Capital Link's
CEF & ETF Monthly Newsletter
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13th Annual Capital Link Closed-End Funds and Global ETFs Forum

Thursday, April 24, 2014
The Metropolitan Club, One East 60th St.,New York City

ORGANIZED BY

Capital Link

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230 Park Ave. Suite 1536 New York, NY 10169 | NY: +1 (212) 661-7566
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Financial Advisors and Qualified Investors can attend the morning and afternoon sessions at no cost.
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DATE: April 24, 2014
TIME: 8:00AM – 5:30PM
LOCATION: Metropolitan Club – One East 60th Street, New York City

THE FORUM IS DESIGNED TO:

- Catch up on the latest CEF & ETP/ETF investment products
- Identify upcoming trends for CEFs & ETPs/ETFs
- Evaluate CEF & ETP/ETF investment strategies and portfolios, benefits & risks
- Discuss alternative asset allocation strategies and how to include CEFs & ETPs/ETFs
- Equity, total return, fixed income, international investing, yield solutions, commodities and more
- Debate portfolio construction, trading, liquidity management and hedging issues

PRESENTATIONS AND PANEL TOPICS

Developments, Trends & Sector Outlook

- The CEF & ETP/ETF Markets
- Investing for Yield Through ETPs
- The Use of Leverage & CEFs
- Fixed Income Investing
- Equity & Total Return Investing
- International Investing
- Permanent Capital & Alternative Income Strategies
- Commodities & Precious Metals
- MLP Investing: Yield & Total Return
- Risk Mitigation Strategies
- Raising Capital for CEFs & MLPs
- ETF Industry Roundtable
- CEF Industry Roundtable

PRESENTERS & PARTICIPATING COMPANIES

- Aberdeen Asset Management
- Ares Management LLC
- Calamos Investments
- CBOE – Chicago Board Options Exchange
- Cohen & Steers
- Credit Suisse Group AG
- Cushing MLP Asset Management
- db-X-trackers
- Deutsche Asset & Wealth Management
- Eaton Vance Management
- ETF.com
- ETFGI LLP
- Fifth Street Management LLC
- First Trust Advisors
- Fitch Ratings
- FlexShares ETFs
- Goldman Sachs Asset Management
- Index IQ
- iShares by BlackRock
- Katten Muchin Rosenman LLP
- Kayne Anderson
- Morningstar
- MLV & Co.
- Nuveen Investments, Inc.
- NYSE EURONEXT
- Pichardo Asset Management
- PIMCO
- Prospect Capital
- Raymond James Investment Banking
- RevenueShares
- RiverFront Investment Group
- State Street Global Advisors
- Stonebridge Advisors LLC
- Swank Capital
- The Mexico Equity and Income Fund, Inc.
- The Mexico Fund, Inc.
- Thomas J. Herzfeld Advisors
- Tortoise Capital Advisors
- UBS Investment Bank
- VelocityShares
- Wells Fargo Securities
- Willkie Farr & Gallagher LLP
- WisdomTree Asset Management
- World Gold Council
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The Month in Closed-End Funds: March 2014

PERFORMANCE

For the second month in a row equity and fixed income CEFs stayed on similar paths, both posting plus-side NAV-based returns (+1.03% and +0.71%, respectively) and market-based returns (+1.07% and +0.61%, respectively) for March. They finished first quarter 2014 in good fashion—adding 3.02% and 5.20%, respectively, to their December 2013 quarter-end values.

Investors weighed the mixed economic news delivered during the month. While much of the news showed an economic softening attributed to the strong winter storms in the U.S. this year, others showed a picture of a "plow-horse" economy, continuing to amble along. While the February ISM manufacturing index rose to 53.2—easily beating consensus estimates, the ISM nonmanufacturing index fell to 51.6—coming in below the expected 53.5. The drop in the ISM nonmanufacturing employment index to 47.5 was most concerning to analysts. Those industries reporting the employment slowdown (for example, real estate, entertainment, and mining) were strongly impacted by the unusually cold and snowy weather seen in the U.S.

In March investors were treated to some relatively good news: February's nonfarm payrolls number (+175,000) beat the consensus estimate of 145,000, retail sales increased 0.3%, and industrial production rose 0.6%—surpassing analysts' expectation of a gain of 0.2%. While February new- and existing-home sales disappointed, durable goods orders increased 2.2% and personal income and personal consumption both increased in February, matching analyst expectations.

For the month of March the Dow Jones Industrial Average (+0.83%) and the S&P 500 (+0.69%) showed resilience in the face of continued geopolitical concerns in Ukraine and the curtailing of the monetary stimulus. However, the tech-heavy NASDAQ Composite (-2.53%) suffered its worst one-month return since October 2012 as stock market pundits debated whether biotech issues were entering bubble territory after their incredible run-up in 2013, causing investors to begin locking in profits as prices began to consolidate.

While investors were in a risk-off mood at the beginning of the month as a result of Russia's annexation of Crimea—pushing Treasury prices up, later in the month they began speculating that the Fed would raise interest rates sooner than expected as a result of better-than-expected economic news. The ten-year Treasury yield increased 7 bps to 2.73% for March. But the largest jump in yields was witnessed in the belly of the curve, with the three-, five-, and seven-year yields jumping 21, 22, and 17 bps, respectively.

For March the dollar strengthened against the euro (+0.24%), the pound (+0.45%), and the yen (+0.91%). Despite continued geopolitical uncertainty in Ukraine and the curtailing of the monetary stimulus, commodities prices declined as investors turned back to equities and away from safe-haven plays, with near-month crude oil prices falling 0.98% to close March at $101.58/barrel and with gold losing 2.88% to end the month at $1,283.40/ounce.

The Month in Closed-End Funds: March 2014

- For March only 11% of all closed-end funds (CEFs) traded at a premium to their net asset value (NAV), with 11% of equity funds and 10% of fixed income funds trading in premium territory. Lipper's Single-State Municipal Bond CEFs macro-classification witnessed the largest narrowing of discounts for the month—28 basis points (bps) to 8.28%.
- For the second consecutive month equity and fixed income CEFs stayed on common paths in March, with equity funds returning 1.03% on a NAV basis and their fixed income counterparts returning 0.71% for the month.
- For the third consecutive month all of Lipper's municipal bond CEF classifications posted returns in the black, with Pennsylvania Municipal Debt CEFs (+1.01%) outpacing the other classifications in the group. Municipal debt CEFs (+0.68%) outpaced their domestic taxable fixed income CEF counterparts (+0.56%) for the month.
- Despite continued geopolitical concerns, World Equity CEFs (+1.63%) and World Income CEFs (+1.71%) remained ahead of their domestic equity and domestic taxable fixed

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

THOMSON REUTERS

For March 87% of all CEFs posted NAV-basis returns in the black, with 75% of equity CEFs and 94% of fixed income CEFs chalking up returns in the plus column. U.S. stocks and bonds witnessed yet another plus-side month as investors began to believe the recent market correction was nearing its end and welcomed news that the European Central Bank may start monetary easing in an attempt to thwart the threat of deflation in the Eurozone. That helped keep the world equity CEFs macro-group (+1.71%) at the top of the equity chart for the second month in a row, but it was followed closely by its domestic equity (+0.56%) and mixed-asset (+0.68%) CEF cohorts.

While investors remained concerned over slowing growth in China, CEF investors' interest in emerging markets funds jumped in March—particularly for India Region funds. During the month India stocks rallied as foreign direct investors poured about $2.5 billion into India's market. There was optimism that the main opposition BJP party might form the next government in the upcoming elections and boost India's policy reforms, which investors hope will lift the economy out of its slowdown. For March only three of Lipper's fifteen equity CEF classifications posted returns in the red. Bringing up the rear, Sector Equity CEFs (-2.23%) suffered the largest decline as investors took some of their hard-won profits off the table after health/biotechnology stocks' grand run-up in 2013. Growth CEFs (-0.64%) and Convertible Securities CEFs (-0.91%) were the other equity laggards. Emerging Markets CEFs (+4.25%—one of February's laggards) shot to the top of the charts for March, followed at a distance by Utility CEFs (+2.49%) and Energy MLP CEFs (+1.95%). For the remaining equity classifications returns ranged from 0.10% (Developed Market CEFs) to 1.76% (Natural Resources CEFs).

With the strong showing of Emerging Markets CEFs (+4.25%) for March, it was not surprising to see that eight of the ten top-performing individual equity funds were housed in Lipper's Emerging Markets CEFs classification, with India-related funds taking the two top positions. At the top of the leader board was **India Fund, Inc. (NYSE: IFN)**; it gained 12.02% on a NAV basis and traded at a 9.79% discount at month-end. Following IFN was **Morgan Stanley India Investment Fund, Inc. (NYSE: IIF)**, rising 11.98% on a NAV basis and traded at a 13.36% discount on March 31. Following those two was **Turkish Investment Fund, Inc. (NYSE: TKF)**, posting an 11.03% return and traded at a 7.71% discount at month-end. The last two noteworthy funds were Latin America-related funds: **Aberdeen Latin America Equity Fund, Inc. (AMEX: LAQ)**, chalking up a 9.46% return and traded at a 10.10% discount on March 31, and **Latin American Discovery Fund, Inc. (NYSE: LDF)**, which rose 7.81% and traded at a 10.24% discount at month-end.

For the month the dispersion of performance in individual equity CEFs—ranging from minus 9.32% to positive 12.02%—was wider than February's spread and more negatively skewed. The 20 top-performing equity funds posted returns at or above 3.41%, while the 20 lagging funds were below minus 2.10%.

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	75	47	50	11	88
Bond Funds	94	42	53	10	90
ALL CEFs	**87**	**44**	**52**	**11**	**89**

TABLE 2 AVERAGE NAV RETURNS, SELECTED PERIODS (%)

	MARCH	YTD	3-MONTH	CALENDAR-2013
Equity Funds	1.03	3.02	3.02	16.03
Bond Funds	0.71	5.20	5.20	-1.74
ALL CEFs	**0.84**	**4.34**	**4.34**	**5.17**

TABLE 3 NUMBER OF IPOs, SELECTED 12-MONTH PERIODS

	MARCH 2014	CALENDAR-2013
ALL CEFs	**22**	**28**

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

3 MONTHS THROUGH 2/28/2014	-
COMPARABLE YEAR-EARLIER 3 MONTHS	750
CALENDAR 2013 AVERAGE	564

Source: Lipper, a Thomson Reuters company

For the month **H&Q Life Sciences Investors (NYSE: HQL)**, housed in Lipper's Sector Equity CEFs classification, was at the bottom of the equity CEFs group, shedding 9.32% of its February month-end value and traded at a 0.23% premium at month-end. **H&Q Healthcare Investors (NYSE: HQH**, also warehoused in Lipper's Sector Equity CEFs classification**)** was the next poorest performing equity fund, declining 8.50% and traded at a 0.04% discount at month-end. For March 60 equity CEFs suffered negative returns.

Despite the rise in interest rates in the U.S. during the month, fixed income investors continued their search for yield and remained engaged after learning that economic data out of the Eurozone showed that inflation fell to its lowest level since 2009. Many believed that would nudge European Central Bank authorities to introduce monetary stimuli at their next meeting, which kept the world bond CEFs (+1.71%) macro-group at the top of the fixed income universe for a second consecutive month. Investors also continued to eyeball the relatively attractive yields seen in the municipal bonds arena, pushing municipal bond CEFs (+0.68%) above—if only marginally—their domestic bond CEFs (+0.57%) counterparts.

For the third consecutive month all of Lipper's municipal debt CEF classifications posted plus-side NAV-based returns as investors bid up the group, scooping up tax-exempt issues with yields exceeding those of similarly dated Treasuries (before tax adjustments). Pennsylvania Municipal Debt CEFs (+1.01%) and High Yield Municipal Debt CEFs (+0.97%) realized the largest returns of the group, while Intermediate Municipal Debt CEFs (+0.11%) and General & Insured Municipal Debt CEFs (Unleveraged) (+0.37%) were the relative laggards. National municipal debt CEFs (+0.72%) outpaced their single-state municipal debt CEF counterparts (+0.63%).

Despite continued uncertainty in the world markets, both of the classifications making up Lipper's World Income CEFs macro-classification (+1.71%) outpaced the other taxable fixed income classifications. Emerging Markets Debt CEFs (+2.02%) was the top-performing fixed income classification for the month, with Global Income CEFs (+1.52%) taking the number-two spot. Even though interest rates rose during the month, investors remained hungry for yield, and General Bond CEFs (+0.68%) jumped to the head of the taxable fixed income macro-group, while Corporate Debt BBB-Rated CEFs (Leveraged) (+0.32%) was the relative laggard. Mixed economic reports, accompanied by Federal Reserve Chair Janet Yellen's comment that rate hikes could happen as soon as six months after the Federal Reserve wraps up its bond purchases (much sooner than most pundits had anticipated), kept investors leery during March. The two-/ ten-year Treasury spread narrowed 4 bps from February's month-end 2.33%. The yield on the ten-year Treasury note finished the month 7 bps higher at 2.73%.

In the domestic taxable fixed income CEFs universe (+0.56%) the remaining classification returns ranged from 0.52% (Loan Participation CEFs) to 0.62% (U.S. Mortgage CEFs). None of the classifications in the taxable fixed income CEFs universe suffered negative returns for March.

Eight of the ten top-performing individual CEFs in the fixed income universe were housed in Lipper's World Income CEFs macro-classification. However, **Cutwater Select Income Fund (NYSE: CSI**, housed in Lipper's Corporate Debt BBB-Rated CEFs classification, February's laggard**)** rose to the top of the fixed income universe, returning 5.39% and traded at a 7.96% discount on March 31. Following CSI were **Stone Harbor Emerging Markets Income Fund (NYSE: EDF**, housed in Lipper's Emerging Markets Debt CEFs classification, one of February's leaders**)**, tacking 5.17% onto its February month-end value and traded at a 7.09% discount at March month-end, and **Legg Mason BW Global Income Opportunities Fund, Inc. (NYSE: BWG**, housed in Lipper's Global Income CEFs classification**)**, posting a 4.57% return and traded at a 12.68% discount at month-end.

For the remaining funds in the fixed income CEFs universe monthly NAV-basis performance ranged from minus 1.27% (**NexPoint Credit Strategies Fund [NYSE: NHF]**, housed in Lipper's High Yield CEFs (Leveraged) classification and traded at a 12.90% discount on March 31) to 4.49% for **Stone Harbor Emerging Markets Total Income Fund (NYSE: EDI)**, housed in Lipper's Emerging Markets Debt CEFs classification and traded at a 7.09% discount at month-end. The 20 top-performing fixed income CEFs posted returns at or above 1.59%, while the 20 lagging funds were at or below minus 0.05%. Only 21 fixed income CEFs suffered downside performance for March.

PREMIUM AND DISCOUNT BEHAVIOR

For March the median discount of all CEFs widened just 5 bps to 8.37%—lower than the 12-month moving average discount (7.15%). Equity CEFs' median discount widened 56 bps to 10.02%, while fixed income CEFs' median discount widened 20 bps to 7.82%. Municipal bond CEFs' median discount narrowed 8 bps to 7.87%. The Single-State Municipal Bond CEFs macro-classification witnessed the largest narrowing of discounts in the CEF universe—28 bps to 8.28%.

For the month 44% of all funds' discounts or premiums improved, while 52% worsened. In particular, 47% of equity funds and 42% of fixed income funds saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on March 31 (63) was four more than on February 28.

CEF EVENTS AND CORPORATE ACTIONS

IPOs

Nuveen has completed the initial public offering of **Nuveen All Cap Energy MLP Opportunities Fund (NYSE: JMLP)**. The fund raised approximately $255 million in gross proceeds, excluding any exercise of the underwriters' option to purchase additional shares. If the underwriters exercise that option in full, the fund will have raised approximately $293 million.

First Trust Advisors completed the initial public offering of **First Trust New Opportunities MLP & Energy Fund (NYSE: FPL)**. The fund raised approximately $440 million in gross proceeds from its common-share offering, and—should underwriters exercise their overallotment options in full—the fund will have raised approximately $503 million.

SharesPost Investment Management launched **SharesPost 100 Fund (PRIVX)**, an actively managed closed-end interval fund that targets a diversified portfolio of private, late-stage, growth companies. SharesPost 100 Fund has a minimum investment of $2,500 and offers limited quarterly liquidity (5% of outstanding shares at NAV).

RIGHTS, REPURCHASES, TENDER OFFERS

The Central Europe, Russia, and Turkey Fund (NYSE: CEE) announced that, in accordance with its tender offer for up to 5% of its outstanding common shares, it accepted 566,397 shares for payment at 98% of NAV. Shareholders tendered a whopping 7.5 million common shares, meaning that under the final *pro rata* calculation 7.6% of the tendered shares were accepted for payment. The discount on CEE widened from 4.6% to 11.2% in March.

Trustees of **H&Q Healthcare Investors (NYSE: HQH)** authorized the filing for a proposed rights offering. Key aspects of the offering, including timing and pricing, have yet to be determined. The market price on HQH vacillated between premium and discount throughout the month before ending at a discount of 0.04%.

Directors of **Western Asset Global Corporate Defined Opportunity Fund (NYSE: GDO)** have authorized the fund to repurchase up to 1.6 million common shares when the fund's shares are trading at a discount. The fund's manager may repurchase common shares at any time and is under no obligation to buy them at any specific discount or in any specific amount. The discount on GDO held steady to end at 11.1%.

A tender offer for up to 15% of **The India Fund (NYSE: IFN)** will expire on April 3, 2014, unless extended. If more than 15% of the fund's outstanding shares are tendered, the fund will purchase them on a *pro rata* basis. As previously announced, the tender offer is being made in conjunction with the elimination of the fund's interval structure. The discount on IFN varied slightly and ended March at 9.8%.

Nuveen Long/Short Commodity Total Return Fund (NYSE: CTF) and N**uveen Diversified Commodity Fund (NYSE: CFD)** have renewed their open-market share-repurchase programs. Effective immediately, both funds may repurchase up to 10% of their outstanding common shares at the discretion of the funds' manager.

MERGERS AND REORGANIZATIONS

The previously announced reorganization of **American Strategic Income Portfolio (NYSE: ASP)** and **American Select Portfolio (NYSE: SLA)** will not occur. Directors had approved a proposal to reorganize the funds into a new CEF managed by Nuveen Fund Advisors and subadvised by Nuveen Asset Management, but they will now consider a reorganization proposal from U.S. Bancorp Asset Management at a meeting to be held in late April 2014. The discount on ASP widened 2 points in March to end at 11.2%, while that of SLA held steady at 13.5%.

OTHER

According to a report from Fitch, the removal of 33 business development companies (BDCs) from the S&P and Russell indices will likely reduce the liquidity of their shares and increase their cost to raise equity in the near term. On February 24, 2014, S&P announced it would remove BDCs from its indices as a result of client concerns related to reporting requirements, expenses, and investment restrictions. On March 3 Russell said it planned to follow suit unless the SEC removed acquired fund fee reporting requirements for BDCs by May 15, 2014. Lipper does not include BDCs in its CEF database.

BlackRock Limited Duration Income Trust (NYSE: BLW) and **BlackRock Floating Rate Income Strategies Fund (NYSE: FRA)** have each filed an initial registration statement to establish an at-the-market equity shelf program. Under the program each fund may raise additional equity capital by issuing new common shares at a net price at or above the fund's current NAV. The discount on BLW widened 1 point to 5.5%, while that of FRA grew 0.7% to 6.0%.

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

CEF Performance Statistics

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Category	Average 1Mo NAV Change	Average 1Mo Mkt Change	Average P/D 2/28/2014	Average P/D 3/31/2014	Average 1 Mo P/D Change	Average YTD NAV Change	Average YTD Mkt Change	Average YTD P/D Change
Convertible Securities Funds	1.70%	0.96%	-5%	-6%	$0.71	0.90%	3.56%	$2.58
Growth Funds	1.27%	0.52%	11%	9%	$0.85	-0.74%	1.29%	$8.44
Options Arbitrage/Opt Strategies Funds	0.90%	0.26%	-5%	-6%	$0.66	-0.53%	1.54%	$1.97
Global Funds	0.52%	-0.50%	-11%	-11%	$0.82	0.61%	1.23%	$0.37
Intermediate Municipal Debt Funds	0.31%	-0.46%	-4%	-5%	$0.75	3.35%	3.97%	$0.59
Developed Market Funds	0.29%	-0.15%	-10%	-10%	$0.40	2.33%	1.76%	-$0.53
High Yield Funds	0.26%	0.61%	-6%	-6%	-$0.33	0.89%	2.27%	$1.20
Corporate BBB-Rated Debt Funds (Leveraged)	0.23%	0.39%	-9%	-9%	-$0.15	2.55%	2.88%	$0.25
General Bond Funds	0.20%	0.65%	-4%	-3%	-$0.21	-4.23%	3.02%	$0.35
High Yield Funds (Leveraged)	0.14%	0.17%	-5%	-5%	-$0.02	1.98%	3.11%	$1.00
Loan Participation Funds	0.08%	0.79%	-5%	-5%	-$0.39	0.31%	-0.04%	-$0.20
General & Insured Muni Fds (Unleveraged)	-0.01%	0.67%	-4%	-3%	-$0.65	3.48%	5.09%	$1.48
U.S. Mortgage Funds	-0.06%	0.79%	-9%	-8%	-$0.72	3.06%	3.78%	$0.51
Corporate Debt Funds BBB-Rated	-0.11%	0.12%	-9%	-9%	-$0.22	1.63%	2.66%	$0.88
New York Municipal Debt Funds	-0.12%	-0.82%	-5%	-5%	$0.67	4.52%	6.49%	$1.76
Other States Municipal Debt Funds	-0.12%	-3.80%	-7%	-7%	-$0.05	4.96%	7.18%	$1.97
New Jersey Municipal Debt Funds	-0.18%	-0.66%	-10%	-10%	$0.43	5.21%	5.28%	$0.06
California Municipal Debt Funds	-0.18%	0.31%	-5%	-5%	-$0.47	5.71%	6.16%	$0.40
General & Insured Muni Debt Funds (Leveraged)	-0.26%	-0.10%	-7%	-6%	-$0.14	5.93%	6.32%	$0.35
High Yield Municipal Debt Funds	-0.40%	-1.07%	-2%	-2%	$0.72	4.43%	6.72%	$2.24
Pennsylvania Municipal Debt Funds	-0.54%	-1.87%	-9%	-10%	$2.47	5.39%	-7.51%	$3.65
Global Income Funds	-0.76%	0.39%	-8%	-7%	-$1.11	1.85%	1.77%	-$0.05
Emerging Mrkts Hard Currency Debt Funds	-0.91%	-1.18%	-10%	-10%	$0.25	0.76%	1.29%	$0.47
Value Funds	-1.05%	-1.40%	-12%	-11%	-$0.15	2.33%	1.74%	-$0.70
Pacific Ex Japan Funds	-1.09%	-1.51%	-10%	-11%	$0.38	-4.29%	-5.26%	-$1.05
Income & Preferred Stock Funds	-1.15%	-1.17%	-8%	-8%	$0.03	4.84%	5.68%	$0.66
Natural Resources Funds	-1.23%	-1.17%	-11%	-10%	$0.06	1.91%	2.43%	-$0.15
Utility Funds	-1.54%	-0.86%	-7%	-7%	-$0.65	5.12%	5.25%	$0.12
Emerging Markets Funds	-3.63%	-3.51%	-8%	-8%	-$0.27	-2.34%	-2.85%	$0.03
Core Funds	-4.46%	-0.07%	-10%	-9%	-$1.46	-3.41%	-4.08%	-$0.89
Real Estate Funds	-6.61%	0.37%	-11%	-10%	-$1.22	5.87%	6.97%	$0.25
Sector Equity Funds	-9.92%	4.32%	-7%	-5%	-$2.00	3.36%	3.81%	$0.23
Energy MLP Funds	-9.95%	-8.84%	-4%	-3%	$0.01	1.39%	-1.63%	-$1.98

Top 5 Performing CEFs

LIPPER

Fund Name	Category	Ticker Symbol	1-Month NAV Change	Rank
H&Q Life Sciences Invtrs	Sector Equity Funds	HQL	10.3%	1
H&Q Healthcare Investors	Sector Equity Funds	HQH	9.3%	2
ASA Gold & Prec Met Ltd	Sector Equity Funds	ASA	6.0%	3
Morg Stan East Europe	Emerging Markets Funds	RNE	5.9%	4
BlackRock Hlth Sciences	Sector Equity Funds	BME	5.1%	5

Fund Name	Category	Ticker Symbol	Year-to-Date NAV Change	Rank
Aberdeen Indonesia	Pacific Ex Japan Funds	XIF	16.35%	1
RENN Glbl Entrepreneurs	Global Funds	RCG	14.83%	2
ASA Gold & Prec Met Ltd	Sector Equity Funds	ASA	12.46%	3
Morg Stan India Inv	Emerging Markets Funds	IIF	12.20%	4
NexPoint Credit Strat	High Yield Funds (Leveraged)	NHF	12.18%	5

Fund Name	Category	Ticker Symbol	1-Month Market Change	Rank
H&Q Life Sciences Invtrs	Sector Equity Funds	HQL	12.1%	1
Firsthand Technology Val	Sector Equity Funds	SVC	11.9%	2
H&Q Healthcare Investors	Sector Equity Funds	HQH	10.7%	3
ASA Gold & Prec Met Ltd	Sector Equity Funds	ASA	7.6%	4
Central Fund of Canada	Sector Equity Funds	CEF	7.0%	5

Fund Name	Category	Ticker Symbol	Year-to-Date Market Change	Rank
Nuveen MO Prem Inc Muni	Other States Municipal Debt Funds	NOM	18.46%	1
NexPoint Credit Strat	High Yield Funds (Leveraged)	NHF	17.52%	2
RENN Glbl Entrepreneurs	Global Funds	RCG	17.24%	3
India Fund	Emerging Markets Funds	IFN	15.20%	4
Aberdeen Indonesia	Pacific Ex Japan Funds	XIF	14.29%	5

Fund Name	Category	Ticker Symbol	1-Month P/D Change	Rank
BlackRock PA Strat Muni	Pennsylvania Municipal Debt Funds	BPS	$9.9503	1
Special Opportunities Fd	Core Funds	SPE	$8.9628	2
Nuveen MO Prem Inc Muni	Other States Municipal Debt Funds	NOM	$8.1384	3
RENN Glbl Entrepreneurs	Global Funds	RCG	$6.8816	4
First Trust NwOpps MLP&E	Energy MLP Funds	FPL	$5.9811	5

Fund Name	Category	Ticker Symbol	Year-to-Date P/D Change	Rank
Engex Inc	Core Funds	EXGI	$31.1024	1
Foxby Corp	Growth Funds	FXBY	$26.6917	2
Aberdeen Chile	Emerging Markets Funds	XCH	$16.2284	3
Nuveen MO Prem Inc Muni	Other States Municipal Debt Funds	NOM	$12.3117	4
BlackRock PA Strat Muni	Pennsylvania Municipal Debt Funds	BPS	$12.1005	5

According to ETFGI, global ETF and ETP assets reached US$2.45 trillion, a new record high, at the end of Q1 2014

Flows into ETFs and ETPs listed globally rebounded in March gathering net inflows of US$11.0 billion which, when combined with a small positive market performance in the month, pushed assets in the global ETF/ETP industry to a new record high of US$2.45 trillion, according to preliminary findings from ETFGI's Q1 2014 Global ETF and ETP industry insights report. Globally, there are now 5,204 ETFs/ETPs, with 10,219 listings, from 222 providers on 59 exchanges.

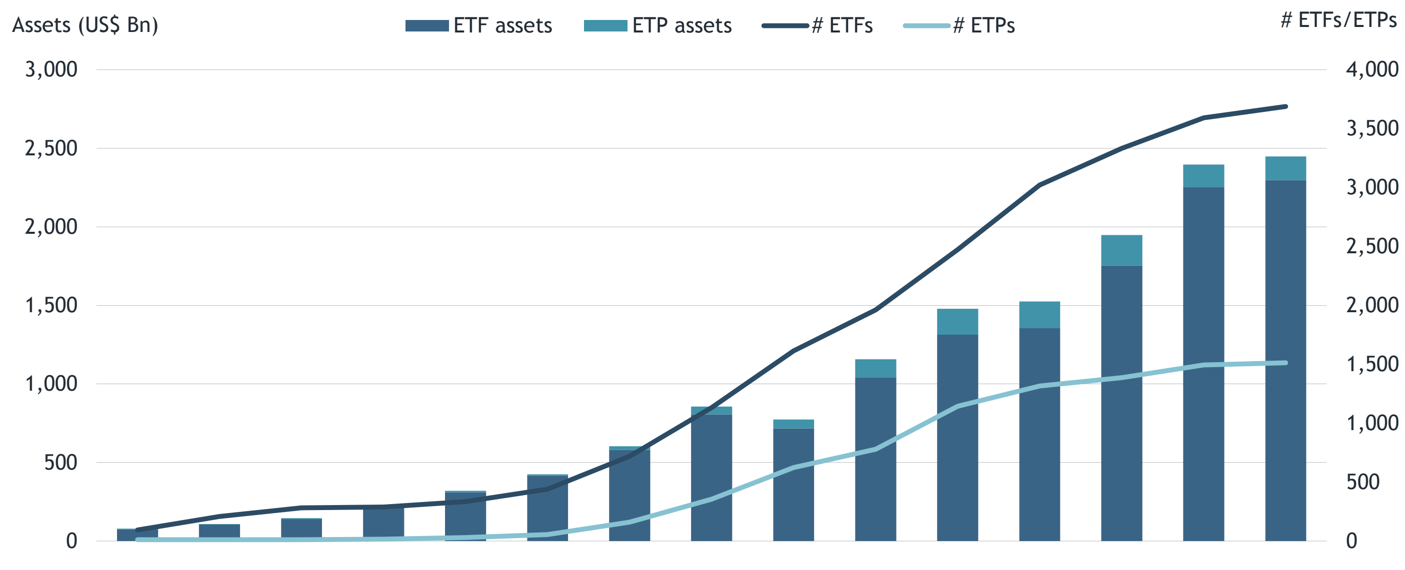
"March was the first month in 2014 when equity exposures gathered more net new assets than fixed income. Equity markets were choppy in March - the S&P 500 closed at an all-time high on March 7th but ended the month up less than 1%. Gains came at the end of the month after comments from Fed provided assurance that short-term rates would not increase earlier than expected. Outside the U.S., developed markets declined slightly while emerging markets gained 3%." according to Deborah Fuhr, Managing Partner at ETFGI. In March 2014, ETFs/ETPs saw net inflows of US$11.0 billion. Equity ETFs/ETPs gathered the largest net inflows with US$9.9 Bn, followed by commodity ETFs/ETPs with US$876 Mn, while fixed income ETFs/ETPs experienced net outflows with US$1.4 Bn.

In Q1 2014, ETFs/ETPs have gathered net inflows of US$33.0 Bn which is significantly below the US$73.1 Bn at this time last year. Fixed income ETFs/ETPs gathered US$17.8 Bn - the largest net inflows YTD - followed by equity ETFs/ETPs with US$8.4 Bn, while commodity ETFs/ETPs experienced the largest net outflows YTD with US$207 Mn.

Vanguard gathered the largest net ETF/ETP inflows in March with US$5.3 Bn, followed by iShares with US$1.6 Bn and First Trust with US$1.2 Bn net inflows. Vanguard has also gathered the largest net ETF/ETP inflows YTD with US$14.7 Bn, followed by iShares with US$8.6 Bn and Nomura AM with US$4.9 Bn net inflows.

Global ETF and ETP asset growth as at end of March 2014

At the end of March 2014, the Global ETF industry had 3,690 ETFs, with 8,038 listings, assets of US$2.297 trillion, from 194 providers on 57 exchanges. At the end of March 2014, the Global ETF/ETP industry had 5,203 ETFs/ETPs, with 10,217 listings, assets of US$2.449 trillion, from 220 providers on 59 exchanges.



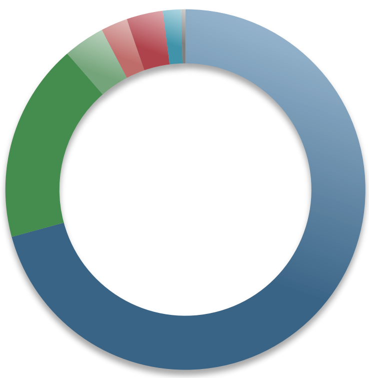
Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Mar-14
# ETFs	94	208	283	288	334	440	719	1,132	1,614	1,962	2,474	3,023	3,335	3,593	3,690
# ETFs/ETPs	105	220	295	303	364	506	887	1,543	2,237	2,740	3,616	4,340	4,723	5,087	5,203
ETF assets	74	105	142	212	310	416	579	806	716	1,041	1,313	1,355	1,754	2,254	2,297
ETF/ETP assets	79	109	146	218	319	425	603	856	774	1,158	1,478	1,526	1,949	2,398	2,449

Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources, and data generated by our in-house team.
Note: "ETFs" are typically open-end index funds that provide daily portfolio transparency, are listed and traded on exchanges like stocks on a secondary basis as well as utilising a unique creation and redemption process for primary transactions. "ETPs" refers to other products that have similarities to ETFs in the way they trade and settle but they do not use a mutual fund structure. The use of other structures including grantor trusts, partnerships, notes and depositary receipts by ETPs can create different tax and regulatory implications for investors when compared to ETFs which are funds.

Global ETF/ETP Assets Summary

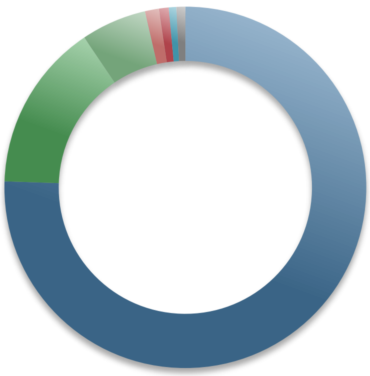
etfgi.com

ETF/ETP assets by region listed



Region	Assets (US$ Bn)	% total
US	$1,736	70.9%
Europe	$436	17.8%
Asia Pacific (ex-Japan)	$88	3.6%
Japan	$79	3.2%
Canada	$60	2.4%
Middle East and Africa	$41	1.7%
Latin America	$9	0.4%
Total	**$2,449**	**100.0%**

ETF/ETP assets by asset class



Asset class	Assets (US$ Bn)	% total
Equity	$1,852	75.6%
Fixed Income	$366	15.0%
Commodities	$140	5.7%
Leveraged	$31	1.3%
Active	$22	0.9%
Leveraged Inverse	$17	0.7%
Others	$21	0.9%
Total	**$2,449**	**100.0%**

ETF/ETP assets by product structure

Structure	Assets (US$ Bn)	% total
ETF	$2,297	93.8%
ETP	$153	6.2%
Total	**$2,449**	**100.0%**

Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources, and data generated by our in-house team.

Assets

- At the end of March 2014, the global ETF/ETP industry had 5,203 ETFs/ETPs, with 10,217 listings, assets of US$2.449 trillion, from 220 providers on 59 exchanges.
- ETF/ETP assets have increased by 0.4% from US$2.440 trillion in February 2014 to US$2.449 trillion in March 2014.
- YTD through end of March 2014, ETF/ETP assets have increased by 2.2% from US$2.397 trillion to US$2.449 trillion.

Flows

- In March 2014, ETFs/ETPs saw net inflows of US$11.640 Bn. YTD through end of March 2014, ETFs/ETPs saw net inflows of US$33.253 Bn.
- Vanguard gathered the largest net ETF/ETP inflows in March with US$5.299 Bn, followed by iShares with US$1.628 Bn and First Trust with US$1.221 Bn net inflows.
- Vanguard gathered the largest net ETF/ETP inflows YTD with US$14.715 Bn, followed by iShares with US$8.607 Bn and Nomura AM with US$4.905 Bn net inflows.

Products

- In March 2014, 45 new ETFs/ETPs were launched by 29 providers. Including cross listings, there were 68 new listings from 34 providers on 18 exchanges. 28 ETFs/ETPs closed and there were a total of 43 listings removed from 8 exchanges. YTD through end of March 2014, 160 new ETFs/ETPs have been launched by 55 providers. Including cross listings, there have been 285 new listings from 61 providers on 23 exchanges. 44 ETFs/ETPs have closed, with a total of 214 listings removed from 12 exchanges.
- The top 100 ETFs/ETPs, out of 5,203, account for 56.9% of global ETF/ETP assets. 365 ETFs/ETPs have greater than US$1 Bn in assets, while 3,583 ETFs/ETPs have less than US$100 Mn in assets, 3,025 ETFs/ETPs have less than US$50 Mn in assets and 1,631 ETFs/ETPs have less than US$10 Mn in assets.

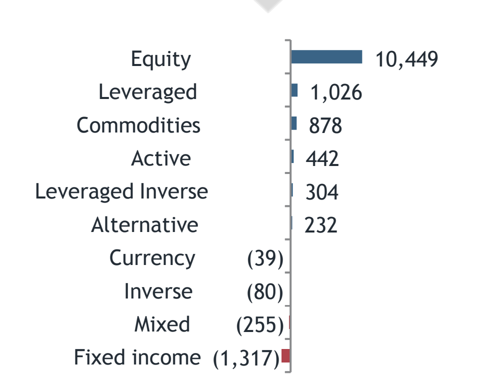
Trading Volumes

- ETF/ETP average daily trading volumes decreased by 2.9% from US$83,685 Mn in February 2014 to US$81,242 Mn in March 2014.

Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources, and data generated by our in-house team.Note: This report is based on the most recent data available at the time of publication. Asset and flow data may change slightly as additional month-end data becomes available.

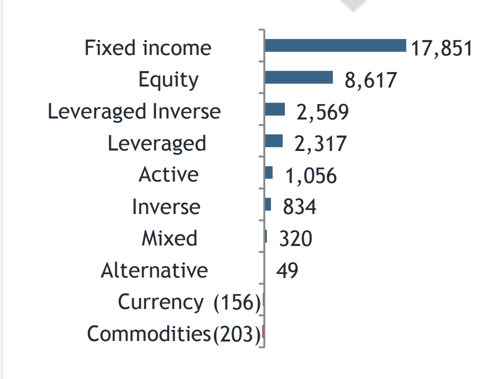
ETFs / ETPs by asset class: Global

March 2014 ETF/ETP net new assets by type of exposure (US$ Mn)



Total: 11,640

YTD ETF/ETP net new assets by type of exposure (US$ Mn)



Total: 33,253

Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources, and data generated by our in-house team.Note: This report is based on the most recent data available at the time of publication. Asset and flow data may change slightly as additional month-end data becomes available. Israel ETP assets and flows are included in the total figures but are not reflected in the asset class breakdown.

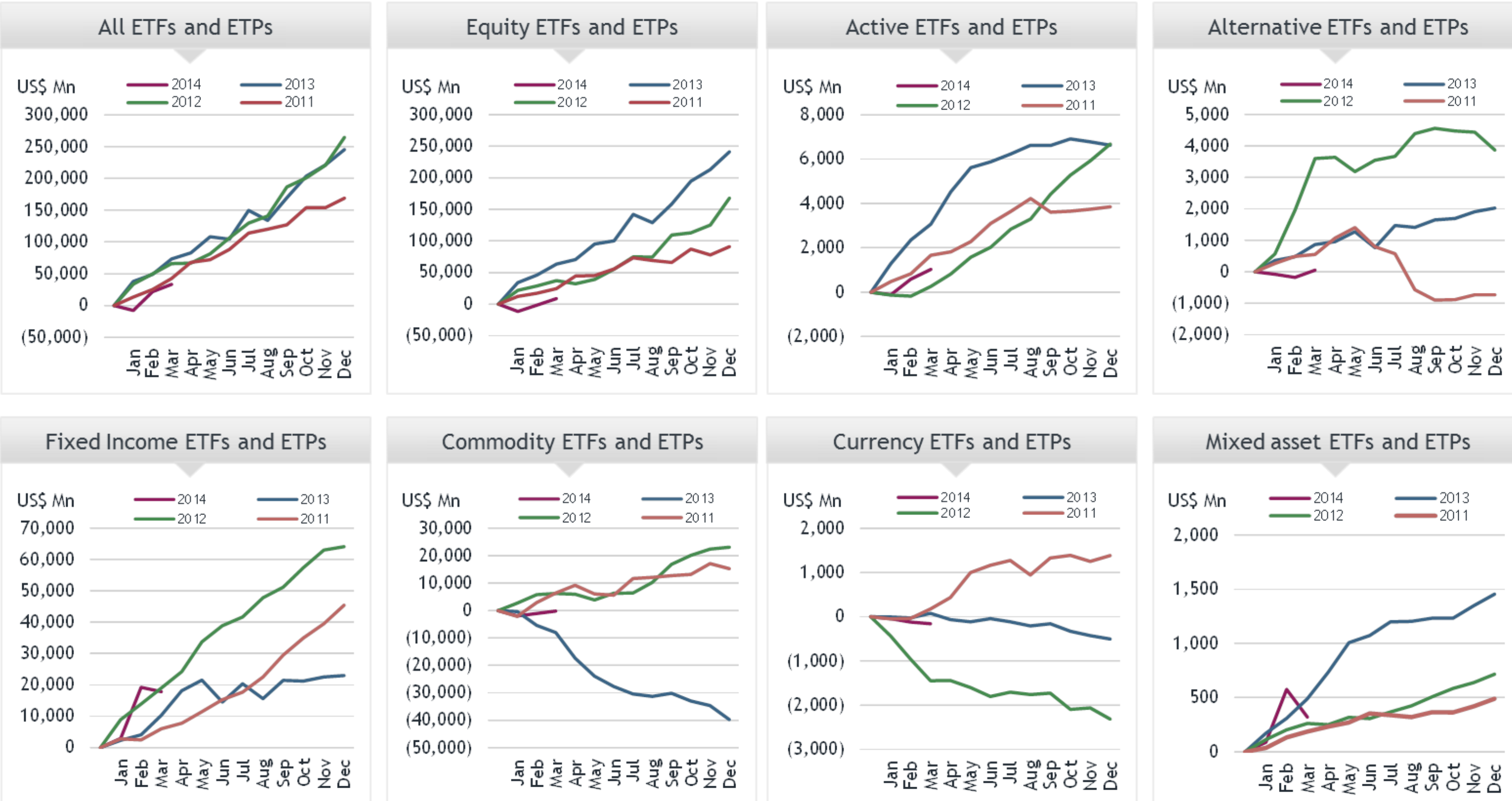
In March 2014, ETFs/ETPs saw net inflows of US$11.640 Bn.

Equity ETFs/ETPs gathered the largest net inflows with US$10.449 Bn, commodity ETFs/ETPs had inflows of US$878 Mn, while fixed income ETFs/ETPs experienced the largest net outflows with US$1.317 Bn.

YTD through end of March 2014, ETFs/ETPs have seen net inflows of US$33.253 Bn.

Fixed income ETFs/ETPs gathered the largest net inflows YTD with US$17.851 Bn, followed by equity ETFs/ETPs with US$8.617 Bn, while commodity ETFs/ETPs experienced the largest net outflows YTD with US$203 Mn.

YTD 2013 vs 2012, 2011 ETF and ETP net new assets by asset class: Global



ETFs and ETPs listed globally gathered net inflows of $11,640 Mn in March, taking total net inflows over the first quarter of 2014 up to $33,253 Mn. This is less than the $73,199 Mn and $66,146 Mn net inflows over the same period in 2013 and 2012 respectively.

Equity ETFs and ETPs gathered net inflows of $10,449 Mn in March, taking net flows for the quarter into positive territory at $8,617 Mn. This is less than the $63,263 Mn net inflows over the same period last year and the $37,302 Mn net inflows in the first three months of 2012.

Fixed income products experienced net outflows of $1,317 Mn, reducing year to date net inflows to $17,851 Mn. This is greater than the $10,316 Mn net inflows in the first quarter of 2013 and in-line with the $18,983 Mn net inflows over the same period in 2012.

Commodity products gathered net inflows of $878 Mn in March, reducing year to date net outflows to $203 Mn from $1,081 Mn previously. At the same point last year commodity products had experienced net outflows of $7,995 Mn while in the first three months of 2012 commodity ETFs/ETPs had accumulated net inflows of $6,226 Mn.

Actively managed products gathered net inflows of $442 Mn in March, taking year to date net inflows up to $1,056 Mn. This is less than the $3,085 Mn net inflows over the same period last year.

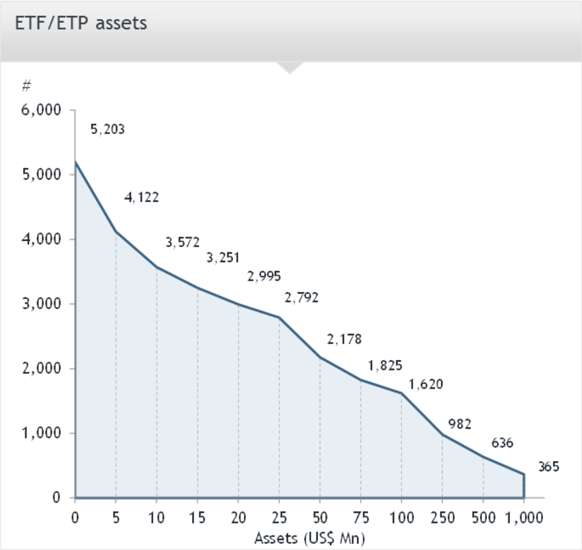
Products tracking alternative indices gathered net inflows of $232 Mn over the course of the month with year to date net inflows at $49 Mn. This is less than the $862 Mn net inflows at this point last year.

Currency products experienced net outflows of $39 Mn in March with total net outflows over the quarter reaching $156 Mn. At the same time last year currency ETFs/ETPs had accumulated net inflows of $76 Mn.

Products holding more than one asset class experienced net outflows of $255 Mn in March, paring year to date net inflows to $320 Mn. This is less than the $490 Mn net inflows over the first quarter of 2013 but greater than the $261 Mn net inflows in the first three months of 2012.

Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources, and data generated by our in-house team.Note: This report is based on the most recent data available at the time of publication. Asset and flow data may change slightly as additional month-end data becomes available.

Distribution of ETFs/ETPs by size



Assets greater than (US$ Mn)	# ETFs	% total	Total assets (US$ Bn)	% total
0	5,203	100.0%	2,449	100.0%
5	4,122	79.2%	2,446	99.9%
10	3,572	68.7%	2,443	99.7%
15	3,251	62.5%	2,439	99.6%
20	2,995	57.6%	2,434	99.4%
25	2,792	53.7%	2,430	99.2%
50	2,178	41.9%	2,408	98.3%
75	1,825	35.1%	2,386	97.4%
100	1,620	31.1%	2,368	96.7%
250	982	18.9%	2,267	92.6%
500	636	12.2%	2,145	87.6%
1,000	365	7.0%	1,954	79.8%

365 ETFs/ETPs have greater than US$1 Bn in assets, while 1,620 have greater than US$100 Mn in assets and 2,178 have greater than US$50 Mn in assets. The 365 ETFs/ETPs with greater than US$1 Bn in assets hold a combined total of US$1,954 Bn, or 79.8%, of Global ETF/ETP assets.

ETF/ETP underlying benchmarks: developed equity

Top 20 by assets

Name	Assets (US$ Mn) Mar-14	NNA (US$ Mn) Mar-14	NNA (US$ Mn) YTD 2014
S&P 500 Index	260,629	4,710	(15,238)
MSCI EAFE Index	56,133	(212)	1,133
NASDAQ 100 Index	47,242	(1,064)	(590)
CRSP US Total Market Index	41,449	319	1,648
Nikkei 225 Index	40,524	(696)	4,867
S&P Mid Cap 400 Index	37,383	15	(3,530)
TOPIX Index	32,670	4	578
DAX Index	30,928	252	9
EURO STOXX 50 Index	30,916	(1,270)	(1,713)
Russell 2000 Index	30,607	3,956	2,575
MSCI Japan Index	26,055	(48)	904
Russell 1000 Growth Index	23,233	366	190
Russell 1000 Value Index	21,500	27	76
MSCI US REIT Index	21,036	463	1,917
FTSE Developed ex North America Index	20,802	468	1,886
NASDAQ Dividend Achievers Select Index	18,904	125	(510)
S&P Financial Select Sector Index	18,725	1,039	1,276
MSCI World Index	17,157	333	42
FTSE Developed Europe Net Tax US RIC TR Index USD	15,817	400	2,062
MSCI EMU Index	14,454	4	1,780

Top 20 by monthly net inflows

Name	Assets (US$ Mn) Mar-14	NNA (US$ Mn) Mar-14	NNA (US$ Mn) YTD 2014
S&P 500 Index	269,244	3,144	(15,238)
Russell 2000 Index	35,215	1,930	2,575
S&P Financial Select Sector Index	18,725	1,039	1,276
FTSE MIB Index	3,117	486	754
MSCI US REIT Index	21,150	470	1,917
FTSE Developed ex North America Index	20,802	468	1,886
S&P Consumer Discretionary Select Sector Index	5,646	411	(1,618)
S&P Energy Select Sector Index	9,163	405	888
FTSE Developed Europe Net Tax US RIC TR Index USD	15,825	400	2,062
Russell 1000 Growth Index	24,384	364	190
S&P/TSX 60 Index	12,528	349	(396)
MSCI EAFE IMI Index USD	1,990	346	634
MSCI World Index	17,157	333	42
CRSP US Total Market Index	41,449	319	1,648
S&P Technology Select Sector Index	12,650	284	(891)
S&P Equal Weight Index	7,086	276	373
S&P Preferred Stock Index	9,066	273	268
MSCI Spain 25-50 Net USD Index	1,595	241	634
DAX Index	32,148	234	9
CRSP US Small Cap Index	8,828	222	393

Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources, and data generated by our in-house team.

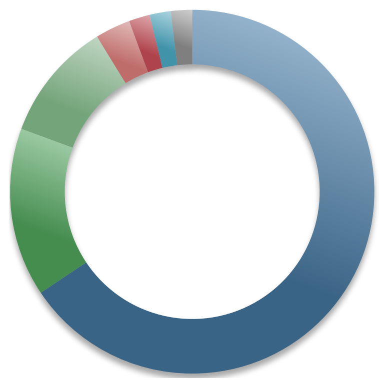
Year to Date ETF / ETP Product Launches

Summary of ETF / ETP assets

ETFs/ETPs by region listed

Region	# ETFs/ETPs	% total
US	53	33.1%
Middle East and Africa	35	21.9%
Europe	29	18.1%
Canada	18	11.3%
Asia Pacific (ex-Japan)	16	10.0%
Japan	9	5.6%
Latin America	0	0.0%
Total	**160**	**100.0%**

ETFs/ETPs by asset class



Asset class	# ETFs/ETPs	% total
Equity	105	65.6%
Fixed income	24	15.0%
Active	17	10.6%
Leveraged Inverse	5	3.1%
Leveraged	3	1.9%
Alternative	3	1.9%
Others	3	1.9%
Total	**160**	**100.0%**

ETFs/ETPs by product structure

Structure	# ETFs/ETPs	% total
ETF	126	78.8%
ETP	34	21.3%
Total	**160**	**100.0%**

Source: ETFGI, Bloomberg, ETF/ETP providers.

Please contact deborah.fuhr@etfgi.com or contact@etfgi.com if you would like to subscribe to ETFGI's complete monthly Global ETF and ETP industry insights reports or ETFGI's Institutional Users of ETFs and ETPs 2012 report.

Rating Actions

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

- **Fitch Affirms Eaton Vance Loan Funds' Term Preferred Shares at 'AA'** – February 27, 2014
- **Fitch Affirms 'AAA' Preferred Ratings of AllianzGI Convertible & Income Fund II** – February 28, 2014
- **Fitch Affirms 'AAA' Preferred Ratings of 4 PIMCO Corporate Closed End Funds** – February 28, 2014
- **Fitch Affirms 'AAA' Preferred of Legg Mason Loan and Two Western Asset Muni Funds** – February 28, 2014
- **Fitch Affirms Pioneer Closed-End-Fund Preferred Shares at 'AAA'** – March 4, 2014
- **Fitch Affirms Preferred Share Ratings of Franklin Templeton Limited Duration Income Trust at 'AAA'** – March 11, 2014
- **Fitch: Pioneer Fund Preferred Shares PIF** – March 19, 2014
- **Fitch Expects to Rate & Affirms Preferred Shares Issued by Nuveen Closed End Funds** – March 27, 2014
- **Fitch Rates Preferred Shares Issued by Three First American Closed End Funds** – April 1, 2014
- **Fitch Rates Preferred Shares Issued by Nuveen Closed-End Funds** – April 1, 2014
- **Affirms Kayne Anderson Funds' Notes at 'AAA' & MRPS at 'AA'** – April 11, 2014
- **Fitch Rates New Tortoise Closed-End Fund Notes 'AAA'; Affirms Existing Ratings** – April 17, 2014
- **Fitch Affirms L-T and Withdraws S-T Ratings on VRDP Shares of 5 BlackRock Muni Closed-End Funds** – April 17, 2014

Year-To-Date Performance of Municipal Closed-End Funds Shows the Importance of Balance

March 31, 2014

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

2013 was a remarkable year for domestic equities. Not only was the Standard & Poor's 500 Index up 32.37% according to Bloomberg, but it achieved these results with very little downside volatility. Indeed, August was the only negative month for the S&P 500 in 2013. With such robust returns for equities coupled with a rise in long-term interest rates last year, it is to be expected that investors could lose sight of the importance of building balanced, diversified closed-end fund (CEF) portfolios and instead be mostly focused on equities and equity CEFs. The speed and degree with which investors sold both individual municipal bonds as well as municipal CEFs during the spring and summer of 2013 illustrates this point.

However, just because municipal bonds and municipal CEFs were clearly out of favor with investors for most of 2013, it did not mean there was not value in the underlying asset class and in municipal CEFs. This was precisely why I continued to advocate CEF investors maintain some exposure to municipal CEFs as the distribution rates, distribution stability (for the majority of municipal CEFs), valuations, low leverage cost and high credit characteristics were still compelling enough to warrant they be part of a diversified, balanced portfolio of CEFs.

While I suspect some readers of this blog and CEF commentary page may have doubted the wisdom behind this thesis, the recent performance of municipal CEFs illustrates the importance of maintaining balance in a CEF portfolio even when one of the categories you own might be out of favor. This is particularly relevant in light of the choppy start to the year for the S&P 500 which is up 0.50% year-to-date (YTD) as of 3/28/14 according to Bloomberg. National municipal CEFs, as measured by the First Trust Municipal Closed-End Fund Total Return Price Index (MNCEFT), are up 8.61% YTD through 3/28/14 and up 12.37% since 12/5/13. Even with the very strong total returns since early December, I believe valuations for municipal CEFs remain attractive as the average discount to NAV was 6.08% as of 3/28/14 according to Morningstar. The average was 0.91% one year ago and 0.97% three years ago according to Morningstar. Furthermore, with the Federal Reserve likely to keep the federal funds rate at 0-0.25% through all of 2014, leverage cost for levered municipal CEFs should remain low and help most municipal CEFs to maintain their very attractive distributions. The average national, leveraged municipal CEF had a distribution rate of 6.39% as of 3/28/14 according to Morningstar. A 6.39% distribution rate is a taxable equivalent distribution rate of 9.83% for someone in the 35% tax bracket.

In my view, the primary risk for investors in municipal CEFs remains duration risk. This is why I continue to advocate that CEF investors build portfolios that blend municipal CEFs with shorter duration senior loan CEFs as well as limited duration multi-sector CEFs and domestic equity CEFs as a way to mitigate some of the duration risk inherent in municipal CEFs. The potential for higher short term interest rates (and therefore higher leverage cost) sometime in mid-2015 is something owners of leveraged municipal CEFs should be watching closely. However, for now, while municipal CEFs clearly have duration risk, I believe with average tax-free distribution rates north of 6%, current wide discounts to NAV and the likelihood most municipal CEFs are able to maintain their distributions this year and into 2015 as the Federal Reserve keeps the fed funds rate at a rock bottom 0-0.25%, investors are being compensated for the duration risk they are assuming.

The performance of the First Trust Municipal Closed-End Fund Index is for illustrative purposes only and not indicative of any investment. Past performance is no guarantee of future results. The First Trust Municipal Closed-End Fund Index is a capitalization weighted index designed to provide a broad representation of the U.S. municipal closed-end fund universe. An index cannot be purchased directly by investors.

Closed-end funds are subject to various risks, including management's ability to meet the fund's investment objective, and to manage the fund's portfolio when the underlying securities are redeemed or sold, during periods of market turmoil and as investors' perceptions regarding the funds or their underlying investments change. Unlike open-end funds, which trade at prices based on a current determination of the fund's net asset value, closed-end funds frequently trade at a discount to their net asset value in the secondary market. Certain closed-end funds may employ the use of leverage which increases the volatility of such funds.

All opinions expressed constitute judgments as of the date of release, and are subject to change without notice. There can be no assurance forecasts will be achieved. The information is taken from sources that we believe to be reliable but we do not guarantee its accuracy or completeness.

Closed-End Funds offering exposure to Master Limited Partnerships

March 27, 2014

Authored by:
Mariana F. Bush, CFA
Senior Analyst,
Wells Fargo Advisors
Dan Brown, CFA
Analyst, Wells Fargo Advisors

The basics of two structures

Closed-end funds (CEFs) offering exposure to MLPs have been a popular segment of the CEF market in the past few years. In aggregate, MLP CEFs hold net assets of $22.3 billion, roughly 9% of the CEF universe (excluding single-state municipal bond CEFs), and the median size of each MLP CEF is just over $700 million. New MLP CEF offerings have grown as the MLP market itself has expanded. Since 2010, MLP CEFs raised $10.4 billion in initial public offerings (IPOs), representing 42% of the total CEF IPO assets raised. We believe that some of the investor interest in the asset class is likely a result of a number of factors such as attractive yield levels, the tax-deferred nature of the majority of the distributions paid by MLPs, and the simpler tax reporting offered by the CEF structure relative to that of individual MLPs. In fact, taxes have an important impact on an MLP CEF depending on the structure used. In this report we will briefly discuss the implications of the two structures of MLP CEFs — a regulated investment company (RIC) or a C-corporation (C-Corp).

RICs versus C-Corps

When offering a new investment that provides exposure to energy MLPs, CEF managers have opted for one of at least two structures. If they favored a RIC structure — most CEFs are RICs — they had to limit the exposure to MLPs to no more than 25% of portfolio assets in order not to lose its tax status.[1] Instead, managers who desired a more concentrated exposure to MLPs — holding more than 25% of assets in MLPs — favored a C-corp. This purer exposure to MLPs comes with strings attached: paying taxes at the fund level.

RICs

Under current law a RIC cannot invest more than 25% of its portfolio in MLPs. Accordingly, some MLP-oriented CEFs will still elect to be treated as a RIC and will limit holdings in MLPs to 25% of the portfolio, with the remainder possibly invested in, among others, non-MLP energy and/or infrastructure companies. These MLP RICs may also invest in MLP-like instruments, such as parent companies of MLPs that are not treated as such for tax purposes but their characteristics are somewhat similar to those of MLPs. As such, these can be considered more as “MLP-lite” energy products. These CEFs generate IRS Forms 1099 and may be viewed as products that are more appropriate for qualified accounts than C-Corps given the tax status of the distributions (to be discussed in more detail below). Additionally, RIC MLP CEFs can be placed in qualified accounts without generating unrelated business taxable income (UBTI) tax consequences.

Finally, to the limited extent that these types of CEFs have exposure to MLPs, they will pass through any tax-deferred distributions (paid by the MLPs in the portfolio), categorized as return-of-capital (ROC) for tax purposes, to the shareholders of the CEF, which requires a cost basis adjustment to the amount of ROC received. *Wells Fargo Advisors is not a tax advisor.*

C-Corps

A sponsor desiring greater MLP exposure than 25% may elect the C-Corp structure. However, this exposes the C-Corp to possible financial accounting issues, the most important of which is a deferred tax on the appreciation of its assets. In short, if the underlying MLPs of a C-Corp appreciate resulting in unrealized gains, the C-Corp must record a deferred tax liability (DTL), which recognizes the corporate taxes that may have to be paid in the future when the gains are realized. At this point, the majority of MLP C-Corps have DTLs and the median size as a percentage of total assets is 16%. As a result of DTLs, the quoted NAVs are reduced on paper, creating a headwind for the NAV performance relative to an identical exposure without the burden of a DTL. In order to offset at least part of this performance drag caused by the DTL, and also, we suspect, to increase the distribution rate, all of the MLP C-Corps use a level of leverage.[2] *Keep in mind that although the use of leverage may offset some of the DTLs, it can also serve*

Period 1 - Bullish	
Initial Investment	$10.00
Appreciation Assumption	10%
Unrealized Gain	$1.00
Ending Market Value	$11.00
Market Value Total Return	**10.0%**
Accumulated Unrealized Gain	$1.00
Federal Tax Rate	35%
Deferred Tax Liability	$0.35
Ending NAV (after DTL)	$10.65
NAV Total Return (after DTL adjustment)	**6.5%**

Source: Wells Fargo Advisors

Period 2 - Bearish	
Starting Market Value	$11.00
Depreciation Assumption	-10%
Unrealized Loss	($1.10)
Cumulative Unrealized Gain - Period 1 + 2	($0.10)
Ending Market Value	$9.90
Cumulative Market Value Total Return	**-1.0%**
Accumulated Unrealized Gain	($0.10)
Federal Tax Rate	35%
Deferred Tax Asset	($0.03)
Ending NAV (after DTA)	$9.94
Cumulative NAV Total Return (after DTA adjustment)	**-0.6%**

Source: Wells Fargo Advisors

[1] *A RIC will not pay taxes at the fund level as long as it meets certain distribution requirements such as distributing at least 90% of all interest or dividend income earned and capital gain realized. In that case, only the shareholder of a RIC has to pay taxes on distributions received. Thus, taxation occurs only on one level, not on both the fund and the shareholder levels.*

[2] *Keep in mind that all MLP CEFs use leverage regardless of structure.*

to increase volatility of both the NAV and market price. In the table below we demonstrate the impact of a DTL on the NAV of a C-Corp (assuming no distribution).

The C-Corp starts with an initial portfolio investment value of $10, and we assume in our hypothetical example that the underlying MLPs appreciate by 10%. In the interest of simplicity we ignore expenses, leverage as well as distributions. The 10% increase in the underlying MLPs would cause the initial investment to increase to $11.00. However, the C-Corp must account for a DTL, which is equal to 35% of the $1.00 in appreciation. Thus, once the DTL is taken into account, instead of reporting an NAV of $11, the C-Corp is required to report an NAV of only $10.65. In a nutshell, the DTL causes the 10% increase in the underlying MLPs to turn into a blander 6.5% increase in NAV as shown in the table below.

In addition to recording DTLs on unrealized gains, creating the headwind on the NAV appreciation potential, a C-Corp is also able to record a deferred tax asset (DTA) in the event the portfolio has an unrealized loss (assuming certain audit requirements are met that are beyond the scope of this report), which supports the reported NAV relative to the portfolio. This is demonstrated in the table on the next page labeled “Period 2 – Bearish”.

After gaining 10% in the first period of our hypothetical example, the portfolio now experiences a 10% loss in the second period. As such, the market value falls $1.10 from $11.00 to $9.90, resulting in a cumulative unrealized loss of $0.10 and a cumulative total return of -1.0% over the two periods. Therefore, the C-Corp is able to record a DTA on its balance sheet. When applying the 35% tax rate on the unrealized loss, the NAV is recorded at $9.94, resulting in a cumulative NAV total return of -0.6%. In a way, the DTL/DTA process functions similar to a covered call strategy — limiting both the upside and downside.

Since a C-Corp is able to be more fully invested in MLPs compared to a RIC, a greater portion of the distributions of a C-Corp are more likely to be treated as ROC as the capital returned from the underlying MLPs are simply passed through to the shareholders of the C-Corp. (This is different from the case of a RIC returning capital in the event it distributes realized capital losses.) However, as with RIC CEFs, shareholders who sell their shares must adjust their cost basis by the amount of ROC during the holding period in order to determine their tax liability. In addition, if the cost basis were to fall to zero, all distributions would be taxed as ordinary income.

Lastly, as with the RICs, C-Corps generally report income-tax information using IRS Forms 1099 and these products are usually considered eligible to be placed in qualified accounts without generating UBTI consequences. However, it is worth noting that the tax-deferral on distributions from the C-Corps lose their tax benefit in a qualified account given the tax deferred status on qualified accounts themselves. *Again, Wells Fargo Advisors is not a tax advisor.*

Investment Choice

Both structures provide advantages and disadvantages, and different investors may favor one structure over the other. Investors should favor a RIC structure if (1) they would like to more fully participate on the potential appreciation of the portfolio by avoiding the performance drag from a potential DTL, (2) they do not mind a more diluted exposure to MLPs — up to only 25% of assets, and (3) do not mind a less tax-efficient distribution. On the other hand, investors should favor a C-Corp if (1) they favor a more concentrated exposure to MLPs, (2) they favor a more tax-efficient distribution (assuming that it is held in a non-qualified account), and (3) they do not mind the potential for a performance drag on the MLP exposure. The table below summarizes the decision factors for choosing one structure over the other. One structure is not necessarily better than the other, but one structure may better fit the needs of an investor.

	RIC	*C-Corp*
MLP Exposure	*Up to 25%*	*Up to 100%*
Tax-efficiency of distribution	*Limited potential for a portion of the distribution to be treated as return of capital*	*A greater portion of the distribution is more likely to be treated as return of capital*
DTL’s drag on the performance of the portfolio’s MLP exposure	*None*	*Yes*

Unexpected Returns

How Closed-End Funds Have Defied Conventional Wisdom on Yields and Discounts

March 2014

Authored by:
Doug Bong
Executive Vice President, Portfolio Manager
Cohen & Steers

Edited by:
Mark Adams
Cohen & Steers

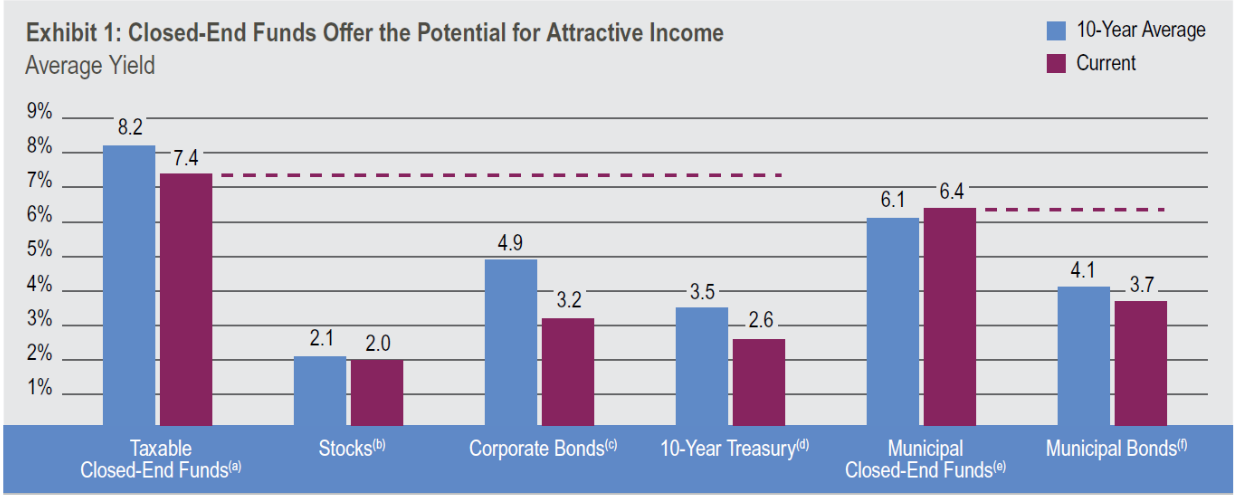
Two things typically attract investors to closed-end funds: the potential for attractive income and the ability to access various investment strategies priced at a discount to net asset value (NAV). While these are important factors to consider, the draw of yields and discounts may distract investors from other things that are likely to have a larger impact on returns over the long run. In fact, history shows that by themselves, yields and discounts have done a poor job of hinting at future performance.

The Yield and Discount Value Propositions

A Potential Income Advantage Over Stocks and Bonds

There are many reasons to invest in closed-end funds, but it's the potential for attractive cash distributions that seems to entice investors the most. With hundreds of closed-end funds offering distribution rates in excess of 7%, it is not surprising they have become popular, especially considering the substantial income needs of baby boomers, who are retiring at a time when yields on investment-grade bonds are meager at best. Many closed-end funds also offer the potential for capital appreciation, further enhancing their appeal to growth-and-income investors.

Closed-end funds continue to offer a meaningful income advantage over stocks and bonds, due mostly to the use of leverage in their capital structure. Exhibit 1 shows that as of January 31, 2014, the average distribution rate for taxable closed-end funds was 7.4%, compared with yields of 3.2% and 2.6% for U.S. corporate and government bonds, respectively, and 2.0% for U.S. stocks. For a $100,000 investment, this translates into an additional $4,800 in potential annual income compared with a 50/50 mix of stocks and corporate bonds.[1] The tax-exempt market offers a similar advantage, where the average distribution rate for national municipal closed-end funds is 270 basis points higher than that of municipal bonds.



At January 31, 2014. Source: Morningstar, Bloomberg and Cohen & Steers.

Performance data quoted represents past performance. Past performance is no guarantee of future results. The information presented above does not reflect the performance of any fund or account managed or serviced by Cohen & Steers, and there is no guarantee that investors will experience the type of performance reflected above. An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes.

(a) Distribution rate, Morningstar U.S. All Taxable Ex-Foreign Equity Closed-End Fund Index. (b) Average trailing 12-month dividend yield, S&P 500 Index. (c) Yield to maturity, BofA Merrill Lynch Corporate Master Index. (d) Federal Reserve 10-year Treasury constant maturity rate. (e) Distribution rate, Morningstar U.S. National Municipal Closed-End Fund Index. (f) Yield to maturity, BofA Merrill Lynch Municipal Master Index. See page 8 for index definitions.

(1) Assumes constant distributions (reinvested) based on the distribution rate of the Morningstar U.S. All Taxable Ex-Foreign Equity Closed-End Fund Index, versus the average yield for an even mix of stocks (represented by the S&P 500 Index) and investment-grade corporate bonds (represented by the BofA Merrill Lynch Corporate Master Index). Actual distribution rates typically vary. See page 8 for index definitions.

Buying Assets at a Discount

Another quality that investors value in closed-end funds is the opportunity to buy shares at a discount to NAV. Over the past decade, discounts have averaged 4.8% for equity funds and -2.5% for fixed income funds.(1) However, discounts have widened over the past year amid concerns of rising interest rates, stemming from anticipation that the Federal Reserve would begin to taper quantitative easing (QE). As of January 31, 2014, 90% of the taxable closed-end-fund market traded below NAV, with discounts averaging -6.9% and -5.3% for equity and fixed income funds, respectively.

It is not uncommon for market prices of closed-end funds to lag NAV returns in periods of rising rates, as higher borrowing costs can make it harder for funds to sustain their distributions. But in 2013, discounts widened even though borrowing costs remained relatively stable. We believe the cause in this instance was the fear that QE tapering was just the first step in a tightening trend that would lead to higher short-term rates in the near future. However, the Federal Reserve has stated the intention to keep the overnight target rate below 0.25% for the foreseeable future, even if unemployment continues to decline. With this in mind, we believe many segments of the closed-end-fund market could see discounts gradually move toward their historical averages as visibility on short-term rates improves.

Yields and Discounts Are the Beginning, Not the End, of Analysis

Income potential and discounts (or premiums) are just two of many factors to consider when evaluating closed-end funds. In our experience, it is often other factors, such as the relative value of the underlying asset class and the skill of the fund manager, that typically have the largest influence on a fund's long-term performance. Unfortunately, it is not uncommon for investors to buy a closed-end fund simply because it has a high yield and/or a deep discount, believing this gives them the best expected return.

We examined historical returns to see if the evidence supports our view that discounts and yields have only a tangential effect on performance. What we found is that the relationship often contradicts what an investor might expect.

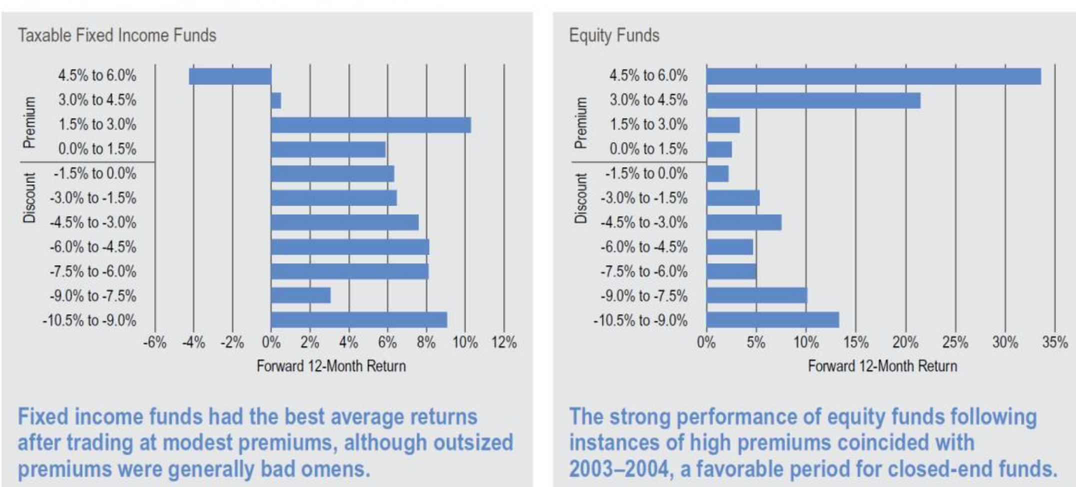
Wider Discounts Do Not Necessarily Mean Better Returns

For the following analyses, we observed all available data for closed-end funds going back to 1997 for valuations and 2003 for distribution rates. Exhibit 2 represents the forward 12-month market-price return for taxable fixed income funds (left) and equity funds (right), using a simple average of all days in which the discount or premium was within the specified range.

For fixed income funds, we see that the best returns were associated with modest premiums (+1.5% to +3.0%), although the few occasions when premiums were even higher were generally not good omens. In periods when funds traded below NAV, one might conclude that forward returns were modestly better on average following wider discounts than when discounts were narrower. However, this relationship breaks down in the 7.5% to 9.0% discount range, supporting the view that other factors besides discounts may have a meaningful influence on performance.

Equity funds had their strongest returns during periods in which premiums were at 3.0% or more. An analysis of the underlying data places most of these occasions in the 2003–2004 time frame. This was an exceptionally strong period for equity closed-end funds as U.S. stocks recovered from an economic downturn and benefited from favorable dividend tax reforms. For the remainder of the data, forward returns were not much different whether the closed-end funds were trading at modest premiums or even relatively wide discounts, except in times when discounts exceeded 7.5%.

Exhibit 2: Discounts/Premiums and Forward 12-Month Returns(a)



At January 31, 2014. Source: Cohen & Steers and Morningstar.

Performance data quoted represents past performance. Past performance is no guarantee of future results. The information presented above does not reflect the performance of any fund or account managed or serviced by Cohen & Steers, and there is no guarantee that investors will experience the type of performance reflected above. There is no guarantee that any historical trend illustrated above will be repeated in the future, and there is no way to predict precisely when such a trend might begin. An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes.

(a) Average total return over the forward 12 months for all days between January 1, 1997 and January 31, 2014, on which the end-of-day valuation was within the specified range; taxable fixed-income funds represented by the Morningstar U.S. All Taxable Fixed Income Closed-End Fund Index; equity funds represented by the Morningstar U.S. All Equity & Hybrid Ex-Foreign Equity Closed-End Fund Index. See page 8 for index definitions.

(1) Equity funds represented by the Morningstar U.S. All Equity & Hybrid Ex-Foreign Equity Closed-End Fund Index; fixed income funds represented by the Morningstar U.S. All Taxable Fixed Income Closed-End Fund Index. See page 8 for index definitions.

Click here for complete reading

What does a Closed-End Fund's Leverage Actually Cost: Achilles Heel or Investor's Salvation?

March 12, 2014

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

In our experience, leverage for closed-end funds is often touted as either their salvation or Achilles Heel. We believe the ability for funds to borrow at long-term rates and invest in the shorter-term is still a powerful benefit to closed-end fund investors. CEFA has been working hard this year to collect and organize data on the various types of CEF leverage as well as the average "cost" per fund for their use of leverage. In a few months we plan to include a CEF's leverage cost trend in order to identify funds with rising costs for borrowing money vs. those funds whose costs have either stayed stable or lowered over time. In this article, we wanted to shed some light on the current cost of leverage for the main four groups of CEFs and have compiled the following data to help us do that.

CEFA tracks 594 current closed-end funds, as of our March 7, 2014 CEF Universe Report; 112 (19%) of these funds have no leverage employed while 49 (8.3%) have between 1% and 10% leverage employed. The remaining 434 funds have an average of 32% leverage. This is where we focused our review.

Conclusion: It is not surprising that equity funds generally employ less leverage than bond funds as they can have the benefit of capital appreciation as a bigger part of their expected total return compared with most bond funds, which generally seek to collect income from bonds and avoid defaults.

With an average cost for leveraged inferred at only 1.59%, investors should continue to see the potential benefits of a leverage closed-end fund. It is true that leverage magnifies return (positive and negative) as well as the volatility of the portfolio; however, we feel it is worth it for the higher amount of income and potential upside it gives most shareholders. We hear some people complain that CEFs have higher expense ratios than index-based ETFs. However, we feel that if you average 1% in expenses for active management, which is not abnormal in an area with average assets for a levered CEF at $430M, and 0.51% as the average impact on the CEF's leverage cost on NAV (from our data, but not included in the table above), this leaves about 0.33% in fund operating costs. While we understand lower costs can be a benefit for investors, we often review and rate funds on NAV total return performance, which is a manager's investment results after the cost of his work, a fund's operating cost and the cost of leverage.

Closed-end fund leverage can be classified as either structural leverage or portfolio leverage. Structural leverage, which is the most common type, affects a CEF's capital structure by increasing the fund's portfolio size. The types of structural leverage include the borrowing or issuing debt and preferred stock. Preferred stock accounts for the majority of closed-end fund structural leverage. Portfolio leverage is leverage that results from a portfolio's investments. Some of the types of portfolio leverage include derivatives, reverse repurchase agreements, and tender option bonds.

If, when a CEF is leveraged, you understand what the cost of the leverage is on the portfolio and what the manager is using the leverage for, then you can decide if you want to be a shareholder of the fund. With the ability to trade a CEF during trading hours at market prices, you are always able to sell when you decide on a better option for your needs. We have long suggested that ETFs are low-cost exposure vehicles and CEFs are a way to capture yield, good active management and the alpha of inefficient pricing. Try to buy at a historically wide discount and sell at either a narrower discount or a premium.

We do not feel that ETFs and CEFs compete directly as they both serve important roles in the US capital markets. CEFs have traded in the US for over 120 years and we look forward to a bright future of new ideas on how to best utilize permanent capital in a liquid format for investors. In our experience, all investment structures have both strengths and weakness. The key in our opinion is knowing those weakness and how to navigate around them.

Closed-End Funds with More than 10% Leverage

	US & Non US Equity	Specialty Equity	Taxable Bonds	Municipal Bond	Avg Lev CEF
Number of CE Funds	34	73	141	186	434
Avg Fund Leverage	25.0%	26.4%	29.8%	37.4%	32.1%
Avg Relative Cost of Leverage	1.60%	2.06%	1.31%	1.62%	1.59%
% Leverage "Structural"	80.5%	92.5%	66.3%	71.3%	72.0%
% Leverage "Portfolio"	19.5%	7.5%	33.6%	28.7%	28.0%
Avg Expense Ratio	2.21%	2.07%	1.77%	1.74%	1.84%
% Expense Ratio From Leverage	18.7%	23.9%	19.7%	32.9%	26.0%

Note: Avg. Cost of leverage is calculated based on the cost of leverage divided by average net assets, which is then divided by the percentage the fund is leveraged. It seeks to infer the rough cost the fund has on a blended basis for its current leverage.

Commodity ETFs and the Business Cycle

April 10, 2014

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

Investor enthusiasm for non-gold commodity ETFs[1] continued to wane during the first quarter of 2014, as net outflows accelerated to $922 million, following $1.785 billion in net outflows for 2013.[2] This is unsurprising in light of the poor performance of many commodity indices and their related ETF over the past few years. However, investors may be selling out of commodity ETFs at (or near) a stage in the business cycle when the diversification benefits potentially provided by commodities ETFs may be most beneficial. In this blog entry, we'll discuss how the relationship between commodity futures and the business cycle may provide a compelling reason for investors to consider adding commodity ETFs to a diversified portfolio of stocks and bonds.

In 2006, Gary Gorton and K. Geert Rouwenhorst published a study which compared the average returns of U.S. stocks, U.S. bonds, and a diversified portfolio of commodity futures during four different phases of the U.S. economic business cycle, based on the economic peaks and troughs identified by the National Bureau of Economic Research (NBER) from 1959-2004.[3] The four phases in the study were determined by bisecting each period of NBER-identified "expansion" and "recession". The data showed that both stocks and bonds tended to perform better during the first half of economic expansions than they did during the second half, while the opposite was true for commodity futures, which tended to outperform during the second half of expansions (Table 1). Moreover, while stocks and bonds tended to produce negative returns during the first half of recessions, followed by positive returns during the second half, commodity futures tended to produce positive returns during the first half of recessions, followed by negative returns during the second half. Based on these observations, the study suggested that the long term diversification benefits offered by a portfolio of commodity futures were partly due to differences in performance during different phases of the business cycle.

During the most recent NBER-identified full business cycle, which began in November 2001 and ended in June 2009, there were important similarities and differences compared to the longer-term averages published by Gorton and Rouwenhorst. The most obvious differences occurred during the early expansion phase, as returns for commodity futures far outpaced stocks and bonds, and during the late recession phase, as negative returns for commodity futures were more extreme than the longer-term average, even as returns for stocks were also negative (Table 2).

Perhaps the most significant similarity between returns from the recent business cycle and the longer-term averages was the positive return provided by commodity futures during the first half of the recession, while stock returns were negative. Additionally, commodity futures outperformed stocks and bonds during the second half of the expansion phase, although the outperformance relative to stocks was less pronounced.

Table 1 – Average Returns by Stage of the Business Cycle, July 1959-December 2004

Cycle Type	Stocks	Bonds	Commodity Futures
Expansion	*13.3%*	*6.7%*	*11.8%*
Early	16.3%	10.0%	6.8%
Late	10.4%	3.6%	16.7%
Recession	*0.5%*	*12.6%*	*1.1%*
Early	-18.6%	-3.9%	3.7%
Late	19.7%	29.1%	-1.6%

Gorton, G. and K. Geert Rouwenhorst (2006). "Facts and Fantasies about Commodity Futures." Financial Analysts Journal, vol. 62, no. 2: 47-68. Past performance is no guarantee of future results.

Table 2 – Returns by Stage of the Business Cycle, November 2001-June 2009

Cycle Type	Stocks	Bonds	Commodity Futures
Expansion (10/31/01-11/30/07)	*55.8%*	*33.8%*	*131.5%*
Early *(10/31/01-11/15/04)*	17.7%	16.7%	74.7%
Late *(11/15/04-11/30/07)*	32.4%	14.7%	32.5%
Recession (11/30/07-5/30/09)	*-35.6%*	*6.9%*	*-28.2%*
Early *(11/30/07-8/31/08)*	-12.0%	2.3%	8.8%
Late *(8/31/08-5/30/09)*	-26.8%	4.5%	-34.0%

Stocks are represented by the S&P 500 Index. Bonds are represented by the Barclays US Aggregate Corporate Bond Total Return Index. Commodity Futures are represented by the Dow Jones-UBS Commodity Total Return Index. Past performance is no guarantee of future results. An index cannot be purchased directly by investors.

Of course, a major problem arises for those interested in applying a trading strategy to this information (which was recognized by the study's authors): NBER identifies the beginnings and ends of recessions and expansions several months after the fact. This makes it impossible for investors to know when the economy has reached an inflection point between expansion and recession, or when a midpoint of either has been reached.

Nevertheless, we can make a reasonable approximation about the phase(s) to which the U.S. economy may currently be closest. With the trough of the last NBER recession identified as June of 2009, and in light of relatively steady positive GDP growth over the past several quarters, we can reasonably assume that the U.S. economy is currently in a NBER expansion. If so, the current expansion is about 57 months old. According to NBER data, the average duration of the 11 expansions since 1945 (through the peak of the last expansion in December of 2007) was 58.4 months; the longest was 120 months (between March 1991 and March 2001). So, while it's not yet possible to identify the midpoint of the current NBER expansion, if it's anything like the previous eleven, there is a good chance the second half has already begun, or if it hasn't (and the next recession is more than 57 months away), the midpoint is likely drawing near.

If this inference proves correct, the U.S. economy may be in the midst of (or about to enter into) the two phases of the NBER business cycle during which commodity ETFs could provide the greatest benefit to a portfolio of stocks and bonds. The second half of NBER expansions produced the highest average returns for commodity futures, while the first half of NBER recessions produced positive average returns for commodity futures, during a stage in which average returns for stocks and bonds were both negative.

Broad commodity indices have started 2014 with attractive first quarter gains, and we believe there are compelling reasons, including portfolio diversification, inflation expectations, and past business cycle analyses, for investors to review, and perhaps increase, exposure to commodity ETFs within their asset allocation models.

You should consider a fund's investment objectives, risks, and charges and expenses carefully before investing. You can download a prospectus or summary prospectus by visiting www.ftportfolios.com, or contact First Trust Portfolios L.P. at 1-800-621-1675 to request a prospectus or summary prospectus which contains this and other information about a fund. The prospectus or summary prospectus should be read carefully before investing.

Investors buying or selling ETF shares on the secondary market may incur customary brokerage commissions. Market prices may differ to some degree from the net asset value of the shares. Investors who sell fund shares may receive less than the share's net asset value. Shares may be sold throughout the day on the exchange through any brokerage account. However, unlike mutual funds, shares may only be redeemed directly from the fund by authorized participants, in very large creation/redemption units. A fund's shares will change in value, and you could lose money by investing in a fund. One of the principal risks of investing in a fund is market risk. Market risk is the risk that a particular security owned by a fund, fund shares or the market in general may fall in value.

The trading prices of commodities futures fluctuate in response to a variety of factors which will cause a fund's net asset value and market price to fluctuate in response to these factors. As a result, an investor could lose money over short or long periods of time. In addition, the net asset value of a fund over short-term periods may be more volatile than other investment options because of a fund's significant use of financial instruments that have a leveraging effect. Futures instruments may be less liquid than other types of investments. The prices of futures instruments may fluctuate quickly and dramatically and may not correlate to price movements in other asset classes.

All opinions expressed constitute judgments as of the date of release, and are subject to change without notice. There can be no assurance forecasts will be achieved. The information is taken from sources that we believe to be reliable but we do not guarantee its accuracy or completeness.

1 For the sake of clarity, this article uses the term "ETF" to refer to all exchange-traded products (1940 Act exchange-traded funds, exchange-traded notes, commodity exchange-traded securities, etc.).
2 Morningstar Direct.
3 Gorton, G. and K. Geert Rouwenhorst (2006). "Facts and Fantasies about Commodity Futures." Financial Analysts Journal, vol. 62, no. 2: 47-68.

A Focus On High Quality For The Spring

March 25, 2014

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

The seasons are set to change, and historically speaking, warmer weather is associated with modest returns for the S&P 500 Index. One way to offset this trend is to focus on stocks with above-average S&P Capital IQ Quality Rankings in defensive sectors, in our view.

According to Richard Tortoriello, Director of Quantitative Research for S&P Capital IQ Global Markets Intelligence (GMI), the second year of the Presidential cycle is historically the weakest of the four years, when reviewing data back to 1970 with an average 10% gain, far below the 28% gain recorded in the third year. However, most of the second year gains took place in the November- April period that is nearing a close, with just 3% average returns when starting in May. Indeed, during May and September, stocks were typically flat to down, before climbing higher in October.

While noting past performance is not indicative of future results, since we are now in the second year of the Presidential cycle, Tortoriello believes these trends can be offset. He recommends focusing from May through October on the Health Care and Consumer Staples sectors and augmenting this by investing in those stocks with above-average S&P Capital IQ Quality Rankings. Introduced in 1956, Quality Rankings review a company's earnings and dividend record over the past 10 years, giving higher rankings for consistent growth. Those with A- or higher are deemed High Quality and B and below are Low Quality. Historically, High Quality Ranked stocks have posted higher profit margins, higher return on capital, and stronger cash flows than Low Quality stocks. Higher-quality stocks also incurred less volatility.

Tortoriello suggests a model portfolio that invests in Consumer Staples and Health Care stocks with above-average S&P Capital IQ Quality Rankings during May through October, and then rotating into Industrials and Information Technology stocks with below-average S&P Capital Quality Rankings. This approach historically generates impressive returns, on average twice as strong as the S&P 500 Index as a benchmark.

Investors looking to replicate this strategy can find candidate stocks by utilizing S&P Capital IQ MarketScope Advisor. There are 35 Consumer Staples and Health Care constituents of the S&P 500 Index with above-average S&P Capital IQ Quality Rankings and 13 of them have S&P Capital IQ Strong Buy or Buy recommendations. They include Johnson & Johnson (JNJ 97 ****) and Procter & Gamble (PG 80 ****) that have S&P Capital IQ Quality Rankings of A+ along with PepsiCo (PEP 82 ****) and Stryker (SYK 80 ****) that have S&P Capital IQ Quality Rankings of A.

All four of these stocks are holdings of PowerShares S&P 500 High Quality Portfolio (SPHQ 20 Overweight), which has 130 positions spread out across nine of the ten GICS sectors. While the more cyclical Industrials sector is currently the largest (26% of assets), defensive Consumer Staples (19%) and Health Care (10%) sectors are well-represented in our opinion. SPHQ includes stocks with S&P Capital IQ Quality Rankings of A- or higher, but according to our research, risk for the ETF is also muted by the favorably strong S&P Capital IQ Qualitative Risk Assessments of holdings and a below-average standard deviation of 11. The ETF, which has a gross expense ratio of 0.43% (net expense ratio of 0.29%), lags SPDR S&P 500 (SPY 185 Overweight) thus far in 2014, but performed in line during 2013, which we as encouraging given its lower risk profile.

Key Takeaways

S&P Capital IQ believe High Quality stocks can help a portfolio during a seasonally weak period.

POSITIVE IMPLICATIONS

JOHNSON & JOHNSON	★★★★	[JNJ]
PEPSICO INC	★★★★	[PEP]
POWERSHARES S&P 500 HIGH QUALITY PORTFOLIO	OVERWEIGHT	[SPHQ]
PROCTER & GAMBLE	★★★★	[PG]
STRYKER CORP	★★★★	[SYK]

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

Seeking Equilibrium

April 17, 2014

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

Gary D. Black
EVP and Global Co-CIO
Calamos Investments

Volatility returned with a vengeance as we entered the second quarter, fueled by dueling concerns that the economy was growing either too fast or too slow and by the perception that valuations in some sectors had become stretched. The sell-off that began in March with momentum-oriented names extended across a broader swath of the global market, with defensive names holding up best. We then saw a shift back to momentum when Federal Reserve meeting minutes were released on April 9, followed by another sell-off and then another rally.

Fed communications have been a significant factor in these vacillating global markets, especially as they triggered widespread de-risking by hedge funds. However, beyond that, there haven't been many clear catalysts to explain the volatility. Depending on who you ask, the shift away from higher-valuation stocks reflects either increasing or evaporating conviction in the global recovery. Those who think the recovery is getting stronger believe cyclicals can provide growth at more attractive valuations. The non-believers would say the recovery is losing steam and it's time to de-risk and head to more defensive areas.

Our view is that a balance of secular and cyclical growth makes the most sense, as economic growth looks to be on a measured pace, neither too hot nor too cold. Valuations remain attractive around the world. The high level of volatility in the markets and froth in certain sectors call for a high vigilance to valuations, however. We're cautious about securities with the highest valuations, and therefore, the greatest vulnerability to changing sentiment and a rising U.S. interest-rate environment.

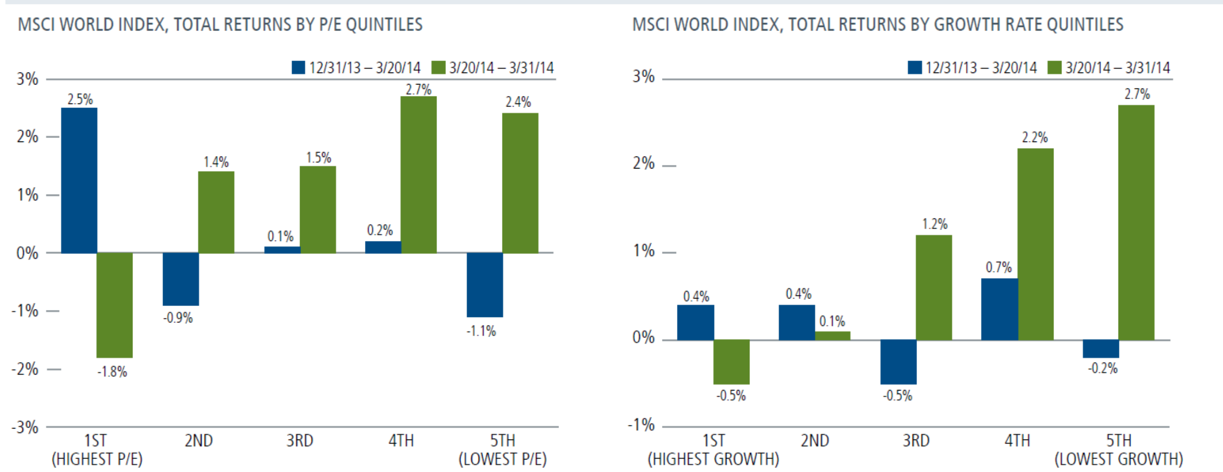
I. First Quarter Review

The U.S. continued to lead the global recovery, with steady GDP expansion, including an upward revision of fourth quarter GDP to 2.6%. The euro zone climbed further out of recession, supported by favorable trends in both the core and periphery, as well as the European Central Bank's (ECB's) stated commitment to further accommodative policy.

Despite greater conviction that global economic growth was improving and overwhelmingly accommodative global monetary policy, markets were choppy and rotational during the quarter, with increasing volatility. Investor anxiety initially centered on emerging markets, notably Turkey, Argentina, Russia and South Africa, as the tapering in the U.S. caused foreign exchange reserves to dwindle, forcing a number of central banks to raise rates to support their currencies even as their fragile economies were coming under pressure. Concerns about the health of the Chinese economy were exacerbated by unknowns in China's monolithic shadow banking system, as the government broke with precedence and allowed for defaults. Later in the quarter, political risk took center stage as mounting tensions in Ukraine further spooked investors and reduced the appetite for emerging market risk.

Uncertainties were not confined to the emerging markets, however. In the U.S., the economic impact of severe cold weather on consumer activity sent shivers through the markets. Weather woes paled in comparison to the market's reaction when Federal Reserve Chair Janet Yellen raised the prospect of U.S.

FIGURE 1. HIGHEST P/E, HIGHEST GROWERS FARED WORST AT END OF 1Q



Past performance is no guarantee of future results.
Source: S&P Capital IQ.

interest rates increasing in mid-2015, earlier than many investors expected. As we noted, the specter of higher U.S. rates sparked a swift rotation in the global equity markets in late March (Figure 1). Growth had led throughout much of the quarter, as secular growth names were well supported by underlying fundamentals. But in the waning days of March, investors shunned long-duration equities with higher multiples and growth rates in favor of more defensive names. (Long-duration equities are those where the vast majority of earnings and cash flows are many years out.)

The rotation was particularly brutal because stocks with high estimated growth and high multiples had became expensive relative to the market (2.2x versus a long-term average of 1.8x, as shown in Figure 2), although these "big grower" relative multiples were well below peaks reached before the Nifty Fifty meltdown of 1973 and the tech bubble implosion of 2000. Also, correlations of high-growth names had increased sharply, causing momentum stocks across sectors to behave singularly (Figure 3).

When all was said and done during the first quarter, the MSCI World Index eked out a return of 1.4% and the S&P 500 Index rose just 1.8% (Figure 4). The 10-year Treasury gained 3.4%, as concerns about equity markets ultimately overshadowed fears of rising interest rates.

Convertible securities outpaced equities globally, and U.S. convertibles also gained more than 10-year Treasurys. This performance is what we would expect as the equity market advanced but vacillated and spreads narrowed in the bond market. That is, we saw a high level of participation in equity upside, with good downside protection due to fixed-income characteristics, notably rising bond values. Increased appetite for less interest-rate sensitive securities likely stoked investor appetite for convertibles as well.

II. Global Outlook

Our global outlook remains positive as we enter the second quarter. We continue to estimate 2014 global economic growth of 2.5% to 3.0%. Inflation remains very low in the developed markets and looks to be on the decline in the emerging markets (Figure 5). Global monetary policy remains accommodative and provides a tailwind for recovery, even with the taper in U.S. As we discussed in our January commentary, we believe as the global economy heals, governments will focus less on aligning policies with one another, instead pursuing more country-specific policies to address their domestic issues. In most cases, however, this will likely lead to the same result of accommodative policy.

United States. Compared with the start of the year, the economy hasn't gotten much better, but it hasn't gotten much worse, either. We think we're in the middle innings of the recovery and believe GDP growth will be in the range of 2.0% to 2.5% for 2014. The Fed taper and the prospect of tighter monetary policy by late 2015 affirm the steady growth in the economy, as do consumer spending and improvements in industrial sectors. Job growth remains fairly sluggish at 150,000 to 200,000 a month (Figure 6). These levels aren't slow enough to cause the Federal Reserve to stall or delay the taper, but they fall far short of the 250,000 to 300,000 monthly jobs we believe would be needed for the U.S. economy to achieve escape velocity.

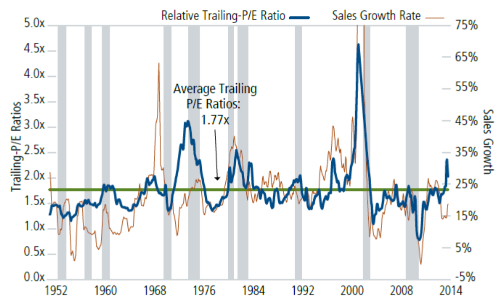
We believe severe weather was the primary cause for dampened economic activity, including slowdowns in the housing market and auto sales. Economic expansion is likely to accelerate in the second quarter as weather reverts to normal, which we believe will help retail, housing, autos, and other key sectors. We already saw a promising turn in auto sales in March (Figure 7). Even though the housing recovery may be hindered somewhat by rising rates and higher prices, we expect a pick up there as well (Figure 8). However, the long-anticipated recovery in capital spending has not occurred yet (Figure 9).

At less than 2%, inflation looks well contained. Although the Federal Reserve's balance sheet has expanded by close to 400% since 2008, the velocity of money has not kicked in and remains at a historic low. This backdrop should be supportive to continued economic expansion. While the March new jobs report fell a bit short of the 200,000 mark, jobless claims in early April declined to pre-financial crisis levels, pointing to a much-improved labor market.

FIGURE 2. HIGHER MULTIPLES CONTRIBUTED TO SELL-OFF

LARGE-CAPITALIZATION BIG GROWERS, RELATIVE TRAILING P/E RATIOS AND SALES GROWTH RATES
1952–EARLY APRIL 2014

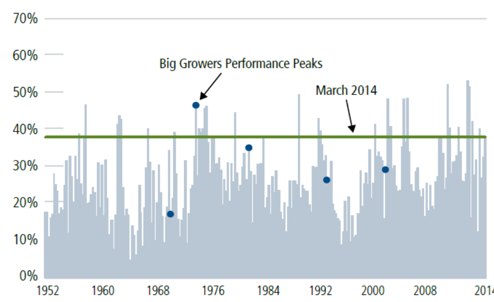
Recessions indicated by shaded areas



Source: Empirical Research Partners using Corporate Reports, NBER, Empirical Research Partners Analysis and Estimates. Big growers are those with top decile of growth scores; equally weighted data smoothed on a trailing three-month basis. Sales rates are aggregate sales data year-over-year changes smoothed on a trailing three-month basis. No smoothing in 2014.

FIGURE 3. HIGH GROWTH, HIGH CORRELATION

CORRELATION OF RETURNS AMONG LARGE-CAP BIG GROWERS, 1952–MARCH 2014



Source: Empirical Research Partners Analysis. Big growers are those with decile of growth scores. Correlation is based on capitalization-weighted daily data aggregated to quarterly intervals.

Click here for complete reading

How Do You Know It's a Stock Picker's Market?

March 6, 2014

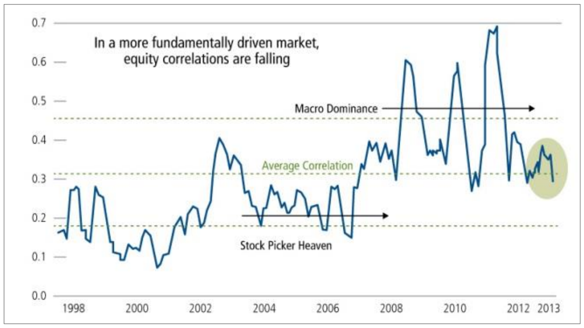
Authored by:
John McClenahan, CFA, CPA
Senior Vice President, Head of Risk Management,
Calamos Investments

n our most recent [Global Economic Review and Outlook](), we described 2014 as the year of the fundamental investor with macro factors becoming a less significant driver of investment performance. But how do we monitor this? And what does this mean for portfolio risks and returns?

Generally, when macroeconomic or sociopolitical factors are driving the market, stocks will tend to move together either increasing or decreasing in value. Traders and market pundits will say breadth is strong. If this continues, the average correlation between stocks will increase. When there are fewer significant macro topics driving the markets, stocks will tend to move independently based on company- and industry-specific fundamental factors, such as revenue and earnings growth, return-on-invested capital, valuation, and innovation, among others. When this occurs to a great extent, dispersion—the opposite of correlation—is said to be high. If this lasts over several months or years, it is described as a "stock picker's market" because gains are to be had by selecting individual stocks as opposed to just buying the overall market.

For example, as we emerged from the 2008 financial crisis and investors regained confidence in the markets, breadth was strong and the average correlation among stocks was high, just as it was when stocks were tumbling the year before. Correlations continued to increase through the third quarter of 2010. But, with the notable exception of the sovereign debt panic of late 2011, average correlation has been declining ever since. In other words, as markets have rallied in the years since the crisis, investors have become more selective in purchasing stocks. Despite the increase in dispersion, I wouldn't have called this a "stock-picker's market" until recently, as correlations were still above their long-term averages.

S&P 500 INDEX, AVERAGE PAIR CORRELATION CALCULATED USING 100 DAILY RATE OF CHANGE DATA, SMOOTHED OVER 20 DAYS



However, the average correlation among stocks is back to its long-term average (as the chart below from our most recent outlook shows) after the best year for stocks in over 16 years. And as many investors believe stocks will post more modest returns than in 2013, stock selection is again front and center.

Past performance is no guarantee of future results. Source: GaveKal Research, January 7, 2014

Why does this matter? If dispersion is high, managers who exhibit a high degree of difference from their benchmarks ("active share") may be more likely to outperform. Since all securities won't be moving in tandem, fundamental research should be rewarded. Moreover, alternative strategies such as market neutral and long/short equity (which can extract alpha from both rising and falling stocks) may be better positioned to post strong returns.

But what about risk? Decreased correlations typically lead to lower market and portfolio volatilities as diversification increases. But tracking error (the volatility of portfolio returns relative to a benchmark) can increase. However, lower overall market volatility works to counter the adverse effect of decreased correlations on tracking error.

	Decreased	Increased
Volatility	Favorable	Adverse
Correlation	Adverse	Favorable

While not overly complicated in theory, knowing where a portfolio stands in terms of expected volatility and tracking error isn't something that can be easily done via intuition. Even if you believe high active share is vital to investment success (as we do at Calamos), it is important to monitor these risk levels. That's why we track these risks over time using a variety of measures, which allows us to select stocks and industries we believe will differ significantly from a portfolio's benchmark.

The U.S. is tapering; elsewhere in the developed markets, monetary policy remains highly accommodative and fiscal policy has become more simulative. The ECB has indicated its willingness to inject more money into the euro zone, and Japan looks set to continue with its unprecedented stimulus measures. China and other emerging markets will likely be in varying levels of tightening as they work to avoid credit bubbles while keeping inflation in check. All in, we expect global growth slightly above 3.0% (Figure 3), with the U.S. and China making strong contributions. As the two largest economies in the world, their economic growth can offset the more modest expansion that we may see in the euro zone and in some EMs.

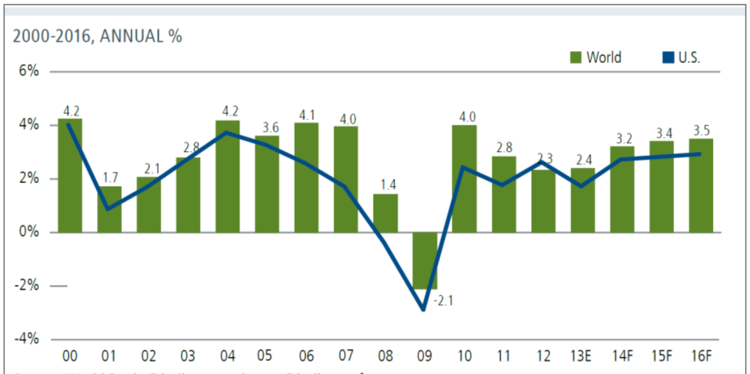
United States. The U.S. economy looks to be in a "not-too-hot, not-too-cold" period, supported by improving GDP growth and low inflation, upbeat consumers, good corporate balance sheets, strength in manufacturing and an improving trade balance. We expect U.S. GDP growth of 2.5 to 3.0% in 2014, with inflation holding at less than 2%. Against this backdrop, we anticipate that the Fed will withdraw QE stimulus by the end of 2014, while continuing accommodative policy through 2015.

Supported by a wealth effect of rising equity markets and home values (Figure 4), the U.S. consumer is feeling better and spending more, including on autos and other discretionary items (Figure 5). Net worth is higher than it was before the financial crisis, and the deleveraging cycle may have well have bottomed out (Figure 6). This willingness to spend and potentially take on debt should sustain economic growth over the long term.

The U.S. Labor Department's report that only 74,000 jobs were added in December fell far short of economists' expectations (Figure 7), but we expect the number to be revised upward next month. The calendar was compressed with Thanksgiving coming late; the weather was bad; and if one considers November data (revised up to 241,000 jobs) along with December's data, the average monthly job growth has been respectable at about 160,000. The December numbers are also inconsistent with the other stronger economic data we've seen over the past few weeks, including new unemployment claims and ADP's private sector job growth report.

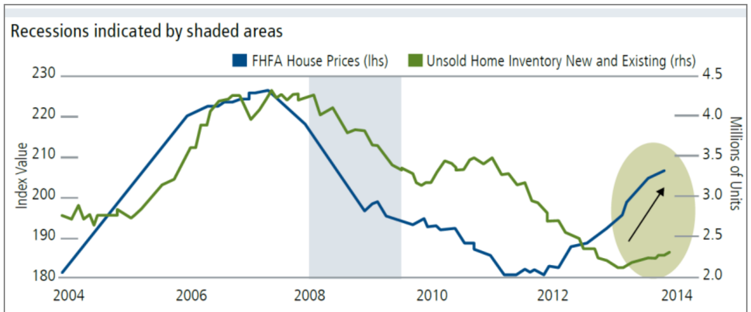
Businesses are also doing well. Capital spending has begun its long-anticipated recovery, with total expenditures at record highs. Corporate cash growth and high cash balances suggest that this recovery can be sustained over an extended period. Operating earnings of S&P 500 companies continue to rise. Small businesses are adding jobs and benefiting from increased access to credit. As earnings season starts again, we believe most sectors are likely to do better versus reduced expectations. Retail and restaurants may be an exception; like the employment numbers, these sectors were similarly affected by the compressed calendar and weather.

FIGURE 3. GLOBAL AND U.S. GDP GROWTH



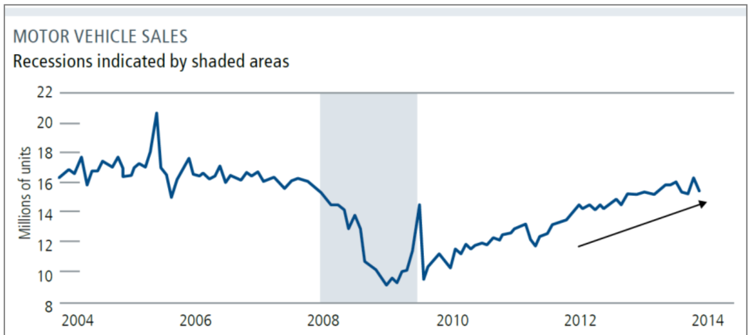
Source: World Bank. E indicates estimate; F indicates forecast.

FIGURE 4. U.S. HOME PRICES RISE, HELPED BY LOW INVENTORY



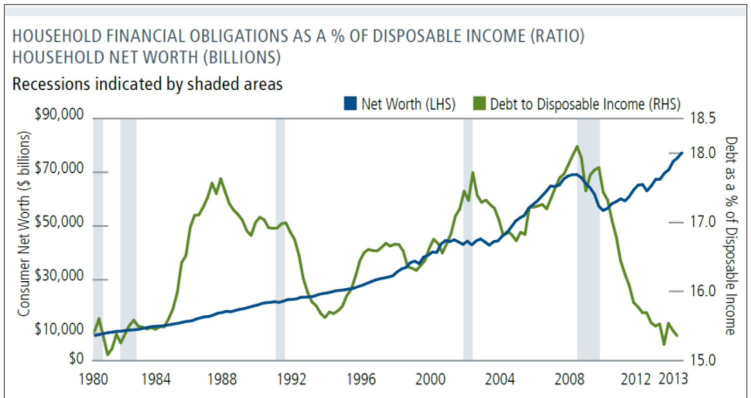
Source: ISI Group

FIGURE 5. U.S. AUTO SALES ON THE RISE



Source: ISI Group

FIGURE 6. U.S. CONSUMER NET WORTH CLIMBS AS DEBT BURDENS PLUMMET



Source: Federal Reserve Bank of St. Louis

Past Performance is not a guarantee of future results

BDCs versus Traditional Closed-End Funds: How They Stack Up

April 8, 2014

Thanks to attractive levels of income and distinctive market exposure, publicly-traded business development companies ("BDCs") are branching out beyond their traditional institutional investor base to gain a foothold among mainstream investors. Not only do they provide access to an alternative asset class— mainly debt investments in growing small and mid-sized private U.S. businesses—they also avoid the high investment minimums and stringent lock-ups that private limited partnerships usually require.

Comparisons to closed-end high yield bond and leveraged loan funds most readily spring to mind when positioning BDCs within an overall portfolio. At their most basic level, both are closed-end investments governed by the Investment Company Act of 1940 that have the potential to offer higher yields than more conventional income-oriented strategies. Like traditional closed-end funds, BDCs usually elect to be treated as regulated investment companies (RICs), meaning they bypass corporate income taxes as long as they distribute at least 90% of taxable annual net income to shareholders. However, several subtle differences help explain why BDCs are best viewed as complements, rather than competition, to their high yield bond and leveraged loan fund counterparts.

Where BDCs Diverge from Traditional Closed-End

For starters, unlike traditional closed-end funds, which generally favor investments in larger companies that tend to disclose financial and other information with the SEC, BDCs primarily invest in debt of private small and mid-sized companies. BDCs can earn higher yields lending to these businesses because there are fewer lenders in this segment of the market. While this debt may be less liquid than a debt investment in a larger company, the underwriting standards and protections built into the loan are generally stronger, reducing the level of credit risk. The net result is that dividend yields for BDCs are generally in the range of 8% - 12%—materially above yields offered by traditional closed-end funds. For instance, the current yield for the iShares iBoxx USD High Yield Corporate Bond ETF is 5.7%, while the PowerShares Senior Loan Portfolio ETF's is 4.2%. High yield investors who do not feel adequately compensated for the level of assumed risk may want to add exposure to BDCs in order to enhance their portfolios' risk/return profile.

BDCs are also attractive to investors wishing to diversify their interest rate exposure. Unlike high yield bonds, which typically carry fixed interest rates, many BDCs' underlying portfolios consist of floating-rate securities. In fact, the current industry average of floating rate securities is roughly 60% of total assets, though certain BDCs, like Fifth Street Senior Floating Rate Corp. (NASDAQ: FSFR) ("FSFR"), invest in them almost exclusively. These BDCs are lending at rates that will increase when short-term interest rates climb, so they stand to profit from a rising rate environment.

Origination Platform or Buying in Secondary Market?

The entire BDC industry is also benefiting from a changing competitive landscape. After multiple years of industry consolidation as well as a tougher regulatory environment that has raised the costs of financing small and mid-sized private businesses, fewer banks are lending to this segment. As banks retreat, alternative lenders like BDCs have stepped in, emerging as a conduit of capital to these private businesses.

BDCs with access to an origination platform are at the forefront of the shift away from banks. Because they are sourcing, structuring and underwriting investments directly with borrowers, these BDCs are able to better understand the borrowers' businesses when structuring loans. The closer relationship helps to reduce credit risk for the BDC and can generate additional fee income—on top of the coupon amount—as well as a potential discount on the loan.

Banks have not completely abandoned this market segment, though. They often finance the BDCs, who in turn lend to small and mid-sized private companies. This means BDCs are able to borrow from banks at relatively low costs—especially in the case of BDCs with investment grade credit ratings—while lending at higher rates. In contrast, many traditional closed-end funds and BDCs without an origination platform either purchase their assets in the secondary market or from other lenders. Being further from the point of origination reduces the amount of fee income as well as any potential loan discounts.

Other Points of Comparison

When selectively adding BDC exposure, there are some important factors to bear in mind. First, only a handful of BDCs, including Fifth Street Finance Corp. (NASDAQ:FSC) ("FSC") and FSFR, are affiliated with leading origination platforms. As mentioned previously, BDCs with access to an origination platform generally take a more active role in structuring transactions, capturing benefits that are largely unavailable to investors without an origination platform.

Second, BDCs generally operate with leverage of up to 1x debt-to-equity versus the regulatory leverage of 0.33x debt-to-equity that typically applies to traditional closed-end funds. Traditional closed-end funds use both structural and portfolio leverage, with the latter including certain types of derivatives, reverse repurchase agreements and tender-option bonds.

In contrast, larger BDCs—especially those with an investment grade credit rating— generally have greater diversity in their capital structure and do not utilize derivatives for leverage. For example, FSC has two bank credit facilities with different costs, terms and maturities, secured debt provided by the Small Business

Administration, as well as several different tranches of unsecured debt. The diverse funding sources for larger BDCs like FSC help efficiently fund different types of investments while managing interest rate and liquidity risk.

Third, BDCs are required to offer managerial assistance to their borrowers, and many times can attend the board meetings for their borrowers or have outright seats on the board. This is different than most high yield bond and leveraged loan investors who are mainly passive investors, unless the borrower is distressed.

Finally, BDCs generally disclose more in-depth information more frequently than traditional closed-end funds. SEC oversight mandates transparent reporting from both; however, BDCs file annual and quarterly reports with the SEC that include a detailed schedule of investments and a discussion of the results. Some BDCs also host quarterly conference calls, file 8-Ks and intra-quarter press releases or publish regular newsletters with updates on industry trends and the performance of their portfolio. Traditional closed-end funds generally have lower reporting thresholds which are limited to annual and semi-annual reports and a quarterly schedule of investments.

In a low-rate environment, investors are continually on the hunt for attractive sources of income—and for many, closed-end high yield bond and leveraged loan funds fit the bill. However, adding the right BDC to a portfolio that already has high yield exposure may tip the scales in an investor's favor.

Fifth Street's BDCs may help round out traditional closed-end high yield exposure

Fifth Street BDCs:	High Yield Bond and Leveraged Loan Funds:
Invest in private small to mid-sized companies	Invest in larger, often public companies
Required to offer managerial assistance	Adopt a passive approach
Access to origination platform, creating potential for incremental fee income and loan discounts	Acquire assets as a passive participant on secondary markets, reducing potential for fee income and loan discounts
Floating rate exposure	High yield bonds may be adversely impacted by higher interest rates
Higher regulatory leverage with greater diversity in capital structure and two investment grade credit ratings for FSC	Lower regulatory leverage, but often with less capital structure diversification compared to larger BDCs
More frequent, in-depth disclosure including regular newsletters	Lower reporting thresholds

With over $4 billion in assets under management, Fifth Street Management LLC is a leading alternative asset manager and the SEC-registered investment adviser of two publicly-traded BDCs, Fifth Street Finance Corp. (NASDAQ:FSC) and Fifth Street Senior Floating Rate Corp. (NASDAQ:FSFR). FSC ranks among the top BDCs based on its market capitalization of over $1 billion and holds investment grade credit ratings from both Fitch Ratings and Standard & Poor's. FSFR has 100% of its debt portfolio invested in senior secured floating rate loans, primarily to upper middle market borrowers. For more information, please visit www.fifthstreetfinance.com/fa.

Study: Smart Beta ETFs Poised for Continued Growth

February 2014

Institutional asset managers use a variety of investment tools and strategies to achieve their financial objectives. Recent data suggests that institutions are turning to Exchange-Traded Funds (ETFs) at an increasing rate given the vehicle's flexibility, transparency, and ease of implementation. Smart beta ETFs, in particular, have seen tremendous institutional growth. In fact, **non-market cap weighted ETFs captured over 29% of the U.S. ETF equity inflows in 2013, despite representing only 19% of the assets.[1]** With this in mind, Invesco PowerShares partnered with Cogent Research, a division of Market Strategies International, to conduct a research project on the smart beta trend. The Evolution of Smart Beta ETFs Report by Cogent confirms that the use of smart beta ETFs among institutional decision makers is poised for continued growth.

Key Findings:

- 1 in 4 institutional decision makers indicate they are currently using smart beta ETFs.
- Most institutional decision makers define smart beta ETFs as simply non market-cap weighted ETFs. In addition, they believe smart beta ETFs generally use rules-based, predetermined methodologies.
- 59% of institutions that are currently using ETFs indicate they are likely to increase their use of ETFs over the next 12 months.
- Over the next three years, institutions plan on increasing their use of smart beta ETFs more than any other category (including market-cap weighted ETFs).
- Institutional decision makers primarily use smart beta ETFs to access specific market segments while managing risk and/or reducing volatility.
- The majority of smart beta ETF users are still relatively new to the category, as the vast majority have been using these products for less than three years.
- Low volatility, high dividend, and fundamentally-weighted ETFs are poised to see the greatest growth over the next three years as two-thirds indicate they are likely to use these products.
- When evaluating smart beta ETFs,

PowerShares Smart Beta ETFs

Invesco PowerShares has been "Leading the Intelligent ETF Revolution," since 2003, offering more smart beta solutions than any other ETF provider. Invesco PowerShares has launched dozens of first-to-market ETF innovations and pioneered a variety of new ETF strategies.

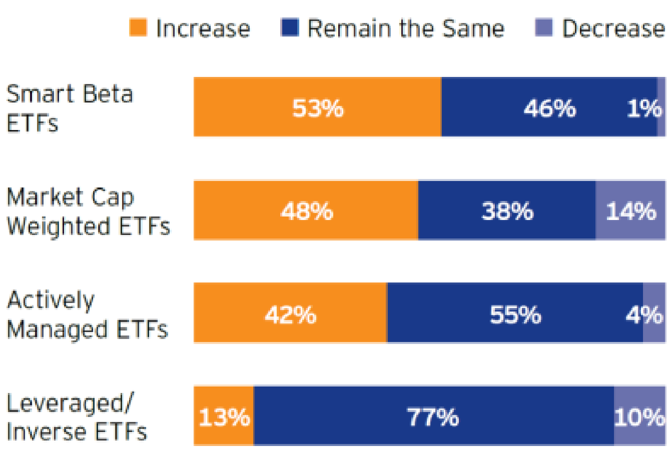
- **SPLV** PowerShares S&P 500® Low Volatility Portfolio - *The Industry's First Low Volatility ETF*
- **PRF** PowerShares FTSE RAFI US 1000 Portfolio - *The Industry's First Fundamentally Weighted ETF*
- **PID** PowerShares Int'l Dividend AchieversTM Portfolio - *The Industry's First International Dividend ETF*
- **PDP** PowerShares DWA Momentum Portfolio - *The Industry's First Momentum ETF*
- **PKW** PowerShares Buyback AchieversTM Portfolio - *The Industry's First Buyback ETF*
- **DBC** PowerShares DB Commodity Index Tracking Fund - *The Industry's First Broad Commodity ETF*

About the Study

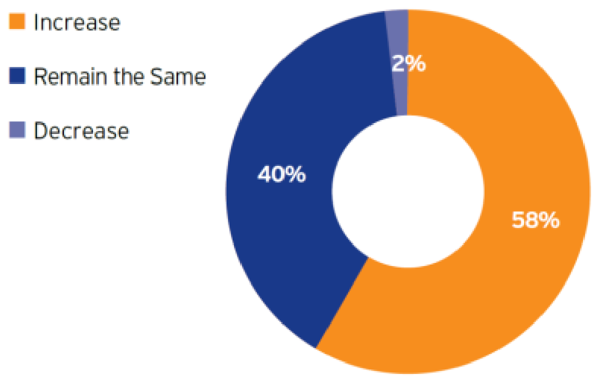
The data contained within this analysis was collected between September 5 and October 2, 2013. A 15-minute online survey was administered to institutional decision makers, including pensions, endowments/foundations, non-profit institutions, mutual funds, as well Registered Investment Advisors (RIAs) who manage institutional assets. There were 78 institutional investors and 115 institutional RIAs surveyed, creating a total sample size of 193 investors.

Invesco PowerShares is not affiliated with Cogent Research. Cogent Research (a division of Market Strategies International) is an independent full-service market research provider, specializing in wealth management and financial services market research and consulting. Cogent Research was hired by Invesco PowerShares to conduct the research used in the creation of this white paper. Participants were not made aware of Invesco PowerShares' involvement in this research initiative.

Expected Change in the Next 3 Years



Expected Change in ETF Usage in 12 Months



All data sourced from Cogent Research, The Evolution of Smart Beta ETFs Report, Oct. 11, 2013, unless otherwise noted.
1 Source: Bloomberg LP, as of Dec. 31, 2013

Glossary

Beta: is a measure of risk representing how a security is expected to respond to general market movement.

Buyback: companies that consistently repurchase their own outstanding shares

Dividends: shows how much a company pays out each year to shareholders relative to its share price.

Liquidity: is characterized by a high level of trading activity and is a measure of the degree to which an asset or stock can be bought or sold in the market without affecting it's asset price. Assets or stocks that can be easily bought or sold are known as liquid assets.

Smart beta: represents an alternative and section index based methodology that may outperform a benchmark or reduce portfolio risk, or both. Smart beta funds may underperform cap-weighted benchmarks and increase portfolio risk.

Market-cap weighted: a type of index in which individual components are weighted according to market capitalization. Index value can be calculated by adding the market capitalizations of each index component and dividing that sum by the number of securities in the index.

Non-Market Cap weighted assign weights to stocks based on factors other than market capitalization in an attempt to reduce the risk of overexposure to a certain sector or group of stocks.

Quantitative Weighted: a type of rules-based index in which individual components are weighted according to a variety of factors, such as volatility and momentum, in an attempt to generate excess return.

Transparency: ETFs disclose their holdings daily.

Volatility: the annualized standard deviation of monthly index returns.

Risk Information

Opinions expressed are of Cogent Research, and are not necessarily that of Invesco PowerShares, Invesco Distributors, Inc. or Invesco Ltd. Invesco Ltd. and its subsidiaries offer no guarantees or warranties as to the accuracy and reliability of opinions expressed, and cannot guarantee similar experiences. Invesco PowerShares is not affiliated with Cogent Research.

There is no assurance that the products listed in this material will achieve their investment objectives. Please be aware that the products listed are subject to various risks which depending upon the product may include risks such as value investing, sector, interest rate, fixed-income investing, commodities and futures, and foreign and emerging markets. For further description on the relative risks for each product please obtain the appropriate prospectus by visiting invescopowershares. com/prospectus.

There are risks involved with investing in ETFs, including possible loss of money. Shares are not actively managed and are subject to risks including those regarding short selling and margin maintenance requirements. Ordinary brokerage commissions apply.

Investments focused in a particular industry are subject to greater risk, and are more greatly impacted by market volatility, than more diversified investments.

SPLV Risk Information

The Fund is considered non-diversified and may be subject to greater risks than a diversified fund.

PRF Risk Information

Investing in securities of small and medium-sized companies may involve greater risk than is customarily associated with investing in large companies.

PID Risk Information

Securities that pay high dividends as a group can fall out of favor with the market, causing such companies to underperform companies that do not pay high dividends.

The Fund may contain securities of issuers in the financial sector, and therefore may be susceptible to adverse economic or regulatory occurrences affecting the financial sector.

Foreign securities have additional risks, including exchange-rate changes, decreased market liquidity, political instability and taxation by foreign governments. Investments focused in a particular industry are subject to greater risk, and are more greatly impacted by market volatility, than more diversified investments.

Investing in securities of small and medium-sized companies may involve greater risk than is customarily associated with investing in large companies.

PDP Risk Information

Effective on or about Oct. 4, 2013, the name of the Fund changed from PowerShares DWA Technical Leaders Portfolio to PowerShares DWA Momentum Portfolio. The Fund is considered non-diversified and may be subject to greater risks than a diversified fund. Investing in securities of medium sized companies may involve greater risk than is customarily associated with investing in large companies.

PKW Risk Information

The Fund is considered non-diversified and may be subject to greater risks than a diversified fund. Investing in securities of small and medium-sized companies may involve greater risk than is customarily associated with investing in large companies.

Commodity Risk Information

Commodities and futures generally are volatile and are not suitable for all investors.

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Please review the prospectus for break-even figures for the Fund.

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The Currency Effect

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Authored by:
Sebastian Mercado
Strategist, Deutsche Bank Markets Research

Losses from changes in currency exchange rates are a common risk of investing in foreign stocks. While a stock may perform well on the London Stock Exchange, for example, if the British pound declines against the U.S. dollar, your gain can disappear or become a loss. In this white paper, we discuss currency risk and how one can help mitigate it by hedging.

Currency risk arises from the change in the price of one currency relative to another. Currency fluctuations are generally more extreme than stock-market fluctuations and can be unpredictable. While many investors consciously decide to take on currency exposure as they might have a view on an underlying currency, many take on currency risk inadvertently. If you prefer to avoid currency risk, you may want to consider a currency-hedged investment. In this white paper, we explain currency hedging, review some literature that discusses its effectiveness, consider whether the strength of the U.S. dollar makes currency-hedging particularly important today, and offer suggestions for hedging currency in an international portfolio using exchange-traded funds (ETFs).

1. Understanding currency risk

Currency risk arises from the change in the price of one currency relative to another. To understand how currency risk can affect your portfolio, let's say you buy $1 million worth of British Steel shares when the exchange rate is: £1 = $2. As a result, you end up with £500,000 of British Steel shares. What happens, however, if the exchange rate changes so that £1 = $1? In this case, your investment—for which you paid $1 million—will be worth only $500,000. The share value isn't changing; the exchange rate is.

2. Currency fluctuations can be extreme

While some investors may consider currency risk a natural pitfall of the investing process, akin to stock-market risk, currency fluctuations can be extreme. The U.S. dollar, for example, fell 40% against the euro from 2002 to 2007. In March of 2002, a euro was worth $0.87; in December 2007, it was worth $1.47, according to the Federal Reserve.

3. Currency contribution to return can be unpredictable

Currency fluctuations work both ways. Let's say you're a U.S. investor who owns Japanese stocks. You realize a 10% return in your Japanese stocks, and the Japanese yen appreciates 10% against the U.S. dollar. In this case, you will realize a gain of 20%, not 10%. As a result, some investors with significant assets denominated in U.S. dollars may consider foreign currency exposure a potential diversifier: Although diversification cannot guarantee a profit or protect against a loss, if a local currency strengthens against the U.S. dollar, dollar-denominated asset returns will be enhanced.

4. Are you choosing to take on currency risk?

Currency has increasingly been recognized as a separate asset whose pricing is driven by fundamentals that can differ from those which impact the underlying asset market. Maintaining a portfolio that is 100% unhedged could increase overall risk.

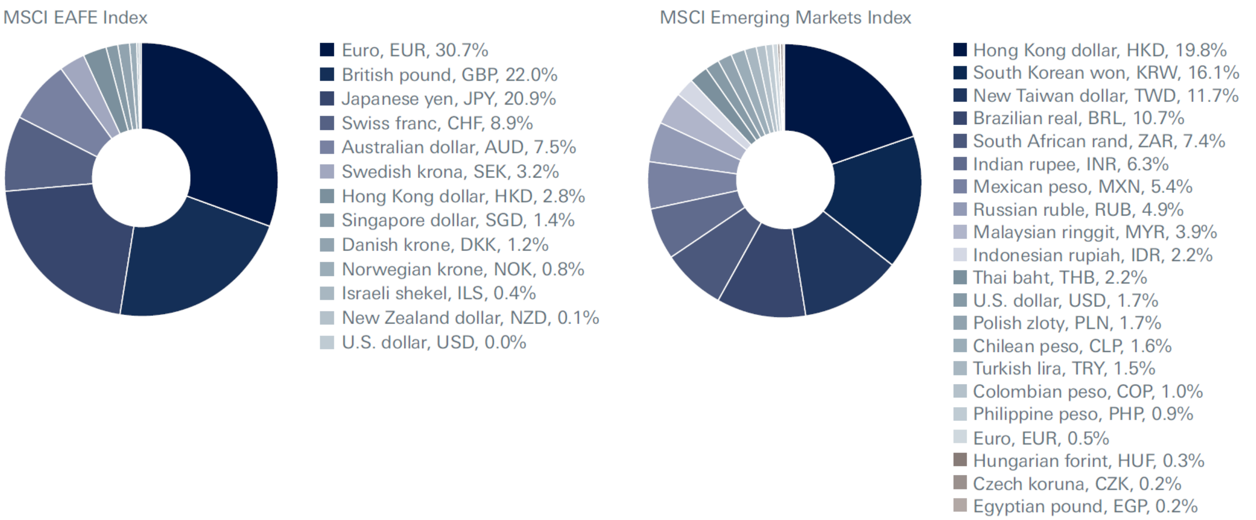
The decision becomes whether currency exposure is desirable, and if indeed hedging is necessary, in order to ensure more effective investment strategy implementation.

As noted above, unhedged exposure offers both upside and downside potential. Many investors consciously decide to take on currency exposure as they might have a view on an underlying currency. That's the case described above, where investors are choosing to take a currency position.

However, many investors and advisors take on currency risk inadvertently. They invest, for example, in the stocks of the MSCI EAFE Index through an ETF that tracks that index. Figure 1 shows the currency breakdown of the MSCI EAFE Index. The ETF is unhedged, meaning it isn't adjusted to account for changes in exchange rates. They think they're getting pure returns of the MSCI EAFE stocks; in reality, they're getting currency risk as well, as Figure 2 illustrates.

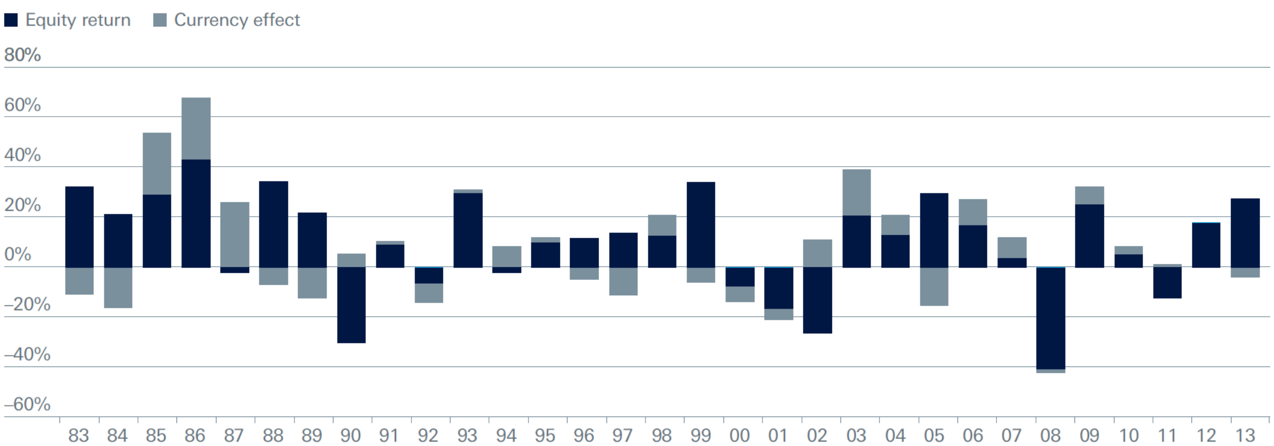
Indeed, a U.S. dollar-based investor who is long a portfolio of international equities not denominated in U.S. dollars is actually taking a bullish view on the local equity market and an implied bearish view on the U.S. dollar. This positioning may work favorably to the investor during periods of a weakening U.S. dollar; however this would work against an investor's objectives during periods of a strengthening U.S. dollar.

Figure 1: Currency exposure breakdown for major MSCI international equity indices



Source: Deutsche Bank and MSCI as of 12/31/13. Numbers may not equal 100% due to rounding.

Figure 2: Currency contribution to return can be unpredictable (1983–2013)



Source: Bloomberg as of 12/31/13. **Performance is historical and does not guarantee future results.**

db X-trackers MSCI international currency-hedged equity funds suite			
Ticker	**Fund**	**Inception Date**	**Total Expense Ratio**
DBAW	db X-trackers MSCI All World ex U.S. Hedged Equity Fund	1/23/14	0.40%[1]
DBEF	db X-trackers MSCI EAFE Hedged Equity Fund	6/9/11	0.35%[2]
DBEM	db X-trackers MSCI Emerging Markets Hedged Equity Fund	6/9/11	0.65%[2]
DBAP	db X-trackers MSCI Asia Pacific ex Japan Hedged Equity Fund	10/1/13	0.60%[2]
DBEU	db X-trackers MSCI Europe Hedged Equity Fund	10/1/13	0.45%[2]
DBBR	db X-trackers MSCI Brazil Hedged Equity Fund	6/9/11	0.60%[2]
DBGR	db X-trackers MSCI Germany Hedged Equity Fund	6/9/11	0.45%[3]
DBJP	db X-trackers MSCI Japan Hedged Equity Fund	6/9/11	0.45%[3]
DBMX	db X-trackers MSCI Mexico Hedged Equity Fund	1/23/14	0.50%[1]
DBKO	db X-trackers MSCI Korea Hedged Equity Fund	1/23/14	0.58%[1]
DBUK	db X-trackers MSCI United Kingdom Hedged Equity Fund	10/1/13	0.45%[2]

[1] Expense information in the table reflects current fees as of 1/23/14.
[2] Expense information in the table reflects current fees as of 12/31/14.
[3] Expenses have been restated to reflect current fees as of 2/7/14.

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