Capital Link's
CEF & ETF Monthly Newsletter

December 2014
Volume 2 | Issue 11

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Capital Link

2014 EVENTS IN:

Closed-End Funds • Exchange-Traded Funds • Master Limited Partnership

Capital Link's Master Limited Partnership Investing Forum
Thursday, March 6, 2014
The Metropolitan Club, New York City

13th Annual Capital Link Closed-End Funds and Global ETFs Forum
Thursday, April 24, 2014
The Metropolitan Club, One East 60th St.,New York City

CAPITAL LINK'S Dissect ETFs Forum
Thursday, October 23, 2014
The Metropolitan Club, One East 60th St., New York City

March 6, 2014 – Master Limited Partnership Investing Forum attracts 700+ Delegates

The Forum provided a platform where MLPs, CEFs, and ETFs investors and industry participants exchanged views and information on the development and outlook of these products and the overall markets. Featured panel discussions and presentations were presented by senior executives of individual MLPs and investment banks, portfolio managers from MLP Funds, analysts rating agencies and the MLP industry, as well as industry experts. MLPs are one of the fastest growing asset classes presenting both companies and investors with attractive business and investment opportunities.

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April 24, 2014 – 13th Annual Closed-End Funds & Global ETFs Forum was another huge success

Organized in cooperation with the NYSE Euronext, the Forum attracted 1,000+ delegates, compromised comprised mainly of financial advisors and wealth managers, institutional investors, portfolio managers, analysts, media and other industry participants, who gathered to discus, debate and exchange information on critical industry topics, and to network.

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October 23, 2014 – Dissect ETFs

The Forum provided a platform which combine rich educational and informational content, marketing and networking. Financial advisors, institutional investors, RIAs, private bankers, financial planners, fund asset managers, analysts, and financial media utilize this forum as a resource of sharing and evaluating the latest ETF products and trends as well as enhancing visibility and establishing the right connections.

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

The "Closed-End Funds & Global ETFs Webinar Series" (www.CapitalLinkWebinars.com), is a complimentary online interactive platform on CEFs, ETFs, MLPs and other pertinent industry topics. Open to the public, these virtual events provide an in-depth look into the CEF & ETF industry, and ground issues and timely topics in the context of the global economy, fostering a better understanding among participants.

Click on below links to access webinars

January 8, 2014 – 2014 Outlook: Closed-End Fund Leverage by Fitch Ratings

January 14, 2014 – Closed-End Funds Industry Roundtable

March 11, 2014 – Unexpected Returns – How Closed-End Funds Have Defied Conventional Wisdom on Yields and Discounts by Cohen & Steers

View Webinar Library >>

Capital Link Monthly CEF & ETF Newsletter

The Monthly Newsletter aims to provide a review of developments in the CEF & ETF space as well as commentaries and editorial from leading industry participants.

For more information on Forums, please contact us at forums@capitallink.com or call us at + 1 212 661 7566.

For more information on webinar sponsorship opportunities, please contact us at funds@capitallink.com or call us at + 1 212 661 7566

Save the Date for Forums

March 5, 2015 – 2nd Annual Master Limited Partnership Investing Forum
April 23, 2015 – 14th Annual Closed-End Funds & Global ETFs Forum
October 20, 2015 – 2nd Annual Dissect ETFs Forum

The Month in Closed-End Funds: November 2014

PERFORMANCE

In November the U.S. market took steady incremental steps to new highs. By month-end the S&P 500 and the Dow Jones Industrial Average posted their forty-seventh and thirtieth record closes for the year, respectively. Strong economic news during the month and quantitative-easing announcements by the European and Chinese central banks were friendly to equity markets, with investors having few other alternatives to follow. On the flip side volatility in oil prices, geopolitical risks, and news that President Obama's landmark healthcare reform was heading back to the Supreme Court weighed on sentiment, keeping the market in check. Nonetheless, despite concerns of weakening economies in both Europe and Asia, both equity and fixed income CEFs managed to post positive NAV-based returns (+0.22% and +0.04% on average, respectively) for the second consecutive month, while market-based returns were positive for equity CEFs (+0.68%) but negative for fixed income CEFs (-0.06%). The year-to-date returns for both asset classes remained in relatively strong positive territory, with equity and fixed income CEFs returning 8.01% and 11.67%, respectively, on a NAV basis.

At the beginning of November investors cheered news that the U.S. economy added 214,000 new jobs in October, helping push the unemployment rate down to 5.8%. Although the headline number was short of the consensus estimate of 243,000, the upward revision to prior months' figures and the fact the economy added 200,000 or more workers for a ninth consecutive month were further evidence the Federal Reserve would not need to take a hawkish stance any time soon. In the middle of the month reports that sales at U.S. retailers rose in October and that the preliminary November reading of the University of Michigan/Thomson Reuters consumer-sentiment index rose to its highest level since July 2007 pushed U.S. stocks to their fourth consecutive week of plus-side returns. A surprise announcement by China's central bank that it had cut its one-year loan rate 0.4 percentage point and news that the ECB began buying asset-backed securities, expanding its quantitative-easing program, helped catapult the DJIA to its best one-day gain in two weeks and sent U.S. stocks to their fifth straight week of gains. However, on Thanksgiving Day OPEC's decision to maintain its current production ceiling of 30 million barrels per day put pressure on energy stocks on the last trading day of the month, with U.S. stocks ending the month on a mixed note. Nonetheless, the Dow finished the month up 2.52% and the NASDAQ composite rose 3.47%.

Treasury yields declined for the month, with the ten-year yield declining 17 bps to 2.18% at month-end. The rising dollar and an announcement of continued quantitative easing by the ECB made U.S. Treasuries appear more attractive to foreign investors. The Treasury yield curve flattened at all maturities one-year or greater from their mid-month highs, with the 20-year yield declining the most—19 bps to 2.62%—by month-end. The one-month yield witnessed the largest gain, jumping 3 bps to 0.04%.

The Month in Closed-End Funds: November 2014

- For the second consecutive month both equity and fixed income closed-end funds (CEFs) posted plus-side returns on average, with equity CEFs returning 0.22% on a net-asset-value (NAV) basis and their fixed income counterparts gaining 0.04% for the month.
- For November only 10% of all CEFs traded at a premium to their NAV, with 11% of equity funds and 9% of fixed income funds trading in premium territory. Lipper's domestic equity CEFs macro-group witnessed the largest narrowing of discounts for the month—64 basis points (bps) to 7.00%.
- Continuing a ten-month trend, most of Lipper's municipal bond CEF classifications posted returns in the black, with only New Jersey Municipal Bond CEFs (-0.09%) posting a negative return.
- Once again mixed-asset CEFs (+1.03%) outpaced their domestic equity CEFs (+0.05%) and world equity CEFs (+0.12%) brethren.
- Real Estate CEFs (+1.54%) posted the strongest return in the equity universe for the month, while Natural Resources CEFs (-4.73%) was at the bottom.

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For November the dollar once again gained against the euro (+0.68%), the pound (+2.27%), and the yen (+5.83%). Commodities prices were mixed, with near-month gold prices rising 0.33% to close the month at $1,175.50/ounce. Meanwhile, front-month crude oil prices plunged a whopping 17.74% to close the month at $66.15/ barrel (the lowest settlement price since September 25, 2009) after OPEC's decision to maintain its current oil production output stoked fears the existing oil glut would continue.

For the month 68% of all CEFs posted NAV-basis returns in the black, with 70% of equity CEFs and 67% of fixed income CEFs chalking up returns in the plus column. The slide in oil prices sparked heavy selling in energy stocks and weighed on Lipper's domestic equity CEFs macro-group (+0.05%), pushing it to the bottom of the equity CEF macro-groups.

On the equity side (for the third consecutive month) mixed-asset CEFs (+1.03%) outshone the other macro-groups, followed by world equity CEFs (+0.12%). Once again, Lipper's Real Estate CEFs classification (+1.54%) led the equity universe, benefitting from investors' search for income-producing securities and the asset class's resilience to short-term price changes. With the U.S. dollar continuing on its recent tear, OPEC's decision to keep its output the same, and the decline in oil demand, it was little wonder dollar-priced commodities were pummeled during the month, sending Natural Resources CEFs (-4.73%) and Energy MLP CEFs (-3.21%) to the bottom of the equity universe. For the remaining equity classifications returns ranged from minus 1.54% (Pacific ex-Japan CEFs) to 1.49% (Core CEFs).

Seven of the ten top-performing individual equity CEFs were housed in Lipper's World Equity CEFs macro-classification. At the top of the leader board was Morgan Stanley China A Share Fund, Inc. (NYSE: CAF, warehoused in Lipper's Emerging Markets CEFs classification), returning 11.78% on a NAV basis and traded at an 8.43% discount on November 28. Following CAF were Boulder Total Return Fund Inc. (NYSE: BTF, housed in Lipper's Core CEF classification), posting a 6.08% return and traded at a 19.31% discount at month-end; New Germany Fund, Inc. (NYSE: GF, housed in Lipper's Developed Markets CEFs classification), gaining 5.79% on a NAV basis and traded at an 8.31% discount at month-end; Turkish Investment Fund, Inc. (NYSE: TKF, housed in Lipper's Emerging Markets CEFs classification), rising 5.61% on a NAV basis and traded at a 12.18% discount on November 28; and New Ireland Fund, Inc. (NYSE: IRL, warehoused in Lipper's Developed Markets CEFs classification), posting a 5.15% NAV-based return and traded at a 13.42% discount at month-end.

For the month the dispersion of performance in individual equity CEFs—ranging from minus 12.40% to positive 11.78%—was narrower than October's spread and slightly

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	70	63	32	11	89
Bond Funds	67	42	52	9	91
ALL CEFs	**68**	**51**	**44**	**10**	**90**

TABLE 2 AVERAGE NAV RETURNS, SELECTED PERIODS (%)

	NOVEMBER	YTD	3-MONTH	CALENDAR-2013
Equity Funds	0.22	8.01	-2.45	16.03
Bond Funds	0.04	11.67	0.45	-1.74
ALL CEFs	**0.12**	**10.17**	**-0.78**	**5.17**

TABLE 3 NUMBER OF IPOs, SELECTED 12-MONTH PERIODS

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

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

3 MONTHS THROUGH 10/31/2014	131
COMPARABLE YEAR-EARLIER 3 MONTHS	176
CALENDAR 2013 AVERAGE	564

Source: Lipper, a Thomson Reuters company more negatively skewed. The 20 top-performing equity CEFs posted returns at or above 2.79%, while the 20 lagging equity CEFs were below minus 4.59%.

Given the strong decline of near-month oil prices, it wasn't surprising to see Tortoise Energy Independence Fund, Inc. (NYSE: NDP), housed in Lipper's Natural Resources CEFs classification, shed 12.40% and sit at the bottom of the equity CEFs group for the month. It traded at a 6.46% discount on November 28. Weakness in commodity prices, a strengthening dollar, and slowing demand for crude oil may have weighed on a subsection of Lipper's Energy MLP CEFs classification. Goldman Sachs MLP and Energy Renaissance Fund (NYSE: GER) posted the next poorest return in the equity universe, declining 10.94% and traded at a 7.68% premium at month-end. For November 74 equity CEFs experienced NAV-based returns in the red.

Despite signs of an accelerating U.S. economy in the middle of the month and some related bond selling, which initially pushed yields higher, hints of economic weakness in Europe and China, along with quantitative-easing efforts from the ECB and China's central bank pushed the ten-year yield down 17 bps to 2.18% at month-end. Foreign investors sought the safety and relatively higher yield of U.S. Treasuries. However, the municipal bond CEFs group (+0.19%) was the only fixed income macro-classification posting a return on the plus-side for the month, with all but one classification in the subgroup experiencing returns in the black. The muni CEFs group was followed by domestic taxable bond CEFs (-0.02%) and world bond CEFs (-1.41%).

At the top of the fixed income classification charts were Loan Participation CEFs (+0.42%) and Corporate Debt BBB-Rated CEFs (Leveraged) (+0.40%), while Emerging Markets Debt CEFs (-1.41%) was at the bottom. In the municipal bond CEFs macro-group High Yield Municipal Debt CEFs (+0.35%) jumped to the top, while New Jersey Municipal Debt CEFs (-0.09%) was the only classification in the group posting a return in the red. National municipal debt CEFs (+0.22%) outperformed their single-state municipal debt CEF counterparts (+0.16%) by 6 bps.

As a result of weakening global economics and the push to drive up inflation in Europe, both classifications making up Lipper's World Income CEFs macro-classification (-0.73%) posted returns in the red for November, with Global Income CEFs (-0.25%) mitigating losses better than its Emerging Markets Debt CEFs (-1.41%) cousin for the month. While High Yield Municipal Debt CEFs were at the top of the chart for the municipal debt CEFs group, both High Yield CEFs (Leveraged) (-0.73%) and High Yield CEFs (-0.56%) were at the bottom of the domestic taxable bond CEFs group.

Among domestic taxable fixed income CEFs the remaining classification returns ranged from 0.06% (General Bond CEFs) to 0.33% (Corporate Debt BBB-Rated CEFs).

Surprisingly, all five top-performing individual CEFs in the fixed income universe were housed in Lipper's domestic taxable fixed income macro-group. At the top of the group was NexPoint Credit Strategies Fund (NYSE: NHF, housed in Lipper's High Yield [Leveraged] CEFs classification), returning 2.84% and traded at a 13.32% discount at month-end. Following NHF were BlackRock Build America Bond Trust (NYSE: BBN, housed in Lipper's General Bond CEFs classification), tacking 2.03% onto its October month-end value and traded at a 9.38% discount on November 28, and DoubleLine Funds: DoubleLine Opportunistic Credit Fund (NYSE: DBL, housed in Lipper's General Bond CEFs classification), posting a 1.74% return and traded at a 5.33% premium at month-end.

For the remaining funds in the fixed income CEFs universe monthly NAV-basis performance ranged from minus 2.56% for Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. (NYSE: EDD, housed in Lipper's Emerging Markets Debt CEFs classification and traded at an 11.79% discount on November 28) to 1.36% for Guggenheim Build America Bonds Managed Duration Trust (NYSE: GBAB), housed in Lipper's General Bond CEFs classification and traded at a 7.79% discount at month-end. The 20 topperforming fixed income CEFs posted returns at or above 0.70%, while the 20 lagging CEFs were at or below minus 1.15%. A total of 113 fixed income

PREMIUM AND DISCOUNT BEHAVIOR

For October the median discount of all CEFs n arrowed just 11 bps to 9.29% - deeper than the 12-month moving average discount (8.57%). Equity CEFs' median discount narrowed 61 bps to 8.81%, while fixed income CEFs' median discount widened 6 bps to 9.46%. The world income CEFs macro-group's median discount witnessed the largest widening, 45 bps to 10.10%, while the domestic equity CEFs macro-group witnessed the largest narrowing of discounts in the CEFs universe – 73bps to 7,.64%.

For the month 61% of all funds' discounts or premiums improved, while 36% worsened. In particular, 58% of equity funds and 63% of fixed income funds saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on October 31 (58) was seven more than on September 30.

CEF EVENTS AND CORPORATE ACTIONS

IPOs

Nuveen Global Income Opportunities Fund (NYSE:JGG) and Nuveen Diversified Currency Opportunities Fund (NYSE: JGT) were merged into a new fund, Nuveen Global High Income Fund (NYSE: JGH).

RIGHTS, REPURCHASES, TENDER OFFERS

Firsthand Technology Value Fund (NASDAQ: SVVC) will commence a tender offer for up to 30 million of its common shares at 95% of NAV. If more shares are tendered, the fund will purchase them on a pro rata basis. The offer will run from December 22, 2014, to January 21, 2015, unless extended.

The tender offer for up to 10% (2.5 million shares) of Nuveen Diversified Real Asset Income Fund (NYSE:DRA) at 99% of NAV was oversubscribed. Investors tendered 16.7 million shares for a pro rata acceptance of 15.1 %

MERGERS AND REORGANIZATIONS

Shareholders approved the mergers of BlackRock Real Asset Equity Trust (NYSE: BCF) and BlackRock EcoSolutions Investment Trust (NYSE: BQR) into BlackRock Resources & Commodities Strategy Trust (NYSE: BCX). Shareholders of BCX approved the issuance of additional BCX common shares in connection with the mergers, which are expected to be effective December 8. In addition, shareholders of BlackRock Dividend Income Trust (NYSE:BQY) approved the merger of BQY into BlackRock Enhanced Equity Dividend Trust (NYSE: BDJ), effective December 8.

Nuveen reorganized four New Jersey CEFs: Nuveen New Jersey Investment Quality Municipal Fund (NYSE: NQJ), Nuveen New Jersey Premium Income Municipal Fund (NYSE: NNJ), and Nuveen New Jersey Dividend Advantage Municipal Fund 2 (NYSE: NUJ) were merged into Nuveen New Jersey Dividend Advantage Municipal Fund (NYSE: NXJ).

OTHER

Shareholders of Nuveen Equity Premium Income Fund (NYSE: JPZ), Nuveen Equity Premium and Growth Fund (NYSE: JPG), Nuveen Equity Premium Advantage Fund (NYSE: JLA), Dow 30 Premium & Dividend Income Fund (NYSE: DPD), Dow 30 Enhanced Premium & Income Fund (NYSE: DPO), and NASDAQ Premium Income & Growth Fund (NASDAQ: QQQX) approved a restructuring to create a series of scaled, unleveraged funds. Each fund offers shareholders a choice of underlying equity index exposure (S&P 500, Dow 30, or NASDAQ 100), along with an option overlay strategy that seeks to provide participation in the returns of the respective indices but with less expected volatility and a measure of downside protection over time. The final fund involved in this restructuring, Nuveen Equity Premium Opportunity Fund (NYSE: JSN), adjourned its shareholder meeting until December 5 to solicit more votes.

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CEF Performance Statistics

LIPPER

Category	Average 1Mo NAV Change	Average 1Mo Mkt Change	Average P/D 11/30/2014	Average P/D 10/31/2014	Average 1 Mo P/D Change	Average YTD NAV Change	Average YTD Mkt Change	Average YTD P/D Change (%)
California Municipal Debt Funds	-0.3%	-0.5%	13.4	13.4	-0.2	11.3%	11.2%	-0.2
Convertible Securities Funds	0.2%	-0.1%	12.2	12.2	-0.3	-1.8%	1.4%	3.0
Core Funds	0.4%	0.5%	16.8	17.0	0.3	0.9%	-0.4%	-1.6
Corporate BBB-Rated Debt Funds(Leveraged)	0.1%	0.2%	13.0	13.0	0.1	3.0%	2.9%	-0.2
Corporate Debt Funds BBB-Rated	0.0%	0.8%	15.0	14.9	0.7	1.4%	3.2%	1.5
Developed Market Funds	0.6%	-0.1%	11.7	12.1	-0.7	-1.6%	-3.8%	-1.9
Emerging Markets Funds	-0.8%	0.0%	17.5	17.4	0.5	0.5%	-0.3%	-1.0
Emerging Mrkts Hard Currency Debt Funds	-1.8%	-1.5%	12.8	13.1	0.2	-2.2%	-2.9%	-0.7
Energy MLP Funds	-3.2%	-3.5%	23.1	23.9	-0.3	4.8%	1.7%	-2.6
General & Insured Muni Debt Funds (Leveraged)	-0.2%	-0.7%	13.6	13.7	-0.4	12.4%	10.8%	-1.3
General & Insured Muni Fds (Unleveraged)	-0.2%	0.8%	15.4	15.2	1.0	7.3%	9.6%	2.1
General Bond Funds	-0.5%	-0.2%	14.7	14.7	0.4	0.2%	2.0%	-0.2
Global Funds	0.5%	1.0%	12.4	12.2	0.6	-2.7%	-0.5%	1.9
Global Income Funds	-0.8%	-0.7%	15.8	15.3	0.2	0.1%	-0.6%	-0.6
Growth Funds	-0.7%	-0.3%	4.6	4.1	-0.4	5.7%	-15.5%	-12.9
High Yield Funds	-1.1%	-2.0%	9.2	9.4	-0.8	-3.9%	-3.4%	0.6
High Yield Funds (Leveraged)	-1.3%	-1.6%	12.3	12.5	-0.2	-2.4%	-2.9%	-0.4
High Yield Municipal Debt Funds	-0.2%	-1.1%	9.7	9.8	-1.0	9.4%	9.3%	0.0
Income & Preferred Stock Funds	0.7%	2.0%	16.3	16.0	1.3	8.1%	10.7%	2.2
Intermediate Municipal Debt Funds	-0.3%	-1.3%	13.9	14.1	-1.0	7.3%	5.2%	-1.8
Loan Participation Funds	0.0%	-0.4%	12.6	12.6	-0.3	-1.9%	-7.3%	-4.9
Natural Resources Funds	-6.1%	-6.0%	21.5	22.9	-0.1	-4.0%	-0.7%	1.2
New Jersey Municipal Debt Funds	-0.5%	-0.3%	13.9	13.9	0.2	10.7%	8.4%	-1.9
New York Municipal Debt Funds	-0.2%	-0.4%	13.0	13.0	-0.2	10.1%	8.3%	-1.6
Options Arbitrage/Opt Strategies Funds	0.6%	1.2%	13.7	13.5	0.4	-0.4%	5.1%	5.0
Other States Municipal Debt Funds	-0.3%	-0.1%	13.8	13.9	0.1	10.2%	11.4%	0.9
Pacific Ex Japan Funds	-1.5%	-2.0%	16.3	16.9	-0.4	-5.7%	-6.5%	-0.9
Pennsylvania Municipal Debt Funds	-0.3%	0.1%	13.5	13.5	0.4	10.4%	11.0%	0.5
Real Estate Funds	1.4%	2.0%	12.9	12.7	0.2	15.0%	15.7%	-0.8
Sector Equity Funds	0.3%	1.2%	19.4	18.9	1.1	1.6%	3.3%	2.2
U.S. Mortgage Funds	-0.3%	0.9%	17.1	18.8	1.2	1.6%	1.6%	0.1
Utility Funds	-0.2%	2.4%	18.8	18.3	2.4	8.9%	13.2%	3.6
Value Funds	0.8%	1.0%	17.0	16.9	0.3	3.7%	6.8%	1.0

Top 5 Performing CEFs

LIPPER

Fund Name	Category	Ticker Symbol	1-Month NAV Change	Rank
Petroleum & Resources	Natural Resources Funds	PEO	17.0%	1
Tortoise Energy Indpndce	Natural Resources Funds	NDP	16.0%	2
Goldman Sachs MLP&En Ren	Energy MLP Funds	GER	14.4%	3
Cushing Royalty & Inc Fd	Energy MLP Funds	SRF	11.4%	4
BlackRock Energy & Res	Natural Resources Funds	BGR	10.1%	5

Fund Name	Category	Ticker Symbol	Year-to-Date NAV Change	Rank
Morg Stan India Inv	Emerging Markets Funds	IIF	48.8%	1
India Fund	Emerging Markets Funds	IFN	36.9%	2
Engex Inc	Growth Funds	EXGI	29.3%	3
Cohen & Steers Qual Rlty	Real Estate Funds	RQI	27.4%	4
Nuveen Real Estate Inc	Real Estate Funds	JRS	26.5%	5

Fund Name	Category	Ticker Symbol	1-Month Market Change	Rank
Goldman Sachs MLP&En Ren	Energy MLP Funds	GER	14.8%	1
Goldman Sachs MLP IncOpp	Energy MLP Funds	GMZ	14.0%	2
Petroleum & Resources	Natural Resources Funds	PEO	13.1%	3
Pioneer Div High Inc Tr	High Yield Funds (Leveraged)	HNW	11.2%	4
Cushing Royalty & Inc Fd	Energy MLP Funds	SRF	10.6%	5

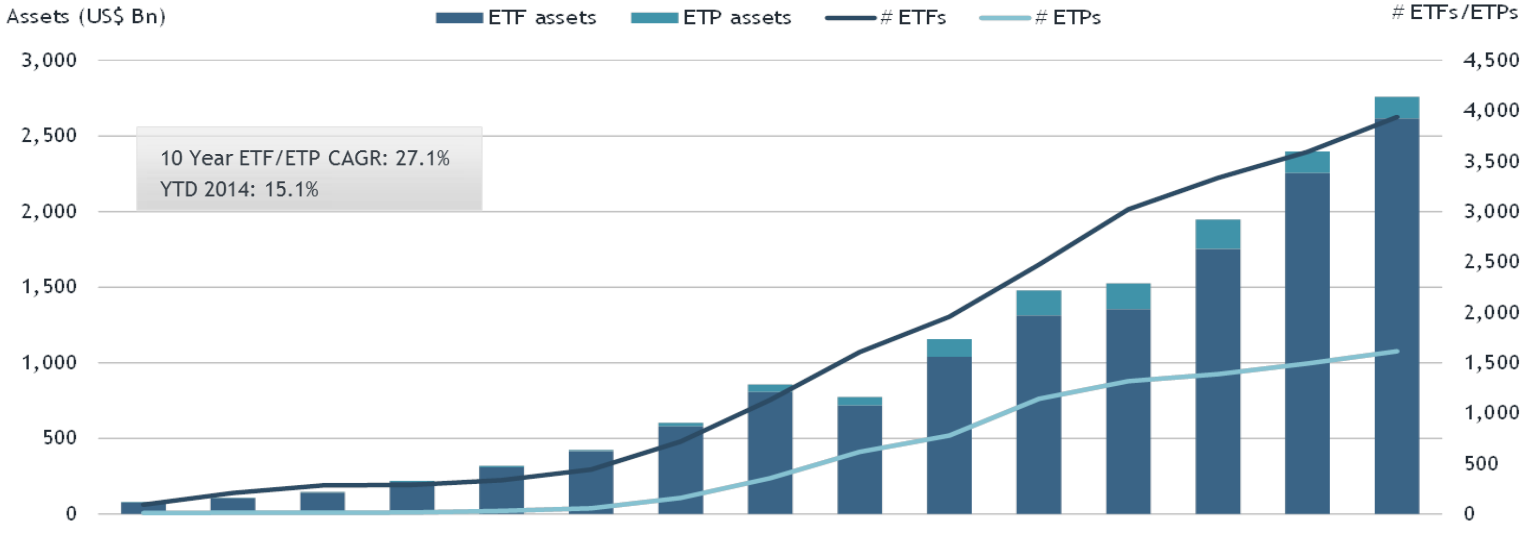
Fund Name	Category	Ticker Symbol	Year-to-Date Market Change	Rank
Morg Stan India Inv	Emerging Markets Funds	IIF	56.7%	1
India Fund	Emerging Markets Funds	IFN	44.7%	2
BlackRock Hlth Sciences	Sector Equity Funds	BME	31.0%	3
Reaves Utility Income	Utility Funds	UTG	29.8%	4
Eaton Vance Muni Inc Tr	General & Insured Muni Debt Funds (Leveraged)	EVN	27.0%	5

Fund Name	Category	Ticker Symbol	1-Month P/D Change	Rank
BlackRock Hlth Sciences	Sector Equity Funds	BME	9.5%	1
First Tr Spec Fin&Finl	Sector Equity Funds	FGB	7.7%	2
PIMCO Corp & Inc Oppty	General Bond Funds	PTY	7.2%	3
Tekla Healthcare Invest	Sector Equity Funds	HQH	6.5%	4
Pioneer High Income Tr	High Yield Funds (Leveraged)	PHT	5.1%	5

Fund Name	Category	Ticker Symbol	Year-to-Date P/D Change	Rank
First Tr Spec Fin&Finl	Sector Equity Funds	FGB	18.1%	1
Pioneer High Income Tr	High Yield Funds (Leveraged)	PHT	16.2%	2
Columbia Sel Prm Tech Gr	Options Arbitrage/Opt Strategies Funds	STK	15.0%	3
Cushing MLP Tot Ret	Energy MLP Funds	SRV	13.5%	4
Gabelli Utility Trust	Utility Funds	GUT	13.1%	5

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

At the end of October 2014, the global ETF/ETP industry had 5,516 ETFs/ETPs, with 10,628 listings, assets of US$2.68 trillion, from 227 providers on 61 exchanges.



Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Nov-14
# ETFs	94	209	284	289	335	440	719	1,132	1,607	1,957	2,474	3,023	3,335	3,592	3,940
# ETFs/ETPs	105	221	296	304	365	507	886	1,537	2,224	2,736	3,617	4,340	4,723	5,086	5,556
ETF assets	74	105	142	212	310	416	579	806	716	1,041	1,313	1,355	1,754	2,254	2,617
ETF/ETP assets	79	109	146	218	319	425	603	856	774	1,158	1,478	1,526	1,949	2,398	2,761

Summary for ETFs/ETPs: Global

ETFGI's research finds 2014 is proving to be a very good year for the Global ETF/ETP industry. Some highlights are below.

The global ETF/ETP industry has reached a new record of US$2.76 trillion in assets. We expect the assets to break through the US$ 3 trillion milestone in the first half of 2015.

There was US$ 42.0 billion in net new asset (NNA) flows in November – the fourth largest NNA month on record. Year to date net inflows of US$275.3 billion are a new record beating prior full year net inflows.

The ETF/ETP industry in the United States reached a new record of US$1.98 trillion in assets at the end of November. We expect to see assets break through the US$2 trillion milestone any day.

Net inflows into US listed ETF/ETPs were $42.4 billion in November which is a record month, beating the previous high of US$41.1 billion set in July 2013.

The ETF/ETP industry in Europe also had a strong month gathering US$5.6 billion in NNA and a record level of US$61.8 billion in NNA year to date breaking the prior full year NNA record. Assets in European ETFs/ETPs are US$472.1 billion at the end of November which is just below the record of US$477.4 billion in assets set at the end of August 2014. We expect the European ETF/ETP industry to break through the US$500 billion milestone in the first half of 2015.

"Economic news in Europe during November was not positive with the OECD warning that Europe was the "locus of weakness" in the global economy - criticising the ECB's efforts to combat economic stagnation. Many found the ECB's investment plan as lacking new money and new ideas with even the Pope criticising the plan. During November the US market continued its positive trend with both the S&P 500 and the Dow closing up 3% for the month. Developed markets ended the month up 1% while emerging markets declined 1%." according to Deborah Fuhr, Managing Partner at ETFGI.

In November 2014, ETFs/ETPs listed globally saw net inflows of US$42.0 Bn. Equity ETFs/ETPs gathered the largest net inflows with US$38.8 Bn, followed by fixed income ETFs/ETPs with US$4.9 Bn, while commodity ETFs/ETPs saw net outflows of US$221 Mn.
In November 2014, 57 new ETFs/ETPs were launched by 35 providers.
The top 100 ETFs/ETPs, out of 5,556, account for 56.8% of global ETF/ETP average daily trading volumes decreased by 33.9% from US$119,471 Mn in October 2014 to US$78,995 Mn in November 2014.

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

Global ETF/ETP Assets Summary

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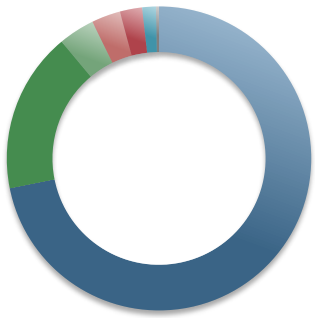
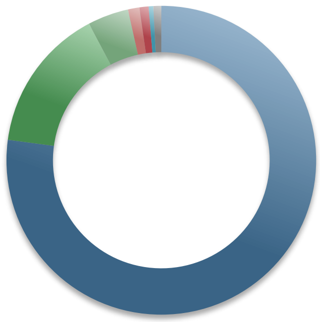
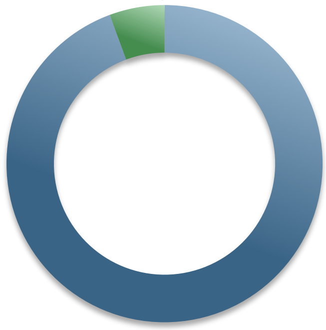
ETF/ETP assets by region listed



ETF/ETP assets by asset class



ETF/ETP assets by product structure



Region	# ETFs/ ETPs	Assets (US$ Bn)	% total
US	1,659	$1,983	71.8%
Europe	2,108	$472	17.1%
Asia Pacific (ex-Japan)	579	$106	3.9%
Japan	145	$85	3.1%
Canada	341	$65	2.4%
Middle East and Africa	678	$40	1.5%
Latin America	46	$9	0.3%
Total	**5,556**	**$2,761**	**100.0%**

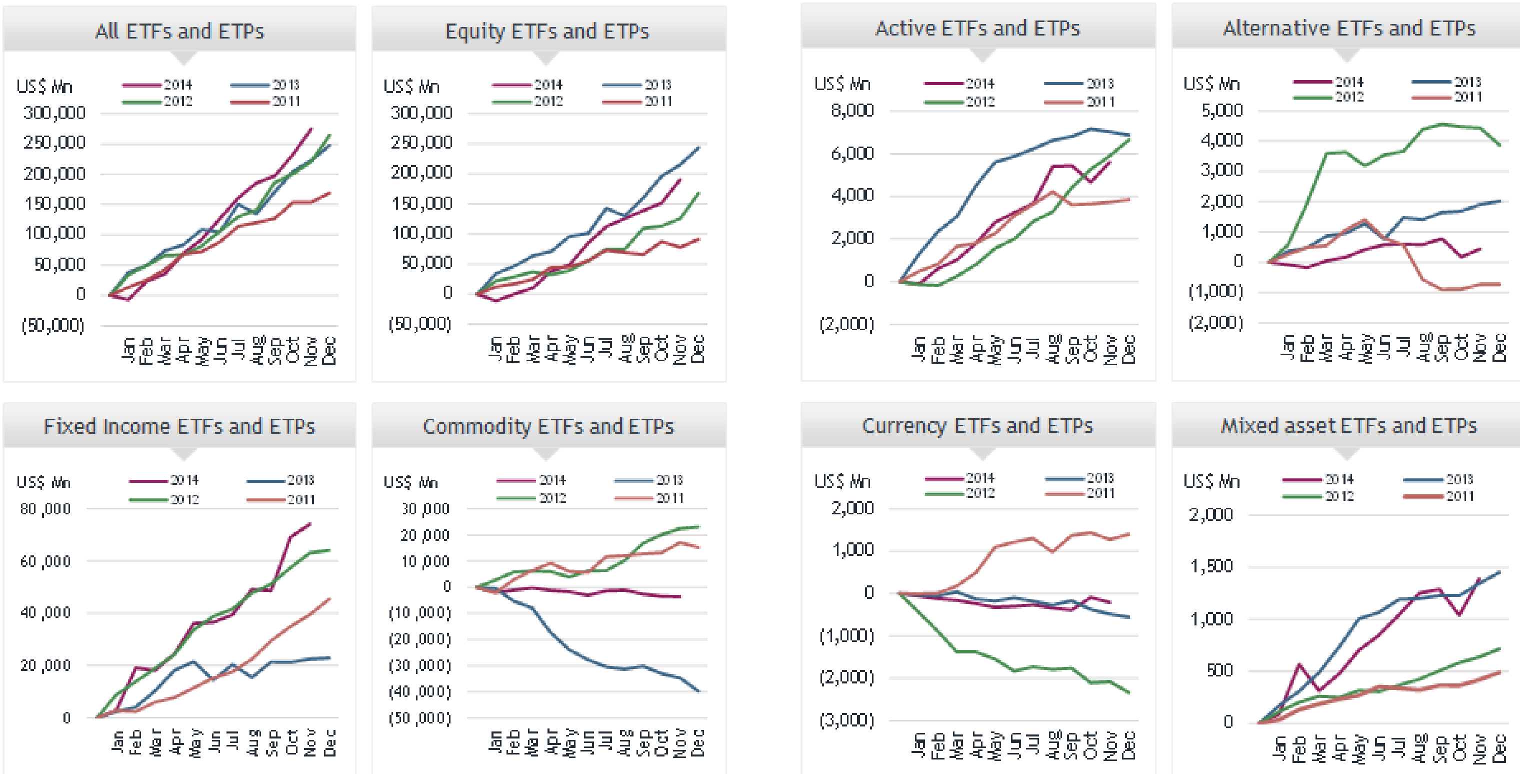
Asset class	# ETFs/ ETPs	Assets (US$ Bn)	% total
Equity	2,891	$2,129	77.1%
Fixed Income	820	$418	15.2%
Commodities	731	$118	4.3%
Leveraged	325	$33	1.2%
Active	196	$27	1.0%
Leveraged Inverse	171	$13	0.5%
Others	422	$23	0.8%
Total	**5,556**	**$2,761**	**100.0%**

Asset class	# ETFs/ ETPs	Assets (US$ Bn)	% total
ETF	3,940	$2,617	94.8%
ETP	1,616	$143	5.2%
Total	**5,556**	**$2,761**	**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 $42,018 Mn in November. Year to date, net inflows stand at $275,319 Mn. At this point last year there were net inflows of $223,156 Mn.

Equity ETFs/ETPs saw net inflows of $38,837 Mn in November, bringing year to date net inflows to $190,459 Mn, which is less than the net inflows of $214,951 Mn over the same period last year.

Fixed income ETFs and ETPs gathered net inflows of $4,871 Mn in November, growing year to date net inflows to $74,006 Mn, which is greater than the same period last year which saw net inflows of $22,472 Mn.

Commodity ETFs/ETPs saw net outflows of $221 Mn in November. Year to date, net outflows are at $3,665 Mn, compared to net outflows of $34,656 Mn over the same period last year.

Actively managed products saw net inflows of $929 Mn in November, bringing year to date net inflows to $5,655 Mn, which is less than the net inflows of $7,032 Mn over the same period last year.

Products tracking alternative indices accumulated net inflows of $261 Mn in November, growing year to date net inflows to $441 Mn, which is less than the same period last year which saw net inflows of $1,914 Mn.

Currency products saw net outflows of $117 Mn in November. Year to date, net outflows are at $207 Mn, compared to net outflows of $484 Mn over the same period last year.

Products holding more than one asset class saw net inflows of $349 Mn in November, bringing year to date net inflows to $1,388 Mn, marginally higher than the net inflows of $1,343 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.

ETF/ ETP Distribution and Benchmarks

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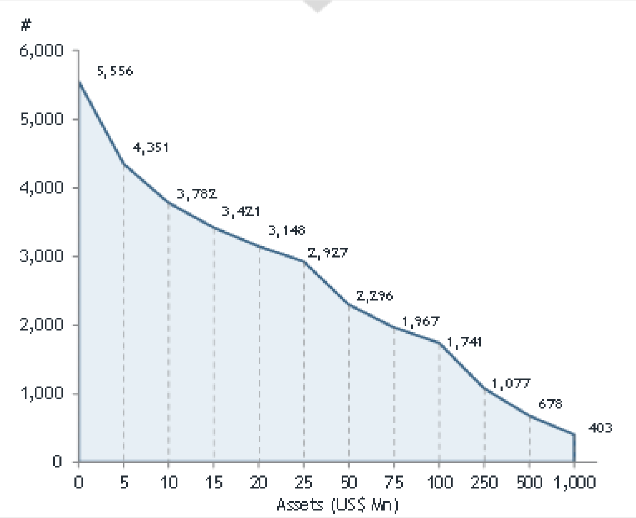
Distribution of ETFs/ETPs by size

ETF/ETP assets



Assets greater than (US$ Mn)	# ETFs	% total	Total assets (US$ Bn)	% total
0	5,556	100.0%	2,761	100.0%
5	4,351	78.3%	2,758	99.7%
10	3,782	68.1%	2,754	99.6%
15	3,421	61.6%	2,749	99.4%
20	3,148	56.7%	2,745	99.2%
25	2,927	52.7%	2,740	99.1%
50	2,296	41.3%	2,717	98.2%
75	1,967	35.4%	2,696	97.5%
100	1,741	31.3%	2,676	96.8%
250	1,077	19.4%	2,568	92.9%
500	678	12.2%	2,427	87.8%
1,000	403	7.3%	2,231	80.8%

403 ETFs/ETPs have greater than US$1 Bn in assets, while 1,741 have greater than US$100 Mn in assets and 2,296 have greater than US$50 Mn in assets. The 403 ETFs/ETPs with greater than US$1 Bn in assets hold a combined total of US$2,231 Bn, or 80.8%, of Global ETF/ETP assets.

ETF/ETP underlying benchmarks: developed equity

Top 20 by assets

Name	Assets (US$ Mn) Nov-14	NNA (US$ Mn) Nov-14	NNA (US$ Mn) YTD 2014
S&P 500 Index	346,870	15,843	41,228
MSCI EAFE Index	57,515	958	4,995
CRSP US Total Market Index	50,549	1,064	6,772
NASDAQ 100 Index	49,758	2,980	(7,500)
Nikkei 225 Index	41,594	(1,707)	3,371
S&P Mid Cap 400 Index	40,542	2,403	(420)
TOPIX Index	35,734	(1,995)	2,760
EURO STOXX 50 Index	29,467	(735)	(1,233)
MSCI Japan Index	29,236	2,285	3,392
Russell 2000 Index	29,235	125	(512)
Russell 1000 Growth Index	27,324	164	1,420
MSCI US REIT Index	26,533	200	4,377
Russell 1000 Value Index	25,639	393	2,328
FTSE Developed ex North America Index	23,815	727	6,097
DAX Index	21,983	(3,219)	(6,835)
NASDAQ Dividend Achievers Select Index	21,067	89	68
MSCI World Index	19,442	603	1,592
S&P Financial Select Sector Index	19,355	253	354
CRSP US Large Cap Growth Index	17,399	412	2,104
CRSP US Large Cap Value Index	17,029	336	3,032

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.

Top 20 by monthly net inflows

Name	Assets (US$ Mn) Nov-14	NNA (US$ Mn) Nov-14	NNA (US$ Mn) YTD 2014
S&P 500 Index	346,870	15,843	41,228
NASDAQ 100 Index	49,758	2,980	(7,500)
S&P Mid Cap 400 Index	40,542	2,403	(420)
MSCI Japan Index	28,886	2,167	3,392
WisdomTree Japan Hedged Equity Index	12,695	1,254	(822)
Wisdom Tree Europe Hedged Equity Index	4,636	1,167	3,791
CRSP US Total Market Index	50,549	1,064	6,772
MSCI EAFE Index	57,515	958	4,995
FTSE Developed ex North America Index	23,815	727	6,097
JPX-Nikkei Index 400	2,663	642	2,690
S&P Energy Select Sector Index	9,935	623	3,003
S&P Preferred Stock Index	11,713	619	2,655
MSCI World Index	19,442	603	1,592
S&P Health Care Select Sector Index	12,736	557	1,886
S&P Equal Weight Index	9,664	446	2,182
S&P US 600 Small Cap Index	14,471	421	(190)
CRSP US Large Cap Growth Index	17,399	412	2,104
Russell 2000 Value Index	6,204	401	(22)
S&P Consumer Discretionary Select Sector Index	7,121	395	(756)
Russell 1000 Value Index	25,639	393	2,328

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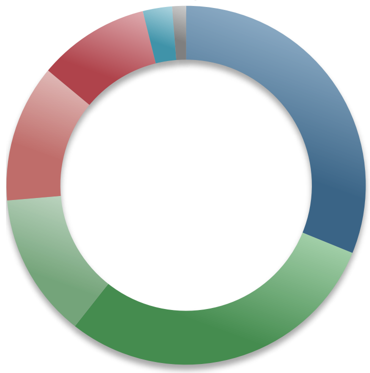
YTD ETF/ETP product launches

ETFs/ETPs by region listed



ETFs/ETPs by asset class

ETFs/ETPs by product structure

Region	# ETFs/ETPs	% total
Europe	201	31.2%
US	190	29.5%
Middle East and Africa	84	13.0%
Asia Pacific (ex-Japan)	80	12.4%
Canada	65	10.1%
Japan	17	2.6%
Latin America	8	1.2%
Total	**645**	**100.0%**

Asset class	# ETFs/ETPs	% total
Equity	381	59.1%
Active	73	11.3%
Fixed income	69	10.7%
Leveraged	48	7.4%
Leveraged Inverse	28	4.3%
Mixed	12	1.9%
Others	34	5.3%
Total	**645**	**100.0%**

Structure	# ETFs/ETPs	% total
ETF	480	74.4%
ETP	165	25.6%
Total	**645**	**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.

2015 Outlook: Closed-End Funds

December 10, 2014

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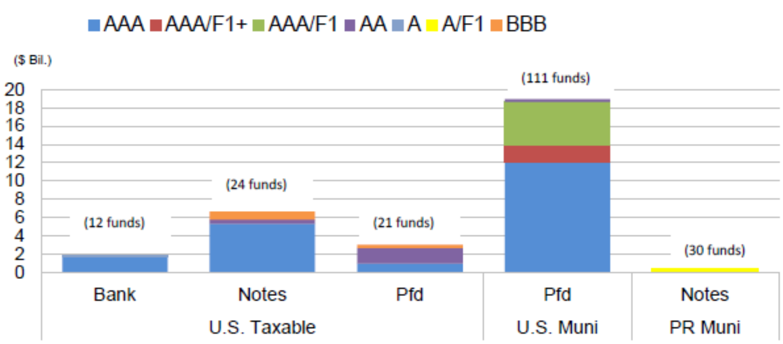
Debt and Preferred Stock Ratings Stable: Fitch Ratings maintains a stable outlook for 2015 on ratings assigned to $30.8 billion of debt and preferred stock across 133 municipal and 57 taxable closed-end funds (CEFs), as well as two related market value structures (MVS). The stable outlook reflects moderate leverage levels, adequate protections against asset coverage declines, and prudent investment management by fund advisors. At year-end 2014, average taxable funds in the industry leveraged between 24% and 32%, while municipal funds leveraged between 30% and 37%. See the Appendix for a full list of sectors.

Reliance on Short-Term Funding: Fitch estimates that taxable and municipal CEFs will enter 2015 with $41 billion and $22 billion in short-term bank funding, respectively, that they will need to roll over by year end (see the chart on the next page). These figures represent 77% and 64% of the total leverage outstanding, respectively, indicating that the majority of funds do not diversify their leverage across maturities.

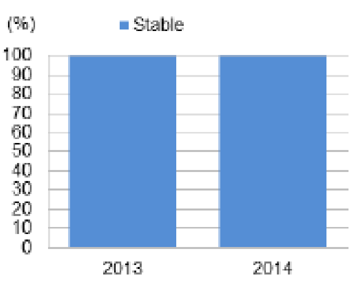
Regulatory Impact on Leverage: Fitch sees change in the availability of bank counterparties as Basel III regulations have pressured margin and repo lending businesses of some banks. This development has prompted funds to seek out and secure new banking relationships; however, additional diversification may be needed. There are 155 taxable funds that enter 2015 utilizing only bank borrowings (i.e. they have not accessed or diversified with insurance company or retail funding). There are also 161 taxable funds that enter 2015 with more than 75% of their capital structure reliant on a single bank counterparty. Steps to further diversify the funding base may be prudent.

Positioning for Rate Rise: Fitch expects the rising rate environment to increase borrowing costs for funds that are overly reliant on floating-rate debt. Rising rates will also impact net asset values (NAV) and leverage ratios for funds investing in longer-dated securities. Per Fitch's published rate forecast, The Federal Reserve is expected to begin raising rates by mid-2015, with base and stress scenarios putting the 10-year U.S. Treasury note at 3.7% and 5.5% yields by 2016, respectively, from the current 2.3%. For more on CEF Impact, see Fitch Research on "Leveraged Closed-End Funds Weather U.S. Rate Shock Scenarios" dated October 2014.

Fitch-Rated CEF and Related MVS Leverage



Rating Outlooks



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Rating Actions

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

- **Fitch Affirms Madison Arbor LLC Senior Notes at 'AAA'' – December 1, 2014**
- **Fitch Confirms Invesco Muni Funds VMTP Shares after Maturity Extensions - December 5, 2014**
- **Fitch Rates Tortoise Pipeline & Energy Fund Notes 'AAA' & Pfd at 'AA' –December 15, 2014**

Fed Raises Rates in a Deflationary Environment?!

December 15, 2014

Authored by:
Mike McGlone
Director – Research
ETF Securities

Fed tightening backfire risks have increased. At this weeks' FOMC meeting "extended period" may be removed but, data dependent should remain predominant as many markets are indicating deflation is the greater risk. The last time the fed began a tightening cycle in June of 2004 crude oil, bond yields and CPI were increasing rapidly while the US dollar was declining. The chart below depicts near opposite deflationary type conditions now. US CPI is expected at 1.5% YOY this week, which is less than ½ that of 3.3% in June 2004. With the US 10yr rallying strongly in 2014 despite tapering, the market appears to be pricing in the increasing deflationary risks of fed tightening. A successful FOMC tightening cycle in a demand-pull inflationary cycle remains the dream.

Gold theme 2015 – impressive resilience in 2014. Looking ahead to 2015, the gold theme from 2014 is likely to be, what is it going to take? If gold will not decline in an environment with successive new stock market highs, a strong US dollar and gold ETP outflows, what will it take in 2015 to pressure gold? Similar to the US bond market, gold and most precious metals appear to be looking ahead, maybe to some asset price and volatility normalization. Volatility has been percolating through most markets, notably excluding the US equity market. The historic mean in the VIX is near 20%. In 2014, it has been 14%. The US$1,200/oz. level in gold remains good support. Ending the 2014 year above US$1,200/oz. would likely place gold on a foundation to range trade between US$1,200/oz. and US$1,400/oz. in 2015. When there is some volatility normalization in the US equity market, gold should be a primary beneficiary. Since volatility is always mean reverting, it may be more a question of time.

The last time silver was cheaper to gold was the recession of 2009. For the second week running silver was the best performing precious metal, gaining 7% since November. The gold/silver ratio ended the week near 71, down from the end of November level near 76 (see chart page 2). January of 2009, near the height of the financial crisis, marked the last time this ratio sustained higher levels. A few weeks ago, silver printed a low in the futures market below $15/oz. We estimate the marginal cost of production near US$15.5/oz. At current levels, silver can be considered cheap compared to gold unless we potentially return to a 2008-2009 type landscape. Since the end of 1999, silver has spent only 6% of the time at a cheaper level than a gold/silver ratio above 74.

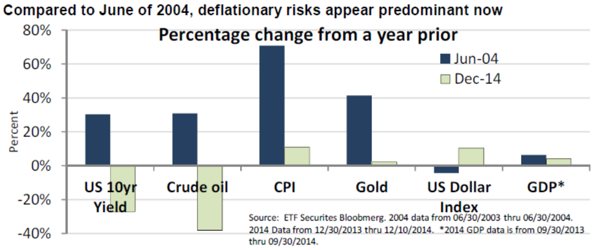
Tax loss harvesting time. Rolling some losses from individual precious metal holdings into an index or basket of precious metals has numerous attributes. A precious metals basket may present a good alternative to holding a broad-based commodity benchmark. A PM basket has a history of outperforming most broad commodity indices with similar volatility and lower correlation to the S&P 500, notably because there are virtually no contango and backwardation issues with precious metals.

Precious Metal Prices[1]

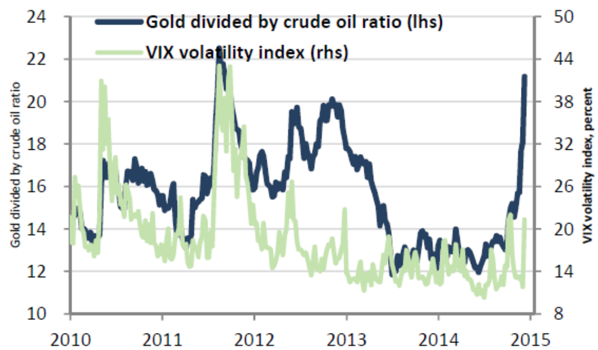
USD/oz	Gold	Silver	Plat.	Pall.
Level	1,217.0	17.1	1,231.0	818.0
Change				
-1 Week	1.9%	4.5%	0.0%	1.5%
-1 Month	4.5%	9.3%	2.2%	5.4%
-3 Months	-2.7%	-10.2%	-10.9%	-4.4%
YTD	1.1%	-12.5%	-9.3%	14.2%
-12 Months	-0.6%	-13.8%	-10.2%	12.2%

[1] Based on Dec. 12, 2014 London fixing price.
Source: ETF Securities, Bloomberg.

Compared to June of 2004, deflationary risks appear predominant now



Gold/crude and the VIX have had similar spike patterns



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Xpert Insights: Market outlook from Dodd Kittsley

December 12, 2014

Authored by:

Dodd Kittsley
Director, head of ETF strategy
Deutsche Asset & Wealth Management

The consequences of currency exposure
One of the biggest investment stories of 2014 has been the broad-based strength of the U.S. dollar. Over the past year, the U.S. dollar has risen significantly relative to the euro and yen due to divergence: divergence in economic growth rates, and resultant divergence in monetary policy. Investors should be aware of the magnitude of currency's negative return on international equities over the past 12 months, as well as the longer three- and five-year periods.

Figure 1 below shows the currency hedged and unhedged return of major MSCI international equity indices over the year ending November 30. The reduction of return resulting from currency exposure is staggering. The stocks in the currency-hedged MSCI EAFE Index, for example, appreciated 8.6% over the past 12 months. The unhedged index returned -0.02%, meaning that currency exposure erased a shocking 100% of the MSCI EAFE Index's equity return. In Japan, the currency exposure of the unhedged MSCI Japan Index caused a 92% loss of equity market return.

Perhaps even more meaningful is our belief that the euro and yen have further to decline. When the European Central Bank (ECB) last expanded its balance sheet in 2011 and 2012, every €97 billion rise in the balance sheet resulted in a 1% decline in the Euro Trade-Weighted Index.

If the ECB's goal of expanding its balance sheet by up to €1 trillion by 2017 is to be successful, the euro could fall further. Furthermore, following announcement of additional quantitative easing by the Bank of Japan (BoJ) and portfolio rebalancing by massive Japanese pension funds into foreign equities, we expect the yen to continue to weaken.

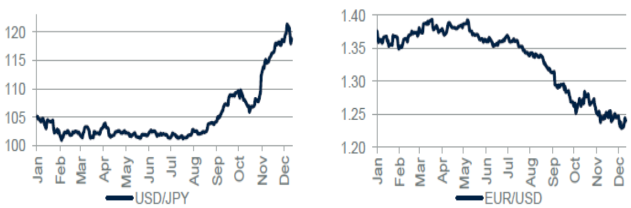
Currency exposure had a pronounced impact on investment performance over the longer three- and five-year periods as well. The four unhedged indices lost 28% to 55% of equity return annualized over the past five years to negative currency return.

Figure 1: The impact of currency exposure on equity return

	Hedged return (equity market return)	Unhedged return (equity market return *and* currency return)	Difference (percentage points)	% of equity return lost
MSCI EAFE Index	8.6	–0.02	8.7	**–100**
MSCI EMU IMI Index	7.5	–1.8	9.3	**–123**
MSCI Japan Index	12.7	–1.9	14.5	**–115**
MSCI ACWI ex-USA Index	7.8	0.6	7.2	**–92**

Source: Morningstar Direct as of 11/30/14. **Performance is historical and does not guarantee future results.** This data is for illustrative purposes and does not represent any Deutsche Asset & Wealth Management product. Index returns assume reinvestment of all distributions and do not reflect fees or expenses. It is not possible to invest directly in an index.

Figure 2: USD/JPY and EUR/USD exchange rate in 2014 (through 12/11/2014)



Source: Financial Times Interactive Data Corp. and IHS as of 12/11/14.

Figure 3: Deutsche Bank currency forecast

	Spot	Q4 2015	Q4 2016	Q4 2017
EUR/USD	1.23	1.15	1.05	0.95
USD/JPY	120	125	130	120

Source: Deutsche Bank as of 12/5/14. There is no guarantee that forecasts will be realized.

Figure 4: Percentage of local equity market return lost to currency effect (annualized)

	1-year	3-year	5-year
MSCI EAFE Index	–100%	–29%	–31%
MSCI EMU IMI Index	–123%	–21%	–55%
MSCI Japan Index	–115%	–59%	–50%
MSCI ACWI ex-USA Index	–92%	–28%	–28%

Source: Morningstar Direct as of 11/30/14. **Performance is historical and does not guarantee future results.** This data is for illustrative purposes and does not represent any Deutsche Asset & Wealth Management product. Index returns assume reinvestment of all distributions and do not reflect fees or expenses. It is not possible to invest directly in an index.

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A Long-Term View for China

November 25, 2014

Authored by:

Nick Niziolek
Senior Vice President, Co-Portfolio Manager, Co-Head of Research
Calamos Investments

When I meet with clients, one of the most frequent questions I'm asked is, "What do you think about China?" With China's rate cut this past Friday helping to fuel a global equity rally, we were reminded of how relevant the China question is to the overall health of the global markets and economy. In this post, I'll discuss the lens through which we view China and how we interpret the daily flood of policy-related headlines coming out of the country to determine what is "noise" and what is actionable.

Our outlook on China remains generally positive. All recent policy actions and reform initiatives suggest the government's continued commitment to transitioning China to a more balanced and market-driven economy.

However, this transition is a long-term endeavor. Its complexity and magnitude call for slow and coordinated execution, which likely will result in periods of near-term volatility and at times frustrate investors.

During this process, we expect growth will continue to decelerate. Although the official growth rate has been reported as 7.3% for the third quarter of 2014, a number of the key indicators we monitor are tracking well below this level. For example, electricity consumption grew at a reported 1.5% for the third quarter, while rail freight contracted by -2.3%. Among key primary measures, only bank loan growth of 13.3% trended above the official economic growth rate.

Thus far, China has utilized targeted policy actions and stimulus to moderate the slowdown. While recent policy action was more broad based, we do not expect a significant reacceleration in growth as the government's focus remains on unwinding credit and investment bubbles while promoting consumption and private sector growth. Last week's rate cut is consistent with the reality that the system is too fragile to risk a hard landing.

While the Chinese economy faces challenges, our positive outlook is predicated on our view that China will avoid a near-term credit crisis and that significant opportunities exist for companies and industries exposed to the country's positive reform initiatives. As we analyze news out of China, there are broad trends that we monitor for consistency with policy actions. We then identify investable companies and industries that we believe can benefit from these actions. Below, I'll highlight three of the most important trends.

1. Internationalization of the renminbi (RMB): In April, the Bank of International Settlements published a paper entitled "One currency, two markets: the renminbi's growing influence in Asia-Pacific." The authors suggest that China's influence throughout ASEAN countries has expanded beyond the real economy, with movements in the currency markets creating faster and more volatile impacts on these economies. This becomes intuitive given the increased use of the RMB for settlement in China's trade, up from 3% in 2010 to 18% today. To put it in perspective, Japan's current use of the yen for settlement is less than 15%.

   As we review policy actions, China has consistently promoted the RMB as a trading currency, which supports the longer-term goal of making the RMB a reserve currency for the Asian region. For the RMB to become a reserve currency, we believe China will need to create open, well-regulated, and deep capital markets. The first signs of this include the creation of the "dim sum" offshore RMB bond market in 2007, which has allowed investors, including Calamos, to invest in CNH-denominated debt of global multinationals and Chinese companies. The development of this market represents an important step in promoting trade in the RMB, as it provides China's trade partners with higher-yielding options for the RMB they were receiving from trade with China. Since then, we have seen an acceleration in RMB bilateral swap agreements, the introduction of the Shanghai-Hong Kong stock market interconnect, and removal of RMB conversion caps for Hong Kong residents. We have sought to participate in this longer-term positive trend via exposure to brokers, exchanges, asset managers, and other potential beneficiaries of the increased flow of capital into and out of China.

2. Transition from an investment-focused economy to one that is more consumer-driven: Many have raised concerns that as China's GDP-per-capita has increased, the country is no longer the world's preferred low-cost labor market, as countries including Cambodia and Vietnam take share from China. While this is true, China continues to introduce policies and reforms to move the country's manufacturing up the value chain, resulting in higher productivity. Higher productivity leads to higher per-capita GDP, which ultimately results in higher consumption.

   One such recent policy initiative is the "Guidelines to Promote National IC Industry Development," which provides central government targets and long-term support for domestic developers, designers, and manufacturers of integrated circuits.

Over time, this should promote more high-tech design and manufacturing locally, but for local consumption and exports. And to further promote consumption, China is implementing affordable housing, deposit liberalization, and land reform policies.

We have positioned global and international portfolios to benefit from this transition via increased exposure to consumer, technology, and health care—all sectors markedly under-represented in popular Chinese indices.

3. Transition from a government-driven to a market-driven economy: In our opinion, this trend provides the most potential benefits, both from an individual-company investment perspective as well as from a broader economic perspective. We believe that capital flows to where it is treated best, which is why our investment process focuses on return-on-invested capital and the marginal return of capital. China is in the process of implementing broad reforms to state-owned enterprises (SOEs) that should promote SOEs' marginal cost of capital to be above their cost of capital. This creates value as opposed to destroying value, as many SOEs have done historically. Some of these policy actions include the removal of implicit government guarantees, anti-corruption campaigns to enhance supervision and governance, improved ownership structures and management compensation schemes, and provisions that allow the government to re-deploy SOE capital into more appropriate areas, like public welfare. We have identified investments both in SOE companies that are undergoing this transition as well as in private sector companies that we believe are benefiting from the "SOE retreat" as monopolies are removed and new opportunities emerge.

In conclusion, these three broader trends provide a valuable lens through which we can view the myriad policy changes and announcements coming out of China daily. Guided by this perspective, we continue to identify investments in China that we believe can harness these trends as long-term growth tailwinds.

*Bank for International Settlements, Chang Shu, Dong He and Xiaoqiang Cheng, "BIS Working Papers No 446, One currency, two markets: the renminbi's growing influence in Asia-Pacific," April 2014 ROIC (return on invested capital) measures how effectively a company uses the money invested in its operations, calculated as a company's net income minus any dividends divided by the company's total capital.
Dum sum bond is a bond denominated in Chinese yuan and issued in Hong Kong. Dim sum bonds are attractive to foreign investors who desire exposure to yuan-denominated assets, but are restricted by China's capital controls from investing in domestic Chinese debt. The dim sum bond market is still in its infancy but is expected to grow rapidly over time. (Investopedia) CNH is the offshore renminbi currency market that came about as China began trying to internationalize its currency. (Business Insider)
Marginal cost of capital (MCC) is the cost of the last dollar of capital raised, essentially the cost of another unit of capital raised. As more capital is raised, the marginal cost of capital rises. (Investopedia)
Cost of capital is the cost of funds used for financing a business. Cost of capital depends on the mode of financing used – it refers to the cost of equity if the business is financed solely through equity, or to the cost of debt if it is financed solely through debt. (Investopedia)
The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.
The information in this report should not be considered a recommendation to purchase or sell any particular security. The views and strategies described may not be suitable for all investors. As a result of political or economic instability in foreign countries, there can be special risks associated with investing in foreign securities, including fluctuations in currency exchange rates, increased price volatility and difficulty obtaining information. In addition, emerging markets may present additional risk due to potential for greater economic and political instability in less developed countries.

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Asia's Crucial Crossroad: Urbanization Drives Growth

November 2014

Key Points

- We believe Asian urbanization and the country's growing middle class will frame our global economy.
- In our opinion, new political leaders in Asian countries signal healthier economies to come.
- Complexity of Asian markets calls for local expertise and various investment strategies.

Asia's blossoming middle class

As we are busy monitoring the future actions of the Federal Reserve Bank, we overlook attractive prospects already developing in Asia. Urbanization in Asia is moving millions of people out of the countryside and into larger cities in every single country across the continent. The significance of this trend is its formidable impact on the acceleration of Gross Domestic Product (GDP) per capita.

Let us use South Korea as an example. In the early 1950s near the end of the Korean War, South Korea was among the world's poorest countries. GDP per capita stood at $60 per head, poorer than Mozambique and Swaziland. Following a rapid industrialization spearheaded by General Park, who was the father of the country's current president, GDP per capita rose to more than $25,000 per head. And South Korea belongs to the G-20 forum. It has come a long way in sixty years.

Developing Asia is forecasted to make up nearly half of global GDP by 2050, up from 20% today. By 2030, Asia's middle class is expected to grow to more than 3.2 billion people.[1] This represents a six-fold increase in 20 years. New political leadership in countries including Japan is expected to redefine Asian economies. The Asian middle class is defined as having between $10 and $100 per day of disposable income, distances from being middle class by U.S. standards. But on a relative basis, it is still unprecedented growth.

Local focus and finding first-rate Asian Investments

The implications of this growth translate to opportunities in Asian equities and bonds. But finding suitable investments can be a daunting task. While the diversity of Asia expands prospects for investing potential, it also challenges the research process. That is why we focus on the concept of investing locally. Our Asia-Pacific equity fund managers span six regional offices in Hong Kong, Kuala Lumpur, Tokyo, Bangkok, and Sydney, with the region's headquarters located in Singapore. Our team of 40 equity specialists acquires and employs the required local expertise needed to exploit Asia's diverse mix of equity offerings. Our 20-member Asian fixed income team also applies local expertise to unlock potential in local and hard currency bonds. Together, we manage about $115 billion in Asian assets as of August 31, 2014.

To illustrate how we get local perspective, our Asian equity team makes around 1,600 company visits a year. This includes regular visits to more than 300 companies we invest in and occasional visits

to the companies we do not own. These are often companies that are either on our watch list because we are thinking of making an investment or because we have reasons to doubt the latter's corporate or management health. We invest in companies based on valuation and focus on quality.

Identifying quality companies can be tricky. To us, quality companies treat minority shareholders equally and fairly because we are only ever going to be minority shareholders. The only way to uncover this is by meeting with the management of the company in order to form subjective and cohesive conclusions. That is why we make as many visits a year as we do.

Making sense of Asia's bond market

Asian bond markets have their own complications. First, bond indices hardly show much confidence in Asia. Even a well-governed bond index like the Citibank World Government Bond Index,[2] only includes two Asian countries. One is Malaysia, the other Singapore. They make up 0.7% of that index. The Barclays Global Aggregate Index[3] has five countries that total 2.9% of the index. China and India do not make it into these indices.

Two of the world's largest growing economies are missing. And Asia has close to half of the global population. We believe the apprehension over Asia, specifically China and India, comes from access reasons. Restrictions limit how easily and how much foreigners can invest in those markets. The assumed difficulty of buying the market turns away investors.

We believe this is inaccurate. These markets are accessible when you understand how to maneuver the local markets. And they can be tailored to achieve various portfolio outcomes.

1 Estimates are used here for illustrative purposes only. No assumptions regarding future performance should be made. Estimates are offered as opinion and are not reflective of potential performance, are not guaranteed and actual event or results may differ materially

2 The World Government Bond Index (WGBI) measures the performance of fixed-rate, local currency, investment grade sovereign bonds. The WGBI is a widely used benchmark that currently comprises sovereign debt from over 20 countries, denominated in a variety of currencies, and has more than 25 years of history available. The WGBI provides a broad benchmark for the global sovereign fixed income market. Sub-indices are available in any combination of currency, maturity, or rating.

3 The Barclays Global Aggregate Bond Index is a broad-based index that measures the global investment grade fixed-rate debt markets inclusive of three major components: U.S. Aggregate Bond Index, the Pan-European Aggregate Index, and the Asian-Pacific Aggregate Index.

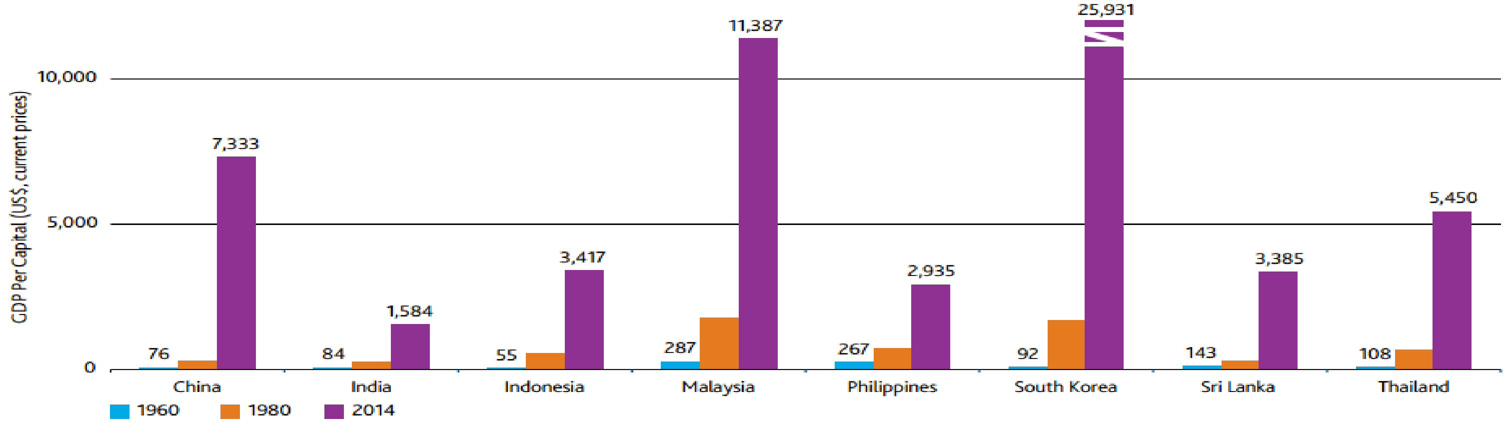
What Remains Ahead

Despite the potential of Asian equities, concerns remain that governance issues could hinder investment selection of Chinese companies. For this reason, we expanded our Asian bond funds, which heighten the diversity of what we can do in a fixed income portfolio to match varying investor needs.

Conclusion

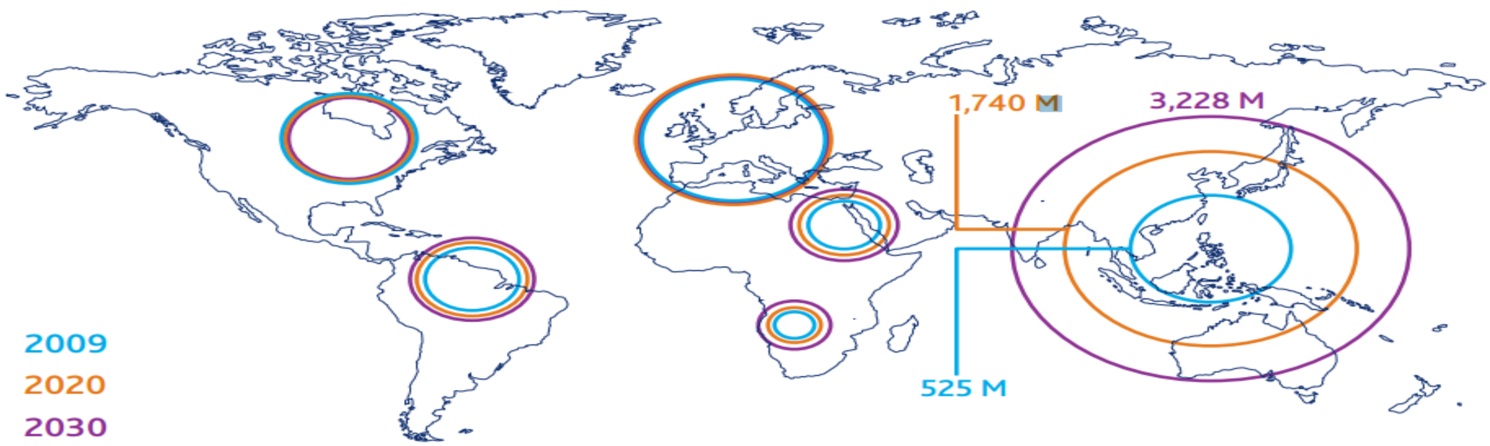
Asia is a compelling story poised for economic prosperity. Yet home bias and the heterogeneous nature of investing in Asian equity and fixed incomes has discouraged some investors. We believe Asia's massive size is the very reason to be confident. We believe our local teams are positioned to capitalize on Asia's impending growth as the country undergoes an urbanization that will critically transform our global economy.

GDP per capita has risen sharply since 1960



Source: International Monetary Fund, World Economic Outlook Database, Oct 2014. For Illustrative purposes only

It is driving the growth of Asia's middle classes
Concentration of middle classes will be in Asia



Source: The Emerging Middle Class in Developing Countries, Homi Kharas, Jan 10.
Projections are offered as opinion and are not reflective of potential performance, are not guaranteed and actual events or results may differ materially.
For illustrative purposes only.

Stocks Likely to Tread Water Through Year End Before Moving Higher in 2015

December 10, 2014

We see continued upside for U.S. stocks in 2015 but believe the market will struggle through year end, with several factors contributing to near-term volatility:

1. A decline in oil prices portending global economic weakness, as in 2000 and 2009 (Figure 1)
2. Anticipation that the Fed will remove its “considerable time” language from its statements about how long it will forestall interest rate increases
3. The absence of consensus between the European Central Bank (ECB) and German finance ministers about whether the ECB can move forward with true quantitative easing (that is, buying unsecured debt of EU member nations)
4. Growing concerns about the bubble-like valuations of some U.S. “momentum” stocks

Figure 1. Plunging Oil Prices Should Be Viewed as a Sign of Global Economic Weakness
Crude Oil, May 1983-December 9, 2014

Past performance is no guarantee of future results. Recessions indicated by shaded areas. Crude oil is represented by the West Texas Intermediate Cushing Crude Oil Spot Price. Source: Bloomberg. A logarithmic scale is used to more clearly illustrate volatility.

Although we view the recent fall in oil prices as indicative of global slowdown, the worst of the decline is likely behind us. We don’t believe another recession is looming. Rather, we still believe we are in the fifth or sixth inning of this economic cycle, where global GDP growth of 2%–3% for 2015 is balanced with low inflationary pressures. We expect U.S. corporate earnings growth in the 5%–6% range for 2015.

As investors grow accustomed to the idea of U.S. short-term rates rising slowly against a backdrop of improving economic growth, we believe the stock market will move to new highs in 2015. Our 12-month price target for the S&P 500 Index is 2250, which would translate into a 13% equity return, including dividends.

We maintain the view that we are entering a growth regime similar to 1996–1999. As we have discussed in the past, there are several factors that have historically been indicative of a growth regime, most of which have fallen into place. They include a flattening yield curve, narrow but widening valuation spreads, and a declining percent of companies showing margin improvements. The yield of the 10-year Treasury bond is likely to stay in the 2.0%–2.5% range for 2015, given economic weakness outside the U.S., a strong U.S. dollar and weak oil prices.

While there are some companies with bubble-like valuations, equity valuations appear reasonable overall, and accretive M&A transactions and highly accretive share buybacks can provide ongoing support to the equity market. In this environment, we continue to identify what we believe are great franchises at attractive valuations. We remain overweight technology, consumer discretionary, health care, and financials, and underweight consumer staples, utilities, energy, and materials.

Past performance is no guarantee of future results. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

The information in this report should not be considered a recommendation to purchase or sell any particular security. The views and strategies described may not be suitable for all investors.

The price of equity securities may rise or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. Equity securities are subject to "stock market risk" meaning that stock prices in general (or in particular, the prices of the types of securities in which a fund invests) may decline over short or extended periods of time. Momentum stocks typically have high and rising valuations, and enthusiasm for these rapidly rising prices may fuel continued buying and in turn, higher valuations.

The S&P 500 Index is considered generally representative of the U.S. stock market. Indexes are unmanaged, do not include fees or expenses and are not available for direct investment.

Authored by:
Gary Black
Executive Vice President, Global Co-Chief Investment Officer
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Click here for complete reading

Multi-Factor Indexes Made Simple: A Review of Static and Dynamic Approaches

December 2014

Multi-factor index fund allocations are increasingly becoming the preferred approach to factor investing. In this paper, we examine the return/risk characteristics of nine static and dynamic weighting strategies over a 36-year period. The results highlight that a simple strategy that equal weights multiple factor indexes has historically proved more effective than many of the more complex approaches — pointing to its potential as a way to combine factors, especially in the absence of active investment views and skills. However, a dynamic factor weighting strategy based on fundamental signals also has merit if the investor believes she has the insight or skills required.

KEY FINDINGS

- A simple equal-weighted strategy has been highly effective historically. Many simple rules-based and optimization-based dynamic weighting strategies have failed to match its performance after accounting for turnover cost.
- Fundamentals-based approaches have produced attractive risk-adjusted returns in simulation. The three strategies tested here have delivered higher active returns against the equal-weighted strategy, highlighting the potential benefits of exploiting fundamental insights in the construction of a multi-factor index. Such strategies, however, are active in nature and typically come with the extra costs of higher turnover and greater complexity.
- As investors explore multi-factor investing, the equal-weighted strategy index — which we call Simple Diversification — brings simplicity, transparency and robustness to the investment process and can serve as an attractive starting point for factor allocation.

A Six-Factor Simple Diversification Index

A Simple Diversification multi-factor index provides the simplest combination of factors by equally weighting factor indexes. We use six MSCI World factor indexes — Equal Weighted, Value Weighted, Quality, Momentum, Minimum Volatility and High Dividend Yield — to represent six well-researched risk premia. We consider the Simple Diversification a static approach to factor allocation, as the weight for each factor is defined as 1/n. The multi-factor index captured the long-term risk premia but offered smoother performance than any of the underlying factor indexes, as shown in Exhibit 1. The long-term outperformance and low active correlations among the MSCI Factor Indexes help explain this phenomenon.

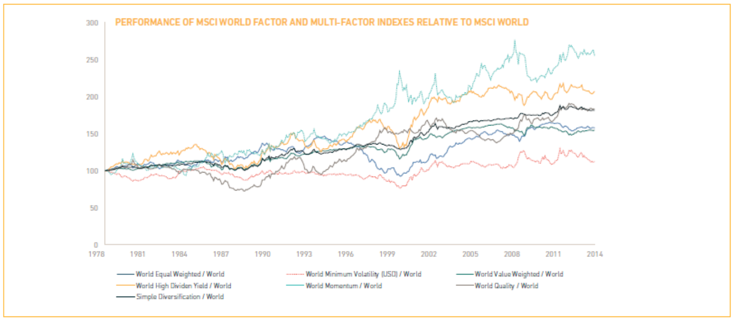
While a Simple Diversification multi-factor index may look naïve in terms of construction, it represents a reasonable starting point for investors who want exposure to systematic risk premia but do not have specific views on the expected risk or return of the underlying factor indexes nor the skills to actively manage factor exposures.

Simple Rules-Based and Optimization Weighting Approaches

Going beyond Simple Diversification in a dynamic multi-factor index requires active views on factors and skills to manage the related exposures. A dynamic factor allocation model adjusts weights regularly — overweighting factors expected to outperform and underweighting factors expected to underperform. The investment belief is that factors have different return streams and active factor allocation can add value. There are many possible approaches to achieve a dynamic factor allocation. Here, we focus on a few that can be replicated with a set of mechanical rules.

- The Inverse of Variance and Risk Parity strategies can be considered risk-based approaches. The underlying investment beliefs are that overweighting factors with lower volatility or balancing the risk contribution of each factor could improve risk diversification and help achieve better risk-adjusted returns.
- The Inverse of Tracking Error and Tracking Error Optimization approaches add a risk budgeting dimension. The former aims to minimize the tracking error of the multi-factor index without optimization. The latter seeks to maximize the return outcome using mean-variance optimization subject to a tracking error constraint.
- Finally, the Trend Following strategy takes a conventional momentum strategy and applies it to factor allocation.

EXHIBIT 1: SIMPLE DIVERSIFICATION HAS HISTORICALLY OFFERED A SMOOTHER RIDE



Return/Risk Profiles of Simple Rules-Based and Optimization-Based Strategies

The Inverse of Variance and Risk Parity strategies produced risk and return characteristics similar to those of the Simple Diversification strategy during the November 1978 to March 2014 period. This can be explained by the fact that weights of various factor indexes are stable in these two strategies and did not differ from equal weighting. Inverse weighting each factor index based on its tracking error would not have added much value either.

Optimization techniques are typically employed when investors have a set of objectives and constraints they want in their portfolios. But optimization can be complex, requiring accurate risk and return inputs. The Tracking Error Optimization multi-factor index outperformed the cap-weighted benchmark but underperformed other multi-factor strategies including Simple Diversification. It also had the lowest information ratio in the study.

The only rules-based strategy that outperformed the Simple Diversification strategy is the Trend Following approach. It produced slightly higher return/risk and information ratios, suggesting that factor indexes exhibited some forms of momentum behavior that could be exploited. However, it would have experienced greater variations in factor weights and hence higher index turnover.

The Fundamentals-based Approach

The Fundamentals-based approach to multi-factor indexing refers to the systematic implementation of fundamental or valuation-based investment strategies following specified rules or algorithms. Its core tenet is that fundamental data contain important signals that can be used to understand the drivers of volatilities and correlations among assets, as shown in Exhibit 2.

While using valuation or a measure of quality to weight each factor index is a rational approach, we recognize that each factor premium may be better captured by a different fundamental signal. For instance, the Minimum Volatility Index has historically delivered superior risk-adjusted returns during high volatility regimes. A volatility indicator such as the VIX may provide a better signal to help manage the volatility factor exposure. Thus, we can anchor different factor exposures to relevant signals. We call this the "Blended Factors" approach.

Return/Risk Profiles of Fundamentals-Based Strategies

Historically, the use of valuation or other fundamental signals would have improved the performance of multi-factor indexes without significant increases in the total risk, as shown in Exhibit 3.

EXHIBIT 2: EXAMPLES OF FUNDAMENTALS-BASED STRATEGIES

Multi-Factor Strategy	Investment Belief	Possible Approach	Weighting Scheme
Valuation Based	Factor indexes may become overcrowded and/or expensive which may impair performance	Overweight cheap factor indexes/underweight expensive ones	Normalized current E/P level*
Quality Based	Factor indexes with higher ROE will outperform ones with lower ROE	Overweight high ROE indexes/ underweight low ROE ones	Normalized current ROE*
Blended Factors	Factor indexes perform well when the underlying signal is strong	Weight each factor index based on the strength of its underlying signal	Normalized E/P spread* (Value) Normalized effective number of stocks* (Size) Normalized ROE spread* (Quality) Normalized D/P spread* (Yield) Normalized VIX (Low Volatility) Normalized past 6-month momentum* (Momentum)

* Compared to its own history

We make the following observations:

- Valuation-based and Quality-based multi-factor indexes produced similar risk and return characteristics over the November 1978 to March 2014 period, but the Valuation-based index produced a higher information ratio and a lower maximum active drawdown.
- The Blended Factors multi-factor index provided the strongest return, outpacing the Simple Diversification strategy by 100 basis points without a significant increase in risk.
- The simulated performance suggests that an investor might have been able to add value to a multi-factor portfolio by managing factor exposures with the right signals.

EXHIBIT 3: PERFORMANCE OF FUNDAMENTAL SIGNAL STRATEGIES

	MSCI World	Simple Diversification	Valuation-Based	Quality-Based	Blended Factors
Total Return* (%)	10.6%	12.4%	13.0%	12.9%	13.4%
Total Risk* (%)	15.1%	13.9%	13.9%	13.8%	14.0%
Return/Risk	0.70	0.90	0.94	0.93	0.96
Maximum Drawdown	-53.7%	-52.0%	-51.9%	-51.5%	-49.7%
Active Return*		1.9%	2.4%	2.3%	2.9%
Performance Drag (bps) **		26.3	39.0	38.5	44.8
Active Return (Net of Performance Drag)		1.6%	2.0%	1.9%	2.4%
Tracking Error*		3.3%	3.9%	4.2%	3.7%
Information Ratio***		0.49	0.52	0.46	0.65
Maximum Active Drawdown		-10.7%	-9.7%	-12.2%	-10.9%
One-way Index Turnover ****	3.0				
Separate Mandates		35.4	63.8	64.5	76.1
Combined Mandate		26.3	39.0	38.5	44.8

* Annualized gross return (USD) from 11/30/1978 to 03/31/2014
** Performance drag calculated based on annualized two-way index turnover for combined mandate assuming a transaction cost of 50bps
*** Information Ratio is calculated using active return (net of performance drag)
**** Annualized one-way index turnover for the 05/31/1999 to 03/31/2014 period

CONCLUSION

There are many ways to construct multi-factor indexes. We use nine weighting strategies to proxy different investment approaches and examine the return/risk characteristics over a 36-year period. The results highlight that a Simple Diversification approach to constructing multi-factor indexes has historically proved more effective than many of the more complex approaches — pointing to its potential as a way to combine factors, especially in the absence of active investment views and skills.

Dynamic factor allocation strategies have their merits as well—particularly for those with the requisite views and skills. The Blended Factors strategy would have provided the best overall return/risk profile among the dynamic strategies analyzed. In considering whether to manage a multi-factor index via a simple equal weighting or more dynamic weighting strategies, the decision depends on investors' investment beliefs and process and — critically — whether they are confident of possessing the insight or skills to manage factor exposures dynamically.

REIT Correlations Have Returned to Historical Norms

November 2014

Authored by:

Thomas Bohjalian
Executive Vice President and Portfolio Manager
Cohen & Steers

Investors are paying closer attention to the fundamental drivers of REIT cash flows, and the asset class is once again reflecting traditional diversification attributes.

REITs have historically been excellent diversifiers, providing returns that are not correlated with stocks or bonds. However, during the global recession and credit crisis, return patterns for REITs and other stocks converged, as the strains affecting financial markets affected many industries and asset classes in similar ways. REITs continued to trade closely with the stock market until 2012, when correlations across a wide range of sectors and asset classes began to trend lower. Today, correlations for both the U.S. and global real estate securities markets have settled back to levels more typical of their historical behavior.

We believe the decline in correlations reflects the normalization of global financial markets post-crisis and the recovery in economic growth. As credit markets have stabilized and tenant demand has rebounded, REITs are benefiting from more predictable cash flows and cash-flow growth. To this point, U.S. REITs have broadly outperformed U.S. stocks year to date after widely lagging in 2013, benefiting from strengthening tenant demand, job growth and limited new supply for most property types.

The Four Pillars of REIT Investing

Low correlations are just one of four characteristics that have helped real estate securities add value to a financial asset portfolio of stocks and bonds. These "Four Pillars" of REIT investing have been remarkably reliable over time, grounded in the underlying strengths of the asset class. Below we provide some highlights based on U.S. REIT performance.(1)

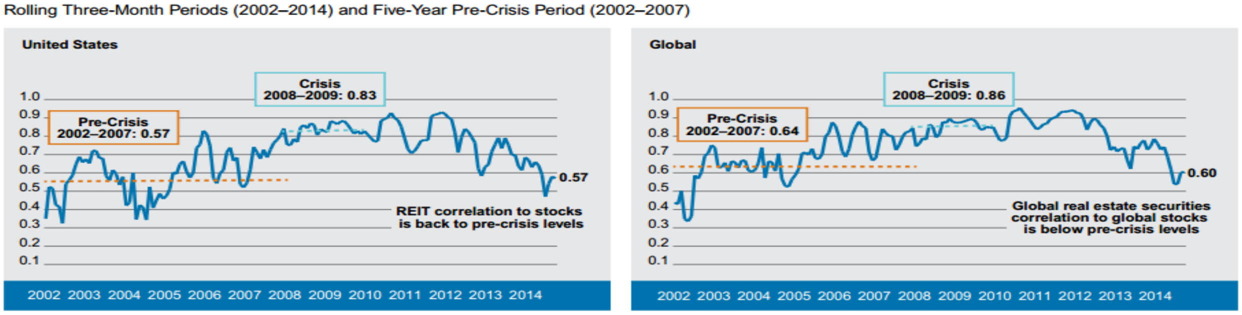
1. Competitive total returns appear to be linked to economic growth and the inflation-hedging characteristics of real assets. Since the end of 1992, which roughly marks the beginning of the modern era for U.S. REITs, total returns have averaged 10.9% per year.
2. Potential for attractive and growing dividend income resulting from REITs' high minimum distribution requirements and strong cash-flow growth. Since the end of 1992, the annual cash-flow and dividend growth of U.S. REITs have averaged 9.0% and 5.9%, respectively.
3. Moderate volatility due to business models focused on owning long-lived assets that produce predictable cash flows tied to leases. After peaking in 2009, the volatility of REITs has reached record lows of about 10%, as measured by standard deviation.
4. Low correlations with stocks and bonds, driven by the underlying qualities of commercial real estate cash flows, cash-flow growth and risk premiums. The correlations of U.S. REITs have returned to their long-term average of 0.57, after falling from about 0.83, on average, during the years of the financial crisis.

Shifting Market Dynamics Point to the Importance of Active Management

The decline in correlations is occurring at a time when global economic trends are diverging and monetary policies are heading in separate directions. In this environment, some types of real estate securities are likely to perform much differently than others based on their relative sensitivity to economic cycles.

For instance, REITs that own properties with short lease durations such as hotels and self storage may perform better than others when economic conditions are getting stronger. These companies are able to adjust rents quickly to capture changes in demand, resulting in stronger cash-flow growth. Companies with more bond-like cash flows may exhibit more defensive qualities, potentially outperforming in periods of uncertainty.

Correlation of REITs and the Stock Market
Rolling Three-Month Periods (2002–2014) and Five-Year Pre-Crisis Period (2002–2007)



At September 30, 2014. Source: Cohen & Steers and Morningstar.
Performance data quoted represents past performance. Past performance is no guarantee of future results.
Correlation is a statistical measure of how two data series move in relation to each other. U.S. correlations based on the FTSE NAREIT Equity REIT Index and the S&P 500 Index; global correlations based on the FTSE EPRA/NAREIT Developed Real Estate Index and the MSCI World Index. See index definitions and additional disclosure on the reverse side.

Click here for complete reading

Aberdeen Asia-Pacific Income Fund, Inc. (FAX)

November 2014

Economic & market overview

Asian local currency bond markets performed well in October, as bond yields fell across most markets and currencies received some respite from the broad U.S. dollar rally. A sharp drop in oil prices fuelled global deflationary concerns. Combined with renewed weakness in Europe, slowing growth in China and weak data in the U.S., this pushed back expectations with respect to the timing of U.S. interest rate hikes, even as the U.S. Federal Reserve (Fed) ended its asset purchases, driving a rally in U.S. Treasuries. Concurrently, both the European Central Bank (ECB) and Bank of Japan (BOJ) moved to expand their quantitative easing (QE) programs. Also weighing on investors' minds was a sharp sell-off in European periphery market yields and concerns over a potential Ebola epidemic.

Economic data was sluggish across most of Asia. Central banks kept interest rates unchanged as inflation slowed and growth pressures mounted. The exception was Korea, where policymakers cut the benchmark rate by 25 basis points. As a result, bonds rallied, but the won underperformed, hurt by contagion from the yen's sharp depreciation following the BOJ's QE announcement. In the rest of the region, there is scope for the central banks in Thailand and India to ease policy rates over the coming quarters.

Indonesia's bond market and currency outperformed their peers. The rally was due to positive sentiment around Joko Widodo's inauguration. In addition, the government indicated a hike in fuel prices in early November, which would ease the fiscal burden. Another solid performer was India, where bonds and the rupee strengthened owing to robust auction demand, moderating inflation and optimism that the Modi government would accelerate reforms following election wins in two key states.

Chinese bonds rallied and the yuan rose against the U.S. dollar after signs of policy easing by the central bank. Economic growth slowed to 7.3% in the third quarter, while consumer prices decelerated in September. Thailand's growth outlook remained subdued, reflected in the first fall in consumer confidence in five months, which led the cabinet to approve stimulus measures worth 364.5 billion baht. The bond market performed well, but the baht was weak.

In both Malaysia and the Philippines, buying interest was focused on longer-term bonds, whereas the short end lagged. The peso and the ringgit closed flat against the U.S. dollar. Bond markets in Singapore and Hong Kong rose in tandem with U.S. Treasuries. Along with the baht and won, the Singapore dollar underperformed other regional currencies.

Outlook

Risk aversion and volatility are picking up into the end of the year, given the confluence of risk factors. Expectations are still for the UK and the U.S. to begin normalizing interest rates next year, while Europe and Japan are embarking on an easing path. Complicating the situation is the fragile global outlook, in particular, the stalling Eurozone1 recovery and geopolitical risks in the Middle East. Across Asia, while conditions have grown more challenging, well-anchored inflation expectations and a conducive policy environment should support bond markets. For some, localized factors are likely to influence sentiment as well. In India and Indonesia, whether the new governments can deliver on much-needed structural reforms remains to be seen. In currency markets, we expect volatility to remain elevated, primarily driven by exogenous factors, while falling commodity prices are providing support to current account balances and foreign exchange reserves remain ample.

Market expectations of another policy rate cut by the Bank of Korea are growing, given increased downside risks to growth and inflation. Furthermore, the Bank of Japan's aggressive move to accelerate QE has led the yen to weaken significantly, with the Korean won closely tracking the yen's decline. Nevertheless, we believe that Korea's export sector will remain resilient. Korean companies have increasingly moved their production base overseas, which has reduced exporters' sensitivity to currency swings. Strong research and development has also helped differentiate Korean products from those of Japanese competitors. As such, the more important risk for Korean exporters remains global demand conditions.

While the market has begun pricing in a potential third cut in the policy rate to 1.75% from 2%, further cuts may worsen elevated household debt, which is at around 85% of gross domestic product (GDP). Markets still retain an easing bias, but we believe that stronger fiscal stimulus and the two rate cuts earlier this year are likely to lend support to the gradual recovery. As such, we expect the central bank to keep policy rates on hold over the next six months.

Index performance table

Benchmark returns in US$	Value	1M	3M	YTD
JPM Asian Currency Index (ADXY)	114.96	-0.03%	-0.86%	-0.91%
HSBC Asian Local Bond Index (ALBI)	260.41	1.17%	-0.11%	+5.67%
JPM Asian Credit Comp Index (JACI)	186.15	1.12%	1.35%	8.07%
MSCI Asia Pacific ex Japan Equity Index	485.68	2.70%	-4.68%	3.74%
US Treasury 10-Year (bps)	2.34%	-15	-22	-69
Oil (US$)	80.54	-11.56%	-17.96%	-18.17%

Source: Bloomberg, 31 October 2014.

- Aberdeen Global Income Fund, Inc. Announces Payment Of Monthly Distribution – November 28
- Aberdeen Asia-Pacific Income Fund, Inc. Announces Record Date And Payment Date For Monthly Distribution – December 9
- AllianceBernstein Closed-End Funds Announce Distribution Rates – November 24
- Month-End Portfolio Data Now Available for Ares Management's Closed-End Funds – November 24
- Distributions Dates and Amounts Announced for Certain BlackRock Closed-End Funds – December 8
- Blackstone / GSO Closed-End Funds Declare Monthly Distributions – November 28
- Calamos Closed-End Funds (NASDAQ: CHI, CHY, CSQ, CGO and CHW) Announce Monthly Distributions for December 2014 – November 26
- Calamos Focus Growth Exchange Traded Fund (NASDAQ: CFGE) Announces Annual Distribution for December 2014 – November 26
- Cohen & Steers Closed-End Funds Declare December 2014 Quarterly Distributions and Cohen & Steers REIT and Preferred Income Fund, Inc. (RNP) Announces Investment Policy Changes – December 9
- Cohen & Steers MLP & Energy Opportunity Fund Announces 11.1% Increase in Quarterly Distribution Rate – December 9
- The Cushing MLP Total Return Fund Announces Quarterly Distribution – November 21
- Cushing® Renaissance Fund Announces Quarterly Distribution – November 21
- Certain Deutsche Closed-End Funds Declare Monthly Distributions – December 8
- Distribution Dates and Amounts Announced for Certain Eaton Vance Closed-End Funds – December 13
- Goldman Sachs Closed-End Funds Announce Corrections to Net Asset Value per Share Information – December 12
- Guggenheim Investments Exchange-Traded Funds Declare Monthly Distributions– November 28
- Horizons Announces December 2014 Distributions for Certain Active ETFs – December 18
- Invesco Closed-End Funds Declare Dividends – December 1
- John Hancock Closed-End Funds Declare Monthly Distributions – December 1
- John Hancock Closed-End Funds Declare Quarterly Distributions – December 1
- Miller/Howard Investments Launches IPO of New Closed End Fund – November 26
- Certain Morgan Stanley Closed-End Funds Declare Year-End Dividends – December 9
- Nuveen announces the combination of 2 global income closed-end funds – November 28
- Several Nuveen Closed-End Funds Declare Capital Gains – December 15
- Tortoise Capital Advisors Announces Special Distributions for Certain Closed-End Funds – December 10
- WisdomTree ETFs Declare Distributions – December 19

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