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The Month in Closed-End Funds: December 2013

PERFORMANCE

After the Federal Reserve announced it would begin tapering its $85-billion/month bond-buying program by $10 billion a month starting in January, it wasn't surprising to see—for the second consecutive month—equity and fixed income CEFs going their separate ways. Equity funds remained in the black for December, gaining on average 1.57% on a NAV basis, while fixed income CEFs lost 0.06%. However, both asset classes posted positive monthly market-based returns—1.77% and 1.78%, respectively. For fourth quarter 2013 both asset classes posted plus-side NAV-based returns, with equity CEFs gaining 5.09% and fixed income CEFs rising 1.37%. Despite ever-present expectations of rising interest rates throughout the year, fixed income CEFs finished 2013 down 1.74%, while equity CEFs rallied 16.03%, underperforming the Dow Jones Industrial Average and the NASDAQ Composite one-year returns of 26.50% and 38.32%, respectively. Investors appeared to prefer domestic securities over international securities during the year.

Ironically, over the last several months any hint of the Fed removing the easy-money punchbowl caused markets to tank; however, in last quarter 2013 Fed members did a much better job letting investors know that if they decided to remove some of the easy-money policies, it was because they felt the economy was in a strong enough condition to handle such a move. Furthermore, the Fed expected the key policy rate to remain near zero for the foreseeable future. So, in December, after revised third quarter GDP data showed the U.S. economy had expanded at a better-than-expected annual rate of 4.1% on stronger consumer spending and business investment and on the earlier-reported nonfarm payroll numbers (showing the U.S. economy created 203,000 new jobs versus the 180,000 expected and the unemployment rate dropped to 7.0% for November), the market had already priced in the Fed's decision.

In the last two weeks of the year longer-dated Treasury debt declined on the better-than-expected revised third quarter GDP growth, manufacturing and industrial output, November durable goods orders, and obviously the Fed's decision to begin tapering. The ten-year Treasury yield rose to 3.04% on December 31, its highest close since July 7, 2011—29 basis points (bps) above its November month-end closing value. Except for maturities of one year or less, the Treasury yield curve shifted up, with the five- and seven-year yields climbing the most—38 bps and 35 bps to 1.75% and 2.45%, respectively, on December 31.

For December the dollar weakened modestly against the euro (-1.26%) and the pound (-1.22%), but it gained against the yen (+2.75%). For the month commodities prices were mixed, with the near-month crude oil price rising 6.15% to close the month at $98.42/barrel, while gold prices slipped 3.89% to end the month at $1,201.90/ounce.

For December 54% of all CEFs posted NAV-basis returns in the black, with 80% of equity CEFs and only 38% of fixed income CEFs chalking up returns in the plus column. Even with the Nikkei 225 Index hovering around a six-year high, investors paused to evaluate the data that showed consumer prices in Japan rising more than expected. This, accompanied by Chinese stocks closing at a 17-week low during the month as investors weighed the sharp rise in money market rates, contributed to world equity CEFs (+0.98%) lagging domestic equity CEFs (+2.08%). Interest rate concerns pushed the mixed-asset CEFs (+0.68%) macro-group to the bottom of the pack.

The Month in Closed-End Funds: Dec. 2013

- For December only 8% of all closed-end funds (CEFs) traded at a premium to their net asset value (NAV), with 9% of equity funds and 7% of fixed income funds trading in premium territory. The national municipal debt CEFs macro-group witnessed the largest narrowing of discounts for the month—337 basis points (bps) to 6.94%.
- Equity and fixed income CEFs continued on separate paths in December, with equity funds rising 1.57% on a NAV basis, while their fixed income counterparts suffered a loss of 0.06%.
- For the second consecutive month all of Lipper's municipal bond fund classifications posted returns in the red, with national municipal bond funds (-0.40% on average) mitigating losses slightly better than single-state municipal bond funds (-0.42%).
- With global economics cooling slightly during the month and on the Federal Reserve's tapering plans, World Equity CEFs (+0.98%) and World Income CEFs (-0.04%) lagged their domestic and taxable counterparts, respectively, for December.

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THOMSON REUTERS

Unlike the previous month when Chinese market fears led to downside performance for a few of Lipper's classifications, for December none of Lipper's 15 equity CEF classifications posted returns in the red. At the bottom of the charts were a few precious metals-related issues in Lipper's Sector Equity CEFs (+0.15%) classification, along with November's laggard, Real Estate CEFs (+0.16%). Given the uncertainty of how Fed tapering might impact government-related issues and munis, it wasn't surprising to see the municipal bond CEFs macro-group (-0.41%, also November's laggard) dropping to the bottom of the fixed income group. It underperformed taxable domestic bond CEFs (+0.41% on a NAV basis) and world bond CEFs (-0.04%).

As investors became slightly more focused on economic events and the certainty of Fed actions during the month, they continued to avoid interest rate-sensitive issues and some international issues, sending Income & Preferred Stock CEFs (+0.28%) and Emerging Markets CEFs (+0.30%) toward the bottom of the pack. Investors remained focused on domestic equities, keeping Core CEFs (+3.51%) at the top of the charts, along with Natural Resources CEFs (+2.69%, one of November's laggards) and Energy MLP CEFs (+2.64%). For the remaining equity classifications returns ranged from 0.36% (Pacific ex-Japan CEFs) to 2.51% (Value CEFs).

Four of the five top-performing individual equity funds were housed in either the Core CEFs or Energy MLP CEFs classifications. However, at the top of the charts for December was **Thai Fund, Inc. (NYSE: TTF**, housed in Lipper's Pacific ex-Japan CEFs classification**)**, gaining 26.55% on a NAV basis and traded at a 6.88% discount at year-end. Following TTF were **ENGEX INC. (OTC: EXGI**, housed in Lipper's Core CEFs classification and also one of October's and November's leaders**)**, rising 24.82% on a NAV basis and traded at a 31.10% discount on December 31, and **Salient Midstream & MLP Fund (NYSE: SMM**, housed in Lipper's Energy MLP CEFs classification**)**, posting a 5.89% return and traded at a 7.74% discount at year-end. Following those two were **Cornerstone Strategic Value Fund, Inc. (AMEX: CLM**, housed in Lipper's Core CEFs classification**)**, chalking up a 5.58% return and traded at a 16.20% premium on December 31, and **Salient MLP & Energy Infrastructure Fund (NYSE: SMF**, housed in Lipper's Energy MLP CEFs classification**)**, which rose 5.56% and traded at a 6.57% discount at year-end.

For the month the dispersion of performance in individual equity CEFs—ranging from minus 12.03% to positive 26.55%—was wider than November's spread and more positively skewed. The 20 top-performing equity funds posted returns at or above 3.49%, while the 20 lagging funds were at or below minus 1.37%.

For the month **Korea Equity Fund, Inc. (NYSE: KEF)**, housed in Lipper's Pacific ex-Japan CEFs classification, was at the bottom of the equity CEFs group, shedding 12.03% of its November month-end value and trading at a 9.66% discount at year-end. **RENN Global Entrepreneurs Fund, Inc. (NYSE: RCG**, warehoused in Lipper's Global CEFs classification**)** was

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	80	51	46	9	91
Bond Funds	38	82	17	7	93
ALL CEFs	**54**	**70**	**29**	**8**	**92**

TABLE 2 AVERAGE NAV RETURNS, SELECTED PERIODS (%)

	DECEMBER	YTD	3-MONTH	CALENDAR-2012
Equity Funds	1.57	16.03	5.09	15.42
Bond Funds	-0.06	-1.74	1.37	15.04
ALL CEFs	**0.58**	**5.17**	**2.82**	**15.18**

TABLE 3 NUMBER OF IPOs, SELECTED 12-MONTH PERIODS

	DECEMBER 2013	CALENDAR-2012
ALL CEFs	**27**	**31**

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

3 MONTHS THROUGH 11/30/2013	298
COMPARABLE YEAR-EARLIER 3 MONTHS	519
CALENDAR 2012 AVERAGE	506

Source: Lipper, a Thomson Reuters company the next poorest performing equity fund, declining 7.09% and traded at a 38.56% discount at year-end.

For the second month in a row none of Lipper's municipal debt CEF classifications posted plus-side NAV-based returns as investors digested the Fed's decision to begin tapering its bond-buying program in January and remained concerned over a default on Puerto Rico municipal debt. Intermediate Municipal Debt Funds (-0.18%) mitigated losses better than the other classifications in the group, while New York Municipal Debt Funds (-0.50%), Other States Municipal Debt Funds (-0.47%), and General & Insured Municipal Debt Funds [Leveraged] (-0.46%) suffered the largest losses. The municipal debt funds macro-group (-0.41%) underperformed its taxable domestic CEFs counterpart (+0.46%). National municipal debt funds (-0.40%) mitigated losses slightly better than their single-state municipal debt fund counterparts (-0.42%).

As greater uncertainty continued to unfold in the world markets, one of the two classifications making up Lipper's World Income Funds macro-classification (-0.04%) lagged the other taxable fixed income classifications. Global Income CEFs (-0.28%) lagged its Emerging Markets Debt CEFs (+0.34%) counterpart. With fears of rising interest rates coming to fruition, the adjustable-rate Loan Participation Funds classification (+0.74%) remained among the taxable group's best performing classifications, just behind High Yield (Leveraged) CEFs (+0.80%) and tied with High Yield CEFs (+0.74%), in line with the previous month's leaders. Better-than-expected economic reports toward the end of the month, accompanied by announcement of the Fed's decision, pushed yields higher. The two-/ten-year Treasury spread widened 19 bps from November's month-end 2.47%. The yield on the ten-year Treasury note finished the month 29 bps higher at 3.04%.

In the domestic taxable fixed income CEFs universe (+0.46%) the remaining classification returns ranged from minus 023% (U.S. Mortgage CEFs) to positive 0.33% (General Bond CEFs).

The top-performing CEF in the fixed income universe was housed in Lipper's High Yield CEFs (Leveraged) classification: **NexPoint Credit Strategies Fund (NYSE: NHF**, also October's and November's fixed income leader**)** rose 6.82% and traded at a 16.86% discount on December 31. Following NHF were **Fort Dearborn Income Securities, Inc. (NYSE: FDI**, housed in Lipper's Corporate BBB-Rated Debt CEFs classification**)**, tacking 2.52% onto its November month-end value and traded at a 12.21% discount at year-end, and **Pioneer Floating Rate Trust (NYSE: PHD**, housed in Lipper's Loan Participation CEFs classification**)**, posting a 2.10% return and traded at a 3.49% discount on December 31.

For the remaining funds in the fixed income CEFs universe monthly NAV-basis performance ranged from minus 3.32% (**PIMCO Dynamic Income Fund [NYSE: PDI]**, housed in Lipper's Global Income CEFs classification and traded at a 3.42% discount on December 31) to 2.10% for **Putnam Premier Income Trust (NYSE: PPT)**, housed in Lipper's General Bond CEFs classification and traded at a 10.82% discount. The 20 top-performing fixed income CEFs posted returns at or above 0.97%, while the 20 lagging funds were at or below minus 0.96%.

PREMIUM AND DISCOUNT BEHAVIOR

For December the median discount of all CEFs narrowed 147 bps to 8.66%—considerably lower than the 12-month moving average discount (5.59%). Equity CEFs' median discount narrowed 38 bps to 9.77%, while fixed income CEFs' median discount narrowed 182 bps to 8.28%. Municipal bond CEFs' median discount narrowed 238 bps to 8.41%. National municipal debt CEFs experienced the largest narrowing of discounts—a whopping 337 bps to 6.94%, while single-state municipal debt CEFs' discount narrowed 175 basis points to 9.45%. The World Equity CEFs macro-classification witnessed the smallest narrowing of discounts in the CEF universe—just 23 bps to 10.13%.

For the month 70% of all funds' discounts or premiums improved, while 29% worsened. In particular, 51% of equity funds and 82% of fixed income funds saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on December 31 (46) was three more than on November 29.

CEF EVENTS AND CORPORATE ACTIONS

IPOs

There were no new CEFs launched in December.

RIGHTS, REPURCHASES, TENDER OFFERS

The semiannual repurchase offer for up to 5% of the outstanding shares of The **Asia Tigers Fund (NYSE: GRR)** ends January 17, 2014 (shares tendered in the offer will be subject to a repurchase fee of 2% of NAV). In addition, shareholders have been asked to vote for the elimination of the fund's interval structure at a special meeting to be held on February 3, 2014.

Trustees of **John Hancock Financial Opportunities Fund (NYSE: BTO)** renewed the fund's share repurchase plan that was set to expire on December 31, 2013. The fund may purchase in the open market between January 1, 2014, and December 31, 2014, up to 10% of its outstanding common shares as of December 31, 2013.

The Central Europe, Russia and Turkey Fund (NYSE: CEE), **The European Equity Fund (NYSE: EEA)**, and **The New Germany Fund (NYSE: GF)** announced the results of a 12-week measurement period that began September 16, 2013, and expired December 6, 2013. At the conclusion of the measurement period common shares of CEE traded at an average discount to NAV of 10.36%, EEA shares traded at an average discount of 9.33%, and GF shares traded at an average discount of 9.06%. Because its shares traded at an average discount of more than 10%, CEE will conduct a tender offer for up to 5% of its outstanding shares at 98% of NAV; EEA and GF will not conduct tender offers.

Directors of **The Swiss Helvetia Fund (NYSE: SWZ)** approved a tender offer for up to 15% of the fund's outstanding common shares at 95% of NAV. The offer will run from January 10, 2014, to February 7, 2014. If more than 15% of the fund's outstanding common shares are tendered, the fund will purchase its shares on a *pro rata* basis.

MERGERS AND REORGANIZATIONS

Nuveen Investments announced that the mergers of **Nuveen Pennsylvania Premium Income Municipal Fund 2 (NYSE: NPY)**, **Nuveen Pennsylvania Dividend Advantage Municipal Fund (NYSE: NXM)**, and **Nuveen Pennsylvania Dividend Advantage Municipal Fund 2 (NYSE: NVY)** into **Nuveen Pennsylvania Investment Quality Municipal Fund (NYSE: NPQ)** will close prior to the opening of the New York Stock Exchange on February 10, 2014.

OTHER

GAMCO Investors has extended the record date for its shareholder designated charitable contribution program from December 31, 2013, to March 31, 2014. Shortly after March GAMCO will distribute a charitable contribution form that must be returned no later than April 30, 2014.

Shareholders of **The Japan Equity Fund (NYSE: JEQ)** have approved an investment management agreement with Aberdeen Asset Management Asia Limited effective January 6, 2014.

Trustees recently approved changes to the investment policies of **John Hancock Hedged Equity & Income Fund (NYSE: HEQ)**. The minimum percentage of the fund's assets that must be invested in equity securities will still be 80% but will now be measured based on the fund's "net assets plus borrowings for investment purposes," rather than on its total assets.

Trustees of **Clough Global Opportunities Fund (NYSE: GLO)** approved a change from quarterly to monthly cash distributions. Going forward, trustees intend to announce three monthly distributions at a time so investors will have greater transparency about the distribution amounts and payment schedules.

The board of **JF China Region Fund (NYSE: JFC)** decided to include the JPMorgan branding in the fund's name, given that the JF brand no longer exists. Therefore, effective December 6, 2013, the fund's name became **JPMorgan China Region Fund** (its ticker remains the same).

Effective December 2, 2013, directors of **The Greater China Fund (NYSE: GCH)** changed the name of the fund to **Aberdeen Greater China Fund**. The fund's investment objective and ticker remain the same.

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CEF Performance Statistics

LIPPER

Category	Average of 1MO NAV Change	Average of 1MO MKT Change	Average P/D 11/30/2013	Average P/D 12/31/2013	Average of 1 MO P/D Change	Average of YTD NAV Change	Average of YTD MKT Change	Average of YTD P/D Change
California Municipal Debt Funds	0.9%	-1.3%	-$7.96	-$5.87	$2.09	-11.2%	-16.6%	-$6.10
Convertible Securities Funds	-0.7%	-0.6%	-$7.47	-$7.54	-$0.07	12.4%	12.3%	-$0.04
Core Funds	-1.6%	-5.3%	-$9.61	-$9.34	$0.27	7.4%	13.8%	$4.53
Corporate BBB-Rated Debt Funds(Leveraged	1.0%	0.2%	-$9.16	-$8.49	$0.67	-5.3%	-10.7%	-$5.53
Corporate Debt Funds BBB-Rated	1.2%	-0.2%	-$11.38	-$10.06	$1.32	-6.8%	-12.5%	-$5.96
Developed Market Funds	2.4%	3.1%	-$8.45	-$9.19	-$0.74	16.5%	18.4%	$1.20
Emerging Markets Funds	6.6%	6.2%	-$9.28	-$8.34	$0.94	-9.3%	-9.0%	$0.26
Emerging Mrkts Hard Currency Debt Funds	1.8%	1.1%	-$10.57	-$10.00	$0.57	-15.4%	-20.8%	-$6.18
Energy MLP Funds	-2.0%	-1.4%	-$1.24	-$2.22	-$0.98	-8.2%	14.3%	-$5.21
General & Insured Muni Debt Funds (Lever	1.1%	-1.8%	-$9.58	-$6.95	$2.63	-13.1%	-19.0%	-$6.80
General & Insured Muni Fds (Unleveraged)	0.8%	-1.5%	-$7.53	-$5.38	$2.15	-7.5%	-11.1%	-$3.83
General Bond Funds	2.0%	-0.5%	-$5.84	-$4.20	$1.64	-12.2%	-9.4%	-$5.13
Global Funds	-0.4%	-0.7%	-$11.20	-$10.88	$0.32	9.7%	9.6%	-$1.00
Global Income Funds	1.4%	0.3%	-$9.17	-$8.13	$1.04	-8.0%	-14.5%	-$7.08
Growth Funds	-0.8%	-35.2%	$5.80	-$4.11	-$9.91	11.0%	25.2%	$5.90
High Yield Funds	0.2%	0.8%	-$6.90	-$7.58	-$0.68	1.5%	-5.6%	-$6.09
High Yield Funds (Leveraged)	0.3%	-0.7%	-$7.19	-$6.23	$0.96	-0.6%	-3.1%	-$5.31
High Yield Municipal Debt Funds	0.9%	-1.1%	-$5.62	-$3.75	$1.87	-11.3%	-16.1%	-$5.35
Income & Preferred Stock Funds	1.2%	-0.3%	-$9.64	-$8.30	$1.34	-11.1%	-4.5%	-$4.62
Intermediate Municipal Debt Funds	0.7%	-2.4%	-$7.54	-$4.59	$2.95	-8.2%	-12.1%	-$4.81
Loan Participation Funds	0.0%	-0.6%	-$5.60	-$5.01	$0.59	1.9%	-4.2%	-$4.07
Natural Resources Funds	-1.0%	0.0%	-$9.75	-$10.55	-$0.80	9.8%	4.7%	-$4.78
New Jersey Municipal Debt Funds	0.9%	-2.0%	-$12.33	-$9.78	$2.55	-11.3%	-21.3%	-$11.68
New York Municipal Debt Funds	1.0%	-0.8%	-$8.12	-$6.45	$1.67	-11.9%	-18.5%	-$7.63
Options Arbitrage/Opt Strategies Funds	-0.4%	-0.4%	-$7.17	-$7.19	-$0.02	9.7%	10.9%	$1.08
Other States Municipal Debt Funds	1.0%	-3.8%	-$10.52	-$8.91	$1.61	-12.1%	-19.8%	-$8.88
Pacific Ex Japan Funds	7.2%	7.0%	-$9.57	-$9.40	$0.17	-3.4%	-5.4%	-$1.89
Pennsylvania Municipal Debt Funds	1.0%	-21.0%	-$13.46	-$11.59	$1.87	-12.1%	-21.1%	-$10.18
Real Estate Funds	1.1%	2.5%	-$9.31	-$10.33	-$1.02	-10.7%	-7.3%	-$2.16
Sector Equity Funds	1.9%	-6.5%	-$5.83	-$6.56	-$0.73	-4.2%	3.7%	$0.39
U.S. Mortgage Funds	3.0%	0.9%	-$11.18	-$9.43	$1.75	-13.3%	-11.3%	-$5.09
Utility Funds	-1.2%	-0.7%	-$6.96	-$7.48	-$0.52	9.3%	4.7%	-$4.24
Value Funds	-0.9%	-2.6%	-$12.13	-$10.49	$1.64	19.7%	21.8%	$1.70

Top 5 Performing CEFs

LIPPER

Fund Name	Category	Ticker Symbol	1-Month NAV Change	Rank
Aberdeen EM SmCo Opptys	Emerging Markets Funds	41%	ETF	1
BlackRock FI Val Opp	General Bond Funds	21%	FIV	2
New Germany Fund	Developed Market Funds	18%	GFN	3
Turkish Investment Fund	Emerging Markets Funds	17%	TKF	4
Aberdeen Indonesia	Pacific Ex Japan Funds	16%	XIF	5

Fund Name	Category	Ticker Symbol	Year-to-Date NAV Change	Rank
NexPoint Credit Strat	High Yield Funds (Leveraged)	52%	NHF	1
New Ireland Fund	Developed Market Funds	44%	IRL	2
H&Q Healthcare Investors	Sector Equity Funds	43%	HQH	3
H&Q Life Sciences Invtrs	Sector Equity Funds	41%	HQL	4
Engex Inc	Core Funds	39%	EXGI	5

Fund Name	Category	Ticker Symbol	1-Month Market Change	Rank
Aberdeen EM SmCo Opptys	Emerging Markets Funds	43%	ETF	1
Aberdeen Greater China	Pacific Ex Japan Funds	16%	GCH	2
Aberdeen Indonesia	Pacific Ex Japan Funds	15%	XIF	3
Aberdeen Australia Eqty	Developed Market Funds	15%	IAF	4
New Germany Fund	Developed Market Funds	15%	GFN	5

Fund Name	Category	Ticker Symbol	Year-to-Date Market Change	Rank
Engex Inc	Core Funds	70%	EXGI	1
Gabelli Multimedia Trust	Global Funds	58%	GGT	2
H&Q Healthcare Investors	Sector Equity Funds	56%	HQH	3
NexPoint Credit Strat	High Yield Funds (Leveraged)	42%	NHF	4
New Ireland Fund	Developed Market Funds	41%	IRL	5

Fund Name	Category	Ticker Symbol	1-Month P/D Change	Rank
Denali Fund	Core Funds	DNY	$20.60	1
PIMCO Corp & Inc Oppty	General Bond Funds	PTY	$11.50	2
Eagle Capital Growth	Core Funds	GRF	$10.89	3
Brookfield Total Return	U.S. Mortgage Funds	HTR	$10.45	4
Gabelli Multimedia Trust	Global Funds	GGT	$10.41	5

Fund Name	Category	Ticker Symbol	Year-to-Date P/D Change	Rank
Equus Total Return	Core Funds	EQS	$28.92	1
Firsthand Technology Val	Sector Equity Funds	SVC	$23.84	2
PIMCO Gl StksPLUS & Inc	Options Arbitrage/Opt Strategies Funds	PGP	$22.83	3
PIMCO High Income	General Bond Funds	PHK	$22.26	4
Self Storage Group	Real Estate Funds		$22.15	5

Highlights (US$):[1,2]

Global ETP flows of $24.7bn in December represented a strong close to the year and came predominantly from Developed Markets Equities as they did consistently throughout 2013.

Flows for the month were driven by Large Cap US Equities, which finished with $14.9bn – including $9.3bn after the Fed's taper announcement. There was no market pullback following the news with the S&P 500 gaining 3.8% since Dec 18th after starting the month slow. However, Fixed Income flows were muted for the month at $1.0bn with the 10-Year US Treasury yield rising 28 bps to 3.03%. Gold funds saw heavy outflows of ($3.6bn).

On a full-year basis, 2013 was the third strongest on record for the Global ETP Industry. Global flows of $235.5bn were topped only by the 2008 and 2012 totals. Developed Markets Equity indices continued to rally in 2013 and the Global ETP Industry saw record flows into funds with exposure to this segment. Developed Markets funds alone nearly equaled the Global ETP flows record from 2012, capturing $257.7bn or more than double the Developed Equity 2012 flows. This overshadowed the impact of Emerging Markets Equity outflows which, along with Gold and Non-Short-Maturity Fixed Income, detracted from industry growth with combined outflows of ($58.8bn).

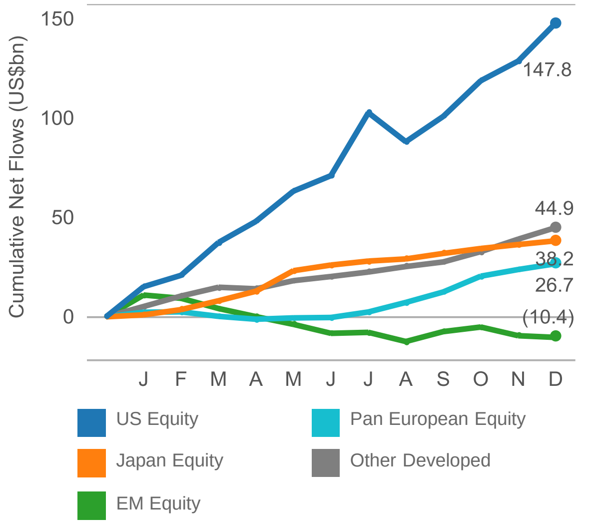
US Equity was the primary driver behind 2013 global ETP growth. Funds with US Equity exposure accounted for $147.8bn or 63% of all flows, up from approximately 26% in each of the past three years. Additionally, US-listed ETPs led all regions from an asset growth perspective at 26.1% (vs. a 2010-2012 3-year average of 19%), unexpected at this stage of the industry's development given the US accounts for 71% of the asset base. Through November, non-US clients had boosted US ETP growth contributing $16bn or approximately 10% of the region's flows.[8]

Japanese Equity exposures experienced the most dramatic increase in assets of all ETP categories at 94%. $38.2bn or two-thirds of this growth came from flows. $16.9bn was from just two funds listed in the US, although flows were strong in Asia and Europe as well. The remaining third was attributable to market movements. Prime Minister Abe's recent reforms to lift Japan out of its economic depression began to have an impact in 2013 and persuaded investors across the globe of the government's commitment to use all tools at its disposal to stimulate growth.

Pan-European Equity flows provided a significant boost to global ETP growth in 2013 by more than doubling to $26.7bn. Economic data in July began to indicate the region was emerging from its long recession. Consequently, all the flows came in the second half of the year. This flow pattern was similar to 2012, when signs of Eurozone stability mid-year as the debt crisis subsided drove flows of $11.0bn. However, it did not last long as by early 2013 the focus was again on slow growth.

GLOBAL EQUITY CUMULATIVE ETP FLOWS[1]

2013 YTD Flows: $247.3bn



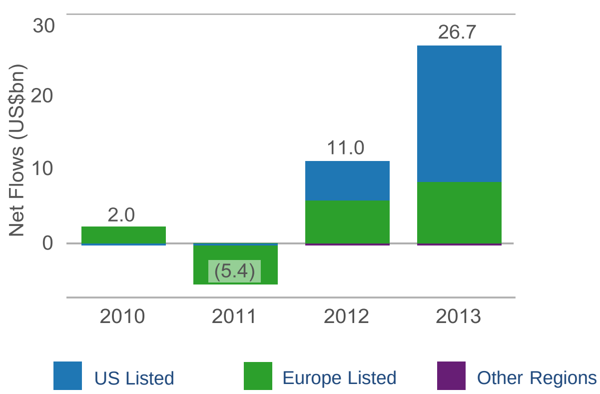
EQUITY ETP AUM GROWTH AND FLOWS ($bn)[1]

2013 AUM Growth: 37%

Equity Exposure	2012 AUM	2013 Flows	Market Move	2013 AUM	AUM Growth
US	669.9	147.8	200.9	1,018.7	52%
Pan-European	69.8	26.7	18.4	114.9	65%
Japan	61.5	38.2	19.9	119.6	94%
Other Dev.	294.5	44.9	34.9	374.3	27%
EM	276.6	(10.4)	(8.4)	257.8	(7%)

PAN EUROPEAN EQUITY FLOWS[1]

2013 Net Flows: $26.7bn



Source: BlackRock

Highlights (US$):[1,2]

2013 Pan-European Equity flows for funds listed in Europe experienced a healthy 40% increase compared to 2012, but notably the category grew largely due to ETPs listed in the US. These funds took in $18.4bn, nearly a fourfold increase versus last year. The bulk of the activity resulted from just four broad-based ETPs which collectively have seen their assets swell from $5.2bn to $29.5bn over the past four years.

Strategic Beta Equity – which we define as non-market cap weighted ETPs including dividends, volatility, or factors (for example, momentum) – contributed a record $65.1bn or 28% of global ETP flows in 2013. Assets for the category grew over 50%. Dividend weighted[9] funds led for the second consecutive year with inflows of $29.0bn vs. $13.1bn in 2012. Many income-seeking investors turned to dividend stocks as bond alternatives in a persistent low-interest rate environment. Minimum Volatility funds also grew rapidly with assets more than doubling to $13.2bn. These funds seek to smooth out the market's peaks and valleys in part by holding stocks that have exhibited less price volatility, capitalizing on investor's desire to manage volatility.

Outside of Equities, **the Fixed Income Duration Rotation** was the most significant trend of 2013. When tapering concerns took hold in May, investors did not rotate out of Fixed Income but instead shifted from longer- to shorter-maturity ETPs. Total Fixed Income flows were $27.5bn with $35.9bn coming from short-maturity funds. The effect was most pronounced among US-listed ETPs whereas flows were more evenly distributed in other regions. The trend also held for mutual funds where short maturity inflows reached $128.0bn despite overall outflows of ($85.4bn).

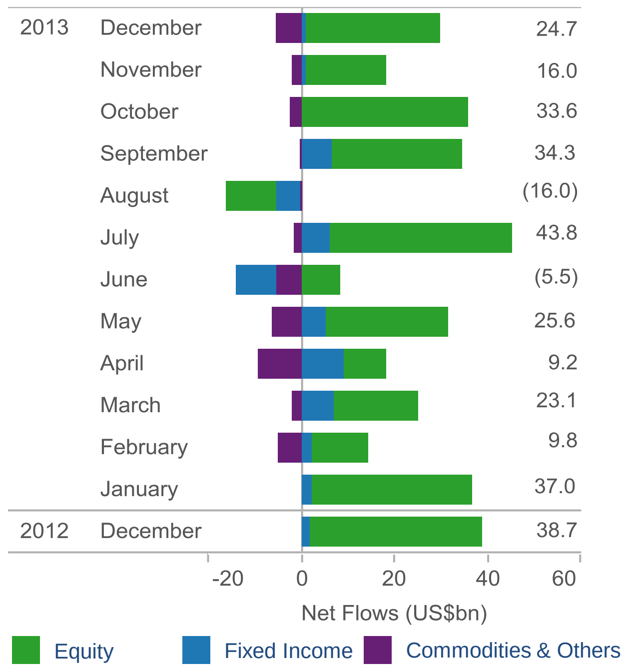
DECEMBER RESULTS AT A GLANCE[1]
(US $billions)

	December 2013	November 2013*	December 2012	December 2011
Monthly Flows	24.7	16.0	38.7	15.9
Assets	2,401	2,363	1,944	1,525
# of ETPs	4,988	4,981	4,759	4,311

*Nov-2013 restated with additional Asia Pacific data

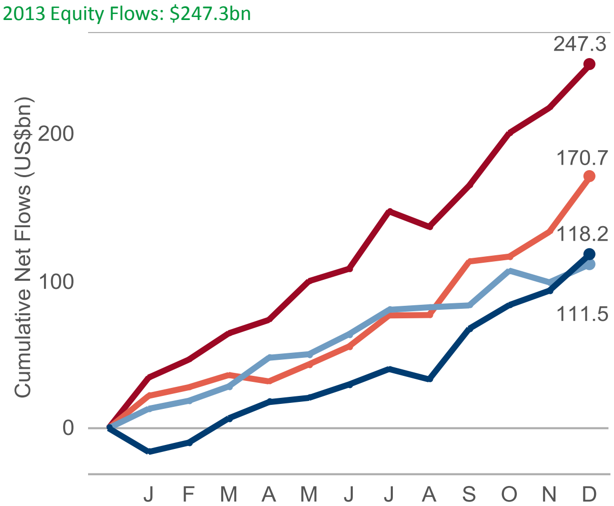
GLOBAL 13-MONTH ROLLING NET FLOWS[1]

2013 YTD Net Flows: $235.5bn



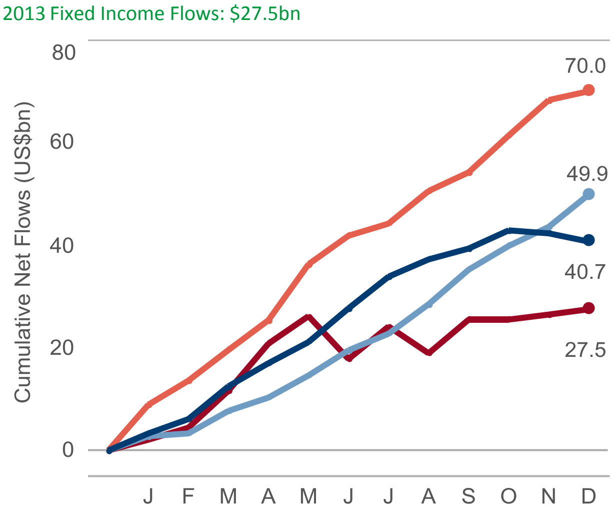
CUMULATIVE EQUITY ETP FLOWS[1]

2013 Equity Flows: $247.3bn



CUMULATIVE FIXED INCOME ETP FLOWS[1]

2013 Fixed Income Flows: $27.5bn



Source: BlackRock

Global ETP Year-To-Date Overview

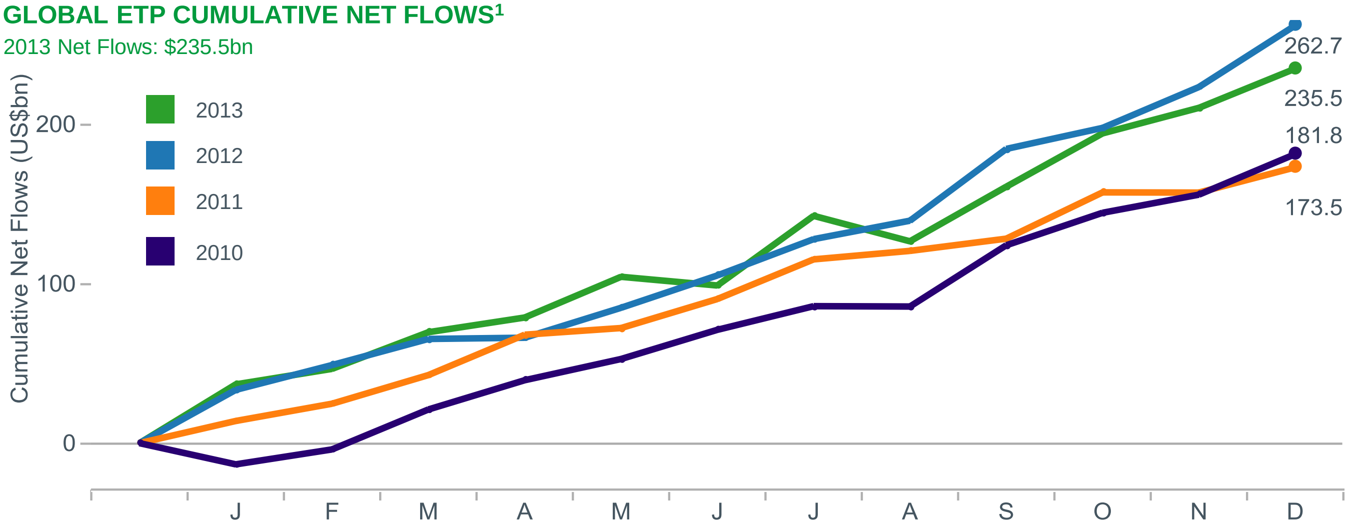
BLACKROCK

GLOBAL ETP YTD FLOWS BY EXPOSURE[1]

(US$bn)			Annual 2013	Annual 2012	Annual 2011
Fixed Income	**Total**		27.5	70.0	49.9
Developed Markets Equity	North America Equity	**Total**	147.9	76.3	52.3
	Other Developed/ Global Equity	Asia Pacific Equity	38.0	12.1	9.8
		Europe Equity	26.7	9.7	15.0
		Global/Global ex-US	45.0	17.8	24.7
		Total	109.8	39.6	49.5
	Total		257.7	115.9	101.8
Emerging Markets Equity	**Total**		(10.4)	54.8	9.8
Commodities	**Total**		(42.9)	19.3	9.0
Others	**Total**		3.6	2.7	3.1
Global ETP Total			235.5	262.7	173.5

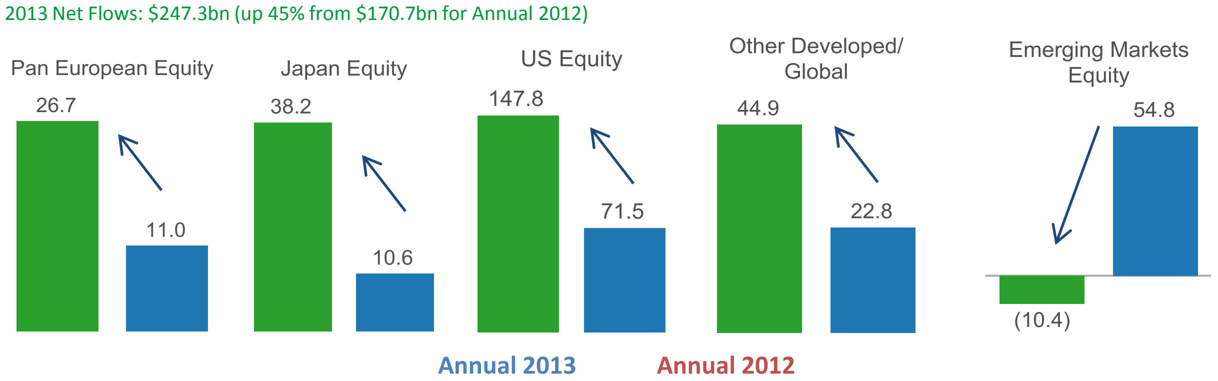
GLOBAL ETP CUMULATIVE NET FLOWS[1]

2013 Net Flows: $235.5bn



GLOBAL EQUITY ETP 2013 FLOWS BY EXPOSURE[1]

2013 Net Flows: $247.3bn (up 45% from $170.7bn for Annual 2012)



Source: BlackRock

Largest Year-to-Date Fund Inflows and Outflows

BlackRock

ETPs as of December 2013 (US$mn)[1]	Bloomberg Ticker	2013 Annual Inflows	Dec-13 Assets
SPDR S&P 500	SPY US	16,316	174,851
WisdomTree Japan Hedged Equity Fund	DXJ US	9,822	12,610
iShares Core S&P 500	IVV US	7,505	53,709
iShares MSCI Japan	EWJ US	7,117	13,990
Vanguard European	VGK US	6,866	13,654
Vanguard Total Stock Market	VTI US	6,498	39,154
iShares MSCI EAFE	EFA US	6,299	52,826
Vanguard S&P 500	VOO US	5,742	14,960
Vanguard FTSE Developed Markets ETF	VEA US	5,527	19,023
iShares MSCI EMU	EZU US	5,118	8,312
Grand Total		76,809	403,090

ETPs as of December 2013(US$mn)[1]	Bloomberg Ticker	2013 Annual Outflows	Dec-13 Assets
SPDR Gold	GLD US	(25,050)	30,822
Vanguard FTSE Emerging Markets	VWO US	(8,314)	46,555
iShares iBoxx $ Investment Grade Corporate Bond	LQD US	(8,240)	15,680
iShares Barclays TIPS Bond	TIP US	(7,909)	12,574
db x-trackers DAX ETF	XDAX GY	(7,665)	3,379*
iShares MSCI Emerging Markets	EEM US	(5,325)	40,125
iShares MSCI Brazil	EWZ US	(3,661)	4,378
iShares J.P. Morgan USD Emerging Markets Bond	EMB US	(2,759)	3,462
SPDR Barclays Capital High Yield Bond	JNK US	(2,486)	9,965
iShares Gold Trust	IAU US	(2,395)	6,322
Grand Total		(73,805)	173,261

* Representing aggregate AUM attributed from all individual share classes. Flows are attributed per share class.

Source: BlackRock

Largest Asset Gathering ETPs Launched in 2013

BLACKROCK®

Highlights (US$):[1]

- 459 new ETPs and 59 individual share class listings debuted around the globe so far this year and have accumulated $26.3bn in assets.
- 222 products and 14 individual share class listings were delisted this year with combined assets of less than $2.6bn.

Product Name (US$mn)[1]	Bloomberg Ticker	Exposure	Listing Region	Launch Date	Assets as of Dec-2013
ChinaAMC CSI 300 Index ETF	510330 CH	Emerging Markets Equity	Asia Pacific	January	3,119
Barclays FI Enhanced Global High Yield ETN	FIGY US	Other Developed/ Global	US	May	1,401
FI Enhanced Europe 50 ETN	FEEU US	Other Developed/ Global	US	May	1,052
Vanguard Total International Bond ETF	BNDX US	Fixed Income	US	June	819
E Fund CSI 300 ETF	510310 CH	Emerging Markets Equity	Asia Pacific	March	809
China CSI 500 ETF	510500 CH	Emerging Markets Equity	Asia Pacific	February	738
SPDR Blackstone/GSO Senior Loan ETF	SRLN US	Fixed Income	US	April	589
Guangfa CSI 500 ETF	510510 CH	Emerging Markets Equity	Asia Pacific	April	524
Vident International Equity	VIDI US	Other Developed/ Global	US	October	516
db x-trackers II IBOXX SOVEREIGNS EUROZONE YIELD PLUS 1-3 UCITS ETF	XYP1 GY	Fixed Income	Europe	August	494
SPDR MSCI EMU UCITS	ZPRE GY	Other Developed/ Global	Europe	January	480
BMO Mid-Term US IG Corporate Bond Index ETF	ZIC CN	Fixed Income	Canada	March	380
China Southern Kaiyuan CSI 300 Index ETF	159925 CH	Emerging Markets Equity	Asia Pacific	April	325
Bosera FTSE China A50 Index ETF	82832 HK	Emerging Markets Equity	Asia Pacific	December	280
iShares MSCI USA Quality Factor ETF	QUAL US	North America Equity	US	July	280
Others					14,451
Total - 459 Primary ETPs + 59 Share Classes					26,258

Source: BlackRock

Global ETP by Exposure – Developed Equity

BLACKROCK

Exposure (US$mn)[1]		Dec 2013 Net Flows	2013 Annual Net Flows	% of YTD Flows	Assets	% of Assets	# ETPs
US Size and Style	Large Cap	14,853	58,963	25.0	486,699	20.3	236
	Mid Cap	(8)	13,065	5.5	84,875	3.5	49
	Small Cap	1,736	16,306	6.9	89,571	3.7	69
	Micro Cap	38	253	0.1	1,094	0.0	4
	Total Market	708	10,860	4.6	66,064	2.8	63
	Extended Market	53	1,090	0.5	4,015	0.2	2
	Preferred Stock	(498)	(1,889)	(0.8)	12,056	0.5	5
	US Size and Style Total	16,883	98,648	41.9	744,374	31.0	428
US Sector	Basic Materials	108	1,258	0.5	7,428	0.3	15
	Consumer Cyclicals	(145)	2,842	1.2	16,483	0.7	19
	Consumer Non-cyclicals	0	750	0.3	10,313	0.4	13
	Energy	(479)	4,948	2.1	33,289	1.4	44
	Financials	874	7,486	3.2	32,628	1.4	39
	Health Care	(43)	5,424	2.3	25,145	1.0	30
	Industrials	1,320	6,147	2.6	15,619	0.7	18
	Real Estate	(321)	1,822	0.8	27,747	1.2	24
	Technology	432	6,210	2.6	25,538	1.1	28
	Telecommunications	(71)	(78)	(0.0)	1,055	0.0	6
	Utilities	(382)	(1,727)	(0.7)	6,730	0.3	13
	Theme	(29)	308	0.1	1,047	0.0	8
	US Sector Total	1,265	35,391	15.0	203,021	8.5	257
US Strategy		1,007	13,796	5.9	71,311	3.0	60
US Total		19,155	147,836	62.8	1,018,706	42.4	745
Canada Equity		273	(799)	(0.3)	32,904	1.4	87
North America Regional Equity		68	859	0.4	8,095	0.3	21
North America Total		19,496	147,897	62.8	1,059,704	44.1	853
Pan European Size and Style	Large Cap	943	7,880	3.3	45,087	1.9	80
	Mid Cap	(28)	350	0.1	1,246	0.1	9
	Small Cap	91	1,642	0.7	3,555	0.1	12
	Total Market	2,225	15,951	6.8	48,021	2.0	69
	Pan European Size and Style Total	3,231	25,788	10.9	97,838	4.1	168
Pan European Sector		(258)	378	0.2	13,798	0.6	151
Pan European Strategy		(67)	492	0.2	3,235	0.1	20
Pan European Total		2,907	26,693	11.3	114,943	4.8	341
Country	Germany	452	(5,982)	(2.5)	41,374	1.7	65
	U.K.	282	3,825	1.6	21,056	0.9	52
	Switzerland	169	359	0.2	10,647	0.4	23
	France	579	(474)	(0.2)	5,992	0.2	18
	Others	15	2,317	1.0	11,109	0.5	67
	Europe Single Country Total	1,496	44	0.0	90,178	3.8	225
Europe Total		4,403	26,737	11.4	205,121	8.5	566
Asia-Pacific	Regional	(100)	1,388	0.6	17,020	0.7	60
	Country	1,952	36,654	15.6	142,578	5.9	237
Asia Pacific Total		1,852	38,042	16.2	159,598	6.6	297
Broad-Based Global /Global ex-US		4,025	44,984	19.1	203,077	8.5	456
Developed Equity Total		29,775	257,660	109.4	1,627,501	67.8	2,172

Source: BlackRock

Endnotes: BlackRock's ETP Landscape: Monthly Highlights report

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

The data for this report are captured from a number of sources by the BlackRock Investment Institute including provider websites, fund prospectuses, provider press releases, provider surveys, Bloomberg, the National Stock Exchange, Strategic Insight Simfund, Wind and the Bank of Israel. All amounts are reported in US dollars. Flows are derived using daily net asset values and shares outstanding using the most recent data we can capture at month-end. For products with cross-listings, we attribute net flows and assets to the primary listings. For Middle East and Africa, net flows data is not available. Assets are derived using shares outstanding and prices at the end of each month (or the closest date available). Where price is not available, we use an approximation. For ETPs listed in Israel, product level detail is not available. Product level information is aggregated by provider, asset class, exposure, region listed and replication method to produce the various analyses in the report

1. Data is as of December 30, 2013 for Europe and December 31, 2013 for the US, Canada, Latin America, Israel, and some Asia ETPs. Some Asia ETP data is as of November 30, 2013. Global ETP flows and assets are sourced using shares outstanding and net asset values from Bloomberg for the US, Canada, Europe, Latin America and some ETPs in Asia. Middle East ETP assets are sourced from the Bank of Israel. ETP flows and assets in China are sourced from Wind. Inflows for years prior to 2010 are sourced from Strategic Insights Simfund. Asset classifications are assigned by the BlackRock based on product definitions from provider websites and product prospectuses. Other static product information is obtained from provider websites, product prospectuses, provider press releases, and provider surveys. Market returns are sourced from Bloomberg.
2. We classify maturity buckets of a Fixed Income ETP if the fund invests at least 70% of its assets in the corresponding maturity/exposure range: Short maturity includes: underlying security maturities < 3 years and floating rate where the fund holds floating rate securities and/or bank loans. Intermediate includes: 3 years < underlying security maturities < 10 years. The "other" category includes Long-Term: underlying security maturities > 10 years; Broad Maturities: The fund invests in more than two maturity buckets without emphasizing one; Selected Maturities: The fund holds securities with multiple selected range of maturity buckets, i.e. barbell strategy which focuses on the specific short-term and long-term buckets with even weights; and Fixed Maturity: The fund itself has a target maturity date and arranged holdings correspondingly.
3. Source: BlackRock, Bloomberg, Reuters
4. Mutual fund data is sourced from EPFR (excluding Money Market funds and ETFs). Full year 2012 and January-November 2013 data is sourced from EPFR monthly data. December 2013 data is sourced from EPFR weekly data for the four weeks ended December 25, 2013. Money Market mutual fund flows is sourced from EPFR weekly data for the four weeks ended December 25, 2013.
5. US and Global mutual fund data is sourced from Strategic Insight Simfund (excluding Money Market Funds and ETPs), as of November 2013.
6. Underlying equity market total market capitalization is sourced from the Bloomberg World Exchange Market Capitalization Index (WCAUWRLD Index), as of end of Dec 2013.
7. Underlying bond market total outstanding amount is sourced from the Bank for International Settlements (BIS)
8. Source: Broadridge
9. Equity ETPs that are dividend focus or dividend weighted can provide very different geographic exposures such as US, global, European, or other single-country or regional exposures.

Disclosures:

 The ETF Sector Review is for informational purposes only, and does not constitute investment advice or an offer to sell or the solicitation of an offer to buy any security of any entity in any jurisdiction. The ETF Sector Review represents an assessment of the market environment at a specific time and is not intended to be relied upon by the reader as research, a forecast of future events or a guarantee of future results.

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

The information included in the ETF Sector Review has been taken from trade and other sources considered to be reliable. This document is published in good faith but no representation or warranty, express or implied, is made by BlackRock or by any person as to its accuracy or completeness and it should not be relied on as such. BlackRock or any of its directors, officers, employees or agents shall have no liability for any loss or damage arising out of the use or reliance on the material provided including without limitation, any loss of profit or any other damage, direct or consequential. Any opinions expressed in this document reflect our analysis at this date and are subject to change.

Rating Actions

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

Fitch: Pioneer Fund Preferred Shares PIF – December 9, 2013

Fitch Ratings-New York-09 December 2013: The following outstanding shares from Pioneer Investment's fund Pioneer Floating Rate Trust (NYSE: PHD) have been fully redeemed and are paid in full, according to Fitch Ratings:
--$60,850,000 of AMPS, series M, W and TH to 'PIF' from 'AAA'.

Fitch Rates & Affirms Preferred Shares Issued by Nuveen Closed End Funds – December 10, 2013

Fitch Ratings-New York-10 December 2013: Fitch Ratings has assigned 'AAA' long-term ratings to four series of Variable Rate MuniFund Term Preferred Shares(VMTP Shares) issued by four Nuveen municipal closed-end funds in connection with the refinancings described below. Fitch also affirms the long-term ratings of two existing series of Variable Rate Demand Preferred Shares (VRDP shares) issued by Nuveen AMT-Free Municipal Income Fund (NEA). All of the funds are managed by Nuveen Fund Advisors, LLC (NFA) and subadvised by Nuveen Asset Management, LLC (NAM).

Fitch Rates VRDP Shares Issued by Nuveen Dividend Advantage Municipal Income Fund– December 13, 2013

Fitch Ratings-New York-13 December 2013: Fitch Ratings has assigned a long-term rating of 'AAA' to the variable rate demand preferred shares (VRDP shares) issued by Nuveen Dividend Advantage Municipal Income Fund (NVG). NVG is managed by Nuveen Fund Advisors, LLC (NFA) and subadvised by Nuveen Asset Management, LLC (NAM).

Fitch Rates Senior Notes Issued by Madison Arbor LLC 'AAA' – December 17, 2013

Fitch Ratings-New York-17 December 2013: Fitch rates the following notes issued by Madison Arbor LLC 'AAA':
--Up to $2 billion in series A senior notes with a maturity of Dec. 17, 2018 (notes).

Fitch Affirms Eaton Vance Floating-Rate Income Trust Preferred Shares at 'AA' – December 17, 2013

Fitch Ratings-New York-17 December 2013: Fitch Ratings has affirmed the 'AA' rating on the following Variable-Rate Term Preferred Shares (VRTP Shares) issued by Eaton Vance Floating-Rate Income Trust (NYSE: EFT), a closed-end fund advised by Eaton Vance Management (Advisor):
--$80,000,000 of Series C-1 VRTP Shares, due Dec. 18, 2015.

Fitch Rates VRTP Shares Issued by 3 Nuveen Loan Funds - December 30, 2013

Fitch Ratings-New York-30 December 2013: Fitch Ratings assigns long-term ratings as noted below to variable rate term preferred shares (VRTP shares) issued by three Nuveen loan closed-end funds managed by Nuveen Fund Advisors, LLC (NFA) and subadvised by Symphony Asset Management, LLC (Symphony).

Fitch Affirms Preferred Share Rating of The Denali Fund at 'AAA' – January 10, 2014

Fitch Ratings-Chicago-10 January 2014: Fitch Ratings has affirmed the 'AAA' rating assigned to the following preferred shares issued by The Denali Fund Inc. (NYSE: DNY), a closed-end fund co-advised by Boulder Investment Advisers, LLC (BIA) and Stewart Investment Advisers (SIA):
--$21,950,000 of auction preferred shares (APS), series A, with a liquidation preference of $25,000 per share.

Following Solid December, Municipal CEFs off to Good Start in 2014

January 9, 2014

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

While the average municipal closed-end fund (CEF) was lower by 13.42% on a share price total return basis in 2013 (NAVs were lower by 6.88% on a total return basis) according to Morningstar, performance has improved recently. On September 3,2013 I wrote a blog piece entitled "Still out of Favor but with Compelling Yields and Valuations" which discussed that municipal CEFs were still out of favor with investors despite the value in municipal bonds, attractive discounts to NAV and very compelling tax-free yields municipal CEFs offered. The September to November period was a fairly stable one for most municipal CEFs, however by December investors had finally begun to take advantage of the very compelling yields and discounts to NAV. In fact, the First Trust Municipal CEF Index (MNCEFT) was up 2.26% during the month of December. The positive momentum and bargain hunting has continued into 2014 with MNCEFT up 2.24% through 1/8/14 according to Bloomberg. The index closed at 1443 on 1/8/14 which represents its highest closing price since 7/12/13 according to Bloomberg.

While the primary risk in municipal CEFs in my opinion remains duration risk (aka interest rate risk) and investors need to be aware of it, municipal CEFs continue to also have many positive characteristics including average discounts to NAV of 6.20% as of 1/9/14 (a year ago they were at an average premium to NAV of 3.22% according to Morningstar), average distribution yields of 6.37% as of 1/9/14 (a year ago the average distribution yield was 5.17% according to Morningstar) and they continue to benefit from very low leverage cost which should remain low through 2014 given the fact the Federal Reserve has indicated they do not intend to raise the Federal Funds rate until 2015.

Furthermore, despite a few high profile municipal bond defaults, such as Detroit's bankruptcy filing, the number of bond issues that defaulted in the S&P Municipal Bond Index actually fell for the third straight year in 2013, according to S&P Dow Jones Indices. The number of defaults in each year were as follows: 2013 (23 issues/0.107% default rate); 2012 (30 issues/0.144% default rate); and 2011 (46 issues/0.227% default rate).

Despite the inherent interest rate risk in municipal CEFs, I continue to believe the positive characteristics discussed above are compelling. Given the sell-off in municipal CEFs which occurred in 2013, I believe the yields and valuations make it worth taking on the interest rate risk as part of a diversified, balanced CEF income portfolio which should also include shorter duration credit sensitive funds such as senior loan funds, limited duration funds, high yield funds and domestic equity funds.

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

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

What You Need to Know about "Strategic Beta"

January 16, 2014

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

In my final post of 2013, I highlighted several trends within the ETF industry that caught our attention last year. One major development that really stood out to me, more so than the others, was the considerable growth we saw in strategic beta – an investing strategy that we believe will continue to be a significant contributor to ETF flows in 2014 and for years to come.

Before discussing the flows, let's first explore what we mean by "strategic beta". While there is no single definition for strategic beta ETFs, it can most easily be defined as investments based on indexes that are **not** market-cap weighted. Unlike traditional market-cap weighted index funds, strategic beta equity funds hold a basket of stocks that are selected and weighted by characteristics other than company size. For example, one strategic beta fund may focus on high dividends while others may emphasize low volatility, momentum or quality. The objective of strategic beta is to improve performance by passively tracking an index that is not based on market-cap weighting. In other words, strategic beta is an enhanced form of passive investing.

Traditionally, tracking such targeted market exposure was only feasible through actively-managed funds pursuing alpha. Not anymore.

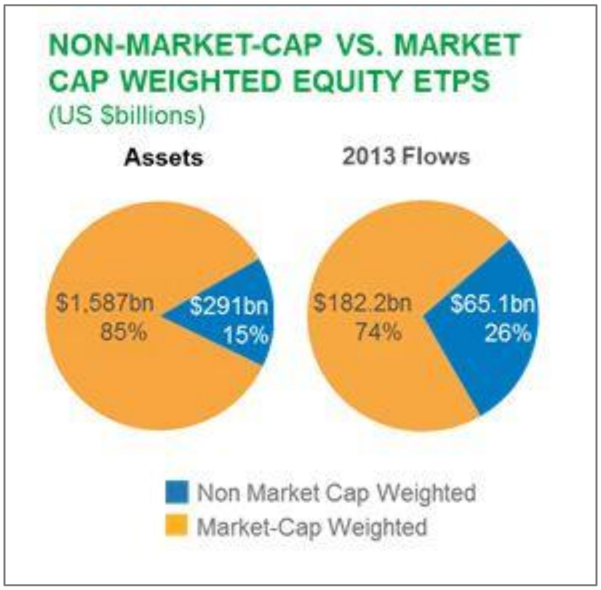
In 2013, we saw a record-breaking $65 billion flow into strategic beta equity ETFs, nearly a third of total ETF industry flows. That's almost double the $34 billion we saw flow into this space in 2012.

Strategic beta equity funds gathered a record total of $65.1 billion – nearly a third of global industry flows in 2013 – with asset growth in excess of 50%.
Two categories within strategic beta equity captured the majority of these flows:

1. **Equity dividend ETFs**. Many investors last year turned to equity dividend ETFs to meet their income needs in the low interest rate environment, and we believe they will continue to do so. Many retirees in need of income with an opportunity for capital appreciation may also gravitate toward these types of investments.

2. **Minimum volatility ETFs**. One of the biggest concerns we hear from investors today is related to the recent run up in stocks. As a result, investors may be hesitant to invest in equities because they fear increased risk and stretched valuations. These concerns lead us to believe that minimum volatility ETFs may serve as compelling solutions to such investors in the current market environment as these funds are designed to provide diversified access to stocks with lower expected volatility than the overall market.

As investors seek strategic beta solutions, and as these solutions become more readily available, it's important to keep in mind that no matter the strategy, diversification is key. Strategic beta is meant to compliment a diverse portfolio of investments, not replace market-cap weighted funds altogether.



Dodd Kittsley, CFA, is the Head of Global ETP Market Trends Research for BlackRock and a regulator contributor to the The Blog. You can find more of his posts here.

Exchange-Traded Tracking Products

Geared Exchange-traded Tracking Products

January 10, 2014

Impact of Volatility and Holding Period. Tax Inefficiency. Counterparty Risk. Suitability.

Authored by:
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Senior Analyst, Wells Fargo Advisors
Dan Brown, CFA
Analyst, Wells Fargo Advisors

- We will borrow the British expression for leverage — gearing — to refer to leveraged, inverse and/or leveraged-inverse exchange-traded tracking products[1] (ETPs.) First, by using the expression "geared" we are attempting to refer to this group of ETPs — +3x, +2x, -1x, -2x and -3x exposure[2] — in a more succinct manner. Additionally, we define 'geared' products to be those that target a constant leverage ratio by resetting the product's exposure on a fixed schedule — typically on a daily or monthly basis.

- Some users of geared ETPs do not fully appreciate the effect that excessive volatility has on their return. Many blame the tool, but we would argue that it is often the user who is not sufficiently familiar with the risks of geared ETPs. A trending market — low volatility relative to return — could produce satisfactory returns, while a geared ETP that tracks a trendless index with excessive volatility is likely to produce poorer than expected returns. A real example, provided later in this report, will help us illustrate the impact of volatility on the return of a geared ETP. Geared ETPs may not be as tax-efficient as the more conventional ETPs because they cannot fully take advantage of the tax-efficiency resulting from the in-kind creation/redemption process.
- Geared ETPs are more likely to carry counterparty risk, which is non-existent in current U.S.-traded exchange-traded funds (ETFs) that track a simple exposure — one-time beta — by holding the underlying securities. Yet, the sponsors of geared ETPs have taken a number of steps to minimize such risk.
- We think geared ETPs are appropriate only for speculative investors and short-term traders who are truly familiar with all the moving parts that affect the total return of a geared ETP.

Assets

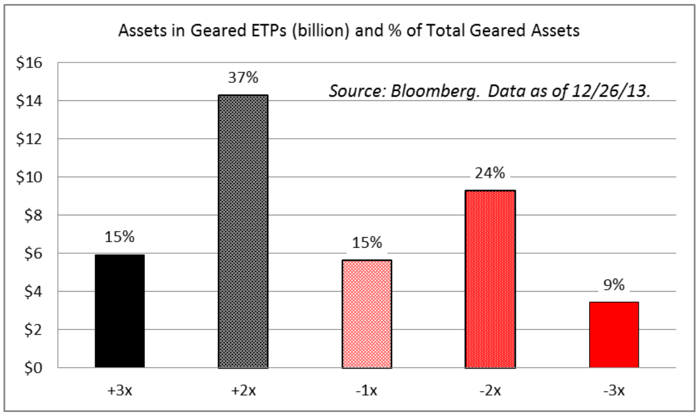
Geared ETPs have expanded the arsenal of tools that allow market players to confront the markets; and investors, traders and speculators have embraced these tools. Since the first geared ETP was launched in the summer of 2006, there are currently almost $39 billion in more than 250 geared ETPs, as of December 26, 2013.

Sponsors

When it comes to gathering assets, the first mover's advantage is quite strong with ETPs. ProShares was the first to launch geared ETPs, so it is not too surprising that it holds about two thirds of the assets in geared ETPs. The second-largest sponsor of geared ETPs, Direxion, holds 17% of the assets. Although Direxion entered this category as late as November 2008, two and a half years after the launch of the first geared ETF, one may argue that one of the reasons why Direxion gathered so many assets is because Direxion also had some kind of first mover's advantage — Direxion was the first to offer ETPs with higher gearing ratios of +3x and -3x.

Gearing Magnitude

The majority of assets in the geared ETP space is in leveraged products — only 15% of total assets are in single inverse products (-1x). This may be in part due to the fact that there are fewer single inverse ETPs relative to leveraged ETPs. The chart below shows the breakdown of assets by gearing ratio. Additionally, in the recent past, the more highly leveraged ETPs traded more frequently than the single inverse ETPs. The triple-geared ETPs (+3x and -3x) accounted for almost half of the trading volume of all geared ETPs, while the single inverse ETPs took just over 10% of the average volume.



The Impact of Volatility

While some blame the geared ETPs — the instruments — for not producing the results that they expect, we argue that the problem lies with the users, many of which are not familiar with some of the variables — volatility of the underlying index in particular — that define the performance of a geared ETP. Another principal variable that defines the return of a geared ETP — the return of the underlying index — is more obvious to users. Below, we will attempt to explain the difference between a "simplistic return expectation" and the actual return of a geared ETP with a couple of real examples. Since an extreme example — 3x gearing as opposed to 2x gearing — often helps to clarify the relationship between a cause and its effect, we will use two Direxion ETPs — the Direxion Energy Bull 3X Shares (ERX, $84.96) and the Direxion Energy Bear 3X Shares (ERY, $21.20) — for our illustration. At the time of the periods we evaluated, the underlying index for both was the Russell Energy 1000 Index; however, currently their underlying index is the S&P Energy Select Sector Index.

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These ETFs Should Help You To Not Fear the Fed

December 23, 2013

Authored by:
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Amid months of speculation about potential Federal Reserve action, investors pulled $22 billion out of broad-maturity U.S. fixed-income exchange traded products in the first 11 months of 2013 and plowed $30 billion into short-maturity products, according to BlackRock. The speculation ended last week as the Fed initiated a "token taper," electing to cut the amount of total bond purchases starting in January 2014 by $10 billion.

The Fed voted to reduce Treasuries to $40 billion from $45 billion, and mortgages to $35 billion from $40 billion. S&P Capital IQ's Investment Policy Committee (IPC) believes this action signaled that the U.S. economy is currently strong enough - with inflation remaining sufficiently below the 2.0-2.5% level - to withstand this reduction in stimulus. The Fed, in what our IPC thinks many interpret as dovish commentary, also indicated that it will hold off tightening short-term interest rates until unemployment falls well below their initial 6.5% level. They were quick to remind investors, however, that this is a threshold, and not a trigger. They also expect inflation, which remains of concern, to increase gradually.

According to the IPC, from a technical perspective, the 10-year Treasury pulled back to test a rising trendline off the lows since early November, and bounced. It appears to us that yields are now headed for key chart support at 3% (on Friday, they closed at 2.89%). S&P Capital IQ think yields could then fall as they complete a possible cup-and-handle base. If yields break strongly above 3%, which S&P Capital IQ sees happening, we would then expect a measured move up to around 3.5%, where the next piece of chart support lies. More important, according to S&P Capital IQ, is that the long-term trendline support off of the peaks since 1987 sits up at 3.5%. Looking well into 2014, if yields finally break out of their long-term descending channel, the IPC thinks that from a technical standpoint, the 30-plus year bull market in Treasurys would be over.

While investors have been focusing on the shorter end of the fixed-income ETF market for months, we think there are a number of appealing products that have modest expense ratios, minimal interest-rate sensitivity (duration) and other favorable characteristics. In ranking nearly 200 fixed-income ETFs, S&P Capital IQ uses duration as a key risk considerations factor.

Using the ETF screening tool on MarketScope Advisor, today we find 42 ETFs that have duration less than 3 years - meaning that for every 100 basis point move higher in interest rates, investors can expect a 300 basis point decline in the ETF. In our opinion, these ETFs will hold up better than most if S&P Capital IQ's IPC is right about the direction of interest rates. However, just 23 of them have an Overweight ranking, which involves nine other assessments of the ETF and its holdings, including Yield, Credit Quality, Expense Ratio and Bid/Ask spread.

The two largest of the ETFs, based on assets, are Vanguard Short-Term Bond Index (BSV 80 Overweight) and iShares 1-3 Year Credit Bond (CSJ 105 Overweight), which each have over $11 billion in assets, helped by strong inflows thus far in 2013. Although the 30-day SEC yields for both are below 1%, both rank favorably for their low durations and tight bid/ask spreads. With an expense ratio of 0.10%, BSV is half as expensive as CSJ, but thus far in 2013 is up only 0.3% compared to CSJ's 1.0% gain.

While not as big as BSV and CSJ, SPDR Barclays Short-Term Corporate Bond (SCPB 31 Overweight) has been a strong performer thus far in 2013, rising 1.2%. SCPB, which has a modest expense ratio of 0.13%, has most of its assets invested in bonds rated A by ratings agencies that operate independently from S&P Capital IQ, whereas CSJ has higher exposure to bonds rated AAA and AA.

The S&P Capital IQ list of top-ranked fixed-income ETFs with duration of less than three years also includes ETFs from Guggenheim, PIMCO and Schwab, as well as others from iShares, State Street and Vanguard. To see the full list, we encourage you run the screen yourself or contact wealth@spcapitaliq.com for more information about S&P Capital IQ's fixed income ETF research.

Key Takeaways

These ETFs rank favorably by S&P Capital IQ for their low duration, modest expense ratios and more.

POSITIVE IMPLICATIONS

ISHARES 1-3 YEAR CREDIT BOND ETF	OVERWEIGHT	[CSJ]
SPDR BARCLAYS SHORT TERM CORPORATE BOND ETF	OVERWEIGHT	[SCPB]
VANGUARD SHORT-TERM BOND INDEX FUND; ETF SHARES	OVERWEIGHT	[BSV]

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

Some Newer ETFs Attract Considerable Interest

December 23, 2013

Authored by:
Tom Graves, CFA
ETF Analyst
S&P Capital IQ

Including more than 100 exchange-traded funds (ETFs) launched in 2013, the ETF landscape continues to change, with some of the newer ETFs attracting considerable interest. By our calculation, the 20 largest equity or fixed income ETFs debuting in 2013 recently had aggregate net assets or market capitalization of about $4.2 billion. This includes five ETFs that were each at more than $200 million.

Our MarketScope Advisor (MSA) reports offer a tool for looking under the hood at what ETFs own, plus analytics related to performance, risk and cost. Also, within a few months of an ETF's debut, we can offer an Overall Ranking on an ETF within its asset class, based on our proprietary analytical models.

MSA's database includes 819 equity ETFs, including 85 that launched in 2013. Of these newer equity ETFs, we already have an Overall Ranking on 56. Of the 216 fixed income ETFs in MSA, 33 debuted in 2013, and we have an Overall Ranking on 26 of these newer ETFs. Going back further, MSA shows 236 equity or fixed income ETFs launched since the start of 2012, of which S&P Capital IQ currently has an Overall Ranking on 180 (76%).

Ranking of Overweight on 16 of the 85 equity ETFs, including four with a recent market capitalization of more than $100 million-- iShares MSCI USA Quality Factor ETF (QUAL 56, Overweight), iShares MSCI USA Momentum Factor ETF (MTUM 60, Overweight), iShares MSCI USA Value Factor ETF (VLUE 59, Overweight), and iShares MSCI USA Size Factor ETF (SIZE 57, Overweight). While only one (VLUE) of the four is Overweight in our Performance Analytics category, all of them are Overweight in Cost Factors, and one (QUAL) of them is Overweight in Risk Considerations. Of these four equity ETFs, the largest, QUAL, had a market cap of $248 million, following its launch in July.

For equity ETFs, S&P Capital IQ's proprietary equity ETF rankings utilize up to 10 analytical inputs. The more than 800 reports that S&P Capital IQ provides on equity ETFs offer details on how much coverage is available on the five holdings-based analytics utilized in the ranking system. The other five analytical inputs relate to the ETF security itself.

For an equity ETF, our analysis bubbles up to an Overall S&P ETF Ranking (Overweight, Marketweight, or Underweight) of an ETF security relative to all other equity ETFs on which we have an Overall Ranking. S&P Capital IQ's analytics include assessments of both an ETF's holdings and of characteristics pertaining to the ETF security. Six of the 10 analytical metrics are proprietary to S&P Capital IQ or McGraw Hill Financial. The 10 analytical elements for equity ETFs include three for Performance Analytics that are all proprietary, including S&P Capital IQ equity analyst STARS opinions on stocks of companies owned by the ETFs.

Among 31 taxable and two tax-free fixed income ETFs launched in 2013, we have an Overall Ranking of Overweight on six, the largest of which -- iShares Short Maturity Bond ETF (NEAR 50, Overweight) -- recently had a market cap of $165 million. NEAR, which was launched in September, does not have a Performance Analytics ranking, but is Overweight in the Risk Considerations category, and Marketweight in Cost Factors. The potential inputs in the Performance Analytics category ifor fixed income ETFs include a relative one-year track record and technical evaluation, neither of which was available for NEAR. The third Performance Analytics input is 30-day SEC yield. (We note that for both equity and fixed income ETFs, there may be varying amounts of analytical inputs available).

For fixed income ETFs, in the Risk Considerations category, our analytics include assessments from Standard & Poor's Ratings Services and other nationally recognized securities rating organizations; priority is given to Standard & Poor's Ratings Services if information is available. We view the credit rating component as a key offset of the 30-day SEC yield component used in the Performance Analytics ranking, as yield and credit quality generally have an inverse relationship. Also, S&P Capital IQ adds a rated credit coverage metric to the ranking model. If the ETF invests a large percentage of assets in securities that receive no rating -- more likely in domestic high yield or emerging markets -- the ETF ranking will be negatively affected. In addition, we assess the weighted average effective duration of the securities in the portfolio compared to other fixed income funds, to measure the bond prices' responsiveness to changes in the prevailing interest rates. We also utilize a liquidity measure in which an ETF's average trading volume is divided by its market capitalization.

The three Cost Factor inputs for fixed income ETFs -- expense ratio (gross), price to NAV, and bid/ask spread -- are identical to what we utilize for equity ETFs, but with greater relative importance than the Cost Factors category in the equity ranking model.

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Wage Woes

What Stagnant Income Growth Means for the Economy and the Markets

December 23, 2013

Russ Koesterich
Managing Director, Global Chief Investment Strategist, BlackRock

Executive Summary

By most measures, the recovery that began in 2009 has been a disappointment. In particular, household spending, long the lifeblood of the U.S. economy, has never rebounded as expected. U.S. real personal consumption has grown annually at around 2% since the end of the recession, well below the long-term average of nearly 3.5%. Nor is there much evidence that this is improving. In the second quarter, real personal consumption grew at only a 1.8% rate.

But behind the weak spending is a troubling, longer term trend: stagnant income growth. After all, the persistent weakness in consumption is somewhat puzzling. Consumer debt is slowly normalizing, household wealth recently hit a nominal peak and the housing market is roaring back to life. What is still missing is real or inflation-adjusted income growth. While consumers can, and often do, spend more than they make, ultimately income drives consumption. Without faster income growth, it will be difficult for household spending, and hence the broader economy, to match its long-term growth rate.

This paper takes a look at sluggish income growth and what it means for both the economy and the markets. Unfortunately, there are a number of factors, not all of them cyclical, impeding income growth. The opening up of emerging markets and technological change are likely to continue to impact wage growth for years to come.

Although we believe income growth will accelerate as the job market improves, we don't see income growth returning to its long-term average anytime soon. In addition, the impact of these longer term trends is likely to continue to hit the middle of the income distribution the hardest. As a result, lower and middle income Americans are likely to see the slowest growth.

Modestly weaker income growth and spending, particularly for middle-class consumers, suggest that consumer spending is likely to continue to shrink relative to other sectors of the economy. It also implies that investors want to be cautious on any company dependent on middle-class consumption, particularly those with static market share.

Introduction

"Certainly there are things in life that money can't buy, but it's very funny—did you ever try buying them without money?" —Ogden Nash

Other countries like to shop, but the United States does consumption better than anyone. For most of the post-WWII period household consumption powered the economy. Spending rose faster in boom times and dipped in recessions, but the overall trend was always higher. Initially, rising consumption following WWII was fueled by rising incomes, but even during periods of stagnant income growth consumers usually found a way to spend.

During the 1990s and the first seven years of the 2000s, consumers were able to juice their consumption through borrowing. As a result, between 1992 and 2007 household debt rose from 80% to 130% of disposable income.[1] Fortunately or unfortunately, the financial crisis brought an end to the era of "liar loans," no money down and equity withdrawal from ever-rising real estate. Today, consumers have a limited ability to employ additional debt.

An even more popular method for supporting lifestyles has been to simply save less, an approach U.S. consumers have been adopting for most of the past 40 years. Despite predictions of a newfound frugality, the post-crisis surge in savings never materialized. Savings rates did spike briefly in the aftermath of the recession, but soon started heading lower (see Figure 1). U.S. households have not quite gone back to pre-crisis practices, but savings rates remain toward the bottom end of their multi-decade range (for those accustomed to seeing lower numbers, savings rates were revised upward this summer as part of the government's revisions to Gross Domestic Product). The bottom line is, while savings rates could theoretically dip a bit from today's already low levels, saving less is no longer a practical option for most households.

Out of Tricks

Without borrowing more or saving less, households need to rely on income growth to fuel more spending. While spending can diverge from income, often for prolonged periods, at some point you can't spend beyond what you make. The relationship between income and consumption is well supported by the data. Over the past 50 years, annualized changes in real personal income have explained roughly 50% of the variation in personal consumption (see Figure 2). In general, for every percentage point gain in real income growth, real consumption rises by roughly 0.70%. If spending is going to rise at a faster pace, it will need to be supported by faster income growth.

The challenge today is that income growth is well off its long-term trend. Annualized growth in real personal

Income averaged less than 1% during the first eight months of 2013. Not only is this below the 50-year average of 3.25%, it also compares poorly with the already anemic levels of the post-recession environment (see Figure 3). By any measure, once you adjust for inflation, most workers are witnessing little to no growth in income.

Many Years Without a Raise

Even more troubling is the fact that the income growth trend has been moving in the wrong direction for some time. There is no doubt that the recession put a major dent in the labor market, but it exacerbated a trend that was already well established. The harsh reality is that income growth has been on the decline since well before the first subprime mortgage ran into trouble (see Figure 4). For most households, real income peaked somewhere between 1998 and 2000. Once you adjust for inflation, the vast majority of U.S. households have been contending with stagnant or declining incomes for well over a decade. The metrics actually mask an even more troubling trend. For many families, aggregate income growth has been driven by the rise in the female participation rate—a trend that began in the early 1980s when women began entering the workforce in ever-increasing numbers, fueling household income growth throughout the 1980s and 1990s, but which seems to have peaked. If you examine per-capita income for working age men, the picture is actually much worse. Between 1973 and 2011, the median man working full time experienced roughly a 5% contraction in inflation-adjusted income, from $50,000 to $48,200. Put slightly differently, after adjusting for inflation the typical male worker has not had a raise in 40 years.

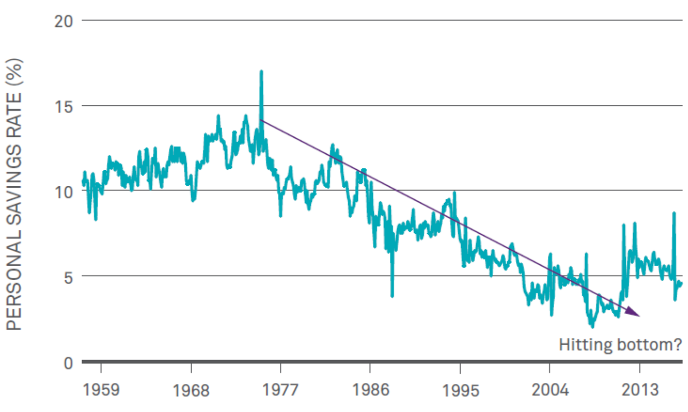
It's Not Just the Economy

Can income growth finally start to accelerate? In assessing the prospects for stronger income growth, it is important to distinguish between the short-term factors, most specifically the lingering weakness in the U.S. labor market, and the secular factors that have been hurting income growth since well before the recession began.

In separating the cyclical from the secular, we have found it useful to employ a multi-factor model, which accounts for both short- and long-term factors. Looking at the more short-term factors, we believe there are three to focus on: short-term labor market conditions (measured by initial jobless claims), near-term economic outlook (measured by the Chicago Fed National Activity Index, CFNAI), and political uncertainty (measured by the Economic Policy Uncertainty Index, EP UI). These factors should theoretically improve in 2014, and in the process hopefully alleviate some of the downward pressure on wages.

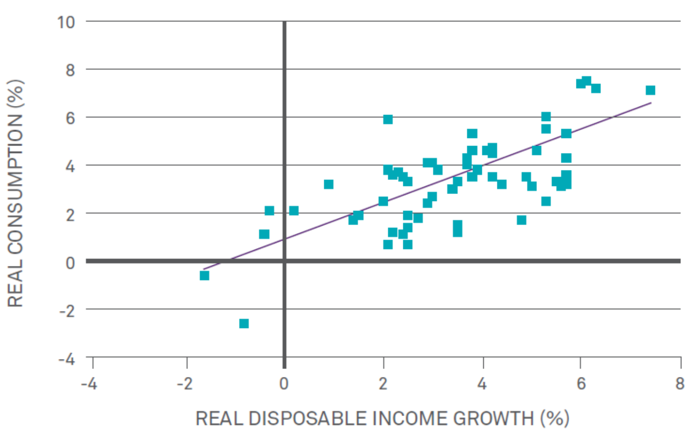
Of the three, jobless claims are, not surprisingly, the most important for income growth; as jobless claims drop, real income growth tends to rise (see Figure 5). In the past, the level of jobless claims explains roughly 25% of the variation in the pace of real income growth.

FIGURE 1: U.S. PERSONAL SAVINGS RATE (1959 TO PRESENT)



Source: Bloomberg 10/15/13.

FIGURE 2: U.S. INCOME VS. CONSUMPTION (1953 TO PRESENT)



Source: Bloomberg 10/15/13. Each dot represents a year.

Endnotes:
1. Source: Bloomberg

Click here for complete reading

Perspectives on the Philippines

January 14, 2014

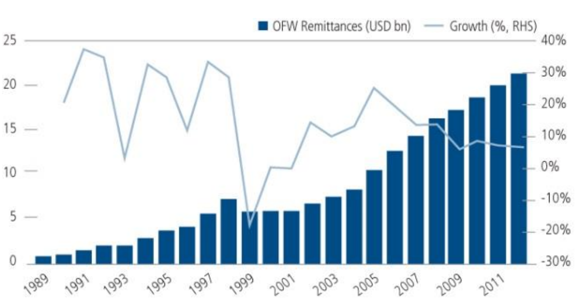
Authored by:
Nick Niziolek
*SVP, Co-Portfolio Manager,
Co-Head of Research
Calamos Investments*

Those familiar with Calamos know that our approach to emerging markets (EM)is active and focused on countries that are moving in a favorable direction in regard to economic freedoms. In my last post, I wrote about our team's constructive outlook on Mexico, where investor optimism about a broad package of reforms has helped drive an equity rally. Our longer-term outlook on the Philippines is also positive. Among the favorable trends, President Aquino has reduced corruption during the first four years of his term, which has benefited infrastructure improvement efforts by reducing funding leakage and fostering a more attractive investment environment. This is especially important for the Philippines as foreign direct investment is presently the lowest in the region.

The Philippines market finished 2013 with a positive return, but it was a volatile year as the index traded off nearly 20% as EMs sold off in May and June on taper concerns. After recovering more than half of these losses during the outset of the second half of 2013, the market experienced another downward leg following Typhoon Haiyan in early November. The humanitarian impact has been severe, and we expect food inflation likely to remain elevated for several quarters and GDP growth to be temporarily impaired.

However, we expect the economic impact to be short-lived. Also, many Philippine-listed equities tied more closely to Manila and Cebu, which escaped the brunt of the typhoon's impact. October remittances were reported at a record $2.06 billion, with the Central Bank expecting surging November and December remittances as friends and family providing support following the typhoon. This is positive for both consumption and recovery following this disaster. Moreover, demographics provide a tailwind to the country's economic growth prospects. With a well-educated population that includes many English speakers, the business process outsourcing industry in the Philippines has grown rapidly, and is now larger than that of India's.

Overseas Filipino Workers Send Record Amounts Home

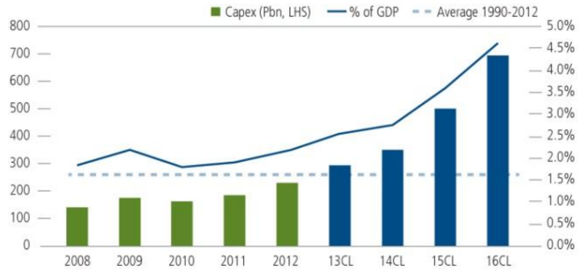


Source: CLSA, Philippine Market, December 30, 2013, Alfred Dy.

When we visited Manila in the third quarter of 2013, business leaders voiced consistent concerns about the need for infrastructure improvements to sustain the country's economic growth; among them, they felt that the momentum that President Aquino had realized early in his six-year term was waning. In recent weeks, we've seen developments that point to an increased commitment to infrastructure spending. In particular, there's been a ramp-up in public-private partnership (PPP) grant award activity. PPPs are business ventures between a public sector and private sector entity. PPPs represent one of the ways that a government can give a larger role to private businesses, to mutual benefit. In the case of the Philippines, the PPP projects in the pipeline run the gamut from building better roads and schools, modernizing of health care facilities and improving airports and power supply. These projects bring both short-term benefits (jobs) as well as longer-term ones (promoting education, commerce and longevity).

The Philippines government has set its sights on awarding 15 PPP projects before President Aquino's term ends in 2016, versus five awarded through 2013. From a dollar-perspective, these projects could amount to more than $4B in infrastructure investments, or four times the $1B already awarded. All these shovels in the ground could provide significant stimulus for the economy as well as provide the infrastructure necessary for sustainable growth.

Significant Ramp-up: Infrastructure as a % of GDP



Source: CLSA, Philippine Market, December 30, 2013, Alfred Dy.

We maintain our positive view on the Philippines relative to other EM opportunities, but acknowledge it is not without risks. While we are optimistic that we will see progress from PPP infrastructure projects in 2014, we will continue to closely monitor these developments as execution is critical. In particular, we are watching developments related to a water tariff issue, where the government has sought to change terms mid-stream. The positive news is that similar cases have held up in third-party arbitration.

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What To Watch In 2014

Themes and trends that could shape the markets

January 2014

If there's one lesson investors should probably take to heart from 2013, it's that predictions are easy to come by — but of limited value in today's fast-changing global marketplace.

Rather than add to the parade of predictions for 2014, Legg Mason's diverse family of investment managers discussed key issues and trends they see as potential difference-makers — as well as possible reactions of the markets.

ClearBridge Investments on U.S. Energy

The boom in U.S. energy production and transportation appears far from over. Even at this early stage, the U.S. is likely to become the world's largest petroleum energy producer this year. Opportunities in energy resource development could be available for investors who know where — and how — to find them. Among the potential benefits to the U.S.: helping the country's balance of payments (less oil imports) and driving growth across much of the energy sector; boosting employment in producing states; reducing CO2 emissions; increasing personal disposable income due to overall energy price stability; lowering input cost for chemical companies, metals companies, and manufacturing companies, making U.S. companies more competitive globally.

- **ClearBridge American Energy MLP Fund Inc. (CBA)** seeks total return by investing in a portfolio of energy master limited partnerships (MLPs) that may benefit from the growing production and usage of natural gas.

- **ClearBridge Energy MLP Total Return Fund Inc. (CTR)** offers a total-return oriented portfolio of energy master limited partnerships (MLPs) with a focus on MLPs that have had higher distribution growth rates.

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

Brandywine Global on Global Growth

For next year, Brandywine Global sees a modest acceleration in economic growth amid a landscape of continued global disinflationary pressures. One item to watch: central bank policies outside the U.S. eroding currency valuations, prompted by modest domestic growth.

Brandywine Global expects U.S. growth to gain the most traction of the G3 economies; as a result, a strong dollar may also weigh on foreign currency returns. And as more central banks succeed with weak currency policies, copycat policies may produce pockets of risk for global investors. We live in a beggar-thy-neighbor world with each exporter fighting for restrained global demand growth, so we are closely watching for interventionist central bank policies around the world next year.

We believe improved economic growth and the U.S. Fed's upcoming "taper" are already baked into the longer end of "safe-haven" sovereign markets like Bunds or U.S. Treasuries. We expect continued global disinflationary pressure, originating in China's gradual shift to a domestically driven economy. Brandywine believes that China can continue at 7% growth for the next decade while appropriately shifting the composition of growth away from new fixed-asset investment.

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

Western Asset on Rising Rates and Inflation

Looking into 2014, many investors are concerned that we will be entering a rising-rate environment. It is generally perceived that rising rates mean negative returns for fixed-income investors. However, certain types of bonds have fared better than others during periods of rising rates. One of the reasons is that bonds have a yield or carry that has often been enough to overcome the negative effects of rate shocks. Given this dynamic, Western Asset does not believe that rising rates should necessarily represent a deterrent to fixed-income investing and perceives a variety of opportunities within the present environment. These could include short duration[1], high-yield credit, structured product and other higher-yielding sectors.

Western also believes that inflation will be stable and low. If anything, the market has been more concerned about deflation[2] or lower inflation over the past six months. Across the developed world, it's hard for Western to see real fears of broad, widespread price increases on the intermediate-term horizon. The softness in commodity prices and continued tepid wage growth suggest that this low-inflation trend will continue.

- **Western Asset Inflation Management Fund Inc. (IMF)** provides a portfolio of inflation-protected securities and other instruments that the manager believes will help provide protection against inflation, while seeing total return, with current income as a secondary objective.

- **Western Asset Global Corporate Defined Opportunity Fund Inc. (GDO)** seeks current income and capital appreciation through investments in the global bond universe while maintaining an overall bias towards investment grade credit quality.[3]

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

For more information about the Legg Mason's family of closed-end funds, call or visit www.lmcef.com.

Please view endnotes and important information on the next page.

Endnotes:

[1] **Duration** is a measurement that signals how much the price of a bond is likely to fluctuate when there is a change in interest rates. The higher the duration number, the more sensitive a bond will be to interest rate changes.

[2] **Deflation** is a general decline in prices, often caused by a reduction in the supply of money or credit..

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

Important Information:

***Yields and Distributions are not guaranteed and are subject to change.* Past performance is not a guarantee of future results.**

All investments are subject to risks, including the possible loss of principal. Fixed-income investments are subject to credit risk, inflation risk and interest-rate risk. As interest rates rise, bond prices fall, reducing the value of a fund's share price. Lower-rated high-yield bonds, are subject to greater credit risk (risk of default) than higher-rated obligations. Equity securities are subject to price fluctuation. Investments in MLP securities are subject to unique risks. A Fund's concentration of investments in energy related MLPs subject it to the risks of MLPs and the energy sector, including the risks of declines in energy and commodity prices, decreases in energy demand, adverse weather conditions, natural or other disasters, changes in government regulation, and changes in tax laws. Real estate investment trusts (REITs) are closely linked to the performance of the real estate markets. REITs are subject to illiquidity, credit and interest-rate risks, and risks associated with small- and mid-cap investments. International investments involve risks, including the possibility of losses due to changes in currency exchange rates and negative developments in the political, economic, or regulatory structure of specific countries or regions. These risks are greater for emerging markets securities. Leverage may result in greater volatility of NAV and the market price of common shares, and increases a shareholder's risk of loss. Periods of deflation may adversely affect inflation-protected securities. Derivative instruments can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance.

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U .S. REITs: Real Estate at a Discount

January 2014

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The recent pull back in shares of real estate investment trusts (REITs) has created an attractive entry point, in our view, as many high-quality companies are now trading for less than the value of their underlying properties. We expect REITs' performance profile to improve in 2014, as the benefits of a strengthening economy should outweigh headwinds from higher Treasury yields.

REIT Underperformance Is an Opportunity for Investors

After a strong run, REITs lagged broader equity indices in 2013. Until their peak in May 2013, few asset classes had performed better in recent years than U.S. REITs.(1) But as Treasury yields bottomed and the Federal Reserve hinted at the possibility of reduced quantitative easing (QE), investors rushed to sell assets perceived as being sensitive to interest rates, including REITs. From May 22nd through year-end, REITs tumbled 14%, while the rest of the stock market continued on its way to record highs amid growing optimism about the economy. Even still, REITs managed to produce a fifth straight year of positive total returns in 2013, but their 2% gain versus 32% for the S&P 500 Index was the widest margin of underperformance in 15 years.

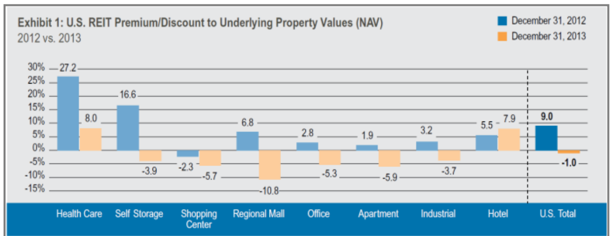
Valuations have improved dramatically from a year ago. REITs' share-price performance was a stark contrast to the strength of commercial real estate fundamentals and the sector's earnings growth. This divergence led to meaningful improvement in valuations, with many property sectors falling to sizeable discounts relative to the value of their real estate holdings, as measured by net asset value (NAV(2)), shown in Exhibit 1. In addition, REITs experienced contraction in price-to-earnings (P/E) multiples(3) at a time when the broader U.S. equity market saw massive P/E multiple expansion.

By pricing REITs at these levels, the market is assuming that rising Treasury yields will have a negative effect on property values, causing investors to demand higher returns for owning real estate. However, we believe the public market has underestimated the potential for cash flow growth to offset rising yields—a view that is more reflected in the private market, where property values have continued to rise.

For REITs, economic growth generally has a greater effect than rising Treasury yields. It may be counterintuitive given the market's recent reaction, but REITs have historically done well in periods of rising Treasury yields. This is because rising yields are often associated with an improving economy, which benefits REITs in the form of higher occupancy and rents and stronger investment demand for real estate. Since the beginning of the modern REIT era in the early 1990s, REITs had positive returns in six out of the eight periods in which Treasury yields experienced a sustained upward trend (Exhibit 2).

We expect REITs' return profile to improve in 2014. Given the recent clarity around QE tapering and the accommodative guidelines for future rate hikes, we believe higher Treasury yields are now largely priced into current valuations. Any further interest-rate headwinds are likely to be countered by improving real estate fundamentals, in our view, with returns varying widely across the REIT market—as they did in 2013—depending on a company's value relative to its pricing power and growth opportunities.

Exhibit 1: U.S. REIT Premium/Discount to Underlying Property Values (NAV)
2012 vs. 2013



At December 31, 2013. Source: Cohen & Steers estimates.
Performance data quoted represents past performance. Past performance is no guarantee of future results. The information presented above does not reflect the performance of any fund or other account managed or serviced by Cohen & Steers, and there is no guarantee that investors will experience the type of performance reflected above. There is no guarantee that any historical trend illustrated above will be repeated in the future, and there is no way to predict precisely when such a trend might begin. The views and opinions are as of the date of publication and are subject to change without notice.
Based on 132 U.S securities in the Cohen & Steers global coverage universe of 388 companies. Investment universe was selected using proprietary qualitative and quantitative metrics and includes stocks of all market capitalizations across all property types.

(1) U.S. REITs are represented by the FTSE NAREIT Equity REIT Index. An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes See page 4 for index definitions.
(2) NAV seeks to calculate the net market value of all of a company's assets after subtracting liabilities.
(3) REIT earnings multiples are measured by a ratio of price to funds from operations (FFO). FFO is the commonly used measure for REIT operating performance, measuring GAAP net income less gains from asset sales plus real estate depreciation/amortization.

Exhibit 2: REITs Can Perform Well in Rising-Yield Environments

At December 31, 2013. Source: Bloomberg and FTSE NAREIT.
Performance data quoted represents past performance. Past performance is no guarantee of future results. The information presented above does not reflect the performance of any fund or other account managed or serviced by Cohen & Steers, and there is no guarantee that investors will experience the type of performance reflected above. There is no guarantee that any historical trend illustrated above will be repeated in the future, and there is no way to predict precisely when such a trend might begin. The views and opinions are as of the date of publication and are subject to change without notice. An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes.
(a) 10-Year Treasury Note is a debt obligation issued by the United States Government that matures in 10 years.
(b) Periods included are based on a sustained period of rising 10-year Treasury yields of 50 basis points or more for a period of one year or greater. Periods included are: 9/30/93–11/30/94; 12/31/95–3/31/97; 9/30/98–1/31/00; 2/28/01–3/31/02; 5/31/03–5/31/04; 6/30/05–6/30/06; 12/31/08–12/31/09; 7/31/12–12/31/13.
(c) U.S. REIT returns are represented by the FTSE NAREIT Equity REIT Index is an unmanaged, market-capitalization-weighted index of all publicly traded U.S. REITs that invest predominantly in the equity ownership of real estate, not including timber and infrastructure.

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2014 Outlook: Closed-End Fund Leverage

Wednesday, January 8, 2014 | 11:00 AM ET

Ian Rasmussen - Thank you very much, Nicolas for the introduction. It's always nice to be participating with you in these webinars. We'd like to welcome everybody for joining us and thank you for your time. I'm sure many of you are dialing in from very cold places today, so hopefully you're warm. And for those of you that are dialing in from more warmer climates, we envy you.

Yuriy and I are members of the Fund & Asset Management Ratings Team at Fitch Ratings, and we spend a lot of time collecting information on the closed-end fund market. And so it's always nice to be able to be in these webinars with Capital Link and to be able to talk about some of our findings today. What we wanted to do is to talk about just give an update to closed-end fund leverage trends for 2013, and highlight the more specific trends that we think are valuable as we go into 2014 and what we think will continue this year.

For closed-end funds, generally speaking, 2013 was really a story of two distinct halves of the year. So if you look in terms of performance, if you look at January to the end of May, performance for fund NAVs was generally increasing. There were some sectors that were flat. But this definitely changed in June when the feds comments about tapering quantitative easing happened and then markets, particularly the fixed income markets, changed pretty drastically and quickly.

From June to mid-October, most closed-end funds experienced NAV declines and for some sectors such as municipal bonds and longer dated corporate bond funds, the declines were more pronounced. This also had impacts to the funds, common share prices with common share prices generally falling even more than NAVs which caused discounts to widen.

You can also see the story kind of unfold in the IPOs for closed-end funds during 2013. What we saw was during the first part of the year, about 80% of the number of IPOs took place in the first half of 2013 and the amount of raises during those IPOs, during the first half it was 88%, so even more significant. The second half of the year, there weren't that many IPOs. And so these events did do have an impact on leverage for closed-end funds, and that's what we want to spend our time talking about today, those impacts.

The first that I think we will point out is compared to NAV performance, fund managers generally try to maintain nominal amounts of leverage and this caused leverage ratios to go up, or another way to think of it is because the value of the assets went down, the percentage of the portfolio assets that were purchased through leverage has went up. So that's an important development.

Two, taxable funds have seen more of a reliance on preferred stock with debt borrowings declining somewhat from their highest during the year. This may be due to the fact that the 1940 Act says a higher threshold for a 50% max leverage for preferred stock but limits leverage for debt securities at 33%. It may also be because borrowing is a bit more flexible and easier to decline when NAVs are going down.

The third point are the taxable closed-end funds seem to be more open to issuing term securities throughout the year, much of taxable closed-end fund leverage continues to be short term, requiring the manager to roll the leverage every year. However, with expectations for higher interest rates, some managers are now terming out a portion of

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their leverage to lock-in costs and also to diversify their sources of funding. And we'll be watching in 2014 to see if the pace of these activities picks up or at least remain constant to what we saw in 2013.

And then the last thing that we wanted to mention is regulation. Particularly at the end of the year, we saw the guidance on how the Volcker will be implemented which could have a big impact on tender option bonds which are a major source of financing for municipal bond closed-end funds.

So if you want to turn to -- first of all, maybe just to turn to slide one, I want to just show that we have recently issued a report, the 2014 rating outlook piece. And if you would like to receive our report on an ongoing basis, we have links here. You can go to this link and put your information in it and you'll be receiving our reports as they come out. So if you're interested, please do that.

If you would now turn to slide three, you can see the current universe of Fitch's ratings. At the end of 2013, Fitch assigned ratings to 27.2 billion of closed-end fund notes and preferred stock, and this range is from liquidity back preferred stock that's issued by municipal bond funds to privately placed notes and preferred stock that are issued by MLP funds and others. You can see from this slide that most of the ratings that we currently have outstanding are in the triple A category. The preferred stock number is driven largely by municipal closed-end funds with the rest in the single A or the double A and single A categories.

In December, as I mentioned, we published the 2004 Outlook Report for the securities, and despite the challenges that we saw during the second half of 2013, we continue to have a stable outlook for the ratings of these instruments which shows that we continue to believe that the securities will have high levels of credit quality and that this high quality will be supported throughout 2014 and some of the things that we expect to happen.

So maybe as a first question, Yuriy, what are the main drivers that we think about when we're evaluating the stability of the ratings assigned to closed-end fund preferred stock in debt throughout 2014?

Yuriy Layvand: Sure, sure. So when you look at slide three, you see ratings distributed across predominantly the triple A range, some on the double A and some on the single A. And the high rating really reflects the high amount of asset coverage available to the notes preferred stock that we rate. We also are looking at the covenanted provisions in the documents that that sets max leverage limits and also mandate portfolio geo risking and also geo leveraging. It has the coverage of your clients.

So this is something that we'll monitor on an ongoing basis and the $27 billion of securities that you mention, they all have these provisions and we'll look at them when assigning the ratings across the spectrum.

Ian: One of the things you mentioned that we’re trying to maintain are the leverage ratios or in our criteria we talk in terms of asset coverage, the levels of assets compared to the outstanding leverage that the closed-end funds have issued.

Yuriy: That's right.

Ian: That's an important metric that we monitor on a go-forward basis.

Yuriy: That's right.

Ian: Could you talk a little bit about where the closed-end funds are now in relation to that? How much leverage do they have?

Yuriy: Sure, sure. So if everybody can turn to slide four, we built this chart to kind of illustrate where closed-end funds are, how they're coming in to the 2014 with varying degrees of leverage. Taxable funds on average had about 27% effective leverage ratio and municipal funds had 39%. And this already reflects some stabilization after the interest rates stress we've seen at the third quarter of 2013. Actually, when we did a webcast with Capital Link back in September, we've seen leverage ratios as high as mid-40s for some municipal funds. So they have come down considerably.

Ian: And another thing that this chart shows is that bars show a pretty significant distribution in the leverage ratios. So the averages have come down but there's still a very wide distribution. Why is that?

Yuriy: Yeah. Actually, it’s so wide. I mean for taxable funds, they range all the way down from 10% effective leverage ratios to 66%, and municipal funds range a little now from 14% to 54%. And the reason for such a degree of variation is that it really depends on the funds and investment guidelines. It depends on the recent NAV performance and that asset class and where that kind of left the leverage ratios to. And of course, the portfolio manager outlook, did they expect the asset class to appreciate it in 2014 or not and then they will kind of set the leverage ratios accordingly.

So from a picture's perspective, we're not saying higher is better or lower is better, but what we have observed is that active management of leverage can be meaningful. For example, in June of 2013, when we've seen kind of an interest rate stress that affected bond managers, some deleveraged early and that helped them avoid NAV declines. And then afterwards in September, they kind of re-leveraged and found opportunities to kind of buy mispriced assets.

Also, as you see on the slide, we tried to put like little text boxes describing certain leverage limits. So SEC in the 1940 Act restricts certain senior forms of leverage to 32% of total assets and then a total leverage that includes preferred stock to 50% of total assets.

Ian: And I guess if a fund breaches these levels, there's a cure for it but then the fund can't pay common dividends. That's one of the outcomes if you breach those levels, right?

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Closed-End Funds Industry Roundtable

Tuesday, January 14, 2014 | 11:00 AM ET

Mariana Bush - Thank you very much, good morning to everyone; thanks Nicholas for scheduling and organising this call. We have a vast knowledge in the panellists today. We're going to discuss closed end funds. We have prepared a few discussion topics that we think will interest you as users of closed end funds and after that we'll open it up for Q&A. We're going to start with Mike Taggart at Nuveen. Mike, can you tell us the recent trends that we've been seeing in valuation of closed end funds, the premiums, the discounts? What have you been seeing lately there?

Mike Taggart - Hi everybody thanks Mariana and thanks Nicholas. I think, as anybody who is familiar with closed end funds knows, the end of most years we get the tax [loss] selling. 2013 was a bit interesting in terms of how the discount played out throughout the year. At 1st January 2013 the average discount across all closed end funds was 2.8%. That went on to get a bit wider thanks to the Feds taper talk at the end of May, so by the end of May the average was 4.5%. We added some tax [loss] selling and by the end of November we reached the widest point for the end of month discount, which was 8.5%. It continued to trail wider, though, for the first couple of weeks of December as it typically does. People talk about the January effect and the fact is that the January effect starts to actually happen right before Christmas. It actually happens about mid-December. By the middle of December, we were at the lowest average discount since the end of March of 2009.

The real story here, though, was not with all closed end funds in general. For instance, if you look at just the taxable credit in the preferred share closed end funds, their discount averages weren't anything too spectacular. We see these average discounts get down to the levels that they got down to again in November, beginning of December every about three to five years according to the charts that I look at. The same with equities; equities pretty much held in there fairly nicely ending the year at about an average of 7.5% discount. The real story was the municipal bonds. The municipal bonds hit an average low of about 10% discount in the second week of December and with the exception of December 2008 they hadn't seen an average discount that wide since 1995. Again it was due to not only the taper talk back in May but then investors and our concerns about higher interest rates, what does that do to not only the duration effects within the portfolios but also what would that do to distribution rates and then of course you had the muni headline risk.

The thing that I find interesting about the blow out in municipal closed end fund discounts was that, aside from the few headlines of Detroit and Puerto Rico and a couple of other places, the actual overall health of municipals throughout the country has been improving tremendously. In the first couple of weeks of January we've seen a continuation of what happened in the last couple of weeks of December and discounts have started to narrow back in. When I look out there and look at averages and look at funds and where they are compared to where they typically are for each fund, I still see a lot of opportunities, especially in municipal closed end funds. I think that's my update.

Mariana Bush - Thank you very much Mike. What I would like now is John Diorio at BlackRock was talking about perhaps some misunderstandings between the price change of a closed end fund and the total return of a closed end fund. John, do you want to tell us about that and what investors should know about closed end funds regarding that difference?

Participants

Moderator:

Mariana Bush, CFA
Senior Analyst
Wells Fargo Advisors

Panelists:

Robert F. Bush, Jr.
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Michael Taggart
VP, Director of Closed-End Fund Research
Nuveen Investments

John Diorio - Mariana, thank you; we get asked a lot of questions here at BlackRock just as it relates to the performance of the funds and what some people will find is that closed end funds when they see them on their financial statements there is a chance that they may only show price performance. What I mean by that is they fail to account for distributions that are received by you as an investor. When a closed end fund pays a dividend it's very important to remember that the amount of that distribution is deducted from the fund's net asset value and obviously it results in the net asset value going down. If you're looking for that happening you'll see for funds that pay you monthly or quarterly the distribution is usually taken out on the actual dividend day. That's the day it trades without the dividend obviously.

One of the misperceptions that we've been seeing on closed end funds is people often look at them just based upon what their IPO price was. A lot of closed end funds IPO at $15, $20 or $25 and say okay I bought this at $15, it's at $10 now, I've obviously lost money and that's not only the case. Mariana, maybe I'll use one of our BlackRock funds to illustrate it. An example here of what I'm trying to show is we can use our BlackRock High Yield Fund. The ticker symbol for that one is HYT. That fund was incepted back in May of 2003 and pays a monthly distribution; that fund in 2003 came out at $15 a share. It's been trading around $12 or $12.17 to be exact. If you look at it, on the surface it looks like your investment in HYT is down about 18-19% going from 15 to around 12. However, as I point out here, a lot of investors forget to realise that you've received monthly distributions and so if you look at the monthly distribution, the monthly distribution has been pretty significant in this fund.

If you annualise the yield it paid a yield of about 7.9% on an annualised basis or a distribution amount of about 8 cents per month. What that results in, in a cumulative effect, is investors have actually received about $13.60 in cumulative distribution. Now you take that $12 price and you add back $13 to it and the fund is actually worth about $25 in cumulative. Instead of being down 18%, which you may see on your statement, you're actually up about 150% cumulatively. That's just something that we're making sure investors understand, that don't just remember what your IPO price is, don't just look at price performance. For investors that don't own closed end funds on the line right now, this is really an opportunity. I think one of the reasons, as Mike laid out, that you do see a lot of funds sometimes trading at discounts because there are these misperceptions in the marketplace around how some of these funds have performed and trade. With that I'll end the comments there Mariana and turn it back over to you.

Mariana Bush - Great thank you very much; that is a very important explanation. I think a lot of investors still think of closed end funds or see them as if they were buying a stock at x and they're trying to sell the same stock at y and that's not the right approach with closed end funds so thank you very much for explaining that. Next we're going to ask Bob Bush at Calamos to tell us about the different sources of distributions. John talked about how important it is to not forget about the distribution when calculating performance or total return of a closed end fund, so let's dig a little bit deeper into distributions. Bob, can you tell us a little bit about different types of sources of distributions and how some hybrid funds, and Calamos has some hybrid funds, how they adapt to changing markets and we'd love for you to also talk a bit about return of capital. It's something that still confuses a lot of investors.

Robert Bush - Sure Mariana, absolutely; we get a lot of questions on that. John makes an excellent point. Closed end funds are yield oriented. They're managed very differently than open end funds are in that there is a yield associated with them and oftentimes how those funds trade is in the context of what their yields are and not only on an absolute basis but on a comparative basis to what the asset class they're in and the comparison in general. That said, there are funds out there which have the flexibility to do many things and be in equities or fixed income depending on where the portfolio manager and maybe the macro economic thinking of the asset manager is at that particular point in time. Just for example, to use our funds, we have quite a bit of convertible exposure in our funds and just based upon our nature we like convertibles as an asset class. Our funds over the course of the last year, in particular our domestic income funds, CHI and CHY, as we took a position at the beginning of the year that we're going to be cautiously optimistic on the equity market, we increased our exposure in those funds with respect to both equity and convertibles almost in some cases doubling them, over the course of the year. As a consequence, the dynamic of those funds changed; you become more equity sensitive and less income sensitive so you're not necessarily getting the same type of income that you may have before you made that switch.

However, if you look at the general markets and how they've performed, the high yield market - and again many of these funds we moved from high yield into equities and convertibles - the high yield market in 2013 really only performed at about 7%, whereas the S&P was up 32%, the convertible market was up 25%. Even though these funds may not have generated as much income as they did last year, the performance from an NAV perspective outperformed and that was actually to the benefit of the shareholders. At the end of the day what that often does is it changes the make up of the fund and what the components are for the income. At that point in time to make the distributions oftentimes the portfolio manager will have to make the decision as to whether they're going to take the gains, which is a tax event and it's a processing event and it does cost the fund money to do something like that, or to pay it out of capital. Oftentimes if the portfolio manager and the portfolio team feel that the positions that they have are good positions and they don't necessarily want to take gains because it isn't in the best interests of the fund or the shareholders, they will pay out a return of capital. You can't always assume that a return of capital is detrimental to the fund or is a derogatory comment or assessment on the way the fund is being managed. It really is a choice of the portfolio manager with respect to what again is in the best interests of the fund.

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