Capital Link's
CEF & ETF Monthly Newsletter
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ORGANIZED BY

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CAPITAL LINK'S Dissect ETFs Forum

Thursday, October 23, 2014
The Metropolitan Club, One East 60th St., New York City

IN COOPERATION WITH

NYSE EURONEXT

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Attendance is complimentary for qualified delegates
This Forum has been accepted by the CFP Board & IMCA for 6.00 CFP/CIMA/CPWA Credit

ABOUT THE FORUM

Capital Link's Dissect ETFs Forum will take place on Thursday, October 23, 2014 at the Metropolitan Club in New York City at One East 60th Street, Manhattan.

Exchange Traded Funds (ETFs) have seen an explosive growth in the industry since the emergence of the first ETF in 1990. The growing popularity of this investment vehicle has dramatically changed the investment landscape among both institutional investors and financial industry professionals who provide wealth management services to clients. Over the past decade, ETFs have grown more complex, with continued new product innovations aiming to optimize their use in client portfolios.

The Forum provides an interactive platform combining rich educational and informational content, marketing and networking. This Forum is an extension of our 14 year track record success of Capital Link's Annual Closed-End Funds & Global ETFs Forum, which consistently attracts more than 1,000+ delegates annually.

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INDUSTRY PANEL TOPICS TO BE COVERED

Developments, Trends & Sector Outlook

- **The Evolution Of The ETF Landscape**
- **Innovation in ETFs**
- **The Art To Successful ETF Trading**
- **Using ETFs In Client's Portfolios**
- **ETFs & The Evolution Of Indexing and Benchmarking**
- **Accessing Global Markets Through ETFs**
- **Investing For Yield Through ETFs**
- **Commodity ETFs**

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- **Russell Indexes**
- **State Street Global Advisors**
- **United States Commodity Funds, LLC**
- **Vanguard**
- **WisdomTree**

Seating is limited. To register and/or for more information, click on the above button or visit our website

The Month in Closed-End Funds: July 2014

PERFORMANCE

Despite encouraging Q2 earnings reports and U.S. economic data at the beginning of July, the broad-based indices were pushed to their first monthly losses since January by a combination of lower-than-expected late-month earnings reports, discouraging Q3 guidance from the likes of Visa, implications of a Malaysia Airlines jet crash in Ukraine, Israel's invasion of Gaza, and Argentina's selective default. For the first month since August 2013 both equity and fixed income CEFs posted negative NAV-based returns (-1.62% and -0.06%, respectively) and market-based returns (-1.42% and -1.69%, respectively). Nevertheless, for the year-to-date period equity and fixed income CEFs remained in positive territory, adding 7.72% and 9.27%, respectively, to their NAV-based returns.

At the beginning of the month investors cheered a strong labor report, with June's nonfarm payrolls report easily beating analyst expectations as the economy added 288,000 jobs against the consensus estimate of 215,000. The equity markets continued to rally during the month as investors warmed to better-than-expected earnings announcements and M&A deals. According to Thomson Reuters Proprietary Research team, of the 316 S&P 500 constituents that had reported second quarter earnings, 68% had beaten analyst expectations, initially helping send the major indices to all-time closing highs. However, for the week ended Friday, July 25, U.S. stocks witnessed their largest weekly loss in six after Visa trimmed its forecast for annual revenue growth, Amazon reported a larger-than-expected second quarter loss, and the German Ifo business indicator came in weaker than expected. With market uncertainty on the rise (the CBOE VIX—aka the market's fear gauge—jumped 27% to 17), increasing geopolitical tensions ever-present, and new worries that the Federal Reserve may start raising interest rates earlier than originally thought as rising wage pressures weigh on Fed hawks, the Dow Jones Industrial Average slid 300 points on the last day of the month to its biggest one-day loss in the last six months. The Dow finished the month down just 1.56%, while the NASDAQ composite lost 0.87%.

Despite the late-month flight to safety, the Treasury yield curve experienced a twist, with the 1- and 3-month and 20- and 30-year yields declining between 1 and 2 basis points. Meanwhile, the belly of the curve saw an increase in yields, with the three-year and five-year yields witnessing the largest increases, at 14 basis points each to 1.02% and 1.76%, respectively. At the end of the month, the two-year note auction had the highest yield since 2011, and comments from the president of the Federal Reserve Bank of Dallas—Richard Fisher—that it could be dangerous to leave key lending rates too low for too long stoked concerns of rising interest rates.

For July the dollar gained against the euro (+2.25%), the pound (+1.27%), and the yen (+1.46%). Despite continued geopolitical concerns, commodities prices declined in July, with near-month gold prices falling 3.06% to close the month at $1,281.30/ounce and with crude oil prices dropping 6.83% to close the month at $98.17/barrel.

The Month in Closed-End Funds: July 2014

- For July only 9% of all closed-end funds (CEFs) traded at a premium to their net asset value (NAV), with 8% of equity funds and 10% of fixed income funds trading in premium territory. Lipper's world equity CEFs macro-group witnessed the only narrowing of discounts for the month—1 basis point (bp) to 10.37%.
- For the first month since August 2013 both equity and fixed income CEFs posted negative returns on average, with equity CEFs losing 1.62% on a NAV basis and their fixed income counterparts declining 0.06% for the month.
- For the sixth month in seven all of Lipper's municipal bond CEF classifications posted returns in the black, with California Municipal Debt CEFs (+0.40%) posting the strongest return.
- World income CEFs (-0.42%) mitigated losses marginally better than the domestic taxable fixed income CEFs group (-0.49%).
- China-related securities drove Pacific ex-Japan CEFs (+3.17%) to the head of class during the month.

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THOMSON REUTERS

For July 42% of all CEFs posted NAV-basis returns in the black, with only 18% of equity CEFs and 59% of fixed income CEFs chalking up returns in the plus column. The U.S.'s and European Union's agreeing to expand sanctions on Russia for its role in civil strife in Ukraine weighed on World Bond CEFs (-0.42%). Pacific ex-Japan CEFs was the only equity classification in Lipper's CEF database that witnessed a positive NAV-based return, up 3.17% for July, which helped the World Equity CEFs macro-classification mitigate losses better than domestic equity CEFs (-2.12%) and mixed-asset CEFs (-1.13%). Lipper's Pacific ex-Japan CEFs classification benefitted from a larger-than-expected rise in China's July purchasing managers index and from news that China would allow direct share trading between Hong Kong and Shanghai later this year.

Despite escalating geopolitical concerns and greater uncertainty in the market, declining commodity prices and concerns about economic sanctions weighing on oil firms' profitability may have contributed to the fall of Lipper's Energy MLP CEFs classification, pushing it to the bottom of the heap for July (-3.78%, although it was June's leader), bettered marginally by Utility CEFs (-3.62%) and Natural Resources CEFs (-3.05%). As investors began to tap their brakes during the month, income-related and value-oriented issues appeared to mitigate losses better than others, with Real Estate CEFs (one of June's laggards) returning minus 0.20% and Income & Preferred CEFs returning minus 0.66%. For the remaining equity classifications returns ranged from minus 2.56% (Core CEFs) to negative 0.70% (Emerging Markets CEFs).

Four of the five top-performing individual equity CEFs were housed in Lipper's Pacific ex-Japan CEF classification; **Morgan Stanley China A Share Fund, Inc. (NYSE: CAF)** gained 10.04% on a NAV basis and traded at a 5.68% discount on July 31. Following CAF were **Asia Pacific Fund, Inc. (NYSE: APB)**, rising 6.16% on a NAV basis and traded at a 10.70 discount at month-end; **Aberdeen Indonesia Fund, Inc. (AMEX: IF)**, posting a 5.94% return and traded at a 10.69% discount on July 31; and **JPMorgan China Region Fund, Inc. (NYSE: JFC)**, posting a 5.10% return and traded at an 11.91% discount on July 31. Benefitting from the China economic news and reports that Taiwan's economy gathered steam in the second quarter, **Templeton Dragon Fund, Inc. (NYSE: TDF**, housed in Lipper's Emerging Markets CEFs classification**)** chalked up the fifth strongest performance in the equity universe, returning 8.32% and traded at a 10.76% discount at month-end.

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	18	55	41	8	92
Bond Funds	59	11	88	10	90
ALL CEFs	**42**	**29**	**69**	**9**	**91**

TABLE 2 AVERAGE NAV RETURNS, SELECTED PERIODS (%)

	JULY	YTD	3-MONTH	CALENDAR-2013
Equity Funds	-1.62	7.72	3.24	16.03
Bond Funds	-0.06	9.27	2.28	-1.74
ALL CEFs	**-0.70**	**8.65**	**2.67**	**5.17**

TABLE 3 NUMBER OF IPOs, SELECTED 12-MONTH PERIODS

	JULY 2014	CALENDAR-2013
ALL CEFs	**19**	**28**

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

3 MONTHS THROUGH 6/30/2014	-
COMPARABLE YEAR-EARLIER 3 MONTHS	-
CALENDAR 2013 AVERAGE	564

Source: Lipper, a Thomson Reuters company

For the month the dispersion of performance in individual equity CEFs—ranging from minus 9.93% to positive 10.04%—was narrower than June's spread and much more negatively skewed. The 20 top-performing equity CEFs posted returns at or above 1.20%, while the 20 lagging CEFs were below minus 4.62%.

Given the economic sanctions being placed on Russia, it wasn't surprising to see **Morgan Stanley Eastern Europe Fund, Inc. (NYSE: RNE)**, housed in Lipper's Emerging Markets CEFs classification, at the bottom of the equity CEFs group for the month, shedding 9.93% of its June month-end value and traded at an 11.13% discount at month-end. **New Germany Fund, Inc. (NYSE: GF**, warehoused in Lipper's Developed Markets CEFs classification**)** was the next poorest performing equity fund, declining 8.51% and traded at a 9.77% discount at month-end. For July only 46 equity CEFs experienced plus-side returns.

While a flight to safety pushed the ten-year yield to a daily closing low of 2.47% on July 17 and again on July 29, implications of robust economic growth in the U.S. and signs of wage inflation caused investors to bid the ten-year yield up 5 basis points from June's month-end value to 2.58%. Along with Standard & Poor's Ratings Service's declaring Argentina in selective default and with poor economic news out of Europe weighing on fixed income investors, this sent risky fixed income assets to the cellar. However, for the seventh consecutive month the municipal bond CEFs macro-group posted a plus-side return (+0.29%), with all classifications experiencing returns in the black. Meanwhile, domestic taxable fixed income CEFs declined 0.49% for July, bettered only somewhat by world bond CEFs (-0.42%).

At the top of the fixed income charts were California Municipal Debt CEFs (+0.40%) and New York Municipal Debt CEFs (+0.34%), while High Yield (Leveraged) CEFs (-1.39%) were at the bottom of the fixed income funds pile. In the municipal bond CEFs macro-classification, General & Insured Municipal Debt Funds (Unleveraged) (+0.16%) was the relative laggard of the group. National municipal debt CEFs (+0.28%) marginally underperformed their single-state municipal debt CEF counterparts (+0.30%).

As a result of continued uncertainty in the world markets, both classifications making up Lipper's World Income CEFs macro-classification (-0.42%) posted losses for July, with Global Income CEFs (-0.35%) mitigating losses slightly better than Emerging Markets Debt CEFs (-0.52%). Fixed income investors shunned riskier assets, sending High Yield CEFs (Leveraged) (-1.39%) and High Yield CEFs (-0.92%) to the cellar, while U.S. Mortgage Funds (+0.25%) was the only classification in the domestic taxable fixed income group (-0.49%) posting a plus-side return. The two-/ten-year Treasury spread narrowed 1 bp from June's month-end 2.06%. However, the yield on the ten-year Treasury note finished the month 5 bps higher at 2.58%.

In the domestic taxable fixed income CEFs universe (-0.49%) the remaining classification returns ranged from minus 0.31% (General Bond CEFs) to minus 0.07% (Loan Participation CEFs).

Two of the five top-performing individual CEFs in the fixed income universe were housed in Lipper's U.S. Mortgage CEFs macro-classification. However, at the top of the leader board was **Eaton Vance Municipal Bond Fund II (AMEX: EIV**, housed in Lipper's General & Insured Municipal Debt CEFs [Leveraged] classification**)**, returning 1.70% and traded at a 5.41% discount on July 31. Following EIV were **Western Asset Mortgage Defined Opportunity Fund Inc. (NYSE: DMO**, housed in Lipper's U.S. Mortgage CEFs classification**)**, tacking 1.18% onto its June month-end value and traded at a 7.26% discount at July month-end, and **Brookfield Mortgage Opportunity Income Fund Inc. (NYSE: BOI**, also housed in Lipper's U.S. Mortgage CEFs classification**)**, posting a 1.08% return and traded at a 10.28% discount at month-end.

For the remaining funds in the fixed income CEFs universe monthly NAV-basis performance ranged from minus 3.67% (**Franklin Universal Trust [NYSE: FT**, housed in Lipper's High Yield CEFs (Leveraged) classification**]** and traded at a 10.70% discount on July 31) to 1.05% for **PIMCO Dynamic Income Fund (NYSE: PDI)**, housed in Lipper's Global Income CEFs classification and traded at a 5.90% discount at month-end. The 20 top-performing fixed income CEFs posted returns at or above 0.58%, while the 20 lagging funds were at or below minus 1.51%. A total of 148 fixed income CEFs suffered downside performance for July.

PREMIUM AND DISCOUNT BEHAVIOR

For July the median discount of all CEFs widened 107 bps to 8.82%—slightly worse than the 12-month moving average discount (8.29%). Equity CEFs' median discount narrowed a fraction of a basis point to 8.89%, while fixed income CEFs' median discount widened 159 bps to 8.79%. High Yield CEFs' median discount widened 196 bps to 7.89%. The world equity CEFs macro-group witnessed the only narrowing of discounts in the CEF universe—1 bp to 10.37%.

For the month 29% of all funds' discounts or premiums improved, while 69% worsened. In particular, 55% of equity funds and 11% of fixed income funds saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on July 31 (50) was 18 less than on June 30.

CEF EVENTS AND CORPORATE ACTIONS

IPOs

Tekla Capital Management launched **Tekla Healthcare Opportunities Fund (NYSE: THQ)**. The new fund sold 38.5

million shares at $20.00 each for total gross proceeds of $770 million. Total gross proceeds may reach up to $885 million if underwriters exercise their overallotment options.

RJL Capital added three additional share classes to its hybrid interval **Multi-Strategy Growth & Income Fund**. Classes C, I, and L launched in early July.

RIGHTS, REPURCHASES, TENDER OFFERS

Directors of **The Central Europe, Russia, and Turkey Fund (NYSE: CEE)**, **The European Equity Fund (NYSE: EEA)**, and **The New Germany Fund (NYSE: GF)** approved extensions of their current repurchase authorizations through July 31, 2015. In addition, each fund's new discount management program (one contingent tender offer for 5% of outstanding shares at 98% of NAV) goes into effect if its shares trade at an average discount of more than 10% during a 15-week measurement period.

Gabelli Multimedia Trust (NYSE: GGT) completed its transferable rights offering, raising $54.5 million. The offering was oversubscribed; the fund received total subscriptions (including oversubscription requests) for approximately $101 million. The discount on the fund widened a few points in July to end at 8.4%.

The tender offer for up to 10% of **Western Asset Middle Market Debt Fund (XWAMX)** saw just 4.3% of its shares tendered. The fund is an interval hybrid that does not trade on an exchange.

Trustees approved tender offers for up to 10% of the outstanding common shares at 98% of NAV for **Nuveen Dividend Advantage Municipal Fund 3 (NYSE: NZF)**, **Nuveen Dividend Advantage Municipal Income Fund (NYSE: NVG)**, **Nuveen Municipal Advantage Fund (NYSE: NMA)**, and **Nuveen Quality Income Municipal Fund (NYSE: NQU)**. The date of each fund's tender offer will be announced after the funds' 2014 annual shareholder meetings (or any postponements). Karpus Management agreed to vote its shares in accordance with the recommendation of the trustees. Karpus also agreed to be bound by certain "standstill" covenants with respect to NZF, NVG, NMA, and NQU until September 30, 2017.

Gabelli Healthcare & Wellness(Rx) Trust (NYSE: GRX) completed a transferable rights offering for five million common shares, totaling $44.9 million. The offering was significantly oversubscribed; the fund received total subscriptions (including oversubscription requests) for over 14 million common shares, or approximately 282% of the shares available, totaling approximately $126 million. The discount on GRX stood at 11.6% at the end of the month.

Trustees of **DWS Global High Income Fund (NYSE: LBF)**, **DWS High Income Trust (NYSE: KHI)**, **DWS Multi-Market Income Trust (NYSE: KMM)**, **DWS Municipal Income Trust (NYSE: KTF)**, **DWS Strategic Income Trust (NYSE: KST)**, and **DWS Strategic Municipal Income Trust (NYSE: KSM)** extended the funds' existing open market share repurchase programs for an additional 16-month period (until November 30, 2015). Directors of **DWS High Income Opportunities Fund (NYSE: DHG)** extended that fund's share repurchase program for an additional 12-month period (also until November 30, 2015).

Final results of the tender offer for up to 5% of the outstanding shares of **Delaware Investments Dividend and Income Fund (NYSE: DDF)** saw approximately 15.7% of the fund's common shares tendered. Under *pro rata* conditions the fund accepted 31.9% of the shares tendered for payment. The discount on DF held steady in July to end at 9.3%.

MERGERS AND REORGANIZATIONS

Trustees approved the merger of **BlackRock Real Asset Equity Trust (NYSE: BCF)** into **BlackRock Resources & Commodities Strategy Trust (NYSE: BCX)** and the mergers of **BlackRock EcoSolutions Investment Trust (NYSE: BQR)** and **BlackRock Dividend Income Trust (NYSE: BQY)** into **BlackRock Enhanced Equity Dividend Trust (NYSE: BDJ)**. Shareholders still need to approve the mergers.

OTHER

Effective September 8, 2014, **American Income Fund (NYSE: MRF)** will change its name to **Nuveen Multi- Market Income Fund** after Nuveen entities become advisor and subadvisor to the fund (the fund's ticker will not change). The fund's discount held steady in July and ended the month at 10.9%.

Underwriters of **Cushing Royalty & Income Fund (NYSE: SRF)** exercised a portion of their overallotment options and purchased an additional 270,600 common shares at $20.25 each for net proceeds of approximately $5.2 million. Including the initial public offering, the fund's net proceeds are approximately $51.6 million. The market price

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bounced between small premia and discounts until ending July with a discount of 1.4%.

Directors of **Global High Income Fund (NYSE: GHI)** approved a reduction in the contractual investment advisory and administration fee paid to UBS Global Asset Management to 1.25% of the fund's average weekly net assets. UBS Global AM agreed to extend the voluntary fee waiver for **Managed High Yield Plus Fund (NYSE: HYF)** through July 31, 2015. GHI ended July with a discount of 14.1% and that of HYF was 9.3%.

Directors of **Taiwan Fund (NYSE: TWN)** selected JF International Management to serve as the investment manager, replacing Allianz Global Investors U.S. The fund will hold a special meeting of shareholders on September 22, 2014, to approve the agreement with JF. Also, with the adoption of a new discount management policy, the board has decided not to implement the previously announced managed distribution policy. The discount on TWN widened a few points to end July at 10.5%.

Market Videos

Click on image to access video

August 15, 2014
Robert Goldsborough of Morningstar: *Stalled Financials Offer a Bit of Value*

August 12, 2014
Bob Carey of First Trust: *Interview with Bob DeRochie*

August 1, 2014
Brian Westbury of First Trust: *Don't Fret the Dip Fundamentals Are OK*

July 22, 2014
Tim Strauts of Morningstar: *What Opportunities Are There in an Overvalued Market?*

July 15, 2014
Ben Johnson of Morningstar: *Weidman: Demand for ETFs Should Continue to Grow*

July 7, 2014
Bob Johnson of Morningstar: *Expect a Labor Shortage in the Coming Years*

Category	Average 1Mo NAV Change	Average 1Mo Mkt Change	Average P/D 7/31/2014 (%)	Average P/D 6/30/2014 (%)	Average 1 Mo P/D Change	Average YTD NAV Change	Average YTD Mkt Change	Average YTD P/D Change (%)
California Municipal Debt Funds	0.02%	0.78%	-5.81%	-5.15%	-0.66%	9.02%	8.95%	-0.11%
Convertible Securities Funds	2.72%	4.14%	-5.39%	-3.93%	-1.45%	0.29%	2.59%	2.15%
Core Funds	3.04%	-2.90%	-7.76%	-8.59%	0.76%	0.57%	-0.29%	1.28%
Corporate BBB-Rated Debt Funds(Leveraged	0.69%	2.41%	-9.58%	-8.03%	-1.55%	3.92%	3.25%	-0.64%
Corporate Debt Funds BBB-Rated	0.56%	2.54%	-9.78%	-8.02%	-1.76%	2.67%	3.29%	0.54%
Developed Market Funds	1.52%	1.56%	-10.29%	-10.21%	-0.08%	2.46%	1.24%	-1.10%
Emerging Markets Funds	1.08%	1.27%	-8.52%	-8.81%	0.27%	3.19%	2.69%	-0.16%
Emerging Mrkts Hard Currency Debt Funds	0.90%	2.86%	-10.31%	-8.54%	-1.78%	3.82%	3.49%	-0.31%
Energy MLP Funds	4.31%	3.90%	-4.49%	-4.82%	0.32%	10.11%	6.52%	-2.79%
General & Insured Muni Debt Funds (Lever	0.19%	1.89%	-7.76%	-6.20%	-1.57%	9.57%	8.63%	-0.81%
General & Insured Muni Fds (Unleveraged)	0.20%	1.66%	-4.58%	-3.21%	-1.37%	5.76%	6.63%	0.80%
General Bond Funds	0.85%	2.98%	-4.89%	-2.26%	-2.07%	-3.70%	3.03%	-0.70%
Global Funds	3.26%	1.93%	-8.90%	-9.95%	1.05%	-0.15%	2.86%	1.59%
Global Income Funds	0.87%	3.51%	-7.98%	-5.52%	-2.46%	3.07%	3.29%	0.15%
Growth Funds	3.45%	2.42%	-7.62%	-9.59%	1.48%	-1.80%	-6.75%	-2.63%
High Yield Funds	1.46%	3.30%	-6.47%	-5.06%	-1.06%	-12.63%	0.52%	0.84%
High Yield Funds (Leveraged)	2.28%	4.28%	-5.51%	-3.63%	-1.88%	0.63%	1.44%	0.72%
High Yield Municipal Debt Funds	0.31%	1.87%	-2.80%	-1.17%	-1.63%	7.35%	8.27%	0.95%
Income & Preferred Stock Funds	-9.28%	3.02%	-8.04%	-4.51%	-2.80%	3.37%	3.57%	0.06%
Intermediate Municipal Debt Funds	0.12%	1.76%	-5.22%	-3.74%	-1.47%	5.74%	5.03%	-0.62%
Loan Participation Funds	0.53%	1.68%	-6.92%	-5.97%	-0.65%	-0.19%	-2.33%	-1.29%
Natural Resources Funds	3.57%	2.24%	-9.53%	-10.79%	1.15%	9.03%	11.43%	1.32%
New Jersey Municipal Debt Funds	0.18%	1.97%	-9.93%	-8.32%	-1.61%	8.21%	8.05%	-0.15%
New York Municipal Debt Funds	0.10%	1.83%	-6.70%	-5.10%	-1.60%	7.83%	7.55%	-0.25%
Options Arbitrage/Opt Strategies Funds	1.65%	1.32%	-2.42%	-2.79%	0.36%	-0.19%	4.61%	4.59%
Other States Municipal Debt Funds	0.18%	-2.28%	-6.30%	-5.46%	-1.04%	7.95%	10.91%	2.52%
Pacific Ex Japan Funds	-2.96%	-3.45%	-10.17%	-10.35%	0.18%	4.14%	3.42%	-0.77%
Pennsylvania Municipal Debt Funds	0.26%	2.04%	-8.73%	-7.46%	-0.02%	7.99%	-5.21%	3.53%
Real Estate Funds	0.51%	0.92%	-11.15%	-12.70%	1.57%	3.49%	9.71%	0.65%
Sector Equity Funds	1.67%	1.47%	-5.68%	-7.42%	1.58%	-7.48%	5.82%	1.42%
U.S. Mortgage Funds	0.25%	1.95%	-9.05%	-7.48%	-1.46%	4.98%	5.61%	0.28%
Utility Funds	4.07%	3.09%	-5.70%	-6.67%	0.97%	8.58%	10.49%	1.78%
Value Funds	2.50%	1.90%	-9.47%	-10.40%	0.62%	3.96%	4.97%	0.68%

Top 5 Performing CEFs

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Fund Name	Category	Ticker Symbol	1-Month NAV Change	Rank
Morg Stan East Europe	Emerging Markets Funds	RNE	11.02%	1
New Germany Fund	Developed Market Funds	GFN	9.30%	2
Templeton Russia & E Eur	Emerging Markets Funds	TRF	8.62%	3
Gabelli Hlthcre&Well Rx	Sector Equity Funds	XGR	8.03%	4
Engex Inc	Core Funds	EXGI	7.79%	5

Fund Name	Category	Ticker Symbol	Year-to-Date NAV Change	Rank
Morg Stan India Inv	Emerging Markets Funds	IIF	30.28%	1
India Fund	Emerging Markets Funds	IFN	24.48%	2
Aberdeen Indonesia	Pacific Ex Japan Funds	XIF	24.09%	3
ASA Gold & Prec Met Ltd	Sector Equity Funds	ASA	23.66%	4
Brookfield Gl Lsd Infr	Utility Funds	INF	20.40%	5

Fund Name	Category	Ticker Symbol	1-Month Market Change	Rank
Dreyfus High Yld Strat	High Yield Funds (Leveraged)	DHF	10.15%	1
Helios Multi-Sec Hi Inc	High Yield Funds (Leveraged)	HMH	10.00%	2
Morg Stan East Europe	Emerging Markets Funds	RNE	9.81%	3
Templeton Russia & E Eur	Emerging Markets Funds	TRF	9.78%	4
Helios Advantage Income	High Yield Funds (Leveraged)	HAV	8.96%	5

Fund Name	Category	Ticker Symbol	Year-to-Date Market Change	Rank
Morg Stan India Inv	Emerging Markets Funds	IIF	32.27%	1
India Fund	Emerging Markets Funds	IFN	26.50%	2
Aberdeen Indonesia	Pacific Ex Japan Funds	XIF	21.43%	3
ASA Gold & Prec Met Ltd	Sector Equity Funds	ASA	17.54%	4
Brookfield Gl Lsd Infr	Utility Funds	INF	21.85%	5

Fund Name	Category	Ticker Symbol	1-Month P/D Change	Rank
Self Storage Group	Real Estate Funds	SELF	33.82%	1
Firsthand Technology Val	Sector Equity Funds	SVC	22.16%	2
RENN Glbl Entrepreneurs	Global Funds	RCG	11.12%	3
Eagle Capital Growth	Core Funds	GRF	10.38%	4
Eaton Vance PA Muni Inc	Pennsylvania Municipal Debt Funds	EVP	10.12%	5

Fund Name	Category	Ticker Symbol	Year-to-Date P/D Change	Rank
Self Storage Group	Real Estate Funds	SELF	21.27%	1
PIMCO Gl StksPLUS & Inc	Options Arbitrage/Opt Strategies Funds	PGP	18.93%	2
Firsthand Technology Val	Sector Equity Funds	SVC	18.19%	3
Engex Inc	Core Funds	EXGI	17.61%	4
Gabelli Utility Trust	Utility Funds	GUT	13.04%	5

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

At the end of July 2014, the Global ETF/ETP industry had 5,410 ETFs/ETPs, with 10,477 listings, assets of US$2.627 trillion, from 222 providers on 60 exchanges.

ETFGI's analysis finds ETFs and ETPs listed globally gathered a record US$160.5 billion in net new assets through the end of July 2014

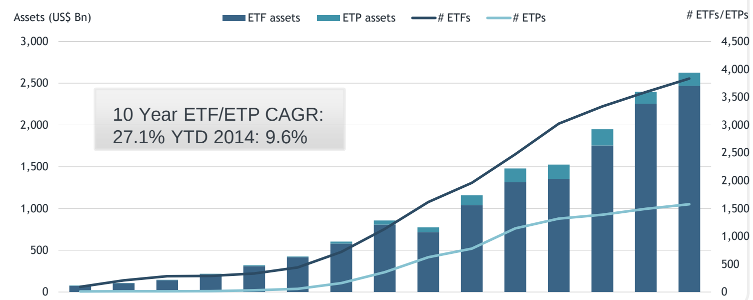
LONDON — August 7th, 2014 — ETFGI's analysis finds ETFs and ETPs listed globally gathered US$33.8 Bn in net new assets in July, pushing YTD NNA to US$160.5 Bn, a new record level of NNA at this point in the year, outpacing the previous high of US$149.9 Bn set in 2013. Assets declined slightly (0.4%) from their record high of US$2.64 Tn in June to US$2.62 Tn at the end of July. The global ETF/ETP industry now has 5,410 ETFs/ETPs, with 10,477 listings, from 222 providers listed on 60 exchanges, according to preliminary data from ETFGI's end July 2014 Global ETF and ETP industry insights report.

The ETF/ETP industries in Europe and Japan have gathered record levels of YTD NNA at US$42.7 Bn and US$14.9 Bn, respectively. New record highs in assets were reached at the end of July by ETF/ETP industries in Canada with US$66 Bn, Asia Pacific (ex-Japan) with US$103 Bn, and Japan with US$91.5 Bn.

"In July investors invested almost all net new money into equity exposures as investor confidence was positive through most of month. The S&P 500 hit an all-time high during July, but ended the month down 1% as markets were rattled at the very end of the month by the situations in the Ukraine and Gaza and a poor start to the U.S. earnings season. Developed markets outside the US ended the month down 2%, while emerging markets gained 2%, Asia was up 5% and frontier markets were up 4% in July." according to Deborah Fuhr, Managing
Partner at ETFGI.

In July 2014, ETFs/ETPs saw net inflows of US$33.83 Bn. Equity ETFs/ETPs gathered the largest net inflows with US$27.7 Bn, followed by fixed income with US$3.2 Bn, and commodity ETFs/ETPs with US$1.7 Bn in net inflows.

Vanguard gathered the largest net ETF/ETP inflows in July with US$7.69 Bn, followed by iShares with US$6.82 Bn, SPDR ETFs with US$4.24 Bn, DB x-trackers with US$1.97 Bn and PowerShares with US$1.79 Bn in net inflows.



Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Jul-14
# ETFs	94	208	283	288	334	440	719	1,132	1,614	1,961	2,473	3,022	3,334	3,591	3,834
# ETFs/ETPs	105	220	295	303	364	506	887	1,543	2,237	2,739	3,615	4,339	4,722	5,085	5,410
ETF assets	74	105	142	212	310	416	579	806	716	1,041	1,313	1,355	1,754	2,254	2,470
ETF/ETP assets	79	109	146	218	319	425	603	856	774	1,158	1,478	1,526	1,949	2,398	2,627

Summary for ETFs/ETPs: Global

The top 100 ETFs/ETPs, out of 5,410, account for 56.0% of Global ETF/ETP assets. 390 ETFs/ETPs have greater than US$1 Bn in assets, while 3,697 ETFs/ETPs have less than US$100 Mn in assets, 3,135 ETFs/ETPs have less than US$50 Mn in assets and 1,697 ETFs/ETPs have less than US$10 Mn in assets.

In July 2014, 59 new ETFs/ETPs were launched by 28 providers. Including cross listings, there were 113 new listings from 30 providers on 13 exchanges. 6 ETFs/ETPs closed and there were a total of 37 listings removed from 5 exchanges.

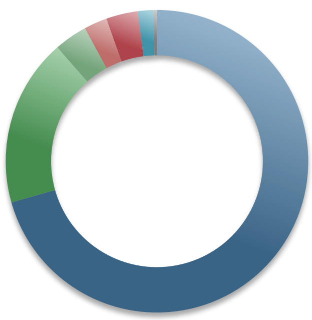
YTD through end of July 2014, 404 new ETFs/ETPs have been launched by 82 providers. Including cross listings, there have been 698 new listings from 87 providers on 30 exchanges. 79 ETFs/ETPs have closed, with a total of 357 listings removed from 21 exchanges.

Please contact deborah.fuhr@etfgi.com if you would like to subscribe to ETFGI's monthly Global ETF and ETP industry insights reports, containing over 300 pages of charts and analysis, ETFGI's Institutional Users of ETFs and ETPs report or custom analysis. Professional investors can register on ETFGI's website to receive updates, press releases and ETFGI's free monthly newsletter.

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.

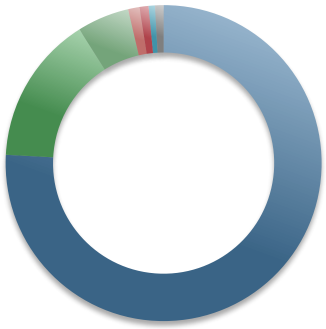
Note: "ETFs" are typically open-end index funds that provide daily portfolio transparency, are listed and traded on exchanges like stocks on a secondary basis as well as utilising a unique creation and redemption process for primary transactions. "ETPs" refers to other products that have similarities 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.

ETF/ETP assets by region listed



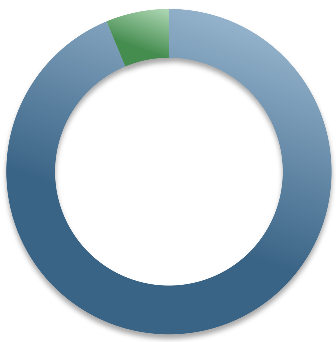
Region	# ETFs/ ETPs	Assets (US$ Bn)	% total
US	1,630	$1,846	70.3%
Europe	2,070	$467	17.8%
Asia Pacific (ex-Japan)	543	$103	3.9%
Japan	139	$92	3.5%
Canada	312	$66	2.5%
Middle East and Africa	675	$44	1.7%
Latin America	41	$9	0.3%
Total	**5,410**	**$2,627**	**100.0%**

ETF/ETP assets by asset class



Asset class	# ETFs/ ETPs	Assets (US$ Bn)	% total
Equity	2,809	$2,003	76.2%
Fixed Income	814	$390	14.8%
Commodities	746	$141	5.4%
Leveraged	280	$29	1.1%
Active	152	$25	0.9%
Leveraged Inverse	182	$17	0.7%
Others	427	$23	0.9%
Total	**5,410**	**$2,627**	**100.0%**

ETF/ETP assets by product structure

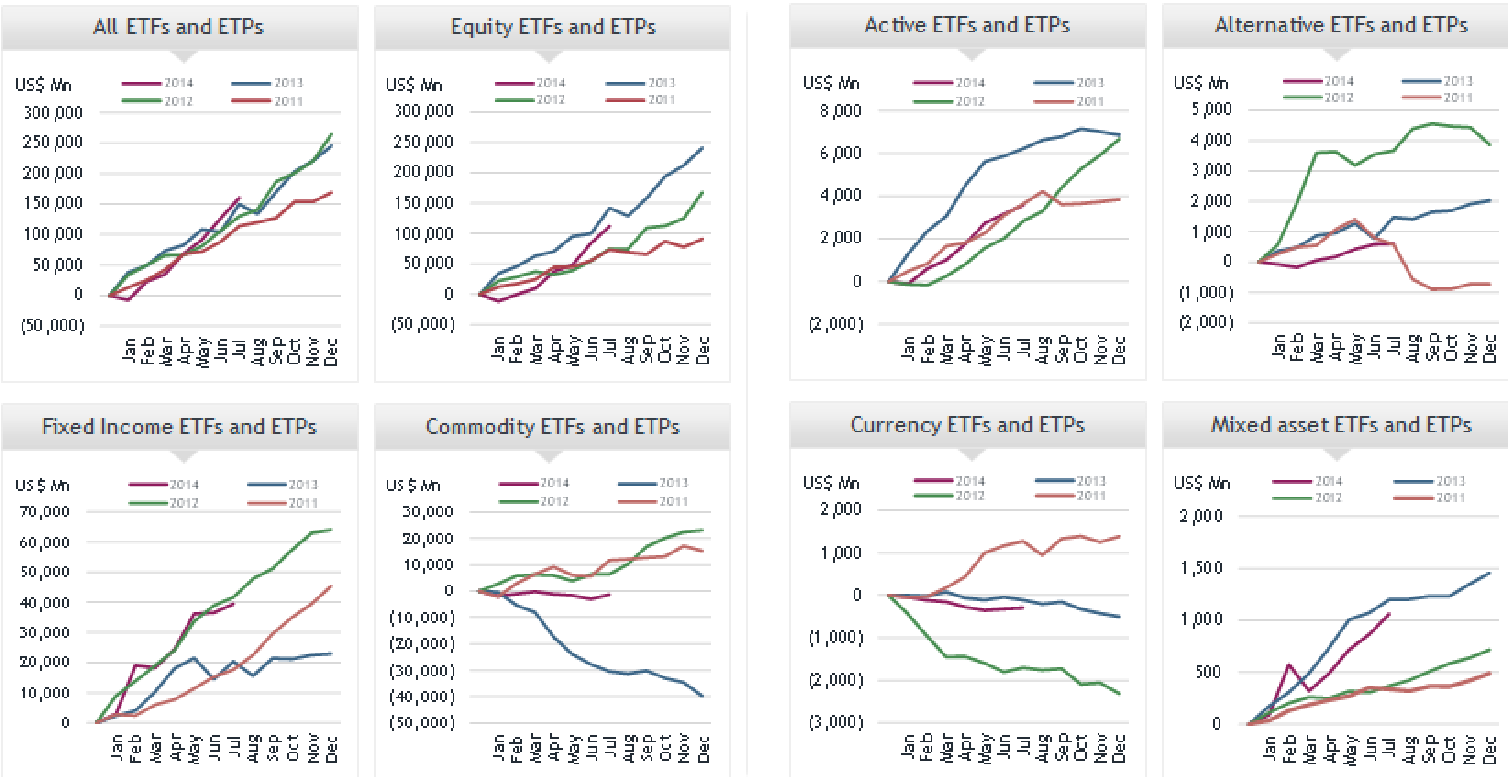


Asset class	# ETFs/ ETPs	Assets (US$ Bn)	% total
ETF	3,834	$2,470	94.0%
ETP	1,576	$157	6.0%
Total	**5,410**	**$2,627**	**100.0%**

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.

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.

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



ETFs and ETPs listed globally gathered net inflows of $33,399 Mn in July. Year to date, net inflows stand at $160,097 Mn. At this point last year there were net inflows of $149,936 Mn.

Equity ETFs/ETPs saw net inflows of $27,662 Mn in July, bringing year to date net inflows to $111,865 Mn, which is less than the net inflows of $142,261 Mn over the same period last year.

Fixed income ETFs and ETPs accumulated net inflows of $2,788 Mn in July, taking year to date net inflows up to $39,379 Mn. This is greater than over the same period last year which saw net inflows of $20,357 Mn.

Commodity ETFs/ETPs accumulated net inflows of $1,701 Mn in July. Year to date, net outflows are at $1,321 Mn, compared to net outflows of $30,424 Mn over the same period last year.

Actively managed products saw net inflows of $449 Mn in July, bringing year to date net inflows to $3,725 Mn, which is less than the net inflows of $6,263 Mn over the same period last year.

Products tracking alternative indices accumulated net inflows of $22 Mn in July, with year to date net inflows rising to $601 Mn. This is less than over the same period last year when net inflows were $1,473 Mn.

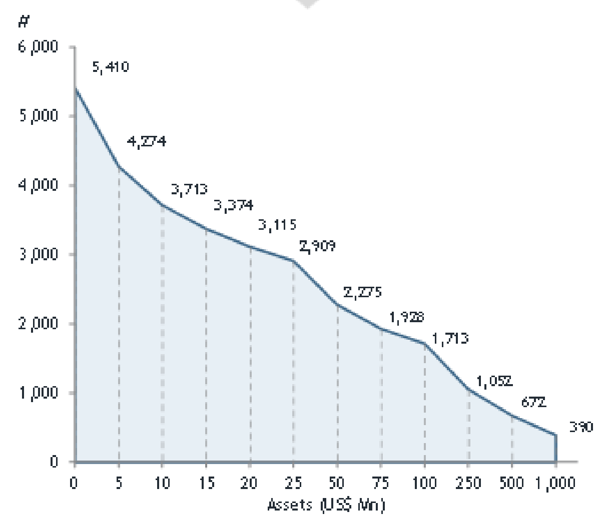
Currency products accumulated net inflows of $25 Mn in July. Year to date, net outflows are at $295 Mn, compared to net outflows of $112 Mn over the same period last year.

Products holding more than one asset class saw net inflows of $196 Mn in July, bringing year to date net inflows to $1,060 Mn, which is less than the net inflows of $1,198 Mn over the same period last year.

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

ETF/ETP assets



Assets greater than (US$ Mn)	# ETFs	% total	Total assets (US$ Bn)	% total
0	5,410	100.0%	2,626	100.0%
5	4,274	79.0%	2,623	99.9%
10	3,713	68.6%	2,619	99.8%
15	3,374	62.4%	2,615	99.6%
20	3,115	57.6%	2,611	99.4%
25	2,909	53.8%	2,606	99.3%
50	2,275	42.1%	2,584	98.4%
75	1,928	35.6%	2,562	97.6%
100	1,713	31.7%	2,544	96.9%
250	1,052	19.4%	2,437	92.8%
500	672	12.4%	2,302	87.7%
1,000	390	7.2%	2,102	80.1%

390 ETFs/ETPs have greater than US$1 Bn in assets, while 1,713 have greater than US$100 Mn in assets and 2,275 have greater than US$50 Mn in assets. The 390 ETFs/ETPs with greater than US$1 Bn in assets hold a combined total of US$2,102 Bn, or 80.1%, of Global ETF/ETP assets.

ETF/ETP underlying benchmarks: developed equity

Top 20 by assets

Name	Assets (US$ Mn) Jul-14	NNA (US$ Mn) Jul-14	NNA (US$ Mn) YTD 2014
S&P 500 Index	287,211	10,315	3,192
MSCI EAFE Index	57,062	557	2,643
NASDAQ 100 Index	50,103	979	(3,176)
Nikkei 225 Index	44,433	822	5,090
CRSP US Total Market Index	43,881	312	3,260
TOPIX Index	39,948	673	5,302
S&P Mid Cap 400 Index	38,414	103	(700)
EURO STOXX 50 Index	31,168	633	(139)
DAX Index	28,350	198	(615)
MSCI Japan Index	27,989	731	1,490
Russell 2000 Index	24,970	(935)	(3,391)
MSCI US REIT Index	23,908	123	3,609
Russell 1000 Growth Index	23,613	14	(98)
FTSE Developed ex North America Index	23,310	445	4,419
Russell 1000 Value Index	22,852	(25)	883
NASDAQ Dividend Achievers Select Index	19,626	(39)	229
MSCI World Index	18,657	111	1,113
S&P Financial Select Sector Index	17,839	(693)	334
FTSE Developed Europe Net Tax US RIC TR Index USD	16,053	(471)	2,851
CRSP US Large Cap Growth Index	14,652	129	801

Top 20 by monthly net inflows

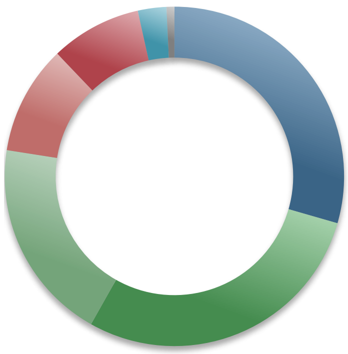
Name	Assets (US$ Mn) Jul-14	NNA (US$ Mn) Jul-14	NNA (US$ Mn) YTD 2014
S&P 500 Index	287,211	10,315	3,192
NASDAQ 100 Index	50,103	979	(3,176)
Nikkei 225 Index	44,433	822	5,090
MSCI Japan Index	27,589	736	1,490
JPX-Nikkei Index 400	1,491	727	1,446
TOPIX Index	39,948	673	5,302
S&P Technology Select Sector Index	13,461	658	(800)
MSCI Europe Index	11,091	646	1,729
EURO STOXX 50 Index	31,168	633	(139)
Dow Jones US Utilities Index	1,737	584	1,117
MSCI EAFE Index	57,062	557	2,643
S&P 500 Low Volatility Index	4,714	534	519
FTSE Developed ex North America Index	23,310	445	4,419
MSCI Canada Index	4,864	424	253
S&P 500 Hedged Canadian Dollar Index	2,850	402	249
MSCI Hong Kong Index	2,416	377	15
S&P 500 Growth Index	10,752	343	557
S&P Preferred Stock Index	10,246	341	1,412
Wisdom Tree Europe Hedged Equity Index	2,120	322	1,471
CRSP US Total Market Index	43,881	312	3,260

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.

etfgi.com

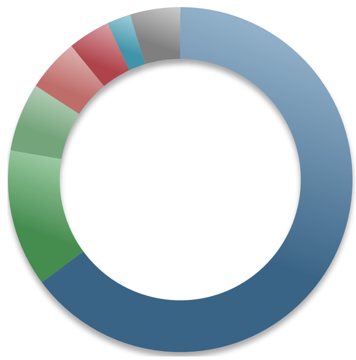
YTD ETF/ETP product launches

ETFs/ETPs by region listed



Region	# ETFs/ETPs	% total
US	119	29.5%
Europe	116	28.7%
Middle East and Africa	78	19.3%
Asia Pacific (ex-Japan)	42	10.4%
Canada	35	8.7%
Japan	11	2.7%
Latin America	3	0.7%
Total	**404**	**100.0%**

ETFs/ETPs by asset class



Asset class	# ETFs/ETPs	% total
Equity	262	64.9%
Fixed income	52	12.9%
Active	26	6.4%
Leveraged	20	5.0%
Leveraged Inverse	16	4.0%
Currency	9	2.2%
Others	19	4.7%
Total	**404**	**100.0%**

ETFs/ETPs by product structure

Structure	# ETFs/ETPs	% total
ETF	299	74.0%
ETP	105	26.0%
Total	**404**	**100.0%**

Source: ETFGI, Bloomberg, ETF/ETP providers.

Please visit www. Etfgi.com and contact deborah.fuhr@etfgi.com if you would like to subscribe to ETFGI's full monthly Global ETF and ETP industry insights reports containing over 300 pages of charts and analysis, ETFGI's Institutional Users of ETFs and ETPs report or a custom analysis.

RBC Yorkville MLP Distribution Growth Leaders Liquid℠Index ETN due July, 2034

The ETNs are senior unsecured medium-term notes of Royal Bank of Canada that linked to the return of the Yorkville MLP Distribution Growth Leaders Liquid℠ PR Index (the "Index"). The ETNs are designed for investors who seek exposure to the Yorkville MLP Distribution Growth Leaders Liquid℠ PR Index and may pay a variable quarterly coupon linked to the cash distributions of the constituent MLPs in the Index less the ETN Investor Fee.

Data as of 8/18/2014:

Closing Indicative Value:	$19.69
Market Closing Price:	$19.76
Market $ Change:	$0.37
Market % Change:	1.91%
Market High:	$19.76
Market Low:	$19.76
ETNs Outstanding:	200,000
Market Capitalization:	$3,952,000.00
Daily Volume:	400.0000000

(Source: NYSE)

Product Profile

Primary Stock Exchange:	NYSE Arca
ETN Ticker:	YGRO
ETN Intraday Indicative Value Ticker:	YGROIV
CUSIP:	78011D104
Index Name:	Yorkville MLP Distribution Growth Leaders Liquid℠ PR Index
Index Ticker:	YGMLL
Issue Date:	July 24, 2014
Maturity Date:	July 19, 2034
Annual ETN Investor Fee:	0.90%

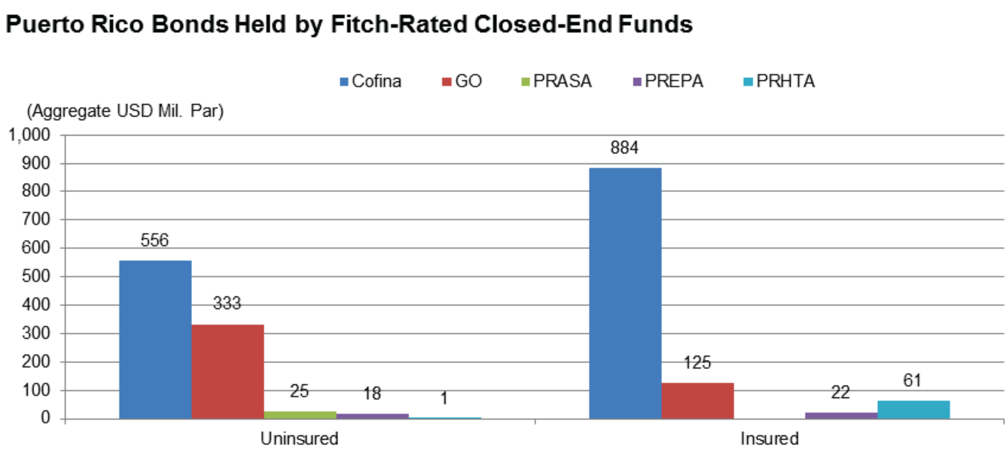
Click here for complete reading

Shifting Investor Mix Bifurcates Puerto Rican Bond Market

Fitch-rated U.S. closed-end funds across 14 fund managers have reduced their PR holdings on average by 65% since summer of 2013, now representing approximately $3 billion of the $65.1 billion Puerto Rico bond market. Remaining exposure is held predominantly in sales tax and general obligation issuers, half of which is insured, according to a special report published by Fitch Ratings.

Open-end municipal fund ownership of PR bonds has also declined and stands at about 30% of the $65.1 billion in outstanding. The remainder is, however, concentrated among two large U.S. fund managers who together hold more than $11.5 billion of the bonds.

Hedge fund ownership has increased to over $16 billion in total, bifurcated by specific credits depending on whether the managers support or oppose the new bankruptcy law. In both cases, their participation has provided pricing support for the bonds in secondary market trading, a positive for exposures of Fitch-rated closed-end fund NAVs.



Source: Fitch. Data based on holdings across 125 Fitch-rated municipal closed-end funds with $68 billion in AUM managed across 14 fund managers (Nuveen, Invesco, Neuberger Berman, Deutsche, Dreyfus, Blackrock, Western Asset, Mainstay, MFS, Pioneer, Federated and Duff & Phelps).

Click here for complete reading

Rating Actions

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

- **Fitch Rates Nuveen Muni CEF Preferred Shares – July 1, 2014**
- **Fitch Rates Pfd Shares of Three Neuberger Berman Muni Funds 'AA' - July 2, 2014**
- **Fitch Rates & Affirms Preferred Shares of DNP Select Income Fund – July 9, 2014**
- **Fitch Affirms Blackstone/GSO Sr. Floating Rate Term Fund Sr. Notes & Preferred Shares at 'AAA' – August 1, 2014**
- **Fitch Affirms Notes Issued by 7 UBS/Banco Popular Puerto Rico Funds – August 6, 2014**
- **Fitch Affirms Notes Issued by 11 Santander Puerto Rico CEFs – August 6, 2014**
- **Fitch Affirms Notes Issued by 12 UBS Puerto Rico Funds – August 6, 2014**

Closed-End Funds: Rising Rates and the Impact on Performance and Yield

August 18, 2014

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

Closed-end fund (CEF) investors have been asking our firm over the past year how we expect the various groups of funds to handle the eventual rise of interest rates. We generally hear the same questions.

1. How likely are we to lose money on a total return basis?
2. How will my cash flow change during a rise in interest rates?

To help prepare for this environment, we have spent time researching the cost and terms of leverage for closed-end funds as we believe these data points will be an important part of fund selection during a rising rate environment. We recently wrote an article on how Business Development Company's (BDCs), a sub-set of the closed-end fund universe, did from the period March 1, 2004 to September 28, 2007 vs. High Yield and Senior Loan Taxable Bond CEFs as 30 day Libor rose from 1.0973% to 5.4927% (a 4.40% increase) over a period of 43 months. You can read the full article on our blog (www.CEF-Blog.com). This is the most pronounced rise in rates in recent history, and one period of time that is potentially similar in nature to the increase in rates currently forecasted for 2015 or 2016.

This article is designed to give investors perspective on what they could expect to experience in terms of a total return perspective or for potential changes in their fund's distribution yields. Of the 636 current closed-end funds (traditional and BDC), 381, or about 60% of the universe, existed on March 1, 2004 when Libor rates were at 1.0973%. Below is a summary on how the average fund performed both on a market price total return basis, as well as in terms of the average change to yield over the 43 month period. Libor rates peaked at 5.4927% on September 28, 2007.

We also want to show which groups had the highest number of significant dividend changes and where investors could have experienced negative market price total returns over the period. We show the total returns for the S&P 500 as well as a Barclays Taxable and Municipal Bond index for comparison.

Group/Sector	# CEFs	Avg Total Return on Mkt Pr.	% Funds w/ Neg TR Perf	Avg Yield Change %	% CEFs with Dividend Changes
US Equity Funds	30	+37.7%	3.3%	+100.2%*	63.3%
Non US Equity Funds	39	+133.0%	2.6%	+681.2%*	46.2%
Specialty Equity Funds	34	+30.6%	11.8%	+5.65%	79.4%
Taxable Bond Funds	95	+19.3%	4.2%	-2.06%	81.1%
National Municipal Bond Funds	89	+17.1%	2.3%	-18.91%	96.7%
State Focused Muni Bond Funds	93	+12.92%	12.4%	-15.70%	100%
Debt-Focused BDC Funds	5	+31.94%	0.0%	+4.42%	100%
Average Traditional CEF	**361**	**+28.48%**	**6.4%**	**-2.50%**	**97.2%**
S&P 500 TR	**+42.33% TR**				
Barclays Global Agg. Bond Index	**+16.96% TR**				
Barclays Municipal Bond Index	**+13.26% TR**				

Avg. Yield change is expressed in percentage terms. If the yield went from 8% to 7% the calculation would be -12.5%, not -1%. Also the column that shows the percentages of funds with dividend changes includes funds with increases, and is meant to help show which areas of the CEF universe are likely to have a higher number of funds that change their distribution policies.

Index Data from Thompson Reuters. CEF data from CEF Universe Data and Yahoo Finance.

** Over the 43 month period, US CEFs went from yields of 6.1% yields to 8.1% and Non-US CEFs went from yields of 4.9% to 6.1%. Many of the dividends came as semi-annual or annual dividends and were driven by pass through capital gains vs. income to maintain the tax-beneficial status for the fund itself.*

In reviewing the sub-groupings of closed-end funds, we wanted to highlight the sub-groups where we thought investors would have the most interest in the changes in yield vs. total return. We focused on the Taxable and Municipal Bond groups plus three Equity sectors; Utilities, MLPs and Preferred Equity. Only one group, US Government Bond Funds, had negative market price total return over the time period; the grouping had an average -1.99% cumulative loss on a total return basis. We were disappointed that there was only one MLP fund in March 2004 as we prefer to have more than one fund set the tone for an investor's expectations of the sector.

We also wanted to compare the top quartile (25%) vs. the bottom quartile of funds in the National Municipal Bond sector on both a market price total return basis and a yield change basis to see if any trends emerged. We decided to focus on Municipal Bond CEFs as they typically have the highest duration (currently about 10) in the CEF universe, and in our conversations, investors seem most concerned with this group of funds during a period of rising rates. With 89 funds, we looked at the top and bottom 22 funds in each area and took the average data for each. It should be noted that only 3 Municipal Bond CEFs increased their yield over the time period an average of +1.2%, so investors should expect yield reductions from most Municipal Bond CEFs over a period of prolonged rising rates, based on historical evidence. In general, the average Municipal Bond Fund reduced its yield by -19%, but still offered an average total return of +16% to +26%, depending on the sector, over the 43 month period.

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Group / CEF Sector	# CE Fs	Avg Total Return on Mkt Pr.	% Funds w/ Neg TR Perf	Avg Yield Change %	% Funds with Dividend Changes
Emerging Mkt Bond Funds	5	+35.22%	0%	-13.93%	60.0%
Global Income Funds	15	+17.30%	0%	-12.37%	86.6%
High Yield Bond Funds	25	+23.30%	4.0%	-10.89%	80.0%
Investment Grade Bond Funds	13	+15.93%	7.7%	-16.61%	76.9%
Ltd Duration Bond Funds	4	+15.37%	0%	-9.84%	75.0%
US Govt Bond Funds	2	-1.99%	100%	-19.99%	100%
Loan Participation Funds	9	+12.20%	0%	+52.9%	100%
Mortgage Bond Funds	8	+8.16%	0%	-19.12%	100%
Multisector Bond Funds	7	+23.58%	0%	+37.26%	100%*
MLP	1	+60.56%	0%	+175%	100%
Preferred Equity	12	+4.57%	25%	-17.79%	100%
REIT Funds	8	+44.75%	0%	+31.03%	87.5%
Utility Funds	3	+36.79%	0%	+4.47%	33.3%
Muni High Yield	9	+26.36%	0%	-13.90%	100%
Muni National Non-High Yield	80	+16.07%	2.5%	-19.48%	100%
New York Muni Bond Funds	23	+16.79%	0%	-19.23%	86.9%
California Muni Bond Funds	21	+20.14%	0%	-19.15%	90.5%

*Of the 7 multi-sector bond funds, 3 cut on average -21.47% and 4 raised on average +81.31%. There were clear differences in dividend level changes, but, in our opinion, market price total return alone was not indicative of yield changes. We have tried to identify where the data is generally positive (green), Neutral (black) and Negative (red) for each table.

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WELLS FARGO ADVISORS

Exchange-Traded Tracking Products

August 4, 2014

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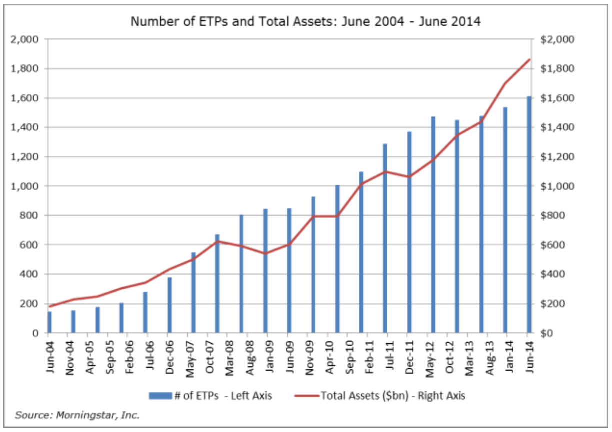
Exchange-traded Tracking Product Due Diligence

Factors investors should consider when selecting on ETP

Exchange-traded tracking products (ETPs) are increasingly popular among investors because they provide exposure to a variety of asset classes and strategies within a single vehicle with intraday liquidity, transparency, typically low costs (as measured by the net expense ratio) and tax efficiency. However, as the ETP market has expanded rapidly over the past ten years, as shown in he charge below, selecting the most appropriate ETP has become a much more challenging process. For example, there are more than 50 dividend-focused ETPs and more than 20 ETPs that allocate 100% of their assets to China equities, some providing broad exposure and others providing exposure to specific sectors or market-caps. In this report we will highlight some factors that we believe can be used as a guide when evaluating the ETP that best suits an investor's need.



Index

First and foremost, investors should be aware of what their actual exposure is. Even though a group of apparently similar ETPs may target the same segment, the underlying index can result in very different portfolio exposures and performances. For example, the two largest China TPs track the FTSE China 25 Index and the MSCI China Index. Although both indices generally use a market-cap weighting methodology, the FTSE index includes 140 stocks. As such, the characteristics of the portfolios vary significantly. For example, the financials sector represents more than 50% of the FTSE index but only 36% of the MSCI index (as of June 30, 2014). Thus, one important contributor in any performance divergence between those two ETPs is the performance of the financials sector.

Additionally, indices could start with the same basket of securities, but by employing a different weighting methodology the ETPs' portfolio characteristics can change significantly. For example, both the S&P 500 Equal Weight Index start with the same 501 constituents. However, by equally-weighting the stocks, the top 10 holdings represent only 2.4% of the Equal Weight index vs 17.5% of the S&P 500 Index, and, the weighted average market cap of the Equal Weight index is $36 billion compared to a much higher $125 billion for the S&P 500 Index. Likewise on a sector level, information technology falls to 12.9% of the Equal Weight index from 18.8% of the market-cap weighted version (as of July 31, 2014).

There are many other indices that could be used as examples of divergent portfolio characteristics (e.g., weighting by dividend yield, momentum, volatility, etc.), but even the simple tweaks in the indices discussed above are more than enough to stress the importance of reviewing the indices tracked by the ETPs, in our opinion. Fortunately, ETPs are transparent with their holdings, and websites usually provide sufficient information to gain a good understanding of a portfolio's true exposure.

Liquidity

There are two layers of liquidity that impact the overall liquidity of an ETP – the liquidity of the ETP (secondary market liquidity) and the liquidity of its underlying securities. Investors typically lean towards those ETPs with larger assets under management and higher average daily trading volume as they often have lower transaction costs (i.e. tighter bid/ask spreads). However, it is worth noting that even ETPs with fewer assets under management and limited average daily trading volume can still exhibit relatively low transaction costs if their underlying securities have plenty of liquidity. For example, an ETP holding the largest US oil & gas companies will more than likely have better liquidity than an ETP of a similar size holding global small-cap oil & gas companies. Still, investors should be careful when trading smaller and less liquid ETPs by selecting the appropriate type of order. In other words, a market order may result in poor execution, but other types of orders – such as limit order or not-held order – may provide satisfactory trade execution.

Tracking Difference

Another important factor to consider is how well an ETP's NAV performs relative to the index it tracks, otherwise known as tracking difference[1] (simply the difference between the annualized NAV total return of the ETP and its index over a defined period of time). Ideally the performance of an ETP's NAV will perfectly match the performance of its index[2]; however, that is fairly uncommon as there are multiple factors that place headwinds including, among others, net expense ratio, transaction costs and replication process (e.g., full replication, sampling, etc.).

The impact of the net expense ratio is fairly straightforward as it typically is fixed. For example, if a specific ETP charges a net annual expense ratio of 0.20%, and its underlying index appreciates by 5.00%, one would expect the ETP's NAV to gain 4.80%.

The transaction costs are more complex as they vary depending on the underlying securities held. For example, the transaction costs of an ETP tracking the S&P 500 Index will be significantly less than an ETP tracking an index of stocks traded on an exchange in Malaysia. Additionally, the transaction costs will typically be higher for an ETP tracking an index that requires more security turnover as a result of a more frequent rebalancing methodology.

Finally, regarding the replication process, some ETP managers do not hold every single security in an index, opting instead to use a sampling (sometimes called optimization) approach that involves constructing a portfolio that is a sub-set of the index but maintains a comparable risk/return profile. For example, the Barclays U.S. Aggregate Bond Index, which measures the performance of the U.S. investment-grade bond market, consists of more than 8,000 bonds. As such, ETP sponsors will often use a sampling approach since it is likely more expensive to hold every bond in the index and sometimes the portfolio managers may not even be able to source infrequently traded bonds. However, this may cause either outperformance or underperformance, depending on the effectiveness of their sampling methodology.

Another factor impacting performance, which the ETP managers can use to reduce the tracking difference, is securities lending. Securities lending is the process where ETPs make short-term loans of the stocks and/or bonds held in the portfolio. This practice generates additional income, the majority of which (or all depending on the ETP sponsor) is passed through to the ETP shareholder.

Asset Size

The asset size of an ETP is typically an indicator of secondary market liquidity. In addition, a higher level of assets within an ETP usually affords the portfolio managers the ability to construct a portfolio that more closely tracks its underlying index. Finally, the asset size of the ETP is typically a good indication of investor demand and consequently its survivability over the long-term.

Sponsor Risk

Sponsors with substantial assets under management in ETPs are generally less likely to close and liquidate existing ETPs because of economies of scale. Furthermore, a few large ETPs may subsidize smaller ETPs within the same family. Additionally, larger ETP sponsors tend to have established back-office systems and other support operations, which help reduce business-specific risks. In the case of exchange-traded notes (ETNs), which are senior, unsecured debt instruments issued by financial institutions, the holder of the ETN will carry the credit risk of the issuer. In the event of a default, and in accordance with the prospectus, ETN holders must line up with other senior, unsecured creditors for payment of their claims, and may not receive any amounts owed to them under the terms of the ETN. Yet, as long as the ETN's creation/redemption mechanism is functioning properly, the credit risk should be mitigated substantially.

Net Expense Ratio

All else equal, ETPs with lower net expense ratios are usually preferred since it places a lower headwind on the tracking difference between an ETP and its index. That being said, some ETPs charge a higher net expense ratio than others for multiple reasons, including, among others, the additional costs of managing the ETP in certain markets (e.g., individual countries) or the increase in transaction costs as a result of the index's rebalancing or reconstitution frequency. Actively-managed ETPs tend to charge more than equivalent passively-managed ETPs that track an index.

Tax Efficiency

Since one of the benefits of ETPs is the tax efficiency provided by the in-kind creation/redemption process, ETPs ideally will not distribute capital gains at the end of each year. This is especially the case for more seasoned ETPs and for those that have had a chance of experiencing redemptions. Investors should tend to be averse to those ETPs where we have seen a history of year-end capital gains distributions, in our opinion. However, it is worth noting that various ETP structures (e.g., 1940-Act Investment Company, ETNs, grantor trusts, limited partnerships, etc.) are taxed at different rates. As such, it is recommended that investors be aware of the tax structure prior to selecting an ETP.

Conclusion

As the ETP industry has expanded, investors have been provided access to many segments of the global markets and different strategies to implement investments. However, this growth has also created an ever-increasing challenge to select the ETP that best fits the investor's objective. As such, we believe some of the factors highlighted above can provide a helpful guide in the due diligence process.

1 Others use Tracking Error (TE) when comparing the NAV performance of the ETP and its index. TE is the volatility (as measured by standard deviation) of the total return differences between the NAV and its underlying index, We believe that Tracking Difference (also known as excess return) is more appropriate given that it is more-easily calculable and a more direct comparison of total returns.

2 When referring to tracking difference we are primarily referring to exchange-traded funds (ETFs). Meanwhile, exchange-traded notes (ETNs), which are senior, unsecured debt instruments, are designed to provide the performance of an index. There should not be any tracking difference between the ETN's indicative value (IV, the equivalent of an ETF's NAV) relative to its index, before fees. Finally, keep in mind that the market price performance of both ETFs and ETNs will typically vary from their respective NAVs and IVs since they are bought and sold on an exchange.

Disclaimers

Exchange-Traded Funds are subject to risks similar to those of stocks. Investment returns may fluctuate and are subject to market volatility, so that an investor's shares, when redeemed, or sold, may be worth more or less than their original cost. Exchange Traded Funds may yield investment results that, before expenses, generally correspond to the price and yield of a particular index. There is no assurance that the price and yield performance of the index can be fully matched.

Exchange-Traded Notes (s) are not funds, are not registered under the Investment Company Act of 1940, and are not subject to the same regulatory requirements as mutual funds, closed-end funds or exchange-traded funds. ETNs are senior, unsecured debt obligations issued by a financial institution designed to track the total return of an underlying index, minus investor fees, and have no principal protection. The creditworthiness of an ETN is based on the creditworthiness of the issuer. Before investing in an ETN, you should carefully consider the creditworthiness of the issuer and the ETNs investment objectives, risks, fees and charges. ETNs are listed on an exchange and trade in the secondary market. There is no guarantee a trading market will develop for any specific ETN.

An investment in securities of Master Limited Partnerships (MLPs) involves certain risks which differ from an investment in the securities of a corporation. Holders of MLP units have limited control and voting rights on matters affecting the partnership. There are certain tax risks associated with an investment in MLP units and conflicts of interest may exist between common unit-holders and the general partner, including
those arising from incentive distribution payments. MLPs may be sensitive to price changes in oil, natural gas, etc., regulatory risk, and rising interest rates. A change in the current tax law regarding MLPs could result in the MLP being treated as a corporation for federal income tax purposes which would reduce the amount of cash flows distributed by the MLP. Other risks include the volatility associated with the use of leverage; volatility of the commodities markets; market risks; supply and demand; natural and man-made catastrophes; competition; liquidity; market price discount from NAV and other material risks.

An MLP is not required to make distributions and distributions may represent a return of capital.

This report is not a complete analysis of every material fact in respect to any fund or fund type.

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Master Limited Partnership (MLP) Exchange-Traded Tracking Products (ETPs)

July 11, 2014

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Different structures for different objectives

When reviewing MLP ETPs for a potential investment, in addition to identifying the strategy and/or specific segment of that market in which an investor is interested, the structure of the ETP should also be taken into consideration as one may be more appropriate than the others, depending on the investor's objective. The three current ETP structures that provide exposure to MLPs include: a registered investment company (RIC), a C-corporation (C-Corp), and an exchange-traded note (ETN). Favoring one structure over the other two should depend on the investor's answers to the following characteristics:

1) Is a 100% exposure to MLPs desired, or is a 25% exposure sufficient?
2) Is maximizing the percentage of tax deferral of the distributions imperative?
3) Is maximizing the upside potential during strength in the MLP market important?
4) Are you willing to take the credit quality risk of the issuer?

The selection of an ETP should not only depend on the answers to the above questions but also on the priority of these preferences to each investor. This report will describe the characteristics, benefits, and drawbacks of each of the three ETP structures, in order to help investors select the structure that best fits their objectives for MLP exposure.

Registered Investment Company (RIC)

RICs include, unit investment trusts, mutual funds, most closed-end funds and most exchange-traded funds. Unlike most other asset classes, MLPs in a RIC are impacted by a quirky regulation. Under current law, a RIC cannot invest more than 25% of its portfolio in MLPs if it wants to maintain its favorable tax status[1]. Accordingly, some sponsors have created ETPs that track an index that limits holdings in MLPs to 25% of the total exposure, with the remainder possibly invested in, among others, non-MLP energy and/or infrastructure companies. These MLP RIC ETPs may also hold MLP-like instruments, such as parent companies of MLPs that are not treated as such for tax purposes but their characteristics, and often their risk/return profile, are somewhat similar to those of MLPs. As such, these RICs can be considered as "MLP-lite" energy products that have had a high correlation with MLP indices. These RIC ETPs generate IRS Forms 1099 and may be viewed as products that are more appropriate for qualified accounts given the tax status of the distributions (to be discussed in more detail below). Additionally, RIC MLP ETPs can be placed in qualified accounts without generating unrelated business taxable income (UBTI) tax consequences. Finally, to the limited extent that these types of ETPs 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 ETP. In other words, the percentage of return of capital of an MLP RIC's distribution is likely to not be substantial. Keep in mind that the cost basis needs to be adjusted by the amount of ROC received during the holding period. *Wells Fargo Advisors is not a tax advisor.*

C-Corp

A sponsor desiring MLP exposure greater 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 ETPs structured as MLP C-Corps have DTLs and, as a result, the quoted net asset values (NAVs) have already been reduced on paper, creating a headwind for the NAV performance relative to an identical exposure without the burden of a DTL. In the table below we illustrate the impact of a DTL on the NAV of a C-Corp.

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 order to isolate the effect of the deferred tax for illustrative purposes, we simplistically ignore expenses, leverage as well as distributions in these hypothetical examples. 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 based on the 35% corporate tax rate. Thus, once the DTL is taken into account, instead of reporting an NAV of $11.00, 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.

[1] A RIC does not pay taxes at the fund level as long as it meets certain 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 pays taxes on distributions received. Thus, taxation occurs only on one level, not on both the RIC and the shareholder levels.

In addition to recording DTLs on unrealized gains, creating the headwind on the NAV appreciation, 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). In this instance, the DTA would cushion a decline in the NAV relative to that of the underlying assets. This is clarified in the table on the next page.

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 by $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 to some degree.

Since a C-Corp is able to be more fully invested in MLPs compared to a RIC, a much greater portion of the distributions of a C-Corp is more likely to be treated as ROC because the capital returned from the underlying MLPs is 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 only realized capital losses.) However, as with RIC ETPs, 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 Form 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 C-Corps lose their tax benefit in a qualified account given that qualified accounts are already tax-deferred. Again,
Wells Fargo Advisors is not a tax advisor.

Exchange-traded Note (ETN)

The final structure to consider when using an ETP to gain exposure to MLPs is an ETN. ETNs are senior, unsecured debt obligations of a financial institution and offer exposure to MLPs by passively tracking an index. However, unlike the RIC and C-Corp ETPs, ETNs do not hold the underlying securities of their respective index. Their indicative value (IV), which is comparable to the NAV of a RIC or C-Corp, provides the performance of the index to which they are assigned, after fees. That being said, this does not guarantee the absence of tracking error for an
ETN's market price relative to the underlying index (e.g., the impact of premiums and discounts to IV). Since ETNs do not hold the underlying securities, they are able to track MLP indices with 100% MLP exposure without the negative impact of a DTL. For example, using the example above, the ETN's IV would record a 10% gain in the first period and a cumulative 1% loss through the second period (assuming no fees).

ETNs also issue an IRS Form 1099 and do not generate UBTI when held in qualified accounts; however, there are two important caveats. First, since ETNs are debt instruments, all distributions are taxed as ordinary income, resulting in no deferred tax benefit from ROC. Therefore, it may be beneficial to place ETNs in qualified accounts given the tax-deferred status of qualified accounts. *Once again, Wells Fargo Advisors is not a tax advisor.* Second, investors are exposed to the credit risk of the institution backing the ETN. In the event that the issuer of the note or obligor defaults, ETN holders would become general creditors and would take their place in the capital structure during the bankruptcy process. However, we believe the creation/redemption process of ETNs — the ability to redeem in particular — reduces the duration of this credit risk relative to traditional debt securities. Thus, as long as the creation/redemption process is functioning properly, the credit risk of an ETN generally is reduced significantly.

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

Structure selection

All three structures provide advantages and disadvantages, and different investors may favor one structure over the other

In our opinion, investors should favor a RIC structure for investing in MLPs if they:

1. would like to more fully participate on the potential appreciation of the assigned index by avoiding the performance drag from a potential DTL,

2. 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 if it is held in a non-qualified account.

We believe investors should favor a C-Corp for MLP investment if they:

1. favor a more concentrated exposure to MLPs,
2. favor a more tax-efficient distribution (assuming that it is held in a non-qualified account); and
3. do not mind the potential for a performance drag on the MLP exposure relative to the assigned index as a result of DTLs.

Finally, investors should consider an ETN if they:
1. favor a more concentrated exposure to MLPs,
2. would like closer tracking to the total return potential of the assigned index,
3. do not mind the less tax-efficient distribution if it is held in a non-qualified account; and
4. are willing to assume the credit risk of the issuer.

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	ETN
MLP Exposure	*Up to 25%*	*Up to 100%*	*Up to 100%*
Tax-efficiency of distribution	*Limited potential for a portion of the distribution to be treated as ROC*	*A greater portion of the distribution is more likely to be treated as ROC*	*All distributions taxed as ordinary income*
DTL's drag on the performance of the portfolio's MLP exposure during strength in the MLP market	*None*	*Yes*	*None*
Credit risk of issuer	*None*	*None*	*Yes*

Disclaimers

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An MLP is not required to make distributions and distributions may represent a return of capital.

This report is not a complete analysis of every material fact in respect to any fund or fund type.

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Economic Review and Outlook, July 2014

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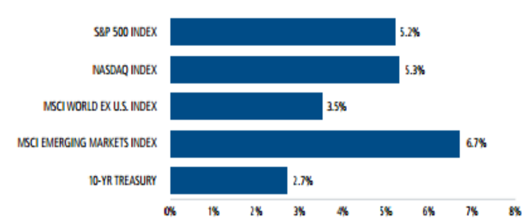
Markets everywhere rebounded in the second quarter, as the snow melted in the U.S. and central banks globally continued to spew liquidity, pushing interest rates down. Corporate earnings continued to surprise on the upside, and nothing bad happened in Washington. The S&P 500 Index returned 5.2% (Figure 1), as investors continued to chase all yields—including earnings and dividend yields—down.

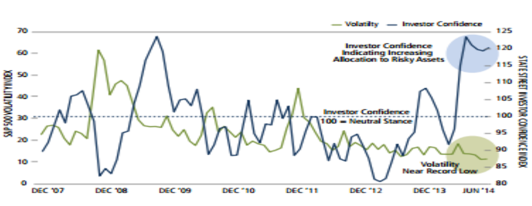
As we look to the second half of the year, we see continued upside for equities and convertible securities, particularly those of growth companies. Although the bull market is in its fifth year, we believe equity valuations are still attractive. While our long-term optimistic outlook remains intact, low market volatility and high investor confidence (Figure 2, page 2) suggest that the market has become complacent, which could contribute to short-term volatility and market rotation when something unexpected does occur. However, we remain confident that equities have more room to run.

Market Snapshot, 2Q14



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

Volatility Wanes as Investor Confidence Rises
CBOE S&P 500 Volatility Index and State Street Investor Confidence Index
December 2007 through June 2014



Past performance is no guarantee of future results. Source: Corporate Reports, Empirical Research Partners Analysis. Capitalization-weighted data.

Consistent with our positive outlook, we are focused on identifying a well-balanced breadth of secular and cyclical growth opportunities. In her recent testimony before the Senate Banking Committee, Federal Reserve Chair Janet Yellen warned of "substantially stretched" valuations in selected sectors, and we remain vigilant to the potential risks of securities with the highest price-to-earnings multiples. Many of the high-duration, high-growth equities that were sold off during the first quarter have gained back ground, as positive economic data emerged indicating that the first quarter GDP drop of -2.9% was temporary and largely weather driven. Nonetheless, these higher-growth companies may still be most vulnerable to vacillating market sentiment, which has led us to reduce some positions into strength. Looking longer term, we believe that many of the market's near-term concerns should continue to dissipate with good economic growth and solid corporate earnings.'

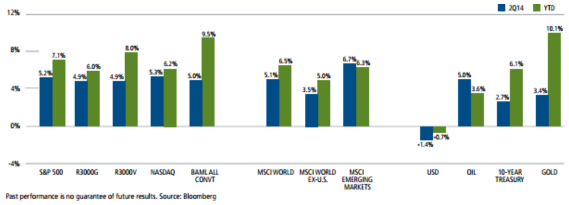
I. Market Review

After a first quarter characterized by rotational markets resulting from heightened uncertainty about the economy, investors increasingly embraced the idea of a not-too-hot, not-too-cold economic scenario during the second quarter. Market participants took the weather-induced decline in first quarter U.S. GDP growth in stride, choosing to focus on better news elsewhere, such as continued growth in payrolls, the sustained rebound in auto sales, strength in manufacturing, brisk merger-and-acquisition activity, and all-time highs for corporate profit margins (Figure 3). Unlike the first quarter, when Chair Yellen rolled the markets with unexpected comments about a potential timetable for interest rate increases, the Fed's communications during the second quarter focused on the need to keep rates low for a long time – and this consistent and transparent message seemed to soothe investors.

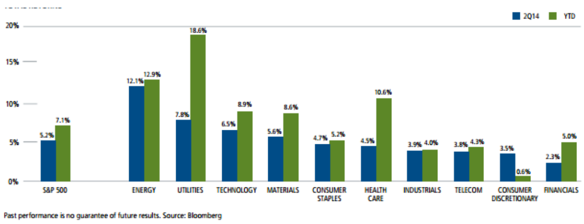
Corporate Profits as a % of GDP at All-Time High
Recessions Indicated by Shaded Areas

Against the backdrop of brighter sentiment, the U.S. market continued to advance. The S&P 500 Index gained 5.2% (Figure 4, page 3) and reached a new high that was nearly three times its 2009 low. Convertible securities posted solid gains, performing in line with the equity market. Within the U.S. equity market, sector performance reflected a barbell effect, with both cyclical and yield-oriented sectors, surpassing the index's return. Energy led for the quarter (Figure 5), as the U.S. government eased export bans and geopolitical uncertainties pushed oil prices higher. Cyclically oriented materials and technology sectors also performed well. Meanwhile, investors' quest for yield contributed to robust returns in the utilities sector.

Markets Rebound Nicely in 2Q14
Market Performance, 2Q14 and YTD, Total Returns



S&P 500 Sector Performance, 2Q14 And YTD
Total Returns

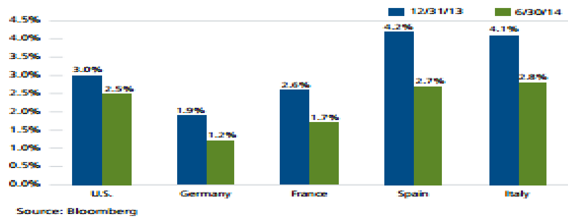


Elsewhere in the developed markets, euro zone equities advanced, with the MSCI Europe Index gaining 3.7% (USD), supported by the core and periphery economics alike. Markets cheered the European Central Bank's commitment to bolstering the region's still-fragile growth through a raft of measures, including cutting euro zone interest rates on ECB bank deposits to negative real levels. In regard to Japan, investors were further encouraged by economic progress, with the MSCI Japan Index returning 6.7%.

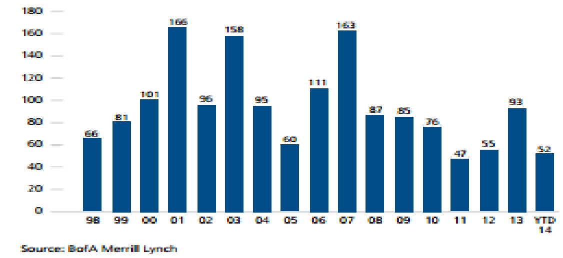
While developed markets posted respectable gains, the emerging markets led the way. As U.S. interest rates defied widespread expectations and declined, appetite for the emerging markets grew as the carry trade returned to favor. The shadow of rising geopolitical tension in the Middle East was offset by enthusiasm elsewhere, such as the election of Prime Minister Modi in India, who ran on a platform focused on economic development. Investor optimism about emerging markets was broad-based, with rebounds that extended to economies with weaker balance sheets, including Brazil, Turkey and South Africa.

The 10-year Treasury bond continued to rally, as investors were undeterred by the Fed's wind down of QE by year end and the likelihood of higher interest rates next year. We believe much of the global enthusiasm for Treasurys can be attributed to euro zone investors' quest for yield. Due to accommodative ECB policy and declining risk premiums in the periphery, euro zone sovereign yields have dropped significantly, causing U.S. Treasurys to look even better by comparison (Figure 6).

European Investors' Quest For Income Has Driven Treasury Yields Lower
Yields of 10-year Sovereigns



Strong Issuance in Global Convertible Market
New Issuance, $ Billion (USD), as of 6/30/14



Over recent months, an upsurge in global capital market activity has underscored the improving health of the global economy. Stock buy-back activity has been brisk, and merger-and-acquisition activity is at its highest level since 2007, helping to fuel market gains. A number of deals announced recently have broken from precedent, in that the acquirers' stock have often risen as much as those of the target companies.

Global convertible issuance has also been robust (Figure 7) and well diversified by sector. The first half of the year ended on a particularly strong note: June saw the second highest monthly volume and highest level in terms of deals in the past six years, according to Barclays. In addition to small and mid-cap companies, first-time issuers have been well represented, which suggests increased recognition of the merits of issuing convertible securities.

II. Outlook

We currently estimate 2014 global GDP growth in the 2.0% to 2.5% range. A global backdrop of low inflation and slow economic growth should support accommodative monetary policy, which would benefit equities and equity-sensitive securities.

Some have pointed to the rising levels of debt to DGP as a threat to the global recovery. In our view, the debt level to GDP is a less telling gauge than a country's interest coverage ratio, which has improved for many major economies in this lower interest-rate environment (Figure 8). For example, interest payments on the U.S. national debt have dropped significantly as a percent of GDP, falling to 2.3% in 2013 from more than 4% in 1996.

Click here for complete reading

High Yield Market Review and Outlook, July 2014

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CFA, SVP , and Co-Portfolio Manager
Calamos Investments

Market Environment

The U.S. high yield bond market, as represented by the BofA Merrill Lynch High Yield Index, generated a 0.85% return in June despite a moderate sell-off in the five-year Treasury to 1.63%. Spreads reversed May's widening by contracting during the month to post-crisis lows of +372 basis points over comparable Treasurys. The yield to worst declined by 6 basis points to 5.01% after briefly setting new all-time lows of 4.85% intra-month. The average dollar price increased to $105.7 in June, which was up from $105.1 in May.

Lower credit quality bonds outperformed in June with the CCC and below segment returning 1.14% for the month, while the BB and B quality tiers returned 0.80% and 0.77%, respectively. With a year-to-date return of 6.08%, the CCC tier now leads both the BB (5.99%) and B (5.03%) tiers. According to Moody's Investors Service, the U.S. issuer-weighted trailing 12-month default rate ended May at 2.1%. Moody's forecasts one-year forward default rates to be 2.5% in May of 2015.

Hypothetical Scenarios

Below, we present four scenarios that forecast one-year returns for the U.S. high yield bond market in varying market environments. The scenarios examine changes in default rates, recovery rates, spreads, and Treasury yields to depict forecasted returns for the overall U.S. high yield market. These returns do not represent actual performance, are not guaranteed, and serve only to illustrate possible total returns for changes in the four variables. An investor's actual performance may differ dramatically from these forecasts depending on many factors.

Scenario 1: In this scenario, the economy expands quicker than expected, leading to lower defaults (1.5%), while recoveries maintain long-term averages (40%). With an improving economy, spreads tighten to +300 in this scenario but are offset by five-year Treasury rates rising to 2.25% as the taper continues unabated and more talk of the first Fed rate hike intensifies. In this bullish scenario, the high yield market generates a hypothetical total return of 6.0% over the next 12 months.

Scenario 2: Default rates are in line with Moody's projections (2.5%) and recovery rates maintain long-term averages (40%). In this scenario, spread tightening of 22 basis points to +350 is offset by five-year Treasury rates rising by 37 basis points to 2.00%. This scenario generates a hypothetical return of 4.4% for the next 12 months.

Scenario 3: Defaults and recovery rates are the same as Scenario 2 but five-year Treasury rates ratchet up to 2.50%, while spreads stay fairly constant and widen by 3 basis points to 375 basis points. In this scenario, the carry return more than offsets the loss from defaults and interest rate increases to generate a hypothetical return of 1.3%, which would generate positive excess returns over Treasurys with comparable maturities.

Scenario 4: In our worst case scenario, the economy does not expand as expected and default rates tick higher to 3.5% while recovery rates decline to 35%. Spreads widen significantly to 600 basis points and five year Treasury rates rally back to 1.25%. In this scenario, the hypothetical return would be -2.9%

BofA ML U.S. HIGH YIELD INDEX

CHARACTERISTICS AT 6/30/14

Price	$105.67
Duration	3.64 yrs
Spread to Worst	372 bps
Yield to Worst	5.01%
Current Yield	6.71%
5-Yr U.S. Treasury Yield	1.63%

HYPOTHETICAL OUTCOMES

AT 6/30/15

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Default Rate	1.50%	2.50%	2.50%	3.50%
Expected Recovery	40%	40%	40%	35%
Spread Change (bps)	-72	-22	+3	+228
5-Yr U.S. Treasury Yield Change (bps)	+62	+37	+96	-38
% Chg from Defaults	-0.99%	-1.64%	-1.64%	-2.47%
% Chg from Spreads	2.62%	0.80%	-0.11%	-8.30%
% Chg from 5-Yr U.S. Treasury Yield	-2.26%	-1.35%	-3.49%	1.38%
Expected Current Yield	6.61%	6.54%	6.54%	6.48%
Hypothetical Return	5.99%	4.35%	1.30%	-2.91%

Returns do not represent actual performance, are not guaranteed, and serve only to illustrate possible total returns for changes in the four variables. An investor's actual performance may differ dramatically from these forecasts depending on many factors.

Outlook

The combination of stable Treasury yields, moderate economic growth and extremely low volatility continues to be supportive of the high yield asset class. We still expect Treasury yields to migrate higher as the year progresses due to the completion of the quantitative easing taper program, improving economic growth after weather-induced weakness in the first quarter, and moderately increasing inflation. However, higher Treasury rates will likely be tempered because of limited net supply and strong demand for Treasuries due to their relative attractiveness versus other sovereigns.

With spreads near 375 basis points and over 125 basis points wide of all-time tights, the high yield market can absorb an initial back-up in rates, but caution is warranted given current absolute yield levels near all-time lows and the average dollar price of the overall market approaching $106.

Additionally, we are monitoring geopolitical external risks with turmoil in Iraq, Ukraine and Russia, the potential global growth impact from the Chinese economy slowing more than expected, and potential ECB stimulus policies. With the significant rally year to date (nearly 12% annualized), it is becoming mathematically more improbable that the high yield asset class can generate a total return beyond its carry and approach long-term averages over the next 12 months.

However, despite the moderate return expectations for the asset class, our view remains that high yield does still offer an attractive option for fixed income investors concerned about generating income and excess returns over Treasurys in a rising interest rate environment. We are closely monitoring the market for signs of a turn in the default cycle. While the more aggressive issuance and risk-taking in the high yield and leveraged loan markets is concerning and has been a focus point of the Federal Reserve, we do not believe that we are close to default rates spiking anytime soon. With a supportive fundamental and technical backdrop, the high yield asset class still looks attractive relative to other fixed income alternatives over the next 12 months.

Click here for complete reading

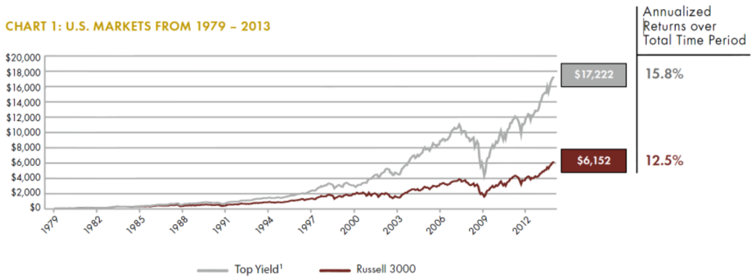
The Search for Sustainable Yield

August 2014

For decades, dividend income has served as a crucial component of a stock investor's total return, often trumping capital appreciation in volatile markets. Like a sailboat keel, dividend income may provide an equity portfolio with a fairly stable base in times of market consternation.

Additionally, proof exists that a portfolio focused on dividend payers may provide enhanced returns compared to a pure market-weighted portfolio, as demonstrated in Chart 1. Dividends prove important particularly during periods of low interest rates, when income-seeking investors typically widen their search for yield to meet their consumption goals.

CHART 1: U.S. MARKETS FROM 1979 – 2013



Past performance is not indicative of future results. One cannot invest directly in an index.
For illustrative purposes only, not representative of an actual investment.

However, investors should be wary of blindly focusing on yield, as payout levels may prove unsustainable. Often, a seemingly generous dividend yield may actually signify a weak share price tied to negative news yet unrevealed in the quarterly dividend. This explains why investors in dividend stocks must be confident that the dividend being paid is well-covered and the company paying that dividend has the ability to grow it over time.

Historical Dividends vs. Financial Health

Dividend strategies have tried not to overpay for yield by evaluating a company's dividend history. The thesis is simple: A company that has paid a dividend for a long time is likely to continue paying a future dividend. An alternative course focuses on dividend growth over time, viewing a reduction in the distribution as a red flag the dividend may be pared further.

Flaws exist in either approach:

- Whether the focus lies with historical dividend payments or dividend growth rates, both approaches react to a reduced dividend only after it happens. As a result, a dividend product employing either strategy will hold the dividend-paying security until the next rebalance, well after the market reflects the negative dividend news into the stock price.
- Both approaches require a long history of dividend payments, often a decade or two to evaluate a company properly. This requirement excludes newer dividend payers from consideration for an extended period of time.
- Such lengthy look-back periods tend to downplay recent changes in the macro environment that may affect drastically the company's ability to maintain or grow its dividend.

We believe a better approach involves focusing on the core financial health of the underlying dividend-paying company. Measuring the financial health or dividend quality of the firm makes it possible to evaluate how likely it is that a company will increase (or need to decrease) its future dividends. With this approach, the reliance on publicly available financial data means new dividend payers can be evaluated similarly to stocks that have paid dividends for decades.

A Multifaceted Approach to Dividend Quality

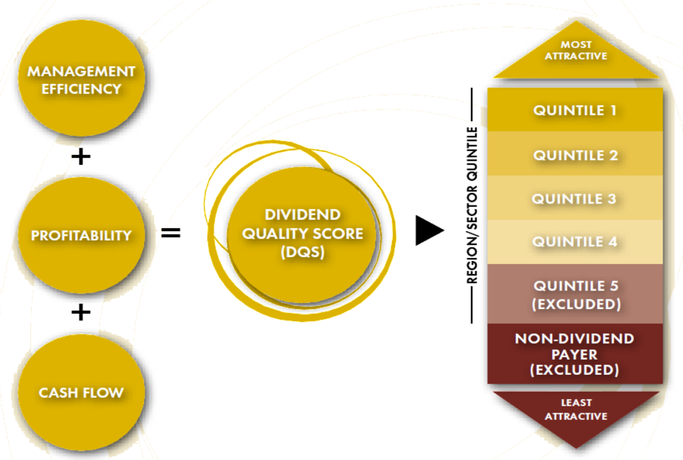
Using the payout ratio proves to be the most simplistic way to evaluate a dividend payer's financial health. It is the dividend per share divided by earnings per share. Still, while correct directionally, the payout ratio possesses several drawbacks. It looks only at the dividend in reference to "the bottom line," so it may not tell the full story.

For instance:

- It gives no guidance about a company's flexibility in managing its income.
- It also doesn't consider any competitive advantages to protect the firm during periods of market distress.
- More importantly, it evaluates the distribution in terms of accounting income and not actual cash flow.
- Further, a singular focus on payout ratios may eliminate companies in mature industries that return most of their income to shareholders but are financially stable and well-positioned to maintain that dividend rate.

A more effective approach lies in conducting a multifaceted evaluation of dividend quality, as modeled in Figure 1. By examining financial health through several lenses, an investor can gain a strong sense of how well-positioned a dividend-paying company is for success and how protected future dividends are under current market/economic environments.

FIGURE 1
DIVIDEND QUALITY INDEX METHODOLOGY



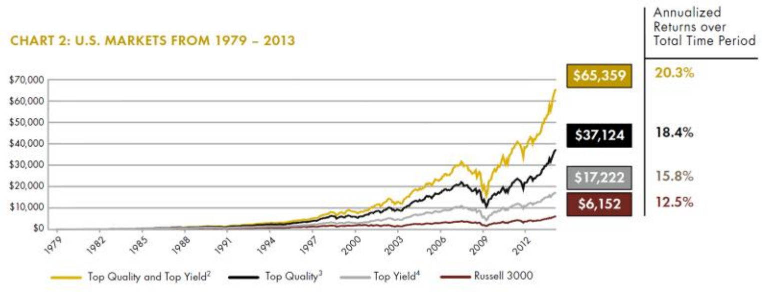
For illustrative purposes only.

The DQS score evaluates dividend-paying equities across all of these lenses and ranks companies on a sector basis. (For international dividend payers, the DQS score evaluates firms on both a regional and sector basis.) This not only ensures an “apples-to-apples” comparison – profiling like firms against each other – it is also designed to identify “quality” companies in every sector and country, supporting diversification through the construction process and opportunity set.

The Intersection of Quality and Yield

While dividend quality can be a strong driver of performance, the combination of quality and yield looks to produce compelling results, as shown in Chart 2. This works because quality and yield have not been highly correlated factors historically, so their combination may serve to smooth each respective factor’s cycle.

The Quality Dividend process looks to maximize quality and yield while putting several diversification controls into effect. Non-dividend payers are eliminated from the universe of large cap equities as are the lowest 20 percent of companies in the DQS ranking. The strategy strives to harness dividend quality and yield through its selection and weighting process. Additionally, the strategy seeks to limit non-targeted factors by placing relative sector, security, style and market volatility (beta) bounds based on the parent universe.



Past performance is not indicative of future results. One cannot invest directly in an index. For illustrative purposes only, not representative of an actual investment.

The FlexShares International Quality Dividend Index Fund follows the same process for international (both developed and emerging market) large cap securities. Some investors prefer a beta target less than or greater than the parent index, so FlexShares offers defensive (beta less than the parent) and dynamic (beta greater than the parent) index options. The FlexShares Quality Dividend Suite includes six funds.

FLEXSHARES QUALITY DIVIDEND ETFs

ETF TICKERS	FUNDS
TARGETS A BETA CLOSE TO THE MARKET UNIVERSE'S BETA	
QDF	FlexShares Quality Dividend Index Fund
IQDF	FlexShares International Quality Dividend Index Fund
TARGETS A BETA LESS THAN THE MARKET UNIVERSE'S BETA	
QDEF	FlexShares Quality Dividend Defensive Index Fund
IQDE	FlexShares International Quality Dividend Defensive Index Fund
TARGETS A BETA GREATER THAN THE MARKET UNIVERSE'S BETA	
QDYN	FlexShares Quality Dividend Dynamic Index Fund
IQDY	FlexShares International Quality Dividend Dynamic Index Fund

Before investing, carefully consider the FlexShares investment objectives, risks, charges and expenses. This and other information is in the prospectus, a copy of which may be obtained by visiting www.flexshares.com. Read the prospectus carefully before you invest.

Foreside Fund Services, LLC, distributor.

An investment in FlexShares is subject to numerous risks, including possible loss of principal. Fund returns may not match the return of the respective indexes. The Funds are subject to the following principal risks: asset class; commodity; concentration; counterparty; currency; derivatives; dividend; emerging markets; equity securities; fluctuation of yield; foreign securities; geographic; income; industry concentration; inflation-protected securities; infrastructure-related companies; interest rate/maturity; issuer; management; market; market trading; mid cap stock; MLP; natural resources; new funds; non-diversification; passive investment; privatization; small cap stock; tracking error; value investing; and volatility risk. A full description of risks is in the prospectus.

Beta is a statistical measure of the volatility, or sensitivity, of rates of return on a portfolio or security compared to a market index. The beta for an ETF measures the expected change in return of the ETF relative to the return of a designated index. By definition, the beta of the Standard & Poor’s (S&P) 500 Index is 1.00. Accordingly, a fund with a 1.10 beta is expected to perform 10% better than the S&P 500 Index in rising markets and 10% worse in falling markets.

The Russell 3000 Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.

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

- Aberdeen Emerging Markets Smaller Company Opportunities Fund, Inc. Announces Payment Of Distribution: July 29, 2014
- Aberdeen Greater China Fund, Inc. Announces Performance Data And Portfolio Composition: July 30, 2014
- AllianceBernstein Closed-End Funds Announce Distribution Rates: July 28, 2014
- BDCA Venture (f/k/a Keating Capital) Announces Earnings Call to Report Q2 2014 Results: July 21, 2014
- BlackRock(R) Announces Final July Cash Distributions for the iShares(R) Premium Money Market ETF: July 25, 2014
- BlackRock Announces Board Approval of the Reorganization of Certain Equity Option Closed-End Funds: July 30, 2014
- Calamos Asset Management, Inc. Reports Second Quarter 2014 Results and Increases Dividend By 20 Percent: July 29, 2014
- Direxion Investments Launches Three 2X Leveraged ETFs: July 29, 2014
- Eaton Vance Closed-End Municipal Bond Funds Fund Data Now Available: July 30, 2014
- Eaton Vance Limited Duration Income Fund Declares Monthly Distribution: August 1 ,2014
- First Trust launches Global Risk Managed Income Index ETF: July 23, 2014
- First Trust Advisors L.P. Announces Distributions for Exchange-Traded Funds: July 21, 2014
- Horizons Announces July 2014 Distributions for certain active ETFs: July 22, 2014
- Invesco Closed-End Funds Declare Dividends: August 1, 2014
- John Hancock Closed-End Funds Declare Monthly Distributions: August 1, 2014
- The Korea Fund, Inc. Posts Updated Closed-End Fund Card: July 30, 2014
- MFS Announces Closed-End Fund Distributions: August 1, 2014
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- Pioneer Investments Declares Monthly Distributions for Closed-End Funds: August 5, 2014
- Putnam Announces Distribution Rates for Closed-End Funds: August 5, 2014
- Tortoise Capital Advisors, L.L.C. Announces Release of Second Quarter Reports for Closed-End Funds (NDP, NTG, TPZ, TTP, TYG, TYY and TYN): July 22, 2014
- U.S. Bancorp Asset Management, Inc. Announces Financial Positions for Closed-End Funds: July 21, 2014
- Vanguard Announces Cash Distributions for the Vanguard ETFs (VAB, VSB, VSC, VRE, and VDY): July 22, 2014
- Wells Fargo Advantage Closed-End Funds Declare Monthly Dividends: July 25, 2014
- WisdomTree Announces Second Quarter 2014 Results: August 1, 2014

Capturing High Yields with Prospect Capital

Thursday, July 24, 2014 | 11:00 AM ET

Grier: Thank you very much for the kind introduction and I'm going to dive right in. Again as indicated, you need to close the browser then reopen the window pertaining to the slides and the should pop up now. I want to thank everyone for taking the time to learn more about business development companies as an avenue for accessing attractive yields in the marketplace and this presentation will really be divided in two sections. One on Business Development Company, BDC and the second overview of prospect capital corporation the company that we run.

I'm going to attempt to answer any questions as possible at the end of my prepared remarks going through these slides but if there is any follow-up that you wish to seek, please don't hesitate to contact our company, to contact Nishel Meda [Phonetic] who spearheads Capital Markets for us, Brian Oswald our chief financial officer. We'd be happy to be helpful. There's also a lot of information about our company available on our website www.ProspectStreets.com.

Terrific. I'm going to dive right in and refer to pagination that you see on the slide. I'm on page 2 of BDC market overview. Business Development Companies if you're not familiar with them or BDCs focus on providing credit generally to private, middle market companies negotiated debt not typically traded on an exchange that generates as a result higher yields and are possible generally in the syndicated markets. BDC is also making investments in other types of yielding investments like structured credit and certain types of equity investments.

BDCs are regulated under both the 1940 act as well as 33 and 34 act as really hybrid entities. BDCs are required to make at least 70% of their investments in US nonfinancial generally private companies. There's a leverage limitations on BDCs which is a substantial derisker in the structure, a limit of one to one debt to equity. Most BDCs run at a further cushion below that in the range of 0.5 to 0.85 debt to equity. BDCs are also required to be diversified which is really more important for smaller BDCs larger ones tend to be more diversified anyway.

From an income standpoint they need to generate their income through interest dividends and gains and losses and can use [0:07:26] [Indiscernible] blockers to shield other types of income. BDCs have a high distribution payouts. They must distribute at least 90% of taxable income to avoid corporate taxation. So in that regard they are similar to real estate investment trust writs as well as natural limited partnerships, NLPs but generate much higher yields than those two sister asset classes. BDCs unlike other aspect classes have to mark to market all of the portfolio investments each quarter.

Page 3 shows that the BDC universe now has is up to 48 companies over $35B in combined market cap again focused on private middle market debt and BDCs tend to have conservative capital structures when you compare them to banks, banks that tend to be levered more like 10:1 BDCs max of 1:1 debt to equity. But despite that BDCs have been winning significant amounts of business from banks over the last several years, regulatory drivers being a significant reason for that. New rules promulgated in the last couple of years limit the amount that banks can advance to private companies on a cash flow basis as opposed to fully collateralized lending against receivables type basis. That's allowed the nonbank sector really led by BDCs to step up and have a huge market opportunity ahead of them.

Featured Speaker

Grier Eliasek
President and Chief Operating Officer
Prospect Capital Corporation

PROSPECT CAPITAL

So even though you've seen BDCs grow significantly they're really just a drop in the bucket compared to the overall market opportunity. If you took the middle market in the United States and if it were its own separate country it will be the fifth largest economy on the planet. That's a large market opportunity is here. BDCs generate very attractive yields and a low interest rate yield starved market where we are today. Approximately 9% on average, 8 to 12% is typical. In much higher yield you see here on page 3 then many other yield driven asset classes whether it's the bond market or the leverage loan market or certainly treasuries. BDC have really not participated in the run up that other markets have enjoyed in the last few months and the last year. They're trading close to book value and arguably that makes them look cheap compared to the overall stock market that sit record highs that the bond market that set record low yields.

One reason for that is there was a dislocation, [Indiscernible] dislocation that occurred in the last few months related to index inclusion that resulted in the need to rotate out index funds from the asset class in the range of 10 to 15% of the shareholder constituency. That rotation is now complete but BDC stocks have been traded back to where they were before that creating a tentacle interesting entry point at the current point in time.

When you look at yields, also it's been an interesting tug of war between the loan market and the bond market in the last couple of years. Two years ago there was a stampede towards loans. Everyone thought that the fed would start hiking rates, that the bond market would get pummeled and that loans would be a safe haven. And then investors became impatient because rates have not gone up yet. Loans are paying up less than bonds and people rotated back into bonds. So it's kind of a pick your poison. If you want bonds that has significant interest rate risk or loans that they pay much lower yields. The great thing about BDCs is you get to have both. In fact better than both. BDCs are generally floating rate with their assets. Our company prospect is 91% floating rate for example. And the absolute yields are very high, 9%on average [Indiscernible] pays out about a 12% yield, way better than bonds as well. So that's a significant investor benefit that's not well understood in many quarters.

Page 4 shows how BDCs have performed over various time periods. You see that over the long term, five years BDCs have outperformed every other significant asset class on the page. They have lagged to the overall S&P market in the last couple of years but to the extent you think that the market looks expensive that the stock market looks expensive, BDCs might be an interesting place to park capital with a nice dividend to boot. In every study that I've ever seen over a multidecade [Indiscernible] century period shows the divided payers tend to outperform nondividend payers over the long term. That the tortoise does beat the hare.

You see at the bottom that BDC stocks have relatively low correlations that other asset classes which dampens volatility for an efficient frontier in a diversified book. Page 5 shows the growth in the industry the last several years. The BDC industry has grown from $5B to $35B in the last six years and there are about 48 companies as I mentioned before. But most of those companies are quite small. The median BDC is probably about $250M market cap. The top 5 BDCs are about 55% of the industry and the top 10 BDCs are about 70% of the industry. Scale does have its advantages. Liquidity from a trading perspective, diversity of assets, access to the capital markets including many cases the investment grade bond markets, scale teams, organizations, deal flow, the ability to have a more diverse slide origination approach including on the controlled side and hold size.

Page 6 shows yields over time in the BDC market and you see that they have been quite stable in the last several years and then page 7 shows that BDCs are hovering around book value and have not traded up to a significant premium recently because of the tentacle dislocation. Historically BDCs have traded at a premium to book value making some say arguably now it's an interesting entry point for BDCs.

I'm going to now pivot on page 8 and the rest of my remarks talk about prospect capital corporation, our company. We're one of the two largest debt focused BDCs in the industry. We've been a public company for ten years. In addition to that scale and longevity, we also have the most diversified origination approach in the industry that includes not just lending money to privately owned companies but also purchasing controlling interests and managing those companies for yield. So that makes us look interesting and a little bit different from others in the market.

Our private manager has been in business now for 26 years. Total asset base as of last reporting period at 331. We'll report for 630 in the later part of August when the 630 fiscal yearend. Total assets were about 6.35B a book equity of 3.56B. We have about a hundred people prospect which makes us one of the largest dedicated teams focused on middle market lending and credit and we have several locations around the country as well, more than $7 capital if you count our undrawn revolver.

We've got about a diversified about 140 companies well diversified by geography and industry, also diversified on the origination strategy approach which I'll talk about in a little bit. Even though we generate an attractive yield, about a 12% dividend yield we try to do so taking as little risk as we can to achieve that yield. We lead with a secured debt instruments. About 80% of our investments are first or second lean with the majority first lean, a lot of the balance is structured credit that has an underlying first lean as well. So there's an underlying first or second lean instrument in over 85% of our book.

As I mentioned before, BDCs are an interesting play on rising rates without sacrificing yield in in the interim. Prospects book is actually 93% floating rate assets and all of our turnout is actually fixed rate [Indiscernible] floating rate but I'll return that as fixed. So we benefit all the things being equal from an increase in rates and have [Indiscernible] what a full cycle move would do in terms of earning so that single variable change. We're an investment grade company with multiple rating agencies both on an unsecured corporate basis as well as on a secured basis.

Click here for complete reading

GOLD: Quo Vadis?

Wednesday, July 30, 2014 | 11:00 AM ET

Featured Speaker

William Rhind
Managing Director, Institutional Investment
World Gold Council

William Rhind: Thank you Nicolas and thank you everybody for tuning in to listen to our presentation this morning on gold. I deliberately titled this presentation [Indiscernible] the lesson for simply where are you going. I think that's the key question for investors this year looking at the gold price and looking at the gold market, you know, wondering is this the beginning of a longer term transfer gold or just simply what's happening in the gold market. I'm trying to hope that today's presentation I can give some information about where we think the direction of the gold market is going but certainly fill in some informational gaps potentially about what's going on today.

Ove the slide against just disclaimer as Nicholas was saying talking about your forward looking statements and the fact that this was not investment advice. THIs is an informational presentation on gold. Moving on to slide 3, just a little bit about the World Gold Council for those of you that aren't familiar with who we are, we're the official voice of the gold market and then we're an industry group partly owned by these mining companies listed here on the page. Our mission is to create and sustain demand for gold around the world and we have a number of different sectors that we're active in for investment which I'm a part of to jewelry, central banks, technology. So we try and be active in all the main sectors on demand for gold and hope that from the investment side our key publication is the gold demand trend which is the official supply demand statistics for the gold market which I'll reference a few times in this presentation.

So moving on in terms of the content, I'm going to talk a little bit about first of all the key takeaways, give a little indication of our thoughts on gold where we are today, where we are now. Talk about gold and interest rates, a bit about supply and demand and then conclude the presentation. Of course we'll leave time for questions at the end.

So starting with the key takeaway, I think the first point to make is that 2014 has so far turned out to be a little bit of a different year to perhaps consensus view at the beginning of the year. You know, we came into to 2014 with incredibly bullish view on the global economy and you know, for the most part I think consensus allocations were that needed to be short on shorter the dollar, long equity and certainly short goals. For a very large part that just hasn't worked out at all. Equities have now started to deliver these [Indiscernible] and as we all know most equity markets are at or near all time highs. But certainly for the first part of the year, that wasn't the case. So I think the first thing to say this has been a bit of a different year and has gone against the forward consensus the beginning of the year.

The gold supply/demand picture in terms of the balance of supply and demand has largely been restored from last year where the price moved down pretty significantly and it was not a great year at all for the gold market's perspective. But supply and demand balance has been roughly restored and market sentiment is certainly improved albeit I still say that we're not quite yet back to you know, wholesale confidence in the gold market and there are still some negative sentiments out there. The medium term outlook for gold on the consumer demand side I think is positive. Asia is robust or remains to be robust particularly China and India. The central banks still remain biased, also gold market and supply is limited and has been limited from the constraints in the mining sector. In previous economic recoveries, we've tended to see the short rates riding faster. Central banks selling gold and mining companies selling gold forward and that's not been the case in this particular recovery. We don't have any reason to expect that that will change. And then lastly of course geopolitical risks arising, you know, old orders are changing. So now is perhaps not the time to think about trading your hedge.

So moving on to gold where are we now starting on slide 8, as we talked about in Q1 the gold market is finding its equilibrium. We at the World Gold Council are currently you know, processing the numbers for Q2 and those will be available sometime in the next few weeks. But in terms of Q1 demand we are roughly flat in terms of total demand for gold on last year which was quite a significant story given the significance of last year in terms of the demand side of the overall demand for gold which believe it or not given the price that was actually a record demand year for gold. So the market is finding its equilibrium.

On slide 9, this particular chart looks at the gold price over the last 14 years and when we think about the number of times that the gold price has pulled back or fallen more than 10% well that's happened seven times since 2001 and here we look at those particular times and chart that against the number of days in the dotted line that the price took to recover. So obviously last year was a pretty significant [Indiscernible] the prices fell about 30% year on year which we recovered about 9% of that [Indiscernible] obviously remains to be seen how long it will take to retrace that previous high. Obviously if it retraces that at all. But if we look at the last 14 years any kind of guide then you know, hopefully we'll be able to retrace that previous number. It's just a question of how long it takes to get back there.

Moving over to slide 10, another sign that the market is recovering from last year is the level of gold futures positioning on the comag. This particular futures chart here shown in the green is the net long positions on comags that are noncommercial so speculative in nature. They're noncommercial transactions.

As you can see that through the period of certainly 2001 to 2011 those positions built up quite significantly and you know, some are perhaps unsurprisingly the gold price you know, rose to its nominal all time high in that time.

Since then certainly over the last couple of years, we've seen those positions reduced significantly and that has you know, had an impact on the price in the market and the gold prices reduced as a result. Now although we haven't seen the wholesale buyers come back into the market on mass certainly that gold futures positioning over the most recent months have started to increase again and that is an indication that things are stabilized and again people are not selling futures outright in the past.

Over to slide 11 another factor of last year of course was the phenomenon of the redemption in gold exchange, trader funds exchange of the products and the investors that were negative on gold sold gold and that gold travelled from west to east. So as you can see in this particular chart, we look at the long term trend in terms of purchases of ETPs globally and then that's a short term spike was driven by the financial crisis for an extra 660 tons came into the gold ETPs largely on the back of the financial crisis. And then last year, we saw a 900 tons exit on the ETPs particularly the North American exchange trader funds. That gold ended up in the E.

On slide 12 just a quick note about last year and again I have mentioned briefly earlier that it was actually a record year for consumer demand globally which may sound to those of you listening from the US a little bit counterintuitive given that the price fell but he phenomenon that was witnessed last year was at western investors primarily sold gold. That demand was soaked up by eastern consumers and eastern consumers were looking and willing to take advantage of a lower price and saw that as an opportunity to accumulate gold. And this resulted in a record year as for gold demand. In slide 13 this is just a simple ratio that we chart gold's price relative to a number of other different asset classes and commodities. As you can see that in terms of the long term average, the gold is looking relatively cheap or certainly not that expensive and again all of these different asset classes or commodities now again this is just a simple ratio but nothing necessarily to read into it but just as a reference point it does show that gold is not that expensive on a relative basis at this level.

Let's talk a little bit about gold and interest rate and this subject of huge amount of discussion in the market but it's also something that is not that well understood by a lot of market participants. So looking on slide 15, picture here the macro picture [Indiscernible] under the fed and monetary policy in gold. You know, markets especially [Indiscernible] meeting at the moment that's taking place we're looking for clear guidance on the reversal of the fed funds rate. So when will interest rates start to rise here in the US and the subsequently what's going to happen to all of the assets that have been [Indiscernible] that have been purchased and that's sitting on the balance sheet.

TPI has increases of the coinflation rate [Indiscernible] from the US and where does that ultimately leave fed funds? You know, where is the terminal fed fund rate? Is it 2% or is it 4% which certainly are quite a number of market commentators. Have sort of assumed and maybe now starting to rethink that analysis. But a flatter yield if that's the way we're going to go so somewhat a terminal fed fund rate of maybe 2% or 3% but certainly not materially higher than that means a flatter yield curve, low interest rates and that's not a bad environment for gold.

We still got [Indiscernible] and other phenomena out there. Eurozone risks still there. These things are contributing to keeping US interest rates low as deflation is being bordered.

Over the next page looking at this chart here talking of the unemployment rate and the fed funds rate. This is just looking back to 1975 and as you can see that in the bottom right hand box, this is a time that's based on previous cycles that would normally be in tightening mode. However that's not happened as of yet and even if they do start to tighten the fed funds rate does rise, they're still going to be a significant disconnect here between the job of claims number and the actual fed funds rate which again is another illustration of the fact that we're in quite unprecedented times.

Further to the interest rates obviously a function of low interest rates in the US particularly has been the increase in first for yield and subsequently corporate lending. This particular chart here on 17 shows the issuance of covenant light loans and their share of total leverage loans. As you can see that the total issuance has increased significantly over the past few years you know, as investors searched for yield and corporations take advantage of cheaper financing conditions.

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Closed End Fund Market Review and Outlook – Spotlight on REITs

Tuesday, August 5, 2014 | 11:00 AM ET

Ted Velenti: Thank you, Nicolas. This is Ted Valenti, Product Manager at Cohen & Steers. Good morning and thank you, everyone, for joining us today on this Web cast. On behalf of my colleagues here at Cohen & Steers, I thank you for your confidence and trust in our investment professionals and our investment process. As many of you know, Cohen & Steers is a global investment manager with a long history of innovation and a focus on real assets. Taking a look at slide Number 4, titled "Assets Under Management," you can see the breakdown of our asset classes in the left-hand table. And, most notably, the original real asset, real estate securities, or REITs, makes up the largest portion of our assets under management, while global listed infrastructure and MLPs total a significant $5 billion, and we're also nearing $7 billion of corporate-preferred securities under management. And what's important here is that we offer a closed-end fund strategy that invests in each one of these asset classes.

Taking a look at the pie chart on the right and focusing on the green slice, you can see how important these closed-end funds are to our firm. Over 19 percent of our assets in closed-end funds, or about $10 billion, Cohen & Steers is the 2nd-largest domestic closed-end fund issuer out there. Cohen & Steers and Capital Link go back a long time. We've been good partners over the years, and it's definitely our pleasure to be featured on this Web cast today. Our goal here is to provide a review and outlook for the closed-end fund market, as well as to share an update on the REIT market and some insight into how Cohen & Steers is positioning its REIT strategies as we head into the second half of 2014.

So I'm thrilled to be joined by Doug Bond. Doug is an Executive Vice President and is the Portfolio Manager of the Cohen & Steers Closed-End Opportunity Fund, symbol FOF. Doug is also involved in managing other portfolios that invest in closed-end funds on an institutional basis here at the firm, and he's been with Cohen & Steers since 2004. Before that, he was at Merrill Lynch for about 23 years and basically from '92 to 2004 he ran Merrill Lynch's closed-end fund new-issue origination effort and was literally involved in all of the closed-end funds underwritten by Merrill Lynch during that time.

With Doug is Jason Yablon, and Jason is a Senior Vice President and is the Portfolio Manager of three of our flagship closed-end Funds, Cohen & Steers Total Return Realty Fund, symbol RFI, Cohen & Steers Quality Income Realty Fund, symbol RQI, and Cohen & Steers REIT and Preferred-Income Fund, symbol RNP. Jason has also been with the firm since 2004 and is a critical part of our deep and integrated global real estate securities and investment team.

So with those facts behind us, let me turn it over to Doug for his comments. Doug?

Doug Bond: Thanks, Ted. Thanks, everybody.

On Slide 5 we've got an update of the closed-end fund market here in 2014. As many of you are aware, 2013 was a very, very difficult year for fixed-income-focused closed-end funds, with the taper talk beginning in May of 2013. And after widespread losses in most of the fixed-income funds in 2013 and widening discounts, virtually all fixed-income closed-end funds have rallied in 2014 and shown strong positive performance throughout 2014 through the end of the month of July, although getting back some of the gains in the latter part of July.

Featured Speaker

Douglas Bond
Executive VP, Portfolio Manager
Cohen & Steers

Jason A. Yablon
Senior Vice President
Cohen & Steers

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Equity funds, which did a lot better in 2013, are also up on a year-to-date basis in 2014. To put some numbers on that, the average equity fund's up about 9 percent or so year to date, average taxable fixed-income up about 7 percent, and, actually, the best performance in terms of a large closed end fund groups has been delivered by municipal funds, average national municipal fund up about 12 percent on a total-return basis. So, there's a bit in the closed-end fund market in 2014 of the worst to first, meaning some of the worst-performing groups in 2013 have become the best-performing groups in 2014. WE always think it's important to look into the closed-end fund market to track what's going on with leveraged costs, because three-quarters of all closed-end funds use some form of borrowing in their capital structure in order to help amplify the amount of income they're able to deliver to shareholders, and borrowing costs for closed-end funds here in 2014 have continued to remain at historically low levels.

Discounts for all of the major groups remain wide to their long-term 15-, 17-year averages. Our taxable closed-end fund benchmark was at about a 5.3 percent discount at June 30th after finishing 2013 at a 5.9 percent discount, and that's true whether you look at muni discounts, taxable fixed-income discounts, equity discounts. They're all wide to long-term averages.

If you turn forward to Slide 6, it's just a review of the size of the closed-end fund market, slightly shy of 600 funds, 584 funds. That number's down from 600, due to a lot of mergers of municipal funds into one another with similar investment objectives. About two-thirds of all of the closed-end funds are focused on fixed-income asset classes and securities of relatively even mix between taxable and municipal, and then the balance is 208 equity funds, so 376 fixed-income, 208 equity funds, about $255 billion in market cap, 33 major sectors, in our view, market inefficiency growing with the size of the market over time. And as fewer and fewer total research resources looking at this market, we continue to find lots and lots of inefficiency.

On Slide 7, we review the closed-end fund yield advantage and take a look at the current yield in closed-end funds in the orange on the far left compared to the 10-year average yield in closed-end funds in the blue bar on the far left. And you can see that the current yield on closed-end funds at 6.8 percent, while lower than that 10-year average, is still well above the kinds of yields that you can find today in stocks, corporate bonds, the 10-year treasury, municipal closed-end funds, or even municipal bonds. And you can see in those various other asset classes that pretty much across the board the current yield is below the 10-year average, and the one exception there, looking away from asset classes, is in municipal closed-end funds, where the yields actually are right spot on top of their 10-year average.

In Slide 8 we take a look at the broad level of choices that closed-end fund investors face as they look at various ways they can create diversified portfolios and achieve both a high current income opportunity, as well as capitalize on the everyday value characteristic of the closed-end fund market, that is being able to buy the fund at a discount to their book value or a discount to their net-asset value. So, the chart on the left, we're showing various closed-end fund groups, current distribution yields, starting on the far left with the highest-yielding, covered calls with an average yield of 8.6 percent, and, moving to the right in that chart all the way down to the MLP and energy resources groups with current yields of 6 and 5.8 percent, respectively.

And then, of course, in terms of current premium and discount, moving from the left, real estate securities currently available at an average discount of north of 10 percent, and moving all the way to the right, the lowest sort of discount group among the group of high-yield funds currently at an average discount of about 4.4 percent. All these numbers reflect levels at the end of June. Yields are a little bit higher. Discounts are a little bit wider if we fast-forward it to last night's yield and discount levels.

The chart on Page 9 is a long-term look at premiums and discounts, average premiums and discounts in the closed-end fund market. We've always had the philosophy that with an active approach and a disciplined approach you can take advantage of opportunities across a variety of groups in the closed-end fund market. The biggest takeaway, because there's a lot of data on this slide, is that in general if the Fed is easy with its policy, if the Fed Funds Rate is low, discounts are low. And as the Fed tightens and the Fed Funds Rate is rising, you generally see discounts rise.

Now, on the far right on the chart, you can see the Fed Funds Rate, which is in the blue line, which has basically been a flat line since the end of 2008 in this 0-to-25-basis-point area. For most of that time discounts remained below their long-term average of about 3.6, 3.7 percent. Now, the tightening measure that occurred in 2013 was the Fed's taper talk and with sort of the onset of the Fed's discussion of tapering, which is another form of tightening for the Fed. Perceived as a form of tightening or a precursor to a change in the Fed Funds Rate, discounts on closed-end funds blew out from around an average of one percent to north of six percent in relatively short order. So, notwithstanding the fact that performance for most closed-end fund groups has been strongly positive in 2014, we are in a period of time, when we continue to have the advantage of being able to buy closed-end funds at above-average discounts to net asset value.

On Slide 14, we share a bit of our outlook and current portfolio positioning. Our view for a while has been that the closed-end fund discounts would move back toward their long-term averages once the Fed tightening path becomes more visible, i.e. our view has been that we likely saw the worst of discount widening with the taper talk last year, and as the path of Fed short-term rate rises becomes more visible, discounts will come in from where they are. The closed-end fund market has gone through a very, very sharp new-issue slowdown here in 2014. Proceeds from new-issue deals -- there've been four deals thus far this year. Proceeds from those four deals are running about 80 percent behind, beneath 2013 new-issue levels. We actually view that as a very positive technical development for the market, limiting the amount of total new supply into the marketplace and having people focus more on where the values are in the secondary market.

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