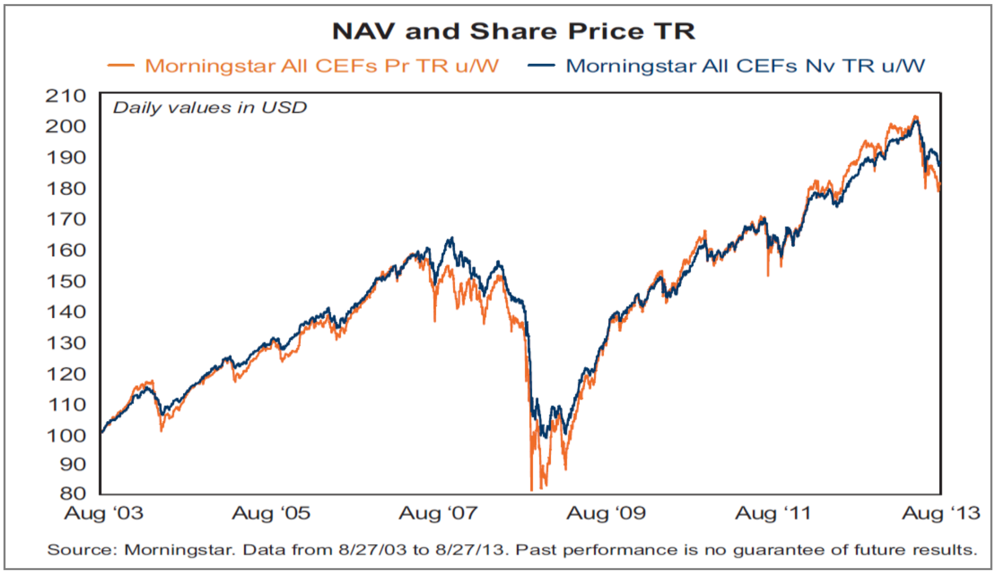
One of the unique characteristics of a closed-end fund (CEF) is that an investor buys and sells a fund on a stock exchange such as the NYSE or NASDAQ at a share price just as they would for any other publically traded company. Open-end funds (commonly referred to as Mutual Funds) are bought and sold at the net asset value (NAV) of the fund and transactions are executed only once per day after the NAV is calculated. CEFs also have an NAV and, like open-end funds, it too is calculated once a day after the market closes. However, because the shares of a CEF trade throughout the day, the share price is subject to the supply and demand of the marketplace and is independent from the NAV. There are times when the share price is below the NAV in which case it is at a "discount to NAV" and there are times when the share price is above the NAV in which case it is at "premium to its NAV".

As I wrote in my blog from 8/8/13, we are currently in a period when discounts to NAV are much wider than historical averages for many CEFs. While periods like this when the CEF marketplace is being relatively inefficient as share prices trade well below NAVs for many funds can be frustrating for investors (particularly those who are new to the CEF structure), I urge patience for properly diversified CEF investors as historically discounts to NAV do revert closer to long-term historical discounts to NAV and historically share prices do gravitate towards NAVs.



The chart above shows both the 10 year share price (orange line) and NAV (blue line) total return performance of all CEFs. As the chart clearly shows, while there are periods when share prices are weaker than NAVs and discounts to NAV widen, such as in 2008 and now, it also clearly shows that historically over long periods of time share prices do indeed track NAVs. Furthermore, while I recognize investors who own CEFs own them at the share price and therefore the value they have in a fund is the share price (and not the NAV) multiplied by the number of shares they own, I think it is very important that CEF investors also pay very close attention to the NAV performance of the funds they own. While there are periods when the market is inefficient, and there can be big gaps between the share price and NAV, the chart clearly shows that historically share prices over time do track NAVs.

Managing Risk in an Above Normal Yielding Closed-End Fund Portfolio

September 9, 2013

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

Most closed-end fund investors have been drawn to the monthly and quarterly distributions. According to CEFA's Universe data*, 92% or 553 of all US listed CEFs pay shareholders at least quarterly with an average distribution yield of 7.5%. One question we are often asked is, "How can I know if my fund is earning its dividend?" This is unfortunately not a simple question to answer. However, if we look at the Net Asset Value (NAV) yield of a CEF (taking away premiums and discounts), back out the impact of leverage and remove any dividends that were classified as Return of Capital. This takes us from 7.5% to 4.99% average yield. Doing this analysis on any CEF vs. portfolio holdings can help access the repeatable nature of its distribution.

Not all funds are created equal and there are three main risks when owning a CEFs. **1.** Significant dividend cut, **2.** Poor NAV Performance and **3.** Premiums turn to discounts or significantly wider discounts to NAV.

Discounts vs. Premiums:

CEFA finds it is important to not only understand the current discount or premium (disc/prm) on an absolute basis (amount +/- from zero) but also historically compare the disc/prm to itself as well as to its peers. CEFA uses a 90-day relative discount or the current disc/prm vs. the previous 90-day average disc/prm. We also compare funds on the 1-year z-statistic (Z-Stat), which is the current disc/prm vs. the 52-week average disc/prm then divided by the volatility (or standard deviation) of the discount. The goal for these data points is to help determine if a fund is currently over or under priced. Sometime buying an expensive fund makes sense, but investors should be aware that is what they are doing.

Rules of Thumb

• We generally like an absolute discount over an absolute premium but recommend close reviews of Dividend Risk and NAV Performance before simply buying a high yielding fund or a deep discount.

• A negative 90-Day Relative Discount means buying a fund at a lower than average discount. This is often a good place to buy into a fund as long as it has positive fundamentals, but CEFA suggests you have an understanding of the dividend's security and the manager's NAV performance before making any buy/sell decisions.

• A 1-year Z-Stat between -1 and +1 is within one standard deviation of the disc/prm range for the previous year is a relatively normal place for a disc/prm to fall. When the Z-Stat gets over +/-1.5, the current relationship starts to gain statistical significance. Z-Stat exceeding +2 are rare occurrences. However, a wide Z-Stat does not scream a buy or sell without a review of possible dividend policy changes and NAV performance. For perspective, our CEFU report* shows that out of 601 CEFs, there are only 11 CEFs with a Z-Stat over +2 and 59 CEFs with a Z-Stat below -2.

• When looking at a fund's disc/prm, we find it useful to compare it against its peer-average disc/prm as it can be a way to identify a fund with modest downside protections and above-average upside potential. However, no data can guarantee future performance, relative or absolute.

Dividend Risk/Security

The average closed-end fund is currently showing a 7.2% annualized forward-looking distribution yield*, making it clear that the dividend is often a significant component for a CEF's total return. For the 601 current CEFs, 86% have distribution yields over 5%. There are 41 CEFs that have distribution levels CEFA often considers ridiculous (usually +10%) and unsustainable going forward.

Rules of Thumb

• No single data point can guarantee a dividend increase or decrease. It only can suggest where risk or opportunity might lie. Only a fund's Board of Directors/Trustees can make dividend changes.

• Even if UNII or earnings are negative or are lower than the dividend level, look at how peer funds are doing for the same data points to give a more realistic analysis.

• The current level of a fund's discount or premium can also help identify how much anticipated risk is built into a fund's distribution policy or level by investors.

• Do not forget that performance is a combination of "yield" and "capital appreciation or loss". Both factors need to be combined for any accurate comparisons.

• Another important concept to note with UNII data is that it shows a fund's life-to-date balance and can be impacted by accounting and IRS adjustments over time. The older a fund, the more important the trend is vs. the absolute level of UNII.

Net Asset Value Performance

A closed-end fund is best described as three things:

1. A near permanent number of shares without daily in/out flows (open-end funds) or the involvement of creation units (exchange-traded funds).
2. Active portfolio management involving portfolio managers and a team of analysts vs. a passive index or a predetermined formula.
3. Investor liquidity or the ability to have the shares trade on a U.S. exchange.

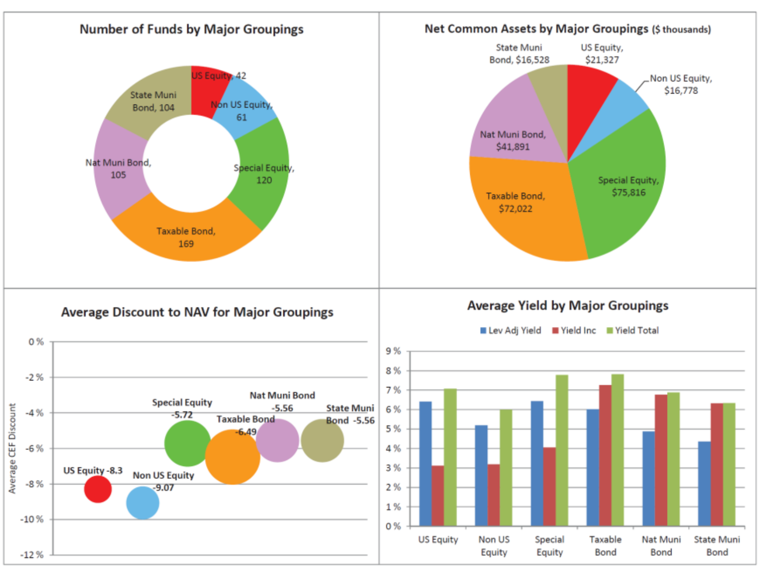
While all CEF shareholders buy and sell at market prices on exchanges, we find it best to track a portfolio manager using NAV performance. This takes their cost into account vs. the investments. Even though there are funds with large differences in how the market price trades vs. the NAV movement, our CEFU report* through its 90-day NAV/Market Price correlation figures, indicate that over the long-term a CEF's market price eventually follows its NAV trend.

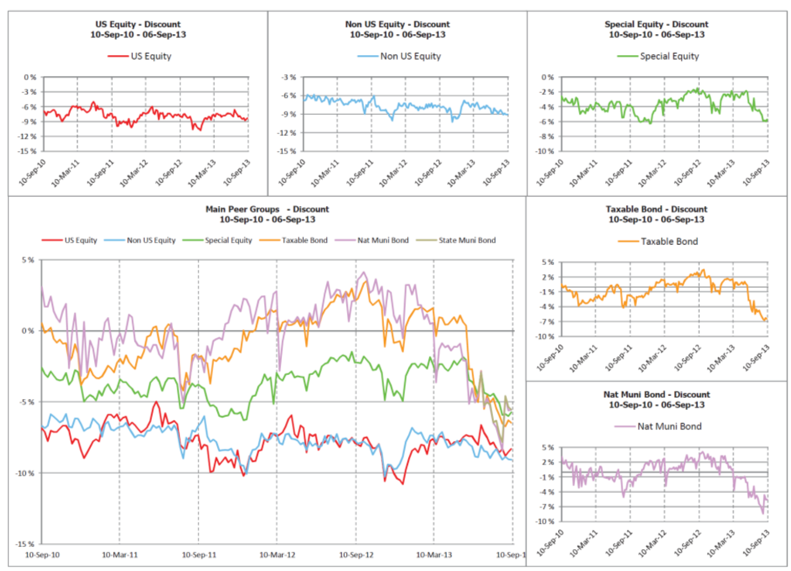
Rules of Thumb

• We suggest comparing a CEF's NAV performance to their peer funds and a tracking index. This is a way to confirm the fund is a good investment vs. reacting to a discount or dividend hype market catalyst.

• CEFA doesn't dwell on expense ratios, as growing capital from its current level is far more important than a reasonable expense. NAV calculations adjust for a fund's operating and management costs by comparing funds on a net basis. We do not completely ignore expense ratios, but it is a secondary factor in our CEF research process.

Conclusion: Is a portfolio based on these goals possible in the current market environment? Running a screen for funds that are: 1. Are cheap to themselves and peers, 2. Good NAV total return, 3. Market liquidity, 4. Reasonable amounts of leverage, 5. Good dividend coverage, and 6. Above normal yield, we end up with 27 CEFs*, 15 Bond, 12 Equity in 13 CEF groupings. They show an average discount of -9.96%* and blended distribution yield of 8.0%*. Unfortunately, space does not allow more coverage on this screen. Please email or call the firm and we can share more on the process and results.





*Source: *Data from CEFU Report as of September 6, 2013.*

ETF Liquidity – more than meets the eye

September 5, 2013

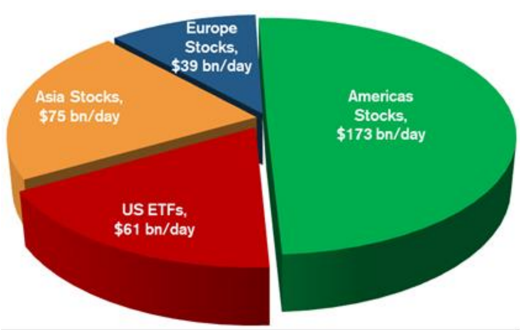
Many popular ETPs are so liquid, and competitively arbitraged, that it is possible to trade them like single stocks. However, there is generally even more liquidity available in the underlying basket. As a result, investors do not need to restrict themselves to the most popular ETPs. Instead, they should leverage ETF desks (who can create and redeem) as they can easily access the underlying liquidity with portfolio trading tools and create the ETP to deliver to clients – all for the cost and liquidity of trading the underlying stock.

Authored by:
Victor Lin
Director, Trading Strategy, Credit Suisse

Phil Mackintosh
Managing Director, Trading Strategy, Credit Suisse

Exchange traded funds represent a set of one of the most liquid products in the world. In the U.S., ETPs (including ETFs and ETNs) trade over $60bn on average per day. This translates to roughly 25-30% of the average value that all U.S. stocks trade daily and more than the value of all stocks trading in Europe each day.

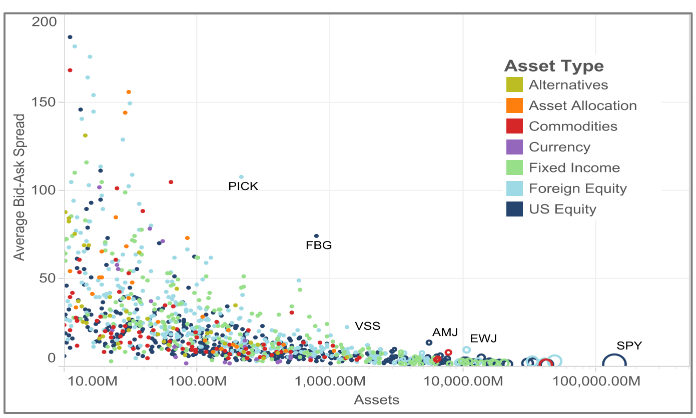
Ex 1: US ETP trading relative to global stocks



Source: Credit Suisse Trading Strategy

Not only are many ETPs very liquid on their own, but bid-ask spreads tend to be fairly tight across different fund sizes and even across different asset classes.

Ex 2: US ETP bid-ask spreads



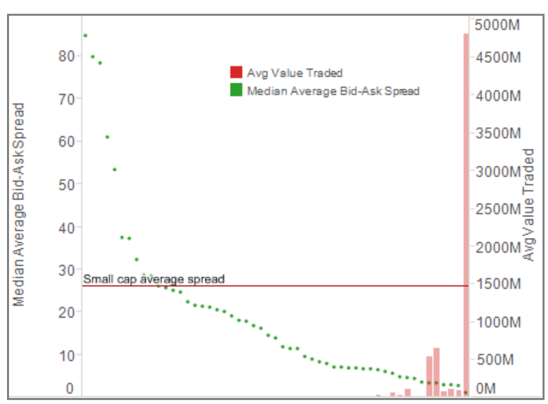
Source: Credit Suisse Trading Strategy

Trading ETPs like a stock is often fine
The seemingly abundant on-screen liquidity for popular ETPs means most investors can trade these ETPs as though they were a stock.

Trade illiquid ETPs or large trades via a desk for even more liquidity
However, it is easy to forget that ETPs also represent a basket of securities. Investors can access this additional liquidity simply by changing the way they trade. With portfolio trading tools, ETF desks can efficiently execute large trades by using the underlying basket, creating ETP shares, and delivering the ETP shares to the client – all for the cost of trading the underlying basket. In almost all cases, this makes the ETP more liquid than it may otherwise seem.

Reduces the need to focus on "most liquid" products
The small cap ETP space, for example, has a large number of funds that track relatively similar benchmarks. Looking just at on-screen volumes, the products range from barely traded to extremely popular. Despite the different levels of on-screen liquidity, nearly all of the products trade with a tighter bid-ask spread than the underlying basket of small cap stocks.

Ex 3: US small cap ETPs, ranked by bid-ask spread, showing most spreads are less than underlying stock spreads regardless of the ETP's volumes



Source: Credit Suisse Trading Strategy

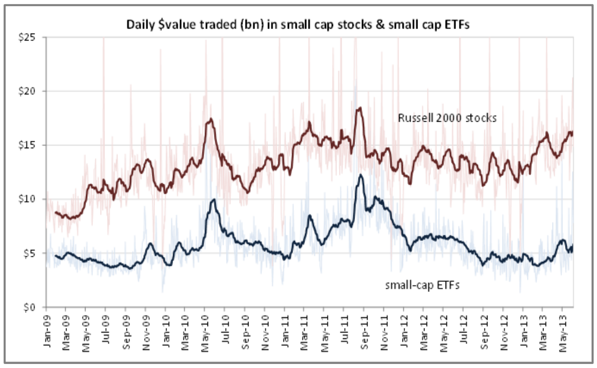
This is possible because the liquidity of the underlying baskets are roughly the same and ETPs overall have very competitive arbitrage and market-making mechanisms. Market makers take advantage of two key features of the US ETP market:

1. High correlations between similar index products mean liquid products (ETPs, futures, etc) can be used as hedges against illiquid ETPs.

2. The creation/redemption mechanism provides a simple way to realize profits on disconnects between ETP prices and fund NAV. It also allows arbitrageurs to reduce exposures overnight – eliminating the need to 'unwind' trades on-market.

ETF liquidity affects stocks less than most people think
Small cap ETPs are one of the most liquid ETP categories as a percentage of underlying assets. They trade around $5bn each day - equivalent to one-third the value of total underlying stock trading.

Ex 4: US small cap ETP trading relative to all small cap stocks



Source: Credit Suisse Trading Strategy

However, it is important to remember that studies have shown that only a fraction of ETP trading leads directly to underlying stock trading. Instead, much of the trading is from natural buyers and sellers of ETPs as well as statistical arbitrageurs, who buy and sell ETPs based on statistical relationships.

What the Flows Show: Despite Appearances, Risk Appetite on the Rise

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

Recent headlines tell a grim story about August's record month of ETF outflows, but as usual there's more to the story than the raw numbers suggest. Dodd Kittsley puts August's flows in perspective – and explains how they offer insight into what investors are thinking these days.

A quick glance at headlines the last few days tell a grim story for ETFs. Numerous articles have reported "record outflows" and investors "fleeing ETFs" and so forth. But despite the dire stories, ETF flows in August were not as bad as they seem – and more importantly they offer valuable insight into what investors are thinking these days.

First, let's put the flows in perspective. The global ETF industry did experience outflows of $15 billion in August – the second month of outflows this year, and the largest monthly outflow on record for ETFs. However, as the Wall Street Journal recently pointed out, records aren't what they used to be. With ETF growth continuously on the rise, the denominator for these outflow months keeps getting bigger. For example, the second largest month of outflows on record, $13.4 billion in January 2010, represented 1.2% of total ETF industry assets, whereas last month's $15 billion in outflows represented just 0.7%.

Still, a month of record outflows is notable, and not exactly surprising given all the uncertainty around economic growth, Federal Reserve policy and unrest in the Middle East. August redemptions were mostly driven by equity ETFs, which lost $9.4 billion, and in particular US equity ETFs, which lost $14.5 billion. Fixed income followed suit with $5.3 billion in outflows, including $8.1 billion in outflows from funds with longer maturity profiles.

At first glance, it would seem investors were taking a risk-averse stance by ditching stocks. But if you exclude significant flows out of the SPDR S&P 500 ETF (SPY), which was hit with $14 billion in redemptions, then total US equity outflows were modest at -$0.5 billion. In addition, there was some positive news on the equity front, with the Eurozone's first economic expansion in 18 months driving European equity ETF flows to an all-time high of $4.7 billion.

This suggests that investors weren't as risk-averse as higher-level data suggested. In fact, there is evidence that August actually experienced a significant increase in risk sentiment. As you can see below, the BlackRock Equity Risk Sentiment Measure* rose to a 10-month high in August, despite the fact that there were equity outflows.

Because the Risk Sentiment Measure takes into account the risk profiles of securities within a category, it reflects shifts in risk appetite that are harder to discern from raw flow data. In other words, in August there were net outflows in less risky equity ETFs (e.g. broad-based, large cap funds like SPY) and net inflows in riskier equity ETFs (e.g. European equity funds).

The primary takeaway, as always, is that there's usually more to the story than what high-level flows illustrate. It's often necessary to look at both raw flow data and other information, like the BlackRock Risk Sentiment Measure, to get a more accurate picture of emerging investor trends.

In the case of August flows, investors appeared to be cautiously optimistic while also likely preparing for increased market volatility come September. With events like the highly-anticipated FOMC meeting, German elections, US debt ceiling negotiations and the escalating conflict in Syria, the only thing certain about September is all the uncertainty.

Click here for complete reading

The Attractive PGM's

September, 2013

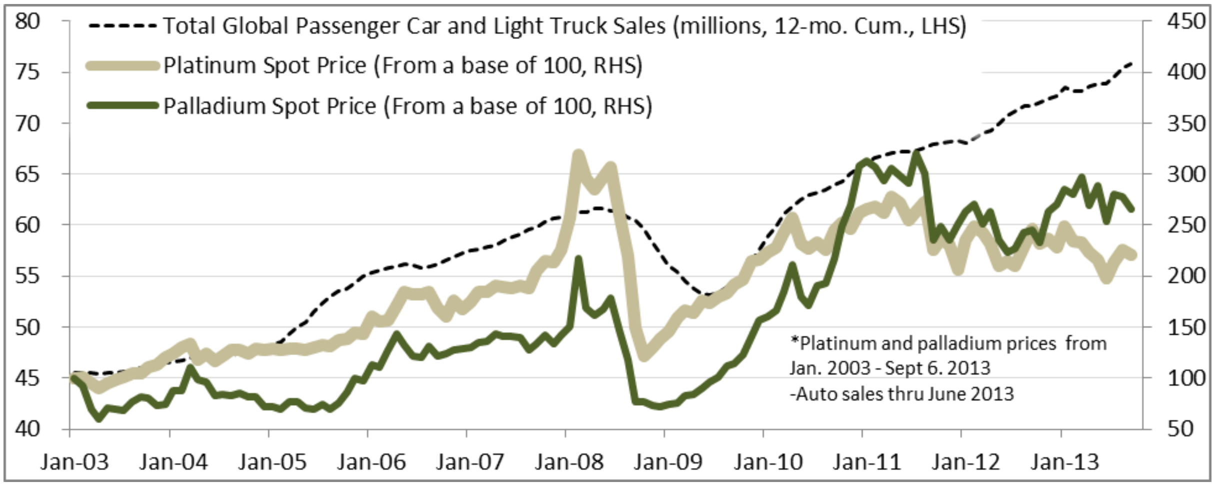
- *Platinum and palladium are among the few commodities with supply/demand deficits.*
- *Rising demand from China and other emerging markets is causing a structural shift in demand.*
- *Supply is constrained with 70% coming from South Africa and Russia.*
- *With the advent of ETF's, platinum and palladium are now readily accessible for investors.*

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

What are they and why invest in the PGM's?

There are only four metals that have ISO (International Standards Organization) currency codes, they include: gold, silver, platinum and palladium. With the advent of exchange traded products (ETP's), platinum and palladium (the main platinum group metals, PGM's) have become readily accessible to investors. The majority of the demand for the PGM's is industrial, for emissions controls through the use of catalytic converters. Rapidly increasing emerging market lifestyles and per-capital GDP, and coincident auto sales, together with tightening global emission standards are a causing a structural shift in demand for platinum and palladium. Due to constrained supplies, increasing demand and the advent of easy access to the PGM's, the outlook for platinum and palladium price appreciation is favourable. Figure 1 below depicts the relative price performance of platinum and palladium overlaid with the 12-month cumulative change in global passenger car and light truck sales. Notably due to increasing emerging market demand, global vehicle sales have steadily extended to new highs, while expanding emission regulations are increasing the demand for emission controls - and the PGM's.

Figure 1: Global Auto Sales and Spot Platinum and Palladium Prices

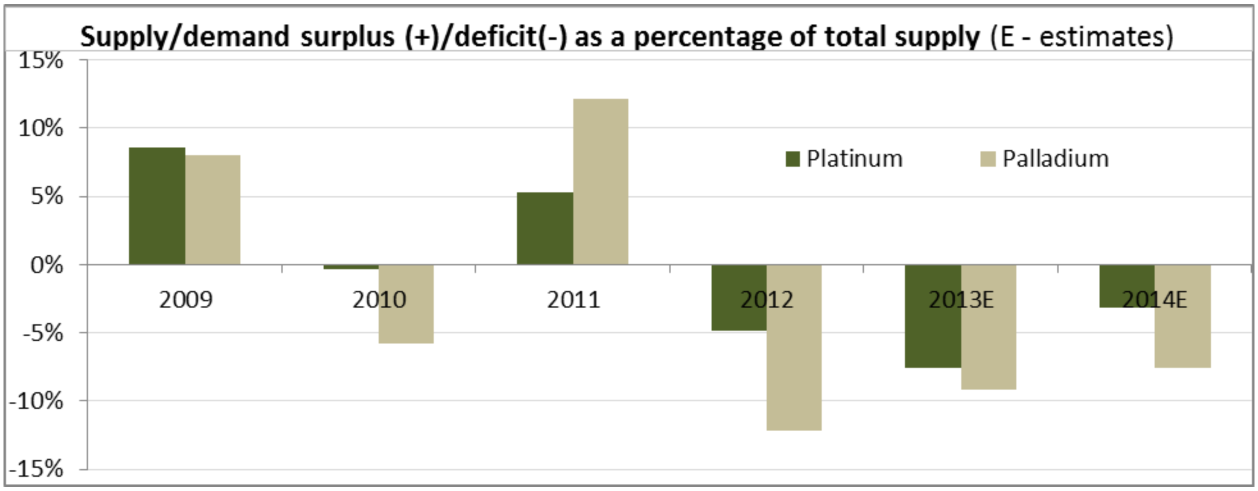


Source: ETF Securities, Bloomberg.

Participation in rising global per-capital GDP with quasi-currency status and no counter-party risk.

For investors, partial portfolio allocation to the PGM's offers an attractive potential performance source and diversifier. Uncorrelated to most other asset classes, platinum and palladium provide precious metals exposure with participation in the global paradigm shift of improving live-styles and rapidly increasing emerging market per-capita GDP. Unlike gold, due to their more industrial applications, the PGM's have a higher correlation to global GDP, as evidenced in figure 1 and the most recent price correction which coincided with the 2008-9 global decline in vehicle sales. Figure 2 (on the following page) depicts the current and projected supply/demand deficits in platinum and palladium.

Figure 2: Platinum and Palladium Supply and Demand Conditions



Source: ETF Securities, Barclays, Johnson Matthey

Favorable supply and demand conditions

Given the geographic concentration of available platinum and palladium mining supply in South Africa and Russia, issues such as government intervention, geopolitical instability, unreliable infrastructure and social tensions have the potential to substantially disrupt production for prolonged periods of time.

Platinum is one of the world's rarest metals with the highest melting point among the precious metals. The single largest source of demand for platinum is for Chinese jewelry, second only to European auto catalysts. Catalytic converters account for around 40% of platinum demand. The bulk of this demand is for use in diesel vehicles and global diesel vehicles sales are concentrated in Europe. Recession in Europe has limited demand the past few years but recovery appears underway, likely to bring out pent-up demand. In addition, the sharp decline in the value of the South African rand (about 15% YTD thru Aug.) has pressured prices. Platinum ended August about US $1,522/oz., more or less the same price from December 2009.

Palladium has a low melting point, so is malleable like gold, and is the most industrial orientated of the precious metals accounting for about 80% of total demand. Catalytic converters make up around 65% of demand, with the bulk of demand for use in vehicles with gasoline engines. Palladium has been in a steady demand uptrend driven by rising vehicle sales, tightening emission standards and declining production - mine production peaked in 2007. Palladium production is concentrated in Russia (43%) and South Africa (37%, based on 2012 data) and Russian stockpiles in the past have been a good source of supply. They are widely expected to have been mostly depleted. Palladium has been increasing relative to platinum since 2009, notably due to recession in Europe and improving technologies for palladium in catalytic converters. Palladium ended August at USD $722/oz., more or less the same price as November 2011. Among the four precious metals, palladium has been the best performer over the past 12-months, increasing 17% (at the end of August).

Summary

The PGM's are attractive, non-equity vehicles, that can help augment portfolio diversification and provide potential performance. They are considered currencies by some but without counter party risk, offering direct exposure to the significant global paradigm shift in emerging market lifestyles and per-capita GDP growth.

Crossing Over In Fixed Income Offers Some Potential Rewards

August 28, 2013

While investors are understandably focused on the interest-rate sensitivity of investments, including ETFs, there are some relatively new and interesting ETFs that have sliced their credit exposure in an appealing way. There are multiple $1 billion bond ETFs focused exclusively on investment-grade bonds (BBB or higher) and speculative-grade bonds (BB or below), but there are lesser known offerings that offer a combination of both.

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And

Geoffrey Mrema
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While BBB and BB bonds are only one level apart in terms of credit rating, they have very different yield characteristics. For the 12 months ended July 2013, spreads above the five-year treasury yield ranged from 160 to 216 basis points (bps) for BBB rated bonds and ranged from 256 to 421 bps for BB rated bonds, according to S&P Global Fixed Income Research, which operates independently from S&P Capital IQ. As the spreads show, investors have demanded significantly higher yields for bonds for the risk of the highest speculative-grade rating.

The most common way for a bond to drop from investment grade to speculative, also known as becoming a falling angel, is to be downgraded one notch from BBB- to BB+. Through August 8 of this year, there were 17 U.S. companies that fell to speculative grade in Standard & Poor's Ratings, 13 of them have fallen one notch. Meanwhile, in the other four instances, the credit ratings fell multiple notches. One such example was ADT, which dropped to BB- from BBB- in late July, due to a "revised *and* more aggressive financial profile that will increase leverage". However, the frequency of such fallen angels is lower than a year earlier. (Standard & Poor's Ratings Services operates independently of S&P Capital IQ.)

When a bond shifts between investment grade and speculative grade, some ETFs will have to sell the bond if it no longer fits the criteria of the underlying benchmark it tracks. But the rules vary between funds. For the iShares iBoxx $ Investment Grade Corporate Bond ETF (LQD 113 Marketweight), which uses the iBoxx $ Liquid Investment Grade Index, ratings from Standard & Poor's, Moody's and Fitch are averaged and if the average rating drops below investment grade, the bond will be removed during the monthly rebalance. Meanwhile, for the SPDR Barclays High Yield Bond ETF (JNK 39 Marketweight), which is one of the largest high-yield funds in the market, ratings from Standard & Poor's, Moody's and Fitch are taken and the middle rating is the one that is used to determine if a bond will be included. If the middle rating of a bond were to go above speculative grade, the ETF would similarly drop it.

In ranking fixed income ETFs, S&P Capital IQ uses a hierarchical system for credit ratings, where the Standard & Poor's Rating is used if it is available and if not then a Fitch rating is used and then as needed Moody's is used. Combined with duration analysis, the credit rating input provides investors with comparative holdings-level analysis of an ETF. But since our rules are different than the benchmark used by ETFs, we may show some investment-grade bonds in a high-yield ETF.

Key Takeaways

These bond ETFs offer exposure to both BBB and BB rated bonds, unlike more popular products.

POSITIVE IMPLICATIONS

IISHARES BAA - BA RATED CORPORATE BOND ETF	MARKETWEIGHT	[QLTB]
MARKET VECTORS FALLEN ANGEL HIGH YIELD BOND ETF	NA	[ANGL]
SPDR BOFA MERRILL LYNCH CROSSOVER CORPORATE BOND ETF	MARKETWEIGHT	[XOVR]

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

Before April 2012 there were not many options for investors who wanted exposure primarily to the BBB and BB credit rating segments. Since then, however, three ETFs have come to market that fill this niche. They are the SPDR BofA Merrill Lynch Crossover Corporate Bond ETF (XOVR 25 Marketweight), the iShares Baa-Ba Rated

Corporate Bond ETF (QLTB 49 Marketweight), and the Market Vectors Fallen Angel High Yield Bond ETF (ANGL 26 NR). All three of these ETFs are quite small and their asset bases have been dwarfed by short-term and floating-rate products that also launched in 2012. But that does not mean they do not have merits.

Because of the mix of investment-grade and high-yield bonds these funds carry, they offer a different credit profile than other more popular ETFs. SPDR Barclays High Yield Bond ETF has only 33% exposure to BB rated bonds, with much more in bonds rated B or below. iShares iBoxx $ Investment Grade Corporate Bond ETF has only 26% exposure to BBB rated bonds, with much of the rest in bonds rated A or higher.

XOVR is the largest of the three funds, but it has just $28 million in assets. This fund has a 47% weighting in BBB bonds and a 44% weighting in BB rated bonds. Its expense ratio, at 0.40%, is equal to JNK's, though the bid/ask spread is much wider, not surprisingly given its much lower volume. The duration at just over 6 years is slightly higher than JNK's and it has a 30-day SEC yield is 3.87%.

Meanwhile, iShares' QLTB has $20 million in assets and offers higher credit quality than XOVR. The ETF recently had 64% of assets in BBB bonds and 21% in BB bonds, with 6% in A rated bonds. Relative to LQD, incurs more credit risk, but has a lower duration (6.7 years vs. 7.8 years) and offers a higher 30-day SEC yield (3.8% vs. 3.5%). To us, the expense ratio of 0.30% is competitive compared to other ETFs, but the bid/ask spread is quite wide.

Unlike QLTB and XOVR that that have close to or more than half of assets in investment-grade bonds, ANGL, with $16 million in assets, is more likely to have fallen angels, or bonds rated BB. ANGL uses an average of ratings from Standard & Poor's, Moody's, and Fitch. ANGL's highest credit exposure is to BB rated bonds (55%), with BBB at 13% and B at 19%. As such, ANGL's credit exposure is stronger than JNK. From a cost perspective, ANGL's bid/ask spread is the tightest of the three profiled ETFs.

To find out more about these and other fixed income ETFs, visit the ETF tab of MarketScope Advisor.

Small Cap Tech Poised for Big Profit Growth

August 20, 2013

Watching the river flow may be a lazy and relaxing way to spend a hot summer day. Watching money flows, on the other hand, can be a potentially profitable exercise, according to Todd Rosenbluth, S&P Capital IQ's senior director of mutual fund and exchange-traded fund (ETF) research.

Authored by:
Isabelle Sender
S&P Capital IQ Editorial

Small-cap ETFs saw inflows of $5 billion in July, while the broader information-technology sector took in $1.2 billion of new money, according to BlackRock data, which reported U.S. equity ETFs attracted a total $31.6 billion in July.

Strong inflows are a sign of recent investor interest, notes Rosenbluth, adding that Powershares S&P SmallCap Information Technology Portfolio (PSCT 38 Marketweight) is one small-cap tech ETF with recent inflows. He notes PSCT is "well-positioned based on our holdings analysis, and incurs relatively modest costs." Past performance is no guarantee of future results.

Under the S&P Capital IQ microscope, PSCT gets positive input on its technical outlook and for its 0.29% expense ratio; and neutral inputs on the STARS and Fair Value rankings of its underlying holdings, its price to NAV, and its bid/ask spread. Rather than rely on a past performance record, S&P Capital IQ ranks passively managed ETFs using a combination of proprietary holdings-based metrics and characteristics about the ETF's risks and cost factors.

Rosenbluth points out PSCT is well-diversified at the holdings and industry level. The ETF offers exposure to 128 small-cap tech stocks, according to the S&P Capital IQ ETF report (available on the ETF tab in MarketScope Advisor). The top five sub-industries represented by the holdings, as of July 31, 2013, the most recent period for which data have been supplied to S&P Capital IQ, are: semiconductor companies (11.9%), Internet software & services (11.7%), electronic equipment & instruments (11.5%), application software (11.1%), and semiconductor equipment (9.4%),

As of August 16 Capital IQ consensus estimates suggest 60% profit growth for small-cap tech stocks (in the S&P SmallCap 600). That's significantly higher than the 27% growth anticipated for the broader measure of "600" stocks.

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The S&P 600 index's IT constituents, totaling 127 companies, average an S&P Capital IQ equity analyst fundamental ranking of 3.4-STARS out of a possible 5. Only small-cap health-care companies rank higher at S&P Capital IQ with an average 3.8 STARS, but "600" health-care stocks are only expected to increase EPS by about 6% this year vs. techs' 60%.

Highly ranked constituents of the "600" tech index and, by design, PSCT include Advanced Energy Industries (AEIS 19 ****), Arris Group (ARRS 16 ****), ATMI (ATMI 25 ****), Microsemi (MSCC 26 ****), MKS Instruments (MKSI 25 ****), QLogic (QLGC 11 *****), Take-Two Interactive Software (TTWO 18 *****), and Triquint Semiconductor (TQNT 8 ****).

The data reveal in aggregate, "600" IT companies share the same STARS average with "600" financials. However, techs have a much more desirable price-to-earnings-to-growth (PEG) ratio at 1.4 than "600" financials at 2.0, and 1.5 for the broader "600" benchmark, based on August 16 data, Incidentally, ETF investors favoring more economically sensitive sectors in July bought $2.3 billion worth of financial ETFs, according to Blackrock inflow data.

Small caps, in general, have been on a tear this year, outperforming their larger peers. The broader S&P SmallCap 600 Index, a measure of equities no larger than $4.1 billion, is higher by 22% this year through August 16, compared with nearly 16% for the large-cap S&P 500 and 18% for the S&P Mid-Cap 400.

Info-tech small-cap stocks, however, have advanced 25% through August 16, supporting the view the theme has been popular recently. Rosenbluth says the holdings-based approach used in S&P Capital IQ Equity Research's proprietary ETF rankings consider what lies "under the hood" of the ETF to help investors determine what maybe ahead for their ETF investment.

For a related article, please see "Take Smaller Bytes: 8 Undervalued "600 Techs" available as Stock Screen of the Week on the Stocks tab in MarketScope Advisor.

Legg Mason BW Global Income Opportunities Fund Inc. (BWG)

September 10, 2013

Since mid-May, volatility has increased across all financial markets around the globe. This, coupled with Federal Reserve Chairman Ben Bernanke's call for a tapering of the central bank's asset purchase program, has created a challenging environment for global bond investors. **Brandywine Global**, the manager of **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, will continue to monitor the markets that were impacted by this recent volatility.

Fund positioning

The Fund was negatively impacted by some of its positions, including its exposure to Brazilian bonds and the Brazilian real. Mexican bonds also detracted from results. As a result, the Fund had shortened its duration in Mexico, as well as cut its allocation to the Polish zloty in half.

Since the market's decline, the Fund has re-extended its duration in Mexico. However, it has yet to increase its allocation to the zloty, because the Fund's managers do not see a lot of upside in the currency based on where the euro is currently trading. In spite of this, the Fund did not have exposure to many of the worst-performing markets, such as Indonesia, Columbia, Thailand or the Philippines.

Market Review

Brandywine Global described the recent environment as being particularly challenging for global fixed-income investors, as yields were essentially going up everywhere. At the same time, most currencies were declining versus the U.S. dollar.

In April 2013, the Bank of Japan announced its intention to double its monetary base in an effort to generate 2% inflation within two years. This caused a rush by investors to purchase non-Japanese sovereign bonds, thinking that existing bondholders in Japan would look elsewhere for incremental yield. While bond yields in a number of markets declined in April and early May, demand for foreign bonds from Japanese investors never occurred. In fact, they actually sold foreign bonds.

In May, Fed Chairman Ben Bernanke began to lay the groundwork for a tapering of the central bank's asset purchase program. This triggered a sharp sell-off in the global bond market. As of August 5, 2013, the Brazilian real was the worst-performing currency, declining approximately 13% since May. This weakness was partially because growth in China is moderating and Brazil is a large commodity producer. Other poor-performing currencies were the Australian dollar (-10%) and the Chilean peso (-7%).

According to Brandywine Global, any bond market trading at a spread to U.S. Treasuries significantly underperformed. Investors are concerned that less Fed Treasury purchases will lead to a steepening of the yield curve. In addition, rising long-term U.S. Treasury yields will make some emerging market debt securities less attractive.

The sell-off between the emerging market bonds and Treasuries was surprisingly large and unusual. Whereas Treasury yields rose 60 or 70 basis points, rates in certain emerging market countries increased up to 200 basis points. According to Brandywine Global, the decline in the emerging markets was fairly indiscriminant, as there were not enough buyers willing to step up and fill the void.

Outlook

Brandywine Global feels that the Fund is well positioned to seek returns over the next six to nine months. It sees good capital gains potential in the bonds and currencies held in the Fund. For example, South African 30-year bond yields are now more than 9% and long-term Brazilian bonds are yielding almost 11%. At the same time, inflation in both countries is 5% to 6%. In addition, growth pressures are not that strong, which should potentially dampen future inflation.

While Brazil has had some near-term inflation pressures, Brandywine Global believes that the disinflationary global backdrop, coupled with the below-trend growth in the economy, will bring inflation down in the country. It also finds Mexican 30-year bonds attractive given their 7% yields and 3.5% inflation. The Firm feels that a big reform push will open up energy exploration to foreign firms, which would unleash a lot of productivity power in the Mexican economy. This should help keep inflation contained and enable Mexican bond spreads to narrow versus U.S. Treasuries. The Fund's South African, Brazilian and Mexican currencies are owned on a non-hedged basis. Brandywine Global feels that all three currencies offer good upside potential, although volatility could continue in the near term.

From an economic perspective, Brandywine Global thinks U.S. growth is sustainable and sees parts of the worlds, such as Europe, improving. While growth in China is still slowing, the Firm is not forecasting a hard landing because the government has plenty of stimuli it can use. With many economies growing below trend, it does not feel that the inflationary backdrop is worrisome.

While the Fed may begin to taper its asset purchases, Brandywine Global does not think they will be raising rates anytime soon – it may be an early 2014 story but it does not think the Fed will raise rates until 2015. Brandywine Global believe the reasons for the Fed cutting back its asset purchases make sense, as they are worried about their balance sheet getting too big relative to the size of the economy. Elsewhere in the world, however, the Firm sees very few central banks looking to raise rates.

According to Brandywine Global, as long as the Fed keeps rates anchored near zero, investor demand for emerging market debt will likely resume. In addition, investors should recognize what happened in May and June largely reflected excess positioning, coupled with a rapid sentiment shift based on poor communications from the Fed.

Important Information

All investments are subject to risks, including the possible loss of principal. Investments in foreign securities involve risks, including the possibility of losses due to changes in currency exchange rates and negative developments in the political, economic, or regulatory structure of specific countries or regions. The Fund's fixed-income 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. The Fund may invest in lower-rated high-yield bonds, which are subject to greater credit risk (risk of default) than higher-rated obligations. Leverage may result in greater volatility of NAV and the market price of common shares, and increases a shareholder's risk of loss. The Fund may make significant investments in derivative instruments. Derivative instruments can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance.

Please note, current and future portfolio holdings are subject to risk. **Distributions are not guaranteed and are subject to change.**

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

Portfolio allocations, holdings and characteristics referenced are as of June 30, 2013 and are subject to change at any time.

Asset Allocation (%): Government 61.3, Mortgage-Backed Securities 10.5, Global Investment Grade Corporate Bonds 9.5, Global High Yield Corporate Bonds 12.7, Asset Backed Securities 3.1, Common Stock 1.1, Bank Loans 0.9, Municipal Bonds 0.4, Cash & Other Securities 2.6.

Currency exposure (%) includes currency hedging: U.S. Dollar 34.9, Brazilian Real 14.7, Mexican Peso 13.3, South African Rand 10.4, New Turkish Lira 10.1, Hungarian Forint 7.4, Indian Rupee 5.7, Polish Zloty 2.8, Euro 0.5, Colombian Peso 0.1.

Top 5 countries (%): United States 27.9, Mexico 13.5, Brazil 9.3, South Africa 8.9, Italy 8.4.

Distribution rates:

Market price: 8.1%; NAV: 7.3%

Distribution rate is calculated by annualizing the most recent distribution amount paid, excluding special distributions, divided by the closing market price or NAV as of 6/30/13. The fund estimates that the distributions will be paid from: 50.10% investment income; 49.90% realized capital gains; and 0% return of capital. These estimates are not for tax purposes and a 1099 will be issued following year-end. The Distribution Rate is subject to change and is not a quotation of Fund performance. The Board of Directors may terminate or suspend the managed distribution policy at any time. Any such termination or suspension could have an adverse effect on the market price of the Fund's shares. A return of capital is not taxable and results in a reduction in the tax basis of a shareholder's investment. For more information about a distribution's composition refer to the Fund's distribution press release or, if applicable, the Section 19 notice located in the press release section of our website.

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

Glossary

A **basis point** is one one-hundredth of one percent (1/100% or 0.01%).

BOJ (Bank of Japan) is the Central Bank of Japan, which is responsible for issuing currency and implementing monetary policy within Japan.

Bond spread is the difference between the yields of two bonds with differing credit ratings.

Duration (Modified duration) measures the sensitivity of price (the value of principal) of a fixed-income investment to a change in interest rates.

The **euro** is the currency unit for the European Union, as defined in European Council Regulation (EC) No. 974/98 of 3 May 1998.

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

Managed distribution policy allows a fund to distribute short- and long-term capital gains throughout the year. A fund will seek to maintain a consistent distribution level derived from the income generated from the fund's investments. Shareholders should note that if a fund's aggregate net investment income and net realized capital gains are less than the amount of the distributions paid, the difference will be distributed from the fund's assets and may constitute a return of the shareholder's capital. The board of directors may terminate the managed distribution policy at any time. Any such termination could have an adverse effect on the market price of a fund's shares.

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

Yield curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.

The views expressed are those of the portfolio managers as of August 5, 2013 and are subject to change based on market and other conditions. These views may differ from other portfolio managers or the firm as a whole, and are not intended to be a forecast of future events, a guarantee of future results, or investment advice. Discussions of individual securities are intended to inform shareholders as to the basis (in whole or in part) for previously made decisions by a portfolio manager to buy, sell or hold a security in a portfolio. References to specific securities are not intended and should not be relied upon as the basis for anyone to buy, sell or hold any security. Forecasts are inherently limited and should not be relied upon as an indication of actual or future performance.

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

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

Repositioning Fixed Income: The Case for Senior Loans

September 10, 2013

Historically, the fixed income markets have been characterized by extended periods of both rising interest rates (1950-80) and declining interest rates (1980-2013). With recent forward guidance provided by the Federal Reserve, the nervously anticipated wind down of QE3 has spurred a fairly dramatic reversal of fortunes for many fixed-rate bond investors. Treasury rates and related spread assets have experienced a sharp, directional change which Four Wood Capital Partners clearly sees as linked to tapering and the looming end of the quantitative easing cycle. We believe that this may signal the beginning of the next long period of rising rates.

Fixed income investors will have to adjust their portfolios as they reposition assets relative to the interest rate cycle. It is Four Wood's opinion that investors at this important inflection point may now seek to mitigate interest rate risk by reducing portfolio duration.

A basket of actively managed Senior Loans with Floating Rate coupons may be an effective way to reduce interest rate risk while maintaining attractive yield levels.

The Senior Loan asset class has grown dramatically in size, depth and popularity in the last decade to approximately $750 billion and now constitutes approximately 4.5% of the overall US bond market. While Senior Loans are below investment grade instruments, many typical issuers are household names such as Delta Airlines, Heinz, Dunkin Donuts, Hertz, Verizon and others.

There are a number of benefits to Senior Loans:

- They are Senior to other debt in company capital structures and therefore repaid first in the event of bankruptcy.

- They are Secured by liens against the borrower's unencumbered assets, or by a form of hard collateral, cash or stock from the issuer. The significance of the collateral is such that, in the event of default, the loan holder has first claim to those assets which can be liquidated in order to recover capital. Long term historical recovery rates on senior loans have been approximately 82 cents on the dollar. Fixed rate, unsecured debt recovery rates are substantially lower.

- Senior Loans have Floating Rate Coupons. Floating rates adjust higher, or lower, at fixed intervals, according to a reference rate such as LIBOR. Generally, Senior Loans reset their coupons every 60-90 days whereas fixed-rate bonds pay a constant coupon.

For the past two years, Four Wood Capital's strategic view, as expressed in our quarterly Panorama, has been that "it is realistic to expect a very long term, grinding domestic recovery -- not without its ups and downs -- where quality yield will be in very high demand." During that time we have seen the quest for yield lead to heavy plays in high yield corporate "junk" bonds and great outflows of capital to emerging markets.

Now, as the tide reverses and flows back in, the important questions are how soon will rates begin to rise and how fast will they rise. The imminent passing of the Fed baton from Mr. Bernanke to his successor may determine some of the answer. If the incoming Fed Chief doesn't agree with the current "forward guidance" and brings on rate hikes sooner than expected (read Mr. Summers), the effect could produce extraordinary reverberations in the economy as a whole and in the interest rate environment in particular.

In an environment of rising interest rates -- and "forward guidance" tells us that they are coming -- the floating rate coupons in Senior Loans will typically provide greater protection against upwardly moving short term rates. In order to mitigate interest rate risk then, Senior Loans should have a logical place in an investor's portfolio.

ABOUT FOUR WOOD CAPITAL PARTNERS

Four Wood Capital Partners, LLC ("FWCP") is an independent, privately held investment management firm focused on meeting investors' needs through the powerful value proposition of independent investment content and un-conflicted advisory services. We believe this is critical to helping clients navigate an increasingly complex market within a rapidly consolidating industry.

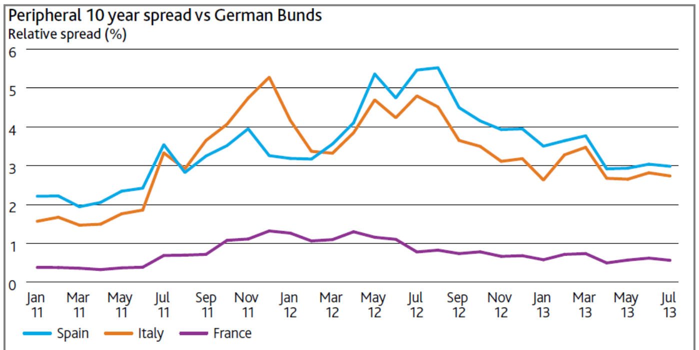
Four Wood Capital Advisors, LLC ("FWCA") is a subsidiary of Four Wood Capital Partners, LLC and registered with the SEC as an Investment Advisor.

Global Fixed Income Markets Review

August, 2013

Market review

U.S. government bond yields ended the month higher due to stronger economic data and continuedspeculation about the Federal Reserve (Fed) winding down its asset purchase program.



Source: Aberdeen Asset Managers, as at 31 July 2013.
For illustrative purposes only.

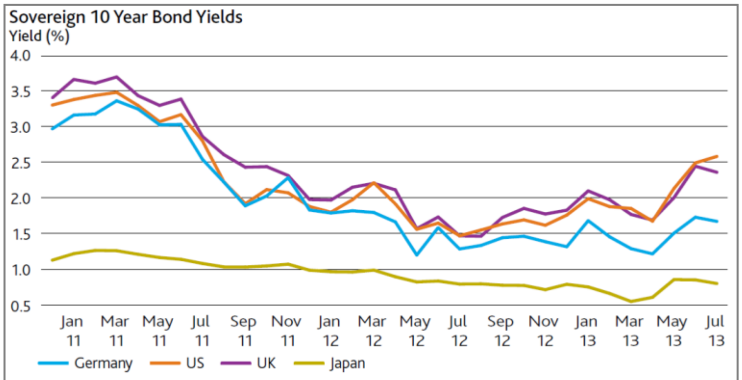
The European Central Bank (ECB) left all key interest rates on hold in July, but revealed there was extensive discussion surrounding a rate cut at July's meeting. The committee also took the unprecedented step of announcing forward rate guidance, indicating that they did not expect key interest rates to remain at the current low levels for an extended period of time.

European economic data continued the recent trend of beating market expectations for the most part. The flash estimate for the composite Purchase Managers Index (PMI) increased to 50.4, while Manufacturing Purchase Managers Index (PMI) was in expansionary territory and Services PMI rose to 49.6. Peripheral country PMIs have recovered well this year, but more importantly this month saw a robust rebound in flash PMI data in both Germany and France. There were also gains in the German Institute for Economic Research (IFO) survey, but the Center for European Economic Research (ZEW) survey was weaker. The unemployment rate was down to 12.2% from a downwardly revised 12.0% previously, retail sales were +1.0% Month-on-Month and consumer confidence increased to -17.4. Construction output was -0.3% Month-on-Month and industrial production matched expectations at -0.3% Month-on-Month.

In the U.S. there were a number of important Federal Reserve (Fed) communications through the month. The June meeting minutes were broadly in line with expectations and contained nothing particularly new. However, in questions after a speech, Bernanke was far more dovish and the market reacted accordingly. The key line was that the Fed would maintain "highly accommodative monetary policy for the foreseeable future". The July Federal Open Market Committee statement saw some small dovish changes to language relating to inflation as a "risk to economic performance" and growth "modest" rather than "moderate". These changes appeared enough to prompt Bullard to drop his dissent from the last meeting that inflation is too low, but were not significant enough to change expectations that the pace of asset purchases will be slowed in September. In terms of data, June Payrolls data was positive, with 195k jobs created in June and large upward revisions to previous months. Average earnings increased considerably, while the unemployment rate failed to drop only because participation increased. The second quarter Gross Domestic Product (GDP) release was also stronger than expected, but must be taken in the context of a downward revision to first quarter leaving first half annualized growth at a disappointing 1.4%.

In the UK, the Bank of England maintained interest rates and the size of the Asset Purchase Facility at 0.5% and £375 billion respectively. The Monetary Policy Committee vote on the size of the Asset Purchase Facility (APF) changed this month, with all members voting unanimously to maintain the current size.

Credit spreads tightened over the month as the market regained its composure following the U.S. quantitative easing (QE) tapering led sell off in June. The pace of Merger & Acquisition activity in the Telecom Media & Telecommunication sector increased sharply in July with five significant deals announced or launched. KPN agreed to sell its German mobile business, E Plus to Telefonica for cash and shares in the merged entity. Meanwhile, Vivendi announced two transactions over the month as part of its much anticipated strategic realignment from a conglomerate to a more pure play media group. Vivendi went into exclusive negotiations with Etisalat for the sale of its majority stake in Maroc Telecom and will allow Activision Blizzard, its U.S. games division, to buy back most of its majority stake in that business. The European banking sector second quarter results season also began in July, with relatively uneventful operating results across most of the large banking groups.



Source: Aberdeen Asset Managers, as at 31 July 2013.
For illustrative purposes only.

In currency markets, clarification by the Fed on its commitment to forward guidance prompted a slight appreciation of the Japanese yen against the U.S. dollar over the month. Relatively good data coupled with a more downbeat European Central Bank announcement caused Euro performance to be mixed, appreciating marginally against the U.S. dollar and British pound. In terms of G10 currencies, the Norwegian krone (+3.40%) was the strongest performing currency versus the U.S. dollar over the month, while the Swedish krona (+2.35%) and Canadian dollar (+2.14%) also appreciated. The Australian dollar (-2.78%) was the worst performing currency.

Outlook

We expect rates to remain low in the euro area for the foreseeable future despite the macroeconomic data beating expectations. Looking forward, given that the market is broadly back at the same levels where forward rate guidance was announced, we expect more clarity from ECB president Draghi in the upcoming meeting. Even if more detail is not presented, the recent comments from Fed Chairman Ben Bernanke, among others, and expectations for a strong market reaction to forward rate guidance from Governor Mark Carney in August are likely to keep front-end rates anchored over the course of the summer, even in the face of improving developed market data. In addition, the summer supply lull is expected to cap spreads of non-German rates markets as political issues in the periphery have been received relatively well by the market. In terms of credit, entering into the traditionally quiet summer period, market liquidity remains limited and spreads appear set on a modest grind tighter over the coming weeks. The speed and extent of the sell-off in June surprised many, as has the ability of the market to recover. Both moves have been exacerbated by limited dealer risk appetite, meaning that levels can be moved around rapidly without any meaningful client activity. We remain cautious of the still difficult macroeconomic backdrop as well as the political calmness at the European level; however we are encouraged by tentative signs of economic growth in Europe. While we believe stronger macroeconomic data will be met with concerns over the removal of stimulus, over the long term, improving economies are good for corporate credit strength and therefore spreads.

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Emerging Markets: Still More Good News than Bad

August 12, 2013

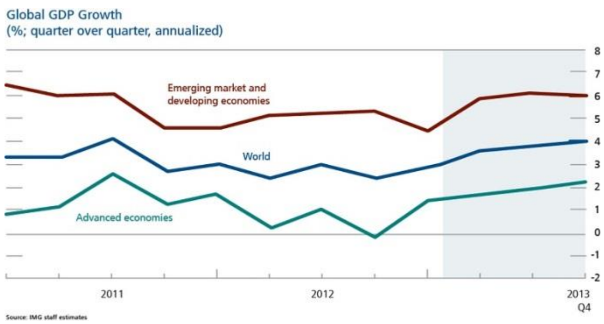
The good news is that we are in a global market that provides opportunities around the world. The bad news is that we are in a global market, so whatever happens anywhere affects us all.

Today, the *Wall Street Journal* pronounced on the front page, "Emerging World Loses Growth Lead," citing declines in global trade and improved conditions in the developed economies. The WSJ cited data from Bridgewater Associates L.P. that "for the first time since mid-2007, the advanced economies, including Japan, the U.S. and Europe, together are contributing more to growth than the emerging nations." And in July, the IMF announced revisions to its growth estimate for emerging and developing economies to a "more moderate pace" of 5% in 2013 and 5.4% in 2014, with China's GDP growth estimated downward to 7.8% for 2013-2014.

Less robust growth in the emerging markets (EMs) isn't welcomed, especially when we don't know where the bottom will be, but **investors shouldn't get ahead of themselves**. Expansion levels remain entirely respectable, both in absolute and relative terms. After all, the U.S. is staging a recovery with a growth level well under half of that of the IMF's estimates for the EMs. Most of us are quite happy about it. Even the WSJ notes, far further down in its article, "The latest rebalancing of global growth is nascent and could reverse, should emerging economies bounce back even a little."

As EMs mature and expand, it's to be expected that growth rates would decelerate from torrid levels. It should also come as no surprise that their economic expansion is not proceeding along a straight-line upward trajectory. That's not how economies work. And we should be happy that the developed markets are regaining their footing—to my way of thinking, that's good for the global economy as a whole.

Ems: Still Doing Their Fair Share for Global Growth



If 5% growth in the EMs cause for extreme consternation, that points to a bigger problem. When global economy needs the EMs to deliver rapid growth, year over year to stay afloat, that's bad news for the global economy. EMs can't be expected to go it alone, dragging the developed markets forward indefinitely. Developed markets must do their share, striking the right balance between capitalizing on EM opportunities without becoming overly dependent on them, whether that's for loans or export markets.

Although GDP is decelerating, EMs still look well positioned to be an important driver of economic growth, thanks in large measure to the rise of a middle class. Of course, consumers do adjust their spending habits in tougher economic times, but the exponential prosperity of the EM consumer class provides sustainable opportunities for companies worldwide, even if GDP growth dips to more modest levels—assuming that growth is sustainable.

Moreover, many of the EMs have healthy debt-to-GDP levels and as the EM consumer class grows, we would expect to see an increasing focus on services within EM economies. Over time, this diversification should help smooth some of the bumps in the road that have resulted from having

Authored by:
John P. Calamos, Sr.
CEO & Global Co-Chief Investment Offier, Calamos Investments

economies dominated by manufacturing and commodities. And although conditions are different in every country, there have been some noteworthy bright spots, such as China's recent decision to allow banks greater flexibility in setting interest rates for borrowers.

While economic conditions matter, ultimately it is secular growth themes, not short-term GDP data, that underpin the EM investment story. So, the deceleration we have seen thus far shouldn't fundamentally negate our view of the opportunities. The recent volatility does however remind investors to do their homework. This choppiness will continue as EMs seek to manage their own growth against the backdrop of expanding importance in the global economy. The potential end of QE in the U.S. won't make things any easier, either. As investors, the key is to be aware of the risks of each country and company.

We are continuing to find many exciting companies in EMs that are doing the things that we believe can lead to sustainable growth potential for investments. Alternatively, we are accessing the secular opportunities through developed market companies. By doing both, we believe we're especially well positioned.

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Indexing : Knowing What is Important

Especially in long-term investing, the choice of index is decisive. What advisors and investors should pay attention to in order to prevent bad surprises and "performance tricks".

Authored by:
Martin Raab
Founding Partner, ETF Radar

When investing in passive financial products, many investors put the cart before the horse. For the investor, more important than the question of the ETF, filtered for instance according to tracking error, fees and replication method, should be the question of the best index. The index should most accurately represent the market that the investor would like to invest in. Large index providers such as MSCI, NYSE Euronext, Nasdaq, Dow Jones and a few others offer many indices for asset classes such as stocks, bonds and commodities, which, as is well known, are the basis of traditional ETFs. Among the multiplicity of indices on offer, there are, however, conceptual differences that one should definitely know about, as an investor. Ultimately, that background knowledge also helps in recognising potential "performance tricks" that the index providers or issuers might come up with.

Price return vs. total return

Critical for the performance calculation of stock indices are dividends issued. In a price return index (or a price index), dividends of that kind are not taken into account. For performance, only the price development of the stocks contained in the index counts. In contrast, in a total return index, dividends paid out are also calculated, in addition to how the price develops. While doing that, a differentiation is made as to whether a net dividend (after deduction of tax at the source location) was used or not. If that is the case, then it is a net total return index. The performance of a total return index will thus be better than the performance of a price return index. Share classes of an equity ETF that distributes and reinvests behave similarly to that: for reinvesting share classes, dividends are reinvested, whereas distributing share classes pass on the dividends to share owners.

Ultimately, that background knowledge also helps in recognising potential "performance tricks" that the index providers or issuers might come up with.

Capitalisation-weighted indices

Index weighting using market capitalisation has established itself as a common method since the S&P500 was founded in 1957 as the first index of its kind. Enterprises with a larger market capitalisation (i.e. based on the shares in circulation x share price per stock) receive a higher weight in the index. What is important in that is the differentiation of whether the calculation of market capitalisation occurs based on the number of shares issued or the number of freely tradable shares. Usually, the second variant is selected, and that is also called a free float version. Further well-known examples of these index categories are the Euro Stoxx 50 or DAX.

Price-weighted indices

With price-weighted indices, as the name indicates, the weighting of the index is dependent on the price level. The weighting of an individual stock corresponds to its relationship to the overall total of the prices of all other index components. To illustrate this: Assuming that an index consists of two shares: Share 1 with a value of US$ 10 and Share 2 with a value of US$ 90. Share 1 thus receives a weighting of 10% (10.- /100.-) and Share 2 a weighting of 90% (90.- /100.-). Stock splits are problematic in this weighting method, for example. They lead to a situation in which the weighting of the affected stocks sinks in the index, although nothing fundamental has changed in the condition of the company in question. The probably most prominent examples of this category are the Dow Jones Industrial Average or the Nikkei 225.

Equal weighted indices

For equal weighted indices, each stock is represented with the same weight, i.e. the market capitalisation of the specific stock does not play a role there. As an illustration: The S&P500 Equal Weight Index contains the same 500 stocks as the S&P 500, but they go into the index performance with a weighting of 0.2% (100%/500 stocks). Smaller companies thus have as much weight in it as the larger corporations. As an example: Due to their high market capitalisation, ExxonMobil and Apple together had a total weight of 5.41% in the S&P 500 as of June 28 2013, whereas they would have received a weighting in the S&P 500 Equal Weight index of only 0.4%, combined. The advantage that proponents speak of here is clear: A few individual stocks by themselves are not able to massively influence the performance of the overall index. However, that applies to positive as well as to negative performance. In addition, for these index categories for representative ETFs, higher costs for rebalancing result, because this must occur dependent on the price movement in order to again maintain the same weighting.

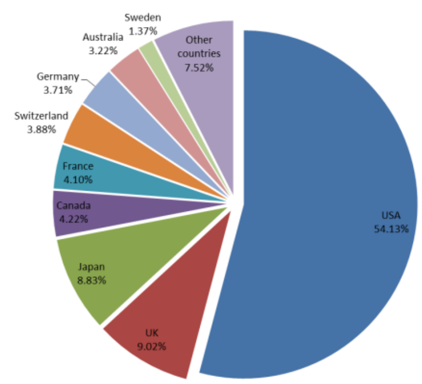
Fundamental weighted indices

Along with the previously mentioned weighting methods, there are other approaches in which an attempt is made to remove the weaknesses of the previously described index types. Included in those are fundamental weighted indices, for example the RAFI series, which is offered in collaboration between the FTSE and Research Affiliates. These index series carry out weighting based on fundamental factors such as the dividends issued, cash-flows and sales in the prior five business years, as well as current book values.

Index Review: MSCI World

Most investors and advisors are probably aware of the MSCI index family. Meanwhile the index company calculates more than 1,400 indices. Numerous exchange traded products use MSCI indices as underlying. Their most famous flagship index is the MSCI World Total Return Index. This is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. Hence the index includes a collection of stocks from 23 (industrialized) countries, as defined by MSCI. Many times investors–and advisors–are surprised when they review the specific country weightings included in the MSCI World. This index is clearly less global than its name suggests. American stocks represent 54% of the index. The UK is weighted with roughly 10%, followed by Japan which stocks contribute more than 8% to the MSCI World´s performance. Buttom line is that the suggested exposure to a truly "global" stock portfolio is not given. Investors are more or less exposed to a G7 equities index, massively dominated by Wall Street stocks. This is just one example how index names or suggested exposures might differ in reality – not only in association with indices owned or calculated by MSCI.

MSCI World: Dominated by US stocks



At a glance

Each weighting method has its strengths and weaknesses. The philosophy of the individual investor is also too specific for there to be one. It is particularly institutional players who use and prefer special approaches in asset allocation. Back-testing is just one option for testing the specific use of the indexing method. Every investor should choose the relevant index or ETF that best represents the market in which he or she wants to invest.

Fund Updates

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

- Aberdeen Closed-End FundTalk
- Aberdeen Asia-Pacific Income Fund, Inc. (FAX) Commentary: Aug. 2013
- Aberdeen Israel Fund, Inc. Announces Performance Data And Portfolio Composition: Sept. 5, 2013
- Calamos Reopens Flagship Convertible Fund to New Investors: Sept. 5, 2013
- Calamos Investments Adds to Fixed Income/High Yield Expertise: Aug. 16, 2013
- Cohen & Steers MLP Income and Energy Opportunity Fund, Inc. Provides Update on Proposed Amendments to Tax Regulations: Aug. 22, 2013
- Credit-Suisse High Yield Bond Fund (DHY) Announces Monthly Distribution: Sept. 3, 2013
- Credit-Suisse Asset Management Income Fund, Inc. (CIK) Announces Month Distribution: Aug. 23, 2013
- First Trust Launches International Multi-Asset Diversified Income Index Fund: Aug. 22, 2013
- First Trust Specialty Finance and Financial Opportunities Fund (FGB) Portfolio Manager Update Call: Aug. 14, 2013
- Certain DWS Closed-End Funds Declare Monthly Distributions: Sept. 11, 2013
- DWS Investments: The European Equity Fund, Inc. (XEEAX) : 2013 Semi-annual Fund Report
- ING Prime Rate Trust Dividend – Sept. 2013
- Kayne Anderson MLP Investment Company Prices Public Offering of Series G Mandatory Redeemable Preferred Shares: Sept. 9, 2013
- Kayne Anderson MLP Investment Company's Series E Preferred Shares About To Put More Money In Your Pocket: Sept. 9, 2013
- Legg Mason ClearBridge American Energy MLP Fund Inc. Portfolio Composition as of Aug. 31, 2013
- Legg Mason's ClearBridge Energy MLP Fund Inc. Announces Unaudited Balance Sheet Information as of Aug. 31, 2013
- PIMCO NFJ, NAI, NIE, NGZ Declare Quarterly Distributions: Sept. 6, 2013
- PIMCO PCN, PTY, PGP, PHK, PKO, RCS, PCM, PFL, PFN, PDI, PCI Declare Monthly Common Share Dividends: Sept. 3, 2013
- Wells Fargo Advantage Global Dividend Opportunity Fund Announces Changes to Portfolio Management Team: Aug. 22. 2013
- Wells Fargo Advantage Closed-End Funds Declare Monthly and Quarterly Dividends; Global Dividend Opportunity Fund Announces Changes to Portfolio Management Team: Aug. 14, 2013

Transcript: Navigating the Taper Tantrum - Opportunities and Outlook for Closed-End Funds

Tuesday, August 20, 2013 | 11:00 AM ET

Douglas Bond – Great, thanks Matthew, and thanks everybody for tuning in today. I want to, I guess, start by, you know, acknowledging the fact that 2013 has so far been a very, very interesting year in the closed-end fund market, and if I kind of summarise the first eight months of this year, it was sort of five-and-a-half months of relative calm where closed-end funds were trading at fairly full valuations relative to their long-term history; and then what we've experienced the last three months, which is a lot of volatility in the closed-end funds, particularly volatility in the fixed-income-focused closed-end funds, and a retreat in closed-end fund valuations where virtually all groups are now selling at discounts that are greater than their long-term average so that the funds are relatively cheap relative to long-term history.

If you turn to slide number three, it's one that we like to start with. The slide number three in the presentation is entitled Why Closed-End Funds? And we go back to this particularly because our experience is that whenever closed-end funds enter a period of time where they are very volatile and their total returns are negative, our experience has been that investors often lose sight of why they own closed-end funds in the first place and begin to ask a lot of questions about whether they should continue owning them because their recent experience has been so negative. And I think the things that keep coming back to us as the enduring value proposition for closed-end funds as a potential component of a mixed asset investment strategy is that they offer a very, very unique structure, giving you the ability to earn above-average levels of current income, a great advantage in many cases to generate higher incomes than you can in stocks or many different bond asset classes, and then that sort of ever-present feature in the closed-end fund market, the every-day bargain opportunity of many, many closed-end funds being available at discounts to their book value, discounts to their net asset value, and that's particularly the case as a result of the volatility over the course of the last three months.

And because of all of the growth in the closed-end fund market that's occurred since the early 2000s, now more than any time in the history of the closed-end fund market, there's a great opportunity that investors have to get diversified across a bunch of different asset classes and fund types and different money managers bringing different skillsets. And this sort of high-income focus the ability to generate and create a diversified portfolio to us rings true as an investment theme where we see more and more baby boomers retire in record numbers who continue to have a big demand for income.

So as we look at what's happened, you know, and really it's what's happened since the talk of Federal Reserve tapering in the, you know, second or third week in May, is that we've seen – and if you move to slide number four, the Market Update Slide, taxable fixed income closed-end funds, have struggled a lot. Market prices are down. NAVs in the last three months have been on the weaker side, but market price is a lot weaker so a big expansion and discount in taxable fixed-income closed-end funds. Equity closed-end funds by contrast have had mostly positive returns, but their discounts have expanded and widened also.

And sort of the worst performing of all of the groups over the course of the last three months has been the municipal bond closed-end fund group, which has seen not only sharp declines in market prices, but big declines in NAV, and because muni closed-end funds represent over a third of all of the closed-end funds outstanding, we think that

Participant

Featured Presenter:

Douglas Bong
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Douglas Bond, Executive Vice President, is Portfolio Manager for Cohen & Steers' Closed-End Opportunity Fund and other portfolios investing in closed-end funds. Before joining Cohen & Steers in 2004, Mr. Bond worked at Merrill Lynch for 23 years. Between 1992 and 2004, he ran their closed-end fund new origination effort and was involved in all closed-end funds underwritten by Merrill Lynch. He also headed Merrill's Private Client Syndicate Group. Mr. Bond holds a BA from Hamilton College and an MBA from New York University. He is based in New York.

when there is difficulty in terms of the market price performance of muni closed-end funds, when you have headlines around the Detroit bankruptcy, that this tends to cast a pall over the entire closed-end fund market as people seeing losses there wonder whether or not they ought to reduce their exposure in equity closed-end funds as taxable fixed income closed-end funds.

If you move to slide five, slide five titled Closed-End Funds Yield Advantage, you can see that on the far left we've got the five-year average yield of closed-end funds in blue; and then the five-year average yields of the S & P 500, corporate bonds, municipal bonds and the 10-year treasury as we move from the left of the slide to the right of the slide; and in the orange column on that same chart, you've got the current yield of the closed-end fund market, the current yield of the S & P 500, corporate bonds, muni bonds, and the 10-year treasury, and this just gets to the point that we made initially of why people look at closed-end funds. A big part of the value proposition is the income advantage over other asset classes, and that still exists today and there are certainly many closed-end funds that you can find in the market today that yield more than 7%.

If you move to slide six, this yield story has only gotten more significant as the selloff over the course of the last three months has unfolded, and actually, if you go back and look at the various closed-end fund groups from the end of December 2012 to where they stood at the end of July 2013, all of the major closed-end fund groups except for equities exhibit higher current yields today than they did at the end of last year. Equities stand out as the exception because the prices of equity funds have risen, keeping up in most cases with the advances in the S & P 500 through the first seven months of this year. So equity yields have fallen close to 100 basis points while you've seen by contrast close to 100 basis point increase in municipal yields, rises in taxable fixed-income yields, rises in international equity yields.

If you move to slide seven where we take a look at where closed-end fund discounts are today versus where they ended 2012, across the board discounts are wider again, with the exception being equities where we've actually seen some tightening in valuation, where equity discounts shrunk from about 6% at the beginning of 2013 to a little bit less than 5%. They're actually back right now mark to market as of close of business yesterday closer to that 6% level, but across the board discount widening and for most groups, all groups, discounts wider than their long-term15-year averages in terms of discounts to net asset value.

If you move on to slide number eight, which is titled Historical Fixed Income Closed-End Fund Premium and Discount and the Fed Funds Rate, this slide is really just designed to give you some historical perspective on where overall closed-end fund premiums and discounts have been over the course of the last 16 years or so, excluding the muni closed-end funds, and this is the taxable closed-end fund fixed income and equity universe. And you can see that on the far right of this slide, there's a point marked Fed Taper Talk, and it shows that just prior to the Fed making its comments about tapering asset purchases, overall discounts were about 1%, and since that time, they've moved out to beyond 4%, and again, mark to market as of last night close of business, that number is north of 6% for this universe of 350 closed-end funds, something that we think about as sort of the S & P 500 index of closed-end funds.

So compared to a long-term historical average discount of 3.3% in the span of about three months, we've moved out to a discount which is close to double that long-term average from one that in the first couple weeks of May was 250 basis points below the long-term average, so a very, very significant shift in the way that closed-end funds are valued.

The only thing else that we point out as we look at this chart of long-term premiums and discounts is that generally in the closed-end fund market, which is something that all of the people on this call know, closed-end funds sell at discounts to net asset value. The only times that you've ever really seen closed-end funds sell at premiums to net asset value for any extended period of time is when the Federal Reserve is in a period of accommodation and easing and keeping short rates at a very, very, very low level. And if you look in this chart at the period between 2002 and 2004 as the Fed funds rate moved from around the 6% area all the way down to the 1% area in the latter part of the at 2003, 2004 timeframe, you see that this universe of closed-end funds sold at a premium to net asset value a lot of that time.

And by contrast, even as you look at the right side of the chart, even as the Fed has maintained this zero to 25 basis point interest rate policy since the end of 2008, there've been very few moments when this universe of closed-end funds has actually enjoyed a premium to net asset value on an aggregate basis. We saw a little bit of it in 2012, but not any extended time period like we saw in the '02 to '04 timeframe. So our perspective is that it would not surprise us if after this current bout of uncertainty in the closed-end fund market and this selloff, that we see actually a movement of closed-end fund discounts back closer to NAV, if not to a premium to NAV, provided that the Fed sticks with its current stated intention of keeping short rate pegged at that zero to 25 basis point lower bound, and current market expectations are that that's going to be the case given the current data on employment and inflation until 2015.

Slide nine, if you move to slide nine, slide nine gives us a little bit of a picture July 31st of the different investment groups that are available in the closed-end fund market offering high yields and a variety of discounts to net asset value as a group. And you can see in terms of the highest yielding fund groups, covered call funds, high-yield funds,

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