Capital Link's
CEF & ETF Monthly Newsletter

July 2014
Volume 2 | Issue 6

Table of Contents

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

Please join us for our complimentary webinar

Capturing High Yields with Prospect Capital

Register Now

Submit your CFP/CIMA number at registration

Webcast: Thursday | July 24, 2014 | 11:00 am – 12:00 pm ET
(Discussion, followed by a Q&A Session)

***This webinar has been submitted to the CFP Board & IMCA for 1.00 CFP/CIMA/CPWA Credit**

Grier Eliasek

PROSPECT CAPITAL

Overview

In today's uncertain market conditions, investors have a growing appetite for yield generating strategies. Business Development Companies ("BDCs") are among the fastest growing and highest yielding sectors.

Prospect Capital Corporation (NASDAQ: PSEC) is a leading provider of flexible private debt and equity capital to sponsor-owned and non-sponsor-owned middle market companies in the United States and Canada. PSEC is a publicly-traded closed-end investment company that has elected to be regulated as a BDC under the Investment Company Act of 1940, as amended.

PSEC is one of the largest BDCs with market capitalization of $3.6 billion and is also among the most liquid with an average daily trade volume of 6.2 million shares over the last 90 days. It invests primarily in first-lien and second-lien senior loans and mezzanine debt in a wide variety of industries. PSEC is the first BDC to achieve an investment grade rating of BBB+/BBB post credit dislocation. The Company has a current dividend yield of over 12%.

Join Mr. Grier Eliasek, the President & Chief Operating Officer of Prospect Capital, as he discusses why the BDC structure is conducive to yield generation and analyzes the Company's history of innovation, strategy, competitive advantages and differentiating factors from its peer group.

Featured Speaker

- **Grier Eliasek,** *President and Chief Operating Officer,* Prospect Capital Corporation

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NOTE: This webinar will be made available for replay after the live broadcast.

***Participants can submit questions prior to or during the event through the special feature on the event page or by emailing Capital Link at questions@capitallink.com.**

Presenter: PROSPECT CAPITAL

UPCOMING CEFs & ETFs WEBINARS

Register at: www.capitallinkwebinars.com

JUL. 30
- Wednesday, July 30, 2014 - World Gold Council

WORLD GOLD COUNCIL

AUG. 5
- Tuesday, August 5, 2014 - Cohen & Steers

COHEN & STEERS

SEP. 23
- Tuesday, September 23, 2014 - RevenueShares

RevenueShares™ REVENUE WEIGHTED INDEXES

SEP. 30
- Tuesday, September 30, 2014 – Fitch Ratings

FitchRatings

The Month in Closed-End Funds: June 2014

PERFORMANCE

Investors kept a wary eye on the escalating violence in Iraq over the last half of the month, but they continued to cheer relatively strong economic reports and pushed the broad U.S. indices to new record highs. For the fifth consecutive month equity and fixed income CEFs posted plus-side NAV-based returns (+2.64% and +0.39%, respectively) and market-based returns (+2.40% and +0.52%, respectively). And while there was a late-month flight to safety that pushed the prices of Treasuries, gold, and oil higher, for the year-to-date period CEFs added 9.30% and 9.33%, respectively, to their NAV-based returns.

The recent sectarian violence in Iraq set investors back on their heels and sent prices of both oil and gold higher as President Obama ordered 300 members of the U.S. special-operations forces to the country. Investors became concerned that persistently rising oil prices would impact economic growth; the U.S. oil benchmark rose to a nine-month high in June. However, shrugging off rising commodity prices in June, investors bid both the S&P 500 (+1.91%, its fifth consecutive month of gains) and Dow Jones Industrial Average (+0.65%) to record highs toward month-end.

Despite geopolitical concerns between Russia and Ukraine, market pundits' calling for a near-term correction, and the Federal Reserve's continued taper countdown, a solid May jobs report (the U.S. economy added some 217,000 jobs, outpacing the analyst-forecasted 210,000) and interest rate cuts by the European Central Bank (ECB) at the beginning of June rallied the U.S. market to new highs and sent the Stoxx Europe 600 to its highest level in six years. Increased M&A news, a good May industrial production-and-capacity-utilization report, a booming new-home-sales report, and better-than-expected China retail sales kept investors in the game despite the rise in oil prices. Toward June month-end dovish comments by the Fed helped catapult the S&P 500 to its twenty-second record close for the year and the NASDAQ to its strongest finish in 14 years.

Despite the late flight to safety, Treasury yields remained relatively flat. In the middle of the month Treasury yields rose on inflationary concerns after May industrial production rose 0.6% and capacity utilization increased to 79.1%. Stoking concerns, however, were comments by Bank of England Governor Mark Carney that a rate hike in the U.K. could come sooner than expected. Treasury yields rose at all maturities greater than three months, with the three- and five-year yields rising the most—up 9 bps and 8 bps, respectively, to 0.88% and 1.62% at month-end.

The dollar declined in June against the euro (-0.35%), the pound (-1.98%), and the yen (-0.49%). In a flight to safety in response to the growing turmoil in Iraq and on anticipation of increased energy demand with the coming summer-driving season, commodities prices skyrocketed; near-month gold prices rose 6.08% to close June at $1,321.80/ounce and crude oil prices jumped 2.59% to close the month at $105.37/barrel.

For June 83% of all CEFs posted NAV-basis returns in the black, with 95% of equity CEFs and 76% of fixed income CEFs chalking up returns in the plus column. Despite ECB President Mario Draghi's spearheading a cut in interest rates and turning the deposit rate for banks negative to encourage economic growth and boost inflation and China's retail sales data beating

The Month in Closed-End Funds: June 2014

- For June only 12% of all closed-end funds (CEFs) traded at a premium to their net asset value (NAV), with 10% of equity funds and 13% of fixed income funds trading in premium territory. Lipper's world income CEFs macro-group witnessed the largest narrowing of discounts for the month—24 basis points (bps) to 8.64%.
- For the fifth consecutive month equity and fixed income CEFs posted plus-side returns, with equity CEFs returning 2.64% on a NAV basis and their fixed income counterparts returning 0.39% for the month.
- Breaking a five-month trend where all of Lipper's municipal bond CEF classifications posted returns in the black, four of the nine classifications in this group suffered NAV-based losses for June, with New Jersey Municipal Debt CEFs (-0.23%) experiencing the largest decline.
- World income CEFs (+0.88%) narrowly outpaced the domestic taxable fixed income CEFs group (+0.82%) and handily outperformed their municipal debt CEF counterparts (+0.01%) for the month.
- Energy-related securities drove domestic equity CEFs (+3.21%) to the head of the class during the month.

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forecasts, CEF investors appeared to prefer domestic equity CEFs in June. They pushed the domestic equity CEFs macro-group (+3.21%) to the top of the leaders' board for the second month in three; it was followed by its world equity (+1.99%) and mixed-asset (+1.65%) CEF cohorts.

While geopolitical concerns remained on investors' minds, rising commodity prices catapulted Lipper's Energy MLP CEFs classification to the top of the charts for June (+5.81%), followed closely by Natural Resources CEFs (+5.40%) and Sector Equity CEFs (+4.25%). All of Lipper's equity CEF classifications witnessed plus-side performance for June. As investors turned their attention to more growth-oriented sectors, income-related and value-oriented issues lagged, with Real Estate CEFs (+1.37%) and Options Arbitrage/Options Strategies CEFs (+1.48%) witnessing the lowest returns of the group. For the remaining equity classifications returns ranged from 1.56% (Income & Preferred Stock CEFs) to 3.85% (Utility CEFs).

Four of the five top-performing individual equity CEFs were commodity related. However, at the top of the list was **Engex, Inc. (OTC: EXGI**, housed in Lipper's Core CEFs classification**)**, gaining 29.25% on a NAV basis. EXGI did not trade on June 30 and as a result did not register a premium or discount. Following EXGI were **ASA Gold & Precious Metals Limited (NYSE: ASA**, May's laggard, housed in Lipper's Sector Equity CEFs classification), rising 14.98% on a NAV basis and traded at a 7.80% discount at month-end; **Tortoise Pipeline & Energy Fund, Inc. (NYSE: TTP**, warehoused in Lipper's Natural Resources CEFs classification**)**, posting a 10.51% return and traded at an 11.38% discount on June 30; **Cohen & Steers MLP Income and Energy Opportunity Fund, Inc. (NYSE: MIE**, housed in Lipper's Energy MLP CEFs classification**)**, posting an 8.66% return and traded at an 8.95% discount on June 30; and **Neuberger Berman MLP Income Fund Inc. (NYSE: NML**, also housed in Lipper's Energy MLP CEFs classification**)**, chalking up an 8.32% return and traded at an 11.52% discount at month-end.

For the month the dispersion of performance in individual equity CEFs—ranging from minus 2.42% to positive 29.25%—was wider than May's spread and more positively skewed. The 20 top-performing equity CEFs posted returns at or above 5.70%, while the 20 lagging CEFs were below 0.47%.

For the month **RENN Global Entrepreneurs Fund, Inc. (AMEX: RCG)**, housed in Lipper's Global CEFs classification, was at the bottom of the equity CEFs group, shedding 2.42% of its May month-end value and traded at a 39.26% discount at month-end. **New Ireland Fund, Inc. (NYSE: IRL**, warehoused in Lipper's Developed Markets CEFs classification**)** was the next poorest performing equity fund, declining 2.31% and traded at a 13.07% discount at month-end. For June only 12 equity CEFs suffered negative returns.

In the middle of the month Fed Chair Janet Yellen reiterated the Fed's dovish stance, indicating the federal funds rate is likely to remain in its current range until mid- 2015. Despite their initial concerns with inflation and then their flight to

CLOSED-END FUNDS LAB

TABLE 1 CURRENT-MONTH PERFORMANCE, P&D, P&D SHIFTS (% OF UNIVERSE)

	NAV RETURNS	PREMIUM/DISCOUNT		NOW TRADING AT	
	POSITIVE	BETTER	WORSE	PREMIUM	DISCOUNT
Equity Funds	95	40	56	10	89
Bond Funds	76	51	46	13	87
ALL CEFs	**83**	**47**	**50**	**12**	**88**

TABLE 2 AVERAGE NAV RETURNS, SELECTED PERIODS (%)

	JUNE	YTD	3-MONTH	CALENDAR-2013
Equity Funds	2.64	9.30	6.11	16.03
Bond Funds	0.39	9.33	3.93	-1.74
ALL CEFs	**1.29**	**9.32**	**4.80**	**5.17**

TABLE 3 NUMBER OF IPOs, SELECTED 12-MONTH PERIODS

	JUNE 2014	CALENDAR-2013
ALL CEFs	**16**	**28**

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

3 MONTHS THROUGH 5/31/2014	377
COMPARABLE YEAR-EARLIER 3 MONTHS	685
CALENDAR 2013 AVERAGE	564

Source: Lipper, a Thomson Reuters company safety, investors continued their search for yield, keeping the world bond CEFs (+0.88%) macro-group at the head of the fixed income universe and nudging the domestic bond CEFs group (+0.82%) to the runner-up position. Municipal bond CEFs (+0.01%) were the laggards of the group, with four of the nine classifications suffering losses for the month (shattering a five-month trend of plus-side performance for all the classifications in the macro-group).

High Yield Municipal Debt CEFs (+0.08%) and California Municipal Debt CEFs (+0.07%) realized the largest returns of the group, while New Jersey Municipal Debt CEFs (-0.23%) and Pennsylvania Municipal Debt CEFs (-0.03%) suffered the largest losses of the group. National municipal debt CEFs (+0.02%) marginally outpaced their single-state municipal debt CEF counterparts (-0.01%).

Despite continued uncertainty in the world markets, both of the classifications making up Lipper's World Income CEFs macro-classification (+0.88%) posted plus-side returns for June; Global Income CEFs (+0.94%) outpaced Emerging Markets Debt CEFs (+0.77%). Despite some flight to safety, investors remained hungry for yield, and High Yield CEFs (Leveraged) (+1.17%) jumped to the head of the domestic taxable fixed income macro-group and the fixed income universe as a whole, while Corporate Debt BBB-Rated CEFs (+0.43%) was the relative domestic taxable fixed income laggard. Despite the market optimism at the beginning of the month, continued geopolitical uncertainty kept investors at bay. The two-/ten-year Treasury spread narrowed 5 bps from May's month-end 2.11%. However, the yield on the ten-year Treasury note finished June 5 bps higher at 2.53%, after rising as high as 2.66% on June 17.

In the domestic taxable fixed income CEFs universe (+0.82%) the remaining classification returns ranged from 0.52% (Corporate Debt BBB-Rated [Leveraged] CEFs) to 0.94% (High Yield CEFs). None of the classifications in the taxable fixed income CEFs universe suffered negative returns for June.

Two of the five top-performing individual CEFs in the fixed income universe were housed in Lipper's High Yield (Leveraged) CEFs macro-classification. At the top of the leader board were **NexPoint Credit Strategies Fund (NYSE: NHF**, housed in Lipper's High Yield CEFs [Leveraged] classification and May's leader**)**, returning 5.39% and traded at an 11.51% discount on June 30, and **Franklin Universal Trust (NYSE: FT**, also housed in Lipper's High Yield CEFs [Leveraged] classification**)**, tacking 2.52% onto its May month-end value and traded at an 11.23% discount at June month-end. **Aberdeen Global Income Fund, Inc. (NYSE: FCO**, housed in Lipper's Global Income CEFs classification**)**, posting a 1.97% return and traded at a 3.39% discount at month-end, rose to the number-three spot of the group.

For the remaining funds in the fixed income CEFs universe monthly NAV-basis performance ranged from minus 1.26% (**Dreyfus Municipal Bond Infrastructure Fund, Inc. [NYSE: DMB]**, housed in Lipper's General & Insured Municipal Debt CEFs [Leveraged] classification and traded at a 9.55% discount on June 30), to 1.77% for **KKR Income Opportunities Fund (NYSE: KIO)**, housed in Lipper's General Bond CEFs classification and traded at a 5.99% discount at month-end. The 20 top-performing fixed income CEFs posted returns at or above 1.17%, while the 20 lagging funds were at or below minus 0.23%. Eighty-five fixed income CEFs suffered downside performance for June.

PREMIUM AND DISCOUNT BEHAVIOR

For June the median discount of all CEFs widened 29 bps to 7.75%—slightly better than the 12-month moving average discount (7.98%). Equity CEFs' median discount widened 57 bps to 8.90%, while fixed income CEFs' median discount widened just 8 bps to 7.20%. Municipal bond CEFs' median discount widened 28 bps to 7.24%. The world income CEFs macro-group witnessed the largest narrowing of discounts in the CEF universe—24 bps to 8.64%.

For the month 47% of all funds' discounts or premiums improved, while 50% worsened. In particular, 40% of equity funds and 51% of fixed income funds saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on June 30 (68) was one more than on May 30.

CEF EVENTS AND CORPORATE ACTIONS

IPOs

Duff & Phelps Select Energy MLP Fund (NYSE: DSE) raised $485 million in its initial public offering. If underwriters fully exercise their overallotment options, the fund could raise up to $555 million in gross proceeds.

RIGHTS, REPURCHASES, TENDER OFFERS

The Central Europe, Russia, and Turkey Fund (NYSE: CEE), **The European Equity Fund (NYSE: EEA)**, and T**he New Germany Fund (NYSE: GF)** announced the results of their 12-week measurement periods that expired June 27, 2014. At the conclusion of the measurement periods common shares of CEE had traded at an average discount of 10.15%, EEA shares had traded at an average discount of 10.00%, and GF shares had traded at an average discount of 9.98%. Because CEE's shares traded at an average discount of more than 10%, only CEE will conduct its tender offer—for up to 5% of its outstanding shares at 98% of NAV; EEA and GF will not conduct tender offers. By the end of June CEE's discount had narrowed slightly to 9.6%.

Shareholders of Gabelli Healthcare & Wellness(Rx) Trust (NYSE: GRX) have until July 8 to participate in the fund's one-for-three rights offering. Three rights plus $9.00 are required to purchase one additional common share; rights acquired in the secondary market will not count toward an oversubscription privilege. Shareholders of **Gabelli Multimedia Trust (NYSE: GGT)** have a similar offer available until July 18.

H&Q Life Sciences Investors (NYSE: HQL) completed its one-for-three nontransferable rights offering. The subscription price for each newly issued share was $19.75 (95% of the volume-weighted average price). Preliminary results indicated the fund received total subscriptions of approximately $70.2 million (including oversubscription requests). The fund's discount widened a few percentage points to end June at 6.8%.

Directors of **AllianceBernstein Income Fund (NYSE: ACG)** authorized the fund's discretionary repurchase of up to 15% of its outstanding common shares in open market transactions over a one-year period. The fund's discount held steady in June to end at 10.9%.

Directors of **Kayne Anderson Energy Total Return Fund (NYSE: KYE)** approved a program to purchase up to $20 million of the fund's common shares until December 31, 2014. The fund's agents were authorized to buy the shares in the open market when they trade at a discount of more than 8% and when the fund "has sufficient borrowing capacity relative to its target leverage ratios."

Directors of **The New Germany Fund (NYSE: GF)** approved a 400,000-share increase to the previously announced share repurchase authorization, which is set to expire July 31, 2014. The fund's discount was fairly steady and ended June at 10.7%.

Preliminary results of the tender offer for up to 5% (472,000 shares) of **Delaware Investments Dividend and Income Fund (NYSE: DDF)** common shares showed approximately 15% (1.4 million shares) were tendered. On a *pro rata* basis approximately 33% of tendered shares will be repurchased. At the end of June the fund's discount was 6.8%.

MERGERS AND REORGANIZATIONS

Tortoise Capital Advisors completed the mergers of **Tortoise Energy Capital (NYSE: TYY)** and **Tortoise North American Energy (NYSE: TYN)** into **Tortoise Energy Infrastructure (NYSE: TYG)**. Investors weren't excited by this; TYG's discount widened from 1.4% to 6.5% at the end of the month.

Directors of **BlackRock Income Trust (NYSE: BKT)**, **BlackRock Income Opportunity Trust (NYSE: BNA)**, and **BlackRock Core Bond Trust (NYSE: BHK)** approved the reorganization of BKT and BNA into BHK. The mergers are expected to be completed in late 2014 and are subject to shareholder and regulatory approvals.

Cohen & Steers Dividend Majors Fund (NYSE: DVM) was merged into **Cohen & Steers Total Return Realty Fund (NYSE: RFI)**. RFI's discount widened 2.5 percentage points to end June at 8.7%.

OTHER

Cushing Royalty & Income Fund (NYSE: SRF) raised a net $46.4 million in a secondary common-shares offering. Net proceeds from the offering will be used to make additional portfolio investments. The fund's premium dipped slightly in June to end at 4.1%.

Shareholders of **The Swiss Helvetia Fund (NYSE: SWZ)** approved Schroder Investment Management North America and its affiliate to serve as the fund's new investment advisor and subadvisor. The fund's discount was fairly steady in June and ended at 12.7%.

Directors of **Neuberger Berman California Intermediate Municipal Fund (NYSE: NBW)**, **Neuberger Berman Intermediate Municipal Fund (NYSE: NBH)**, and **Neuberger Berman New York Intermediate Municipal Fund (NYSE: NBO)** approved the funds' plans to refinance all of their leverage through the private placement issuance of variable rate municipal term preferred shares in order to redeem all of the funds' outstanding auction market preferred shares at their full liquidation preference of $25,000 per share (plus accumulated distributions). The funds' total overall leverage was expected to remain the same.

Directors and trustees of 11 BlackRock equity option CEFs approved a change to the frequency of regular distributions from quarterly to monthly. Shareholders of **BlackRock Global Opportunities Equity Trust (NYSE: BOE)**, **BlackRock Dividend Income Trust (NYSE: BQY)**, and **BlackRock Utility and Infrastructure Trust (NYSE: BUI)** will begin receiving their monthly distributions in August, while investors in **BlackRock Real Asset Equity Trust (NYSE: BCF)**, **BlackRock Resources & Commodities Strategy Trust (NYSE: BCX)**, **BlackRock Enhanced Equity Dividend Trust (NYSE: BDJ)**, **BlackRock Energy and Resources Trust (NYSE: BGR)**, **BlackRock International Growth and Income Trust (NYSE: BGY)**, **BlackRock Health Sciences Trust (NYSE: BME)**, **BlackRock EcoSolutions Investment Trust (NYSE: BQR)**, and **BlackRock Enhanced Capital and Income Fund (NYSE: CII)** must wait until September for their first monthly distribution.

Shareholder meetings for **First Trust Dividend and Income Fund (NYSE: FAV)** and **First Trust Enhanced Equity Income Fund (NYSE: FFA)** were adjourned until July 2 in order to allow shareholders additional time to vote on a new investment subadvisory agreement between First Trust and Chartwell Investment Partners. Chartwell currently provides subadvisory services under an interim subadvisory agreement.

Gabelli Dividend & Income Trust (NYSE: GDV) spun off **Gabelli Global Small and Mid-Cap Value Trust (NYSE: GGZ)**. Shareholders of GDV received one share of GGZ for every ten shares of GDV they owned. The discount on GDV widened a bit to 10.4%, and the new shares of GGZ jumped from a 1.7% discount at their issuance on June 24 to 10.5% at the end of June.

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Category	Average 1Mo NAV Change	Average 1Mo Mkt Change	Average P/D 6/30/2014	Average P/D 5/31/2014	Average 1 Mo P/D Change	Average YTD NAV Change	Average YTD Mkt Change	Average YTD P/D Change
California Municipal Debt Funds	-0.4%	-0.6%	-5.15	-5.02	-0.13	9.0%	9.8%	0.56
Convertible Securities Funds	1.1%	1.1%	-3.93	-4	0.07	3.0%	6.8%	3.61
Core Funds	2.6%	1.5%	-8.59	-8.49	-0.08	3.5%	3.8%	0.08
Corporate BBB-Rated Debt Funds (Leveraged)	0.0%	0.3%	-8.03	-8.25	0.22	4.6%	5.8%	0.91
Corporate Debt Funds BBB-Rated	0.0%	0.7%	-8.02	-8.63	0.62	3.2%	5.9%	2.30
Developed Market Funds	1.1%	1.1%	-10.21	-10.28	0.07	3.9%	2.7%	-1.03
Emerging Markets Funds	1.9%	2.5%	-8.81	-9.05	0.24	4.0%	3.8%	-0.47
Emerging Mrkts Hard Currency Debt Funds	-0.2%	-0.2%	-8.54	-8.59	0.06	4.8%	6.5%	1.47
Energy MLP Funds	6.6%	4.1%	-6.05	-2.69	-2.04	14.9%	10.8%	-3.68
General & Insured Muni Debt Funds (Leveraged)	-0.5%	-0.8%	-6.2	-5.93	-0.27	9.8%	10.7%	0.75
General & Insured Muni Fds (Unleveraged)	-0.3%	1.6%	-3.21	-5.02	1.81	6.0%	8.4%	2.17
General Bond Funds	-0.2%	0.9%	-2.58	-3.14	0.56	3.6%	6.1%	1.79
Global Funds	1.1%	0.6%	-9.8	-9.3	-0.47	3.0%	4.7%	1.19
Global Income Funds	0.3%	1.2%	-5.52	-6.42	0.90	4.0%	6.9%	2.62
Growth Funds	2.8%	0.4%	-9.59	3.81	-3.75	1.6%	-5.3%	-5.48
High Yield Funds	0.1%	0.1%	-5.06	-4.77	-0.28	1.3%	3.8%	2.53
High Yield Funds (Leveraged)	0.5%	0.5%	-3.63	-3.6	-0.03	2.9%	5.8%	2.60
High Yield Municipal Debt Funds	-0.5%	-1.1%	-1.17	-0.66	-0.51	7.7%	10.3%	2.58
Income & Preferred Stock Funds	0.8%	0.7%	-6.49	-6.41	-0.08	8.6%	10.8%	1.81
Intermediate Municipal Debt Funds	-0.4%	-0.3%	-3.74	-3.84	0.09	5.9%	6.9%	0.85
Loan Participation Funds	0.2%	0.6%	-5.97	-6.29	0.33	0.3%	-0.7%	-0.95
Natural Resources Funds	4.8%	3.4%	-10.79	-10.03	-0.85	12.9%	13.9%	0.17
New Jersey Municipal Debt Funds	-0.7%	0.0%	-8.32	-8.91	0.59	8.4%	10.2%	1.46
New York Municipal Debt Funds	-0.4%	-0.7%	-5.1	-4.75	-0.35	7.9%	9.5%	1.35
Options Arbitrage/Opt Strategies Funds	0.3%	0.1%	-2.79	-2.7	-0.09	1.4%	5.9%	4.23
Other States Municipal Debt Funds	-0.4%	-0.4%	-5.46	-5.07	0.01	8.1%	12.2%	3.46
Pacific Ex Japan Funds	1.5%	1.7%	-10.35	-10.5	0.15	1.0%	0.1%	-0.95
Pennsylvania Municipal Debt Funds	-0.5%	0.7%	-7.46	-7.32	1.06	8.3%	12.6%	3.55
Real Estate Funds	0.5%	-0.3%	-12.7	-10.41	-0.37	11.2%	10.7%	-1.46
Sector Equity Funds	3.7%	4.4%	-6.04	-5.88	-0.16	7.4%	7.5%	0.52
U.S. Mortgage Funds	0.0%	0.7%	-7.48	-8.06	0.59	5.2%	7.6%	1.87
Utility Funds	3.1%	2.4%	-6.67	-6.04	-0.63	12.9%	13.9%	0.81
Value Funds	1.2%	1.6%	-10.4	-10.81	0.41	6.6%	6.9%	0.10

Top 5 Performing CEFs

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Fund Name	Category	Ticker Symbol	1-Month NAV Change	Rank
Engex Inc	Core Funds	EXGI	29.3%	1
ASA Gold & Prec Met Ltd	Sector Equity Funds	ASA	15.0%	2
Kayne Anderson Enrgy TR	Energy MLP Funds	KYE	11.3%	3
Kayne Anderson Mstr/Engy	Energy MLP Funds	KMF	11.3%	4
Salient Midstream & MLP	Energy MLP Funds	SMM	10.6%	5

Fund Name	Category	Ticker Symbol	Year-to-Date NAV Change	Rank
Morg Stan India Inv	Emerging Markets Funds	IIF	30.18%	1
Tortoise Pipelne & Enrgy	Natural Resources Funds	TTP	26.09%	2
ASA Gold & Prec Met Ltd	Sector Equity Funds	ASA	25.32%	3
Brookfield Gl Lsd Infr	Utility Funds	INF	24.70%	4
Salient Midstream & MLP	Energy MLP Funds	SMM	23.72%	5

Fund Name	Category	Ticker Symbol	1-Month Market Change	Rank
ASA Gold & Prec Met Ltd	Sector Equity Funds	ASA	12.3%	1
Salient Midstream & MLP	Energy MLP Funds	SMM	10.1%	2
Central Fund of Canada	Sector Equity Funds	CEF	9.4%	3
GAMCO NR Gld & Inc Tr	Sector Equity Funds	GNT	8.5%	4
Tortoise Pipelne & Enrgy	Natural Resources Funds	TTP	8.0%	5

Fund Name	Category	Ticker Symbol	Year-to-Date Market Change	Rank
Morg Stan India Inv	Emerging Markets Funds	IIF	32.49%	1
NexPoint Credit Strat	High Yield Funds (Leveraged)	NHF	28.13%	2
India Fund	Emerging Markets Funds	IFN	26.90%	3
Brookfield Gl Lsd Infr	Utility Funds	INF	26.76%	4
Tortoise Pipelne & Enrgy	Natural Resources Funds	TTP	25.10%	5

Fund Name	Category	Ticker Symbol	1-Month P/D Change	Rank
PIMCO Gl StksPLUS & Inc	Options Arbitrage/Opt Strategies Funds	PGP	5.80	1
Eaton Vance PA Muni Bd	Pennsylvania Municipal Debt Funds	EIP	5.43	2
Nuveen Tx-Adv TR Strat	Value Funds	JTA	4.62	3
PIMCO Dynamic Income	Global Income Funds	PDI	4.29	4
PIMCO High Income	General Bond Funds	PHK	4.27	5

Fund Name	Category	Ticker Symbol	Year-to-Date P/D Change	Rank
PIMCO Gl StksPLUS & Inc	Options Arbitrage/Opt Strategies Funds	PGP	16.37	1
Helios Multi-Sec Hi Inc	High Yield Funds (Leveraged)	HMH	16.34	2
Pioneer Mu Hi Inc Advt	High Yield Municipal Debt Funds	PMA	14.12	3
Cushing Royalty & Inc Fd	Energy MLP Funds	SRF	11.99	4
GAMCO Gl Gld NR & Inc	Sector Equity Funds	GGN	11.69	5

ETFs and ETPs listed globally reached US$2.64 trillion in assets, a new record high, at the end of Q2 2014

ETFs and ETPs listed globally gathered US$34.8 Bn in net new assets in June and US$126.6 Bn YTD, which outpaces the previous high of US$106.4 Bn at this point set in 2012. Net flows combined with positive market performance during H1 2014 pushed assets in the global ETF/ETP industry to a new record high of US$2.64 Tn invested in 5,359 ETFs/ETPs, with 10,401 listings, from 219 providers listed on 59 exchanges, according to preliminary data from ETFGI's end H1 2014 Global ETF and ETP industry insights report.

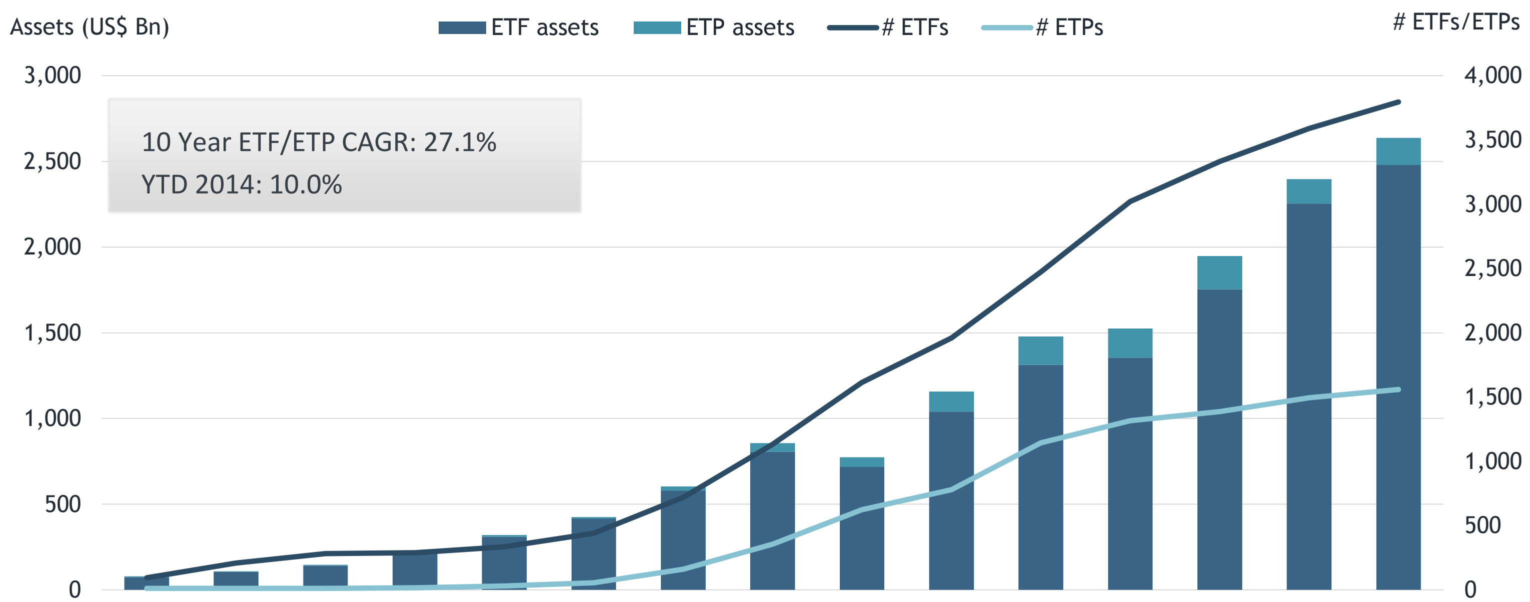
The ETF/ETP industry in most countries and regions reached new record highs in assets at the end of Q2 2014, including: in the United States US$1.86 Tn; in Europe US$470 Bn; in Asia Pacific ex Japan US$ 96.7 Bn; in Japan US$90.1 Bn; in Canada US$65.7 Bn and in the Middle East and Africa US$43.5 Bn.

"In June investors invested almost all net new money into equity exposures with the US and emerging markets being the preferred allocations. The S&P 500 index ended up 7% at the end of Q2 2014, closing at an all-time high (1963) on June 20th. Internationally, developed markets gained 2% and emerging markets are up 4%. The positive equity market performance has helped to improve investor confidence during the first half of 2014." according to Deborah Fuhr, Managing Partner at ETFGI.

At the end of Q2 ETFs/ETPs had gathered a record level of US$126.6 Bn in net inflows. Equity ETFs/ETPs gathered US$84.2 Bn, followed by fixed income with US$36.5 Bn, while commodity ETFs/ETPs had net outflows of US$3.0 Bn.

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

At the end of June 2014, the Global ETF/ETP industry had 5,358 ETFs/ETPs, with 10,401 listings, assets of US$2.64 trillion, from 219 providers on 59 exchanges.

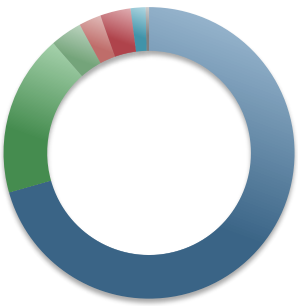


Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Jun-14
# ETFs	94	208	283	288	334	440	719	1,132	1,614	1,961	2,473	3,022	3,334	3,591	3,798
# ETFs/ETPs	105	220	295	303	364	506	887	1,543	2,237	2,739	3,615	4,339	4,722	5,085	5,358
ETF assets	74	105	142	212	310	416	579	806	716	1,041	1,313	1,355	1,754	2,254	2,481
ETF/ETP assets	79	109	146	218	319	425	603	856	774	1,158	1,478	1,526	1,949	2,398	2,638

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

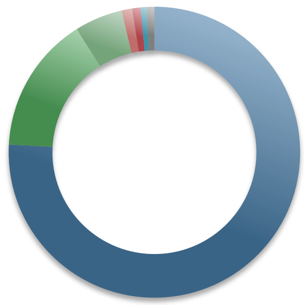
Global ETF/ETP Assets Summary

ETF/ETP assets by region listed



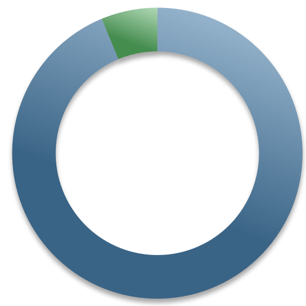
Region	Assets (US$ Bn)	% total
US	$1,862	70.6%
Europe	$470	17.8%
Asia Pacific (ex-Japan)	$97	3.7%
Japan	$90	3.4%
Canada	$66	2.5%
Middle East and Africa	$44	1.7%
Latin America	$9	0.4%
Total	**$2,638**	**100.0%**

ETF/ETP assets by asset class



Asset class	Assets (US$ Bn)	% total
Equity	$2,012	76.3%
Fixed Income	$390	14.8%
Commodities	$143	5.4%
Leveraged	$30	1.1%
Active	$25	0.9%
Leveraged Inverse	$17	0.6%
Others	$22	0.8%
Total	**$2,638**	**100.0%**

ETF/ETP assets by product structure



Structure	Assets (US$ Bn)	% total
ETF	$2,481	94.0%
ETP	$158	6.0%
Total	**$2,638**	**100.0%**

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

Assets in iShares ETFs/ETPs surpassed US$1 Tn at the end of Q2 2014. In the past two years assets invested in iShares ETFs/ETPs have increased by US$351 Bn, while iShares' market share has declined by nearly 1%, falling from 38.7% to 37.9%. YTD iShares gathered the largest in net inflows, US$38.0 Bn, followed by Vanguard with US$34.7 Bn, First Trust with US$6.51 Bn, Nomura AM with US$4.66 Bn and Guggenheim with US$4.39 Bn in net inflows.

395 ETFs/ETPs have greater than US$1 Bn in assets, while 1,708 have greater than US$100 Mn in assets and 2,275 have greater than US$50 Mn in assets. The 395 ETFs/ETPs with greater than US$1 Bn in assets hold a combined total of US$2,122 Bn, or 80.4%, of Global ETF/ETP assets.

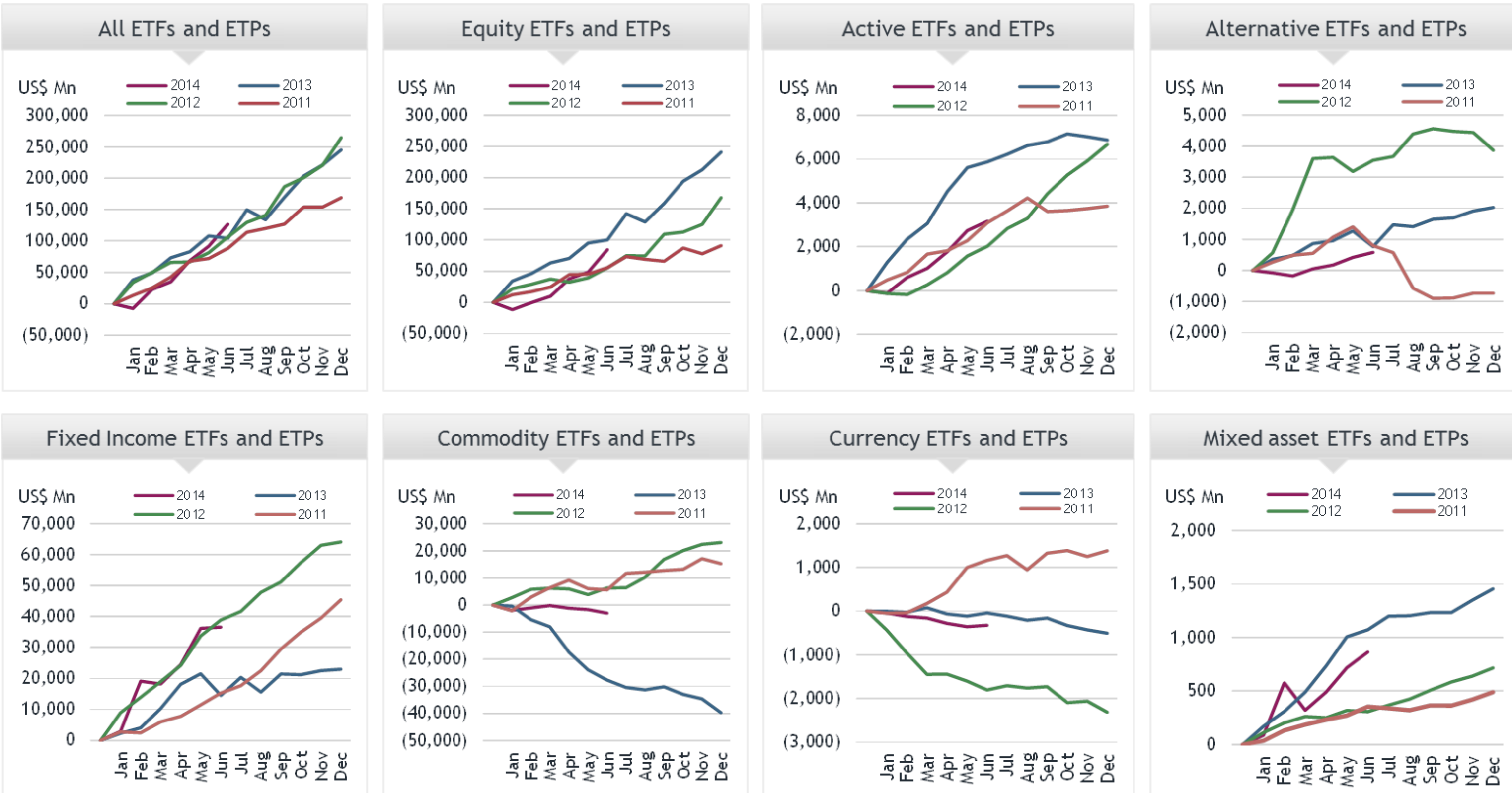
In June 2014, 89 new ETFs/ETPs were launched by 23 providers while 14 ETFs/ETPs closed. YTD through end of June 2014, 345 new ETFs/ETPs have been launched by 78 providers and 72 ETFs/ETPs have closed, with a total of 319 listings removed from 18 exchanges. The US and Europe accounted for 60% of the 345 new product launches. Sixty-four percent of the new product launches provide exposure to equities while fixed income accounted for 13.3%.

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

Global Year to Date Net New Assets

etfgi.com

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



ETFs and ETPs listed globally gathered net inflows of $34,929 Mn in June. Year to date, net inflows stand at $126,675 Mn. At this point last year there were net inflows of $104,572 Mn.

Equity ETFs/ETPs saw net inflows of $36,092 Mn in June, with year to date net inflows rising to $84,236 Mn. This is less than the net inflows of $100,241 Mn over the same period last year.

Fixed income ETFs and ETPs gathered net inflows of $412 Mn in June, growing year to date net inflows to $36,596 Mn, which is greater than the same period last year which saw net inflows of $14,478 Mn.

Commodity ETFs/ETPs saw net outflows of $1,299 Mn in June. Year to date, net outflows are at $3,023 Mn, compared to net outflows of $27,692 Mn over the same period last year.

Actively managed products saw net inflows of $430 Mn in June, bringing year to date net inflows to $3,172 Mn, which is less than the net inflows of $5,884 Mn over the same period last year.

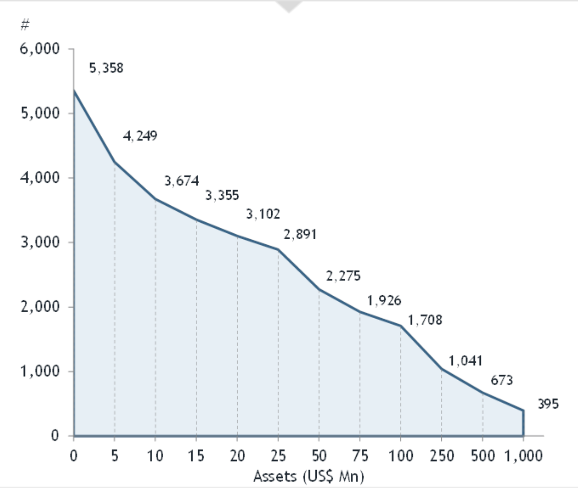
Products tracking alternative indices gathered net inflows of $160 Mn in June, growing year to date net inflows to $579 Mn. This is less than over the same period last year when there were net inflows of $765 Mn.

Currency products accumulated net inflows of $34 Mn in June. Year to date, net outflows are at $319 Mn, compared to net outflows of $40 Mn over the same period last year.

Products holding more than one asset class saw net inflows of $147 Mn in June, bringing year to date net inflows to $864 Mn, which is less than the net inflows of $1,072 Mn over the same period last year.

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

Distribution of ETFs/ETPs by size



Assets greater than (US$ Mn)	# ETFs	% total	Total assets (US$ Bn)	% total
0	5,358	100.0%	2,637	100.0%
5	4,249	79.3%	2,635	99.9%
10	3,674	68.6%	2,631	99.8%
15	3,355	62.6%	2,627	99.6%
20	3,102	57.9%	2,623	99.4%
25	2,891	54.0%	2,618	99.3%
50	2,275	42.5%	2,596	98.4%
75	1,926	35.9%	2,574	97.6%
100	1,708	31.9%	2,556	96.9%
250	1,041	19.4%	2,449	92.8%
500	673	12.6%	2,317	87.9%
1,000	395	7.4%	2,122	80.4%

395 ETFs/ETPs have greater than US$1 Bn in assets, while 1,708 have greater than US$100 Mn in assets and 2,275 have greater than US$50 Mn in assets. The 395 ETFs/ETPs with greater than US$1 Bn in assets hold a combined total of US$2,122 Bn, or 80.4%, of Global ETF/ETP assets.

ETF/ETP underlying benchmarks: developed equity

Top 20 by assets

Name	Assets (US$ Mn) Jun-14	NNA (US$ Mn) Jun-14	NNA (US$ Mn) YTD 2014
S&P 500 Index	282,486	6,539	(7,125)
MSCI EAFE Index	58,091	693	2,086
NASDAQ 100 Index	47,598	(914)	(4,154)
CRSP US Total Market Index	44,575	417	2,948
Nikkei 225 Index	43,490	(617)	4,268
S&P Mid Cap 400 Index	40,122	1,895	(802)
TOPIX Index	39,614	(264)	4,629
EURO STOXX 50 Index	33,022	603	(772)
DAX Index	30,612	(484)	(813)
Russell 2000 Index	27,863	1,749	(2,459)
MSCI Japan Index	27,195	774	759
Russell 1000 Growth Index	24,110	48	(112)
MSCI US REIT Index	23,872	719	3,486
FTSE Developed ex North America Index	23,534	666	3,974
Russell 1000 Value Index	23,445	(62)	908
NASDAQ Dividend Achievers Select Index	20,350	626	269
S&P Financial Select Sector Index	18,904	432	1,026
MSCI World Index	18,796	523	1,002
FTSE Developed Europe Net Tax US RIC TR Index USD	17,345	328	3,322
MSCI EMU Index	15,891	30	3,086

Top 20 by monthly net inflows

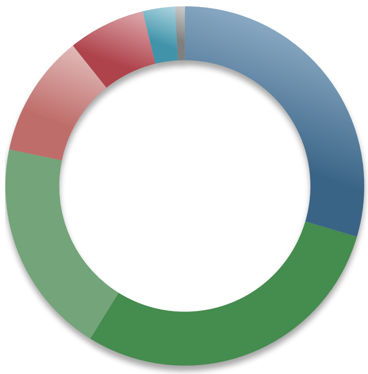
Name	Assets (US$ Mn) Jun-14	NNA (US$ Mn) Jun-14	NNA (US$ Mn) YTD 2014
S&P 500 Index	282,486	6,539	(7,125)
S&P Mid Cap 400 Index	40,122	1,895	(802)
Russell 2000 Index	27,863	1,749	(2,459)
S&P Utilities Select Sector Index	7,001	1,024	1,727
S&P Consumer Staples Select Sector Index	6,676	907	(200)
MSCI Europe Index	11,110	777	1,083
S&P Energy Select Sector Index	12,703	745	3,382
MSCI Japan Index	26,799	742	759
MSCI US REIT Index	23,872	719	3,486
MSCI EAFE Index	58,091	693	2,086
FTSE Developed ex North America Index	23,534	666	3,974
NASDAQ Dividend Achievers Select Index	20,350	626	269
EURO STOXX 50 Index	33,022	603	(772)
Dow Jones US Industrials Index	1,436	547	(205)
TOPIX Ex-Financials Index	950	537	2,126
MSCI World Index	18,796	523	1,002
Dow Jones US Utilities Index	1,264	491	533
S&P Financial Select Sector Index	18,904	432	1,026
MSCI Italy 25-50 Net USD Index	1,831	430	873
CRSP US Total Market Index	44,575	417	2,948

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

Year to Date ETF / ETP Product Launches

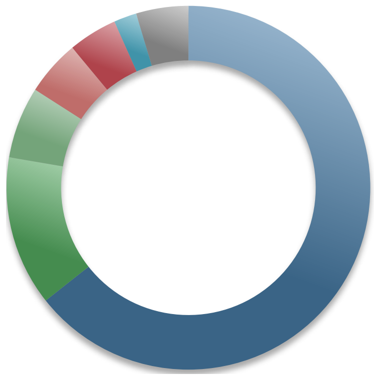
Summary of ETF / ETP assets

ETFs/ETPs by region listed



Region	# ETFs/ETPs	% total
US	102	29.6%
Europe	101	29.3%
Middle East and Africa	67	19.4%
Asia Pacific (ex-Japan)	38	11.0%
Canada	24	7.0%
Japan	10	2.9%
Latin America	3	0.9%
Total	**345**	**100.0%**

ETFs/ETPs by asset class



Asset class	# ETFs/ETPs	% total
Equity	222	64.3%
Fixed income	46	13.3%
Active	22	6.4%
Leveraged	17	4.9%
Leveraged Inverse	15	4.3%
Currency	7	2.0%
Others	16	4.6%
Total	**345**	**100.0%**

ETFs/ETPs by product structure

Structure	# ETFs/ETPs	% total
ETF	256	74.2%
ETP	89	25.8%
Total	**345**	**100.0%**

Source: ETFGI, Bloomberg, ETF/ETP providers.

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

Fitch: Puerto Rico Bonds Decline Following Recovery Act

July 11, 2014

Fitch Ratings-New York-11 July 2014: Declines in pricing of Puerto Rico bonds added further pressure to already depressed net asset values (NAVs) of Puerto Rico mutual funds, according to Fitch Ratings. Fitch-rated Puerto Rico fund managers are reacting swiftly by adding to collateral supporting rated notes and deleveraging where needed.

Puerto Rico bond prices fell following the enactment of the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (Recovery Act) on June 26 , which was followed by a series of ratings downgrades impacting government issuers across the commonwealth. The act establishes a restructuring regime for public corporations that may become insolvent.

Fitch Wednesday downgraded Puerto Rico sales tax (Cofina) bonds to 'BB-' from 'AA-' for senior and from 'A+' for subordinate issues, employee retirement system and commonwealth general obligation and guaranteed bonds to 'BB-' from 'BB', and aqueduct and sewer authority (PRASA) bonds to 'B+' from 'BB+'. Previously, Fitch downgraded electric power authority (PREPA) bonds to 'CC' from 'BB' (senior). Fitch does not rate debt issued by the highway and transportation authority (PRHWY). The downgrade of the Cofina, PRASA and PREPA ratings reflected the commonwealth's action to change law to the detriment of bondholders with passage of the Recovery Act. The one-notch rating downgrade of the GO and related bonds was based on marginal deterioration in credit fundamentals despite recent actions designed to support the general credit.

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Click here for complete reading

Loan Closed-End Fund Spotlight

July 1, 2014

Loan CEF Market Benefits from Demand: Closed-end funds investing in leveraged loans (loan CEFs) have benefitted from the rally in the overall loan market in the past two years. The J.P. Morgan Leveraged Loan Index returned 5.3% in 2013 after posting returns of 9.4% in 2012 and 1.5% in 2011. Retail investors' demand for loans has been strong over this time. Correspondingly, total assets for loan CEFs have increased by $23 billion since the first half of 2009, and the overall number of funds has increased to 28 from 22 during the same period.

Loan Credit Cycle is Maturing: Relative to the last credit cycle, the current credit cycle resembles the time frame of 2005 to early 2006, characterized by increasing risk appetite and leverage. While growth expectations are more subdued compared to the last upswing, this year has been showing signs of credit expansion. Non-investment grade corporate leverage has been increasing.

Term Securities Replacing Legacy Auction Preferred: The loan CEF sector remains highly reliant on short-term bank funding, but a greater number of funds have termed out with new variable-rate term preferred (VRTP) securities over the past two years. Fitch has rated VRTPs issued by seven loan CEFs since October 2012 totaling over $661 million. This trend should continue as pre-crisis auction-rate preferred shares (ARPS) continue to be refinanced.

Click here for complete reading

Rating Actions

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

- **Fitch Affirms ARPS & VMTP Shares Issued by 5 MFS Investment Mgmt Muni Closed-End Funds at 'AAA' – June 16, 2014**
- **Fitch Affirms Preferred Shares Issued by Two Federated Municipal Funds at 'AAA' - June 19, 2014**
- **Fitch Takes Rating Action on Tortoise Fund Notes and Pfd Following Merger – June 23, 2014**
- **Fitch Affirms Gabelli Fund Auction Pfd Ratings at 'AA' Following Spin-Off - June 23, 2014**
- **Fitch Rates Jay Street Market Value CLO Senior Notes 'BBB(sf)' – June 23, 2014**
- **Fitch Affirms Aberdeen Asia-Pacific Income Fund Notes at 'AAA' and MRPS at 'AA' - June 27, 2014**

Leverage in Closed-End Funds

June 25, 2014

Authored by:
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A double-edged sword

One characteristic of closed-end funds (CEFs) that separates them from other comparable investment vehicles is the use of leverage, which is when they borrow additional capital or use other instruments in order to gain a magnified exposure to their respective asset classes. One of the primary benefits of magnifying the exposure of a CEF's portfolio's is the ability to enhance the current yield of the CEF. A higher yield, a characteristic that is highly desired among CEF investors, influences demand for the shares of such a CEF and consequently its valuation (premium/discount to net asset value). The use of leverage is fairly common among CEFs. In fact, 70% of all CEFs quote total leverage ratios greater than 10%, and more than half of all CEFs quote total leverage ratios greater than 25% (as of June 24, 2014). Leverage is a doubleedged sword: the benefits are accompanied by additional risks.

The impacts of using leverage

Leverage can serve to magnify both gains and losses, thereby increasing volatility. In other words, in rising markets, the use of leverage can serve to enhance the return of a CEF's net asset value (NAV), but in down markets it can serve to exacerbate the NAV's losses compared to an identical unleveraged portfolio. The best way to illustrate the effect that leverage can have on returns, and consequently on volatility, is through a hypothetical example. Suppose we have three CEFs — a non-leveraged, a leveraged and a highly-leveraged version of an identical portfolio. The non-leveraged CEF doesn't borrow any additional capital nor does it magnify its exposure in any way through derivatives; the leveraged CEF borrows additional capital amounting to 33 1/3% of total assets (net assets + leverage), while the highly-leveraged CEF raises additional capital amounting to 50% of total assets.

As is illustrated in the table on the next page, if we assume a 10% decline in total assets, the NAV for the non-leveraged CEF should decline by the same magnitude as the total assets of the trust. However, the leveraged CEF and the highly-leveraged CEF would experience more disappointing returns of - 15% and - 20%, respectively. On the other hand, if we assume that total assets increase by 10%, we get the opposite effect — a +10% total return for the nonleveraged CEF, +15% for the leveraged CEF, and +20% for the

Leverage Magnifies Changes in the Underlying Market

10% Market Decline	Unleveraged Trust	Leveraged Trust	Highly-Leveraged Trust
Shares Outstanding	10 million	10 million	10 million
Beginning Net Asset Value (NAV)	$10.00	$10.00	$10.00
Net Assets	$100 million	$100 million	$100 million
Leverage Ratio (Based on Total Assets)	0%	33%	50%
Leverage	$0	$50 million	$100 million
Total Assets (Net Assets + Leverage)	$100 million	$150 million	$200 million
Total Assets After a 10% Market Decline	$90 million	$135 million	$180 million
Less Leverage (Unchanged)	$0	$50 million	$100 million
Net Assets After a 10% Decline	$90 million	$85 million	$80 million
Ending NAV (Net Assets/# of Shares)	$9.00	$8.50	$8.00
Percent NAV Change	**-10%**	**-15%**	**-20%**

10% Market Increase	Unleveraged Trust	Leveraged Trust	Highly-Leveraged Trust
Shares Outstanding	10 million	10 million	10 million
Beginning Net Asset Value (NAV)	$10.00	$10.00	$10.00
Net Assets	$100 million	$100 million	$100 million
Leverage Ratio (Based on Total Assets)	0%	33%	50%
Leverage	$0	$50 million	$100 million
Total Assets (Net Assets + Leverage)	$100 million	$150 million	$200 million
Total Assets After a 10% Market Increase	$110 million	$165 million	$220 million
Less Leverage (Unchanged)	$0	$50 million	$100 million
Net Assets After a 10% Increase	$110 million	$15 million	$120 million
Ending NAV (Net Assets/# of Shares)	$11.00	$11.50	$12.00
Percent NAV Change	**10%**	**15%**	**20%**

The scenarios are hypothetical, and do not intend to represent specific return, yield, or investment, nor are they indicative of future results.
Source: Wells Fargo Advisors

highly-leveraged CEF. Since a leveraged CEF is gaining exposure to more assets than its investors provided in of the gains/losses are greater than they would be in the absence of leverage.

Leverage metrics

The degree to which a CEF uses leverage is usually reported via a leverage ratio that is based on total assets (as opposed to *net* assets). In other words, one could calculate a CEF's leverage ratio by dividing the amount borrowed by the CEF's total assets. For example, if a CEF raises $100 million in equity and then borrows another $50 million in order to leverage the portfolio, the leverage ratio is 33 1/3% or:

$$\frac{\$50\ million}{\$100\ million + \$50\ million}$$

Pursuant to the Investment Company Act of 1940 ('40 Act), there is a limit on the degree to which CEFs can leverage their assets, and there are consequences when these limits are trespassed. The maximum leverage ratio depends on how a CEF leverages its assets. Generally, the leverage ratio can't exceed 33 1/3% if debt (e.g., a note or a line of credit) is used, and 50% if preferred stock is issued. These figures are roughly equivalent to a minimum asset coverage ratio of 300% for debt, and 200% for preferreds. If a CEF's asset coverage ratio falls below its threshold it will not be allowed to pay distributions to its common shareholders until the ratios comply with the thresholds stipulated by the '40 Act. Eliminating a CEF's distribution, even if only temporary, is not taken lightly by shareholders, as was evidenced by a few highly leveraged CEFs that held asset classes that fell quickly and dramatically in late 2008. Their asset coverage ratios declined too fast for the managers to reduce the amount of leverage in time. Consequently, those few CEFs — not more than a handful — had to temporarily suspend their distributions, and were able to resume paying the distributions (including those distributions that were missed) only after they reduced the amount of leverage so as to comply with the asset coverage rules. It took those CEFs only a few weeks to comply with the asset coverage rules.

Keep in mind that in a few cases, even though the structural leverage ratio is within the statutory limits, a CEF may potentially use additional nonstructural leverage — through derivatives, for example — resulting in an all-in total leverage ratio that exceeds 50%. We believe those cases are rare.

Non-'40 Act leverage

Thus far, our discussion of leverage types has focused on more traditional forms of leverage that are defined by the '40 Act (otherwise known as regulatory or structural leverage). However, there are other forms of leverage. Common forms of non- '40 Act leverage (sometimes referred to as portfolio leverage) include:

- **Tender option bonds (TOBs)/inverse floaters**. A CEF may deposit tax-exempt bonds into a TOB trust, which then issues two types of securities: a floating-rate certificate and an inverse-floater certificate. The CEF typically holds the inverse floater and uses the proceeds of the sale of the floater certificates to gain additional portfolio exposure. In effect, this action allows the portfolio to use $1's worth of net assets to gain a notional exposure greater than $1. TOBs are typically used by municipal CEFs, and their websites usually include TOBs as a form of leverage, and therefore are included in the leverage-ratio calculation as provided by the CEF sponsor.

- **Reverse repurchase agreements, dollar rolls and TBAs.** Reverse repurchase agreements or repos are typically used with taxable fixed income CEFs. A CEF may sell a portion of its portfolio to another party with the agreement to repurchase the securities at a later date at a specified price. In the meantime, the interest paid on the underlying bonds accrues to the CEF. Dollar rolls are similar, but because they are used more specifically with mortgage backed securities, they are a more common type of leverage among mortgage CEFs. Finally, TBAs, which stands for To Be Announced, are forward contracts that are typically used to leverage CEFs holding agency mortgage securities.

- **Derivatives.** Some CEFs use derivatives such as swaps, futures and/or forwards to leverage their assets. The swaps may include credit default swaps, interest rate swaps or total return swaps. For example, a high yield bond portfolio may hold cash bonds or instead it could write a credit default swap on such credit to achieve the same exposure, albeit on a leveraged manner. A global bond portfolio may use currency forwards to gain exposure to certain markets instead of holding the cash bonds.

- **Long/short positions.** Some CEFs have exposure to short positions, which profit when the positions shorted fall in value, as well as long positions. This long/short strategy serves to increase exposure as long as the gross exposure — the long exposure plus the absolute of the short exposure — is greater than 100%. For example, an equity CEF manager using a 130/30 long/short strategy could short sell a group of securities he/she expects to underperform for up to 30% of the portfolio's value and then use the cash earned to reinvest in the securities expected to outperform. As such, although the net exposure is 100% (130% - 30%), the gross exposure is 160% (130% + 30%). A 130/30 CEF would underperform a similar CEF with only a 100% long position if the securities sold short appreciate and the securities in the long positions fall in value. The reverse is true of course — a 130/30 CEF would outperform a comparable non-leveraged CEF if its long positions appreciate and the short positions decline. A few fixed-income CEFs use a long/short strategy as a way to leverage their assets; however, this way to leverage a CEF is uncommon.

- **Securities lending.** A CEF may loan securities in its portfolio to other parties and, in return, receive cash collateral that it can use for investment purposes. The fund also retains ownership rights in the loaned securities as well.

Many sponsors have put forth the effort to improve the transparency of the type and amount of true leverage used; however, a few still choose to disclose only '40 Act leverage.

Impact of a changing asset level on a leverage ratio

It is important to note that changes in asset values can alter leverage ratios. For example, if an investor purchases shares of a CEF with a leverage ratio of 33 1/3%, and if a subsequent sell-off occurs in the market, causing the value of the portfolio to decline, the leverage ratio would increase. To illustrate this effect, assume that total assets for this CEF are $150 million. If the leverage ratio before the market decline was 33 1/3%, we know that the leverage amount was:

$$\$150\ million * 33\frac{1}{3}\% = \$50\ million$$

Now suppose the market selloff causes the portfolio's value to decrease by 40%. The value of the portfolio would then be:

$$\$150\ million * (1 - 40\%) = \$90\ million$$

But the fund still owes $50 million to its creditors. So the new leverage ratio after the market decline would be:

$$\frac{\$50\ million}{\$90\ million} = 56\%$$

In this hypothetical situation the CEF would be forced to reduce its leverage amount because its asset coverage ratios would likely be below the allowable minimums (if using '40 Act leverage). Any reduction in the leverage amount that may be undertaken would likely be accompanied by reduced exposure to the assets which are generating potential returns, i.e. yield. So, in the example above, a portion of the portfolio would need to be liquidated to bring down the debt, and a reduction in the distribution may be required, which could have a negative impact on the CEF's valuation (i.e., the discount may widen or the premium may narrow).

The opposite may also be the case. If the assets were to appreciate substantially over time, a CEF may increase its leverage amount to raise its leverage ratio to the original level. Historically, changes in the leverage amount have been uncommon.

The cost of leverage

Just like leverage adds to an NAV's volatility, leverage may also magnify the variability of the leverage, which usually depend primarily on short rates, will impact a CEF's earnings power, and consequently its distribution. The majority of types of leverage involve a variable-rate form of interest cost (the CEFs are charged a spread against a reference rate), while some are fixed-rate in nature. Currently as well as historically, the use of variablerate types of financing is the more prominent source of leverage and likely will continue to be because it is usually cheaper. However, the earnings of a CEF are vulnerable if short-term rates were to increase. A few of the '40 Act types of variable-rate instruments are listed below:

- **Bank financing** can come in the form of lines of credit, commercial paper, notes, etc. Creditors holding these forms of debt would generally have a senior claim to preferred shareholders as well as to equity holders.

- **Auction-rate preferreds (ARP)** formerly were issued by CEFs, but issuance ceased after the auctions failed in early 2008. Most CEFs have redeemed their ARPs.

- **Variable-rate demand preferred shares (VRDP),** another type of preferred security paying a variable-rate of interest that was offered in response to the ARPs auction failures in 2008, are different than ARPs in that the rates are set through remarketings run by one or more financial institutions acting as agents rather than through auctions. In general, after providing a preliminary notice of the likely dividend rate, the remarketing agents will solicit existing holders and potential buyers for indications of interest to buy or sell. The agents will then match up buyers and sellers at the lowest possible dividend rate. In addition, if there are more sell orders than bids in a remarketing, a third-party liquidity provider will be contractually obligated to unconditionally purchase all variable rate demand preferred stock. This obligation was not existent among ARPs, which led to the auctions starting to fail in early 2008.

- **Variable MuniFund Term Preferreds (VMTP)** are exchange-listed preferred shares issued by CEFs investing in municipal bonds with a mandatory redemption period (usually 3-5 years). VMTP rates are based on a fixed spread to the floating-rate Securities Industry and Financial Markets Association Index (SIFMA Index).

We should note that most of non-'40 Act forms of leverage (e.g., reverse repurchase agreements, dollar rolls, and tender-option bonds), in effect, involve a variable interest cost as well.

Some CEFs may use fixed-rate financing as an alternative to variable rate financing, or use fixed rate financing in conjunction with variable rate financing (e.g., using interest-rate swap contracts paying a fixed rate in addition to lines of credit).

The impact of rising short rates

To illustrate the effect that rising short rates could have on a CEF's distribution using a variable-rate form of financing, we offer the table below. Keep in mind that the cost of leverage of a municipal CEF will be impacted by municipal short rates, and not necessarily Treasury short rates.

Assume a CEF is leveraged and uses a variable-rate instrument to fund its leverage and the borrowing rate is currently 4%, with some other assumptions in the table. Under this scenario, the fund earns $1 per share and distributes $1 per share, so its distribution coverage ratio is 100%. The middle column illustrates the effect on earnings if the rate at which the CEF borrows rises from 4% to 6% — now its income per share is only $0.90, so it is now earning less than its distribution (the distribution coverage ratio is now 90%) — and the CEF may have to cut its distribution. The last column illustrates the effect of lower short-term rates and the increase in earnings that would result, all else held constant.

Tolerance for leverage

Even if a CEF is within the statutory limit in connection with its amount of leverage, doesn't mean that leverage near the maximum allowed is suitable for everyone. In fact, no leverage may be best for the most conservative of investors.

When trying to assess how much leverage in a CEF an investor should tolerate, one should take the historical volatility of the underlying assets class into consideration as well. In other words, an investor may be willing to tolerate a CEF with a higher leverage ratio if the CEF holds assets that historically have had a low volatility or are expected to experience low volatility. On the other hand, an investor may find a low leverage ratio to be imprudent in a CEF that invests in an asset class that historically has had high volatility.

Summary

While leverage can serve to augment returns in favorable markets, it can serve to exacerbate losses in unfavorable markets. Changes in short rates tend to impact the cost of leverage and consequently the earnings and distribution of a CEF. Leverage is not appropriate for the most conservative of investors.

The Potential Effects of Changes in Short-Term Rates on Earnings (and Ultimately, Distributions)

	Rates Unchanged	Rates Rise	Rates Decline
NAV per Share	$10.00	$10.00	$10.00
Number of Shares	10 million	10 million	10 million
Net Assets	$100 million	$100 million	$100 million
Leverage	$50 million	$50 million	$50 million
Total Assets	$150 million	$150 million	$150 million
Net Income (8%) Before Interest Charges	$12 million	$12 million	$12 million
Short-Term Interest Rate	4%	6%	2%
Cost of Leverage	$2 million	$3 million	$1 million
Net Income (After Interest Charges)	$10 million	$9 million	$11 million
Net Income Per Share	1	0.9	1.1
Distribution	$1.00	$1.00	$1.00
Earnings Rate	**100%**	**90%**	**110%**

This information is hypothetical and is provided for informational purposes only. It is not intended to represent any specific return, yield, or investment, nor is it indicative of future results.

Source: Wells Fargo Advisors.

BDC CEFs Poised to Perform well in a Rising Rate Environment: Potential for Growing Income & Positive Total Return

July 8, 2014

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

We constantly hear from investors seeking ways to maintain yield or add to their portfolio's income potential as well as develop an investment strategy for a future rising interest rate environment. We think Business Development Company Closed-Ended Management Companies (BDC CEFs) can be a key part of this strategy and CEF Advisors already employs 4% to 12% exposure in these funds for most client accounts. In the past few years many BDC CEFs have increased their portfolio exposure to floating rate investments and have generally used Fixed Leverage Cost to finance the investments. We see this as a very positive trend for retired investors looking to build and manage an income oriented portfolio that they should have trouble out-living. However, we find that BDC CEFs require more research to understand than their traditional CEF cousins and are not as homogeneous as traditional CEFs.

BDC CEFs are not new investment structures. They are regulated investment companies, created by Congress in 1980 to help spur investment in smaller companies and give investors access to strategies previously only available to accredited or high net worth investors. BDC CEFs generally make loans and or invest in smaller US companies and pass on the interest to shareholders as income in a similar fashion to REITs and MLPs. BDC CEFs are "flow through" vehicles for tax purposes and pay no corporate taxes as long as they distribute 90% of their annual income to shareholders. We follow them alongside our work in traditional CEFs as they meet our firm's CEF definition: active portfolio management, fixed capital structure and investor liquidity through listing on exchanges. As the lending market from traditional banks has waned, BDC CEFs have increased lending to both growing and distressed companies. This can be a very profitable business when done well on a consistent basis. We started actively tracking BDC CEFs in our weekly CEF Universe data in March of 2014 and currently record 45 data points per fund.

According to our CEF Universe data, there are currently 50 BDC CEFs that have a combined market cap of $36.5B vs. $269B in the traditional CEFs market. BDC CEFs currently show an Average Yield of 9.60% on a forward looking basis, with 62% yielding over 8%, and they trade at a Current Discount of -2.34% vs. a one-year average of a +0.40% premium. Average Trade Liquidity is significantly higher for BDC CEFs than traditional CEFs, with $5.9M a day in 30-Day Average Trade Liquidity vs. the average taxable closed-end fund showing $1.4M a day in Liquidity. 41 of the 50 BDC CEFs are primarily debt/loan focused, which for comparison purposes we will compare to the 67 Loan and High Yield Bond traditional CEFs. The table below demonstrates the difference in the two fund structures. Debt BDC CEFs trade about 5% higher to NAV on a relative basis, yield about 2.5% more, employ about 25% more Leverage, have almost 6X the Liquidity and have about 65% more Price Volatility. The Market Prices and NAV Total Returns of loan-focused BDC CEFs have lagged about -4% over the past year, but we think they are better positioned for the next trend in interest rates on a yield and Total Return basis.

According to an August 2013 Fitch Research report on BDC CEFs, floating rate instruments represent 35% to 80% of total investments, vs. fixed interest rate assets, for the BDC CEFs that Fitch provides rating coverage. For these BDC CEFs an increase in interest rates will add to future Net Investment Income. This may allow the funds to increase yields and reduce the risk of principal loss as loan rates reset higher. It should be noted that for most funds, Libor will need to rise about 1.00% for them to experience this positive scenario. As more BDCs have utilized fixed-rate funding vehicles they have become less reliant on floating revolvers to fund investments. As rate increases are not a perfectly positive scenario for any debt investment, we believe the BDC underwriters have likely factored the risk of rising rates into their loan terms when they originate deals in the current environment. While rising rates will increase the cost of the loans, we feel that it will coincide with a growing economy, a trend that should be positive for many holdings and less of a drag on performance.

Debt BDC CEFs Vs. Traditional High Yield and Loan CEFs

	Current Discount	Market Yield	Leverage	1 Year NAV TR	1 Year Mkt Price TR	1 Yr Std Dev	Market Cap	30 Day Liquidity
Debt BDC CEFs	+1.75%	10.11%	36.23%	+8.59%	+8.30%	18.9	$872M	$6.9M
High Yield & Loan CEFs	-3.85%	7.65%	28.80%	+12.4%	+12.6%	11.4	$402M	$1.2M

Data from CEFA's CEF Universe Data, June 20, 2014

Traditional CEFs employ Leverage and generally use 25% to 40% Leverage ratios on their holdings. We calculate Leverage, for traditional CEFs, as total debt borrowed divided by total portfolio assets. However, most BDC CEF analysts calculate BDC CEF leverage as Total Leverage dividend by Net Assets vs. Gross Assets. BDC CEFs can lever at higher levels than traditional CEFs. When we use our traditional CEF method of calculating Leverage Ratios, to get a comparable figure for BDC CEFs, it currently equals a maximum figure of 50%, with 30% - 49% being a normal BDC CEF Leverage Ratio range. It is important to note that BDC CEF Leverage is still lower than the Leverage typically utilized by REITs and Bank stocks. We like the benefits of Leverage for loan-focused BDC CEFs and try to remind investors that Leverage is simply an accelerant for investment results. It will magnify the profits or losses, which is why good management is an important factor to consider when choosing loan-focused BDC CEFs for your portfolio.

As BDC CEFs investors already know, on February 24, S&P announced it would remove BDC CEFs from its indexes to avoid showing BDC CEF fees in Expense Ratios and on March 3, Russell made the same announcement. While this pushed many BDCs to lower prices, by about -5%, we did not see any long-term material changes to how BDC CEFs operate and it gave many investors an opportunity to buy into many of the liquid BDC CEFs at 5%+ lower price points than were available during the first quarter of 2014. One benefit was the fixed capital nature of BDC CEFs which allowed for the portfolios holdings to not be impacted by the event and so there was no forced selling of assets due to redemption pressures common in the open-end fund structure.

The decision made by the S&P and Russell indexes decision was wide spread as it impacted 33 BDC CEFs. For investors that are attracted to buying quality assets on sale through the closed-end fund structure, this event created an attractive entry point which reminded us of what Sir John Templeton used to say about investing; you buy when there is “blood in the streets”. We think it will take some time for prices to climb back to valuations seen prior to the announcement, but we believe the upside far outweighs the downside in a portfolio of well-picked BDC CEFs.

Why should the BDC CEF sector do well in a rising rate environment? BDC CEFs generally depend on the internal health of the American economy. We have seen solid 2% GDP growth, excluding the first quarter of 2014, despite the challenges of Washington politics and international conflicts. BDC CEF loans should generally perform well if we continue to see 2%-3% GDP growth for The US.

How did BDC CEFs handle a previous rising rate environment? There were 5 loan-based BDC CEFs in existence from March 1, 2004 to September 28, 2007, when 30-Day Libor went from 1.0973% to 5.4927% (a 4.40% increase) over a period of 43 months. This is the most pronounced rise in rates in recent history, and one that is potentially similar in nature to the increase in rates currently forecasted for 2015 or 2016. A data table below notes the 5 BDC CEFs reviewed.

Historical BDC Performance and Yield in Rising Rates

Ticker	Total Return (Market Price)	Annualized Total Return	Change in Yield
ACAS	72.61%	15.3%	-3.08%
GLAD	15.47%	4.0%	1.58%
MCGC	5.27%	1.4%	-0.11%
TAXI	50.12%	11.4%	7.11%
TICC	16.22%	4.2%	16.61%
Average Debt BDC	**+31.94%**	**7.3%**	**+4.42%**

Even though it is a small sample size, each BDC CEF has positive Total Return over the time period and there were only small decreases to the Yields of two of the funds. ACAS, which had the largest reduction in Yield, also had the highest Total Return overall. We think this data suggests the BDC CEF sector is poised for higher Yield and Total Return performance when rates eventually rise. This may take some time, but we still believe the sector can do well while we wait for rate increases. Of course, you will need to be sure to be in well-managed BDC CEFs as poor loan performance will hurt NAV and income in any interest rate environment.

To compare how BDCs performed vs. High Yield and Loan traditional closed-end funds, we ran data over the same time period for the 34 funds.

Historical High Yield and Loan CEF Performance and Yield in Rising Rates

Sector	Total Return (Market Price)	Annualized Total Return	Change in Yield
Avg High Yield CEF	+23.28%	+5.85%	-7.45%
Avg Loan CEF	+12.20%	+3.22%	+3.70%
Average HY/Loan CEF	**+20.35%**	**+5.18%**	**-4.49%**

There is a very compelling argument for including BDC CEFs with more than +20% relative alpha, and an almost +9% relative increase in future indicated market yield. They have historically done better than their closest traditional peer CEF cousins in yield and performance.

As mentioned before, BDC CEFs have been able to take advantage of mostly fixed-rate financing, which will keep their cost of capital low when rates rise. We believe BDC CEFs will also follow the path of acceptance of REITs and MLPs. Both REITS and MLPs have historically experienced short-pull backs when rates rise, but eventually performed well for investors in both rising and falling rate environments.

Click here for complete reading

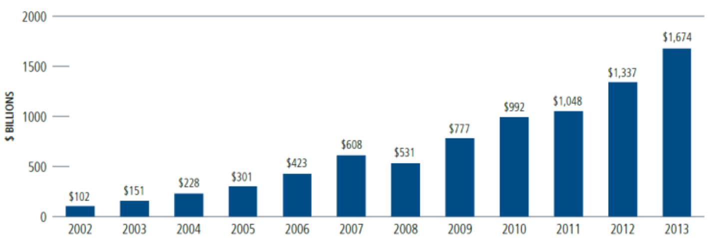
Beyond Beta

The Growing Case for Actively Managed ETFs

By this point, the popularity of exchange-traded funds (ETFs) is no longer a subject for debate. Investors have latched onto the convenience and efficiency of ETFs to the tune of $1.67 trillion in assets and a robust 30% annual growth rate between 2002 and 2013, establishing ETFs as a widely accepted investment vehicle (Figure 1). Investors continue to be drawn to their inherent tax efficiency, transparency and trading flexibility.

FIGURE 1: THE GROWTH OF ETF ASSETS

THE EFFICIENCY AND CONVENIENCE OF EXCHANGE-TRADED FUNDS HAS RESULTED IN A ROBUST ANNUALIZED GROWTH RATE OF ABOUT 30% A YEAR SINCE 2002.



Source: Investment Company Institute 2014 Fact Book

Predominantly Passive

Of this massive pie, however, over 99% of the ETFs in the current marketplace are passive funds, tracking one index or another in order to provide investors with a basic exposure to everything from the broad equity markets and the world of fixed income to specific market sectors and derivative instruments (Figure 2). In exchange for the lower costs and ease of use that ETFs provide, however, investors have been forced to forgo any notion of potential outperformance in these areas and instead settle for the basic exposure, or beta, offered by these passive vehicles. Would not some of these investors prefer the opportunity to do better than the index?

Active ETFs: Gaining Traction

Because ETFs have seen such widespread adoption as purely passive instruments, the very notion of an "active ETF" may strike investors as something of contradiction in terms. In fact, with a massive market having long since risen up around the concept of simple beta exposure, some ETF investors might have trouble envisioning how active management could play into this well-established template. Still, actively managed ETFs are emerging, and they may significantly alter the ETF landscape.

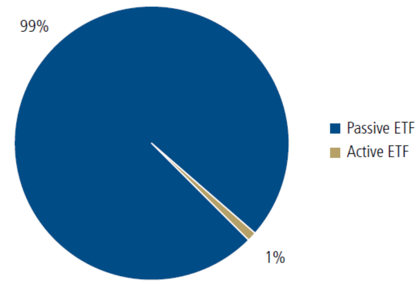
Much like a traditional passive ETF, an actively managed ETF holds a basket of securities. However, the construction of that basket is based not on an attempt to mirror a particular index, but rather on the efforts of the manager to outperform the segment of the market the ETF is focused upon.

The concept of active management is beginning to gain traction among providers and may in fact represent the next major ETF growth phase. While the active ETF market is unquestionably still in its infancy at present, the investor appeal is simple – the trading flexibility, transparency and tax efficiency benefits of an ETF with the potential outperformance afforded by active management.

That being said, even among the relative sliver of the overall ETF market comprised of these new active ETFs, most of those on the market today are fixed income products. For investors looking for equity participation in an actively managed ETF, the choices at present are few and far between.

FIGURE 2: U.S. ETF ASSETS (AS OF 6/30/14)

ACTIVELY MANAGED ETFS REPRESENT ONLY A SLIVER OF ETF ASSETS, BUT THAT MAY START TO CHANGE.



Source: Morningstar

FIGURE 3: THE BENEFITS OF ACTIVE ETFS

Active Management →	Fund may outperform the market rather than only reflect the market
Transparency →	Holdings disclosed daily
Tax Efficiency →	In-kind exchanges reduce taxable events in the portfolio
Trading Flexibility →	Investors can trade intra-day, with the ability to short, margin, limit order and implement option strategies

The Calamos Approach to Active Equity ETFs

At Calamos, the notion of offering an active equity ETF – particularly at this early juncture in the market's development – is right in line with our history of anticipating the needs of investors and offering innovative solutions to satisfy those needs. From our pioneering convertible strategy to our forward-thinking work in alternatives, throughout the years Calamos has expanded our capabilities in response to the evolving investment landscape, and we believe actively managed ETFs represent an investment option whose time has come.

Active equity ETFs also represent an extension of our long-held belief in active management. We believe ETF investors should have the choice that mutual fund investors have had for years – a product that offers not just passive participation in the equity markets, but the potential for outperformance as well.

In our inaugural offering, Calamos Focus Growth ETF, we take an active approach to growth stocks, an area in which we have been investing for nearly 25 years. Our goal is to actively seek out the best opportunities for growth by focusing on quality companies with higher returns on capital and cleaner balance sheets (lower debt) – those elements that we see as the keys to growth investing today (Figure 4).

This is an exciting time for ETF investors, with active management opening up a whole new world of choices. We believe the Calamos Focus Growth ETF represents an opportunity to introduce potential alpha generation into a portfolio by adding the element of active management to the trading flexibility, tax efficiency and transparency inherent in a traditional passive ETF.

FIGURE 4: GROWTH IN AN ACTIVE EQUITY ETF

An investment in the Fund(s) is subject to risks, and you could lose money on your investment in the fund(s). There can be no assurance that the fund(s) will achieve their investment objectives. Your investment in the fund(s) is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. The risks associated with an investment in the fund(s) can increase during times of significant market volatility. The fund(s) also have specific principal risks, which are described below. More detailed information regarding these risks can be found in the fund(s)' prospectus.

The principal risks of investing in the Calamos Focus Growth Fund ETF include: equity securities risk consisting of market prices declining in general, growth stock risk consisting of potential increased volatility due to securities trading at higher multiples, foreign securities risk, premium-discount risk, secondary market trading risk, small- and mid-sized company stock risk, portfolio turnover risk and other investment companies risk.

Alpha is the measurement of performance on a risk adjusted basis. A positive alpha shows that performance of a portfolio was higher than expected given the risk. A negative alpha shows that the performance was less than expected given the risk. Beta is an historic measure of a fund's relative volatility, which is one of the measures of risk; a beta of 0.5 reflects 1/2 the market's volatility as represented by the fund's primary benchmark, while a beta of 2.0 reflects twice the volatility.

As a result of political or economic instability in foreign countries, there can be special risks associated with investing in foreign securities, including fluctuations in currency exchange rates, increased price volatility and difficulty obtaining information. In addition, emerging markets may present additional risk due to potential for greater economic and political instability in less developed countries.

Before investing carefully consider the fund's investment objectives, risks, charges and expenses. Please see the prospectus and summary prospectus containing this and other information or call 1-844-922-5226. Read it carefully before investing.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

CALAMOS

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ETFCOM 137 0714O R

CASE STUDY: THREE DIFFERENT ETF INVESTORS, ONE POTENTIAL SOLUTION

While many investors favor the efficiency and convenience of ETFs, the majority of products on the market are passive, index-tracking instruments that don't address the potential for alpha generation. This leaves many current ETF investors without an alpha solution in their portfolios.

Investor 1: The Alpha Seeker

Problem: The Alpha Seeker uses ETFs to capture beta, but wants to get some alpha in the portfolio as well. With few options for alpha to be found amid the glut of passive ETFs, the Alpha Seeker must go outside of the ETF realm and turn to actively managed mutual funds instead. Solution: For the Alpha Seeker, an active equity ETF could be seen as a modern-day mutual fund – an option that allows her to enjoy the benefits of ETF investing while also getting the potential for alpha borne from active management.

Investor 2: Passive by Default

Problem: Passive by Default is an ETF-only investor who believes that ETFs are passive instruments exclusively, thereby causing her to leave alpha behind and settle for beta exposure only. Solution: An active equity ETF brings potential for alpha back into the picture for someone who had written it off.

Investor 3: Reluctantly Passive

Problem: Reluctantly Passive favors ETFs almost exclusively for equity participation, but wishes there was a way to get some alpha in the ETF format. While he has seen a few active ETFs on the market, he has come across only active fixed income options. Solution: For Reluctantly Passive, an active equity ETF means getting alpha without straying from his preference for ETFs, while still getting the equity exposure he desires.

Just being in the market is fine, but can you do better? An active equity ETF can help provide the desired beta exposure an investor needs while adding the potential for alpha as well.

Asian overview

July 2014

Overview

Asian equities continued to benefit from the assurance of loose monetary policy in June, but gains were pared by still patchy economic data and escalating violence in Iraq. Investors applauded the European Central Bank's unorthodox decision to cut interest rates and become the first to impose negative deposit rates in a bid to encourage lending and avoid deflation. In China, the reserve requirement ratio[1] was lowered to boost loans to small businesses and the rural economy, while the Federal Reserve (Fed) signal led that it was in no hurry to tighten. However, Iraq's turmoil drove the oil price higher and depressed the local currencies of oil-importing nations such as India and Indonesia.

Overall, stock markets in Thailand and Japan outperformed the region. For the first time in more than a year, Thai consumer confidence improved as the nationwide curfew was lifted and the interim military rulers began approving stalled investment and infrastructure projects. We believe this could help reinvigorate growth. In Japan, the cabinet approved prime minister Shinzo Abe's revamped "third arrow" of structural reforms. The centerpiece was a lower corporate tax rate, although clarity on the final rate and a timeline for cuts were lacking. A stewardship code should also help improve corporate governance standards. Aberdeen was one of the signatories of the code, which aims to persuade investors to engage management more actively. We are encouraged that standards are rising, albeit from a low level. The Indian market also finished well on hopes the government would unveil new measures to spur growth. Conversely, Indonesia lagged as polls showed market friendly Jokowi losing ground to rival Prabowo ahead of the presidential election in early July.

In our view, global growth prospects and central bank policy will remain key themes for quite some time. In the West and Japan, deflationary trends linger, with authorities likely to keep policy loose. In China, risks in the property sector persist, while further bond and wealth management product defaults cannot be ruled out as the government reins in shadow banking[2] in pursuit of better-quality growth. Territorial disputes between China and its neighbors could also cloud the region's outlook. Against this backdrop, a premature tightening of policy, particularly by the Fed, would unsettle markets, as would a bigger-than-expected slowdown in Chinese growth. However, we believe that Beijing has deep enough pockets to prevent sectoral problems from infecting the wider economy. Despite the uncertainty, we remain upbeat about Asia's prospects and believe good value can still be found on a long-term basis.* Our strategy is unchanged, with a focus on fundamentally sound companies that have the ability to emerge stronger from the current cyclical slowdown.*

> " For the first time in more than a year, Thai consumer confidence improved as the nationwide curfew was lifted and the interim military rulers began approving stalled investment infrastructure projects."
>
> " Our strategy is unchanged, with a focus on fundamentally sound companies that have the ability to emerge stronger from the current cyclical slowdown."

Endnotes:

* Forecasts are only offered as opinions and are not reflective of potential performance, are not guaranteed and actual events or results may differ materially.

1 The Reserve Requirement Ratio is a required percentage of cash that banks must have on hand, which is determined by the country's central bank.

2 A shadow banking system comprises financial intermediaries involved in facilitating the creation of credit across the global financial system, but whose members are not subject to regulatory oversight. The shadow banking system also refers to unregulated activities by regulated institutions.

For more information

Aberdeen has been investing in Asia since 1985 and established our Asian headquarters in 1992 with an office in Singapore. Aberdeen Group is the largest manager of emerging market closed-end funds offered around the world by both value and number.*

For more information on the Asian-focused closed-end funds, please see www.aberdeen-asset.us/cef

For more information on Aberdeen's fund range, please:
• Visit our Closed-End Investor Center at www.aberdeen-asset.us/cef
• Enroll in our online services at www.aberdeen-asset.us/aam.nsf/usclosed/email
• Watch the latest fund manager films and webcasts on our Closed-End Fund Talk Channel at www.aberdeen-asset.us/aam.nsf/usClosed/aberdeentvAberdeen Asset Management Inc.

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Fund Consultants LLC, February 2014. Based on analysis of emerging market closed-end funds offered in multiple jurisdictions as of December 31, 2013; data provided by Morningstar Inc. Closed-end funds are defined as investment companies that are 1) listed on a recognized exchange; 2) possess fixed share capital and; 3) were formed via subscriptions from the public via an open offer or placement. Criteria for inclusion in the emerging markets category is based on the World Bank's definition of emerging countries as measured by lower and middle income per capita. Criteria for fund inclusion is 1) at least 75% of gross assets invested in emerging markets; 2) funds with under 25% exposure to Asian developed markets.

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The Case For Growth Now

June 18, 2014

Authored by:

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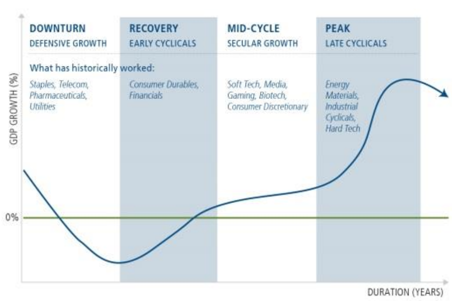
Chair Yellen's comments in March that short-term rates could move higher early next year, combined with weak economic data, caused a sharp rotation away from growth stocks, especially the longer-duration names we tend to favor (see our post ["When Stocks Behave Like Bonds"]). There's been ongoing debate about where we are in the market and economic cycles. Growth has recovered some following stronger economic data, but still trails value year-to-date.

In our view, the economy looks to be positioned for steady growth: not too hot and not too cold. Chair Yellen vowed at her press conference today to keep interest rates low for a "considerable time" after current quantitative easing ended, given continued slack in the economy and inflation that remains below the Fed's 2% target. Against this economic backdrop, we've had a balanced positioning of secular and cyclical growth names. Valuations of growth stocks relative to non-growth stocks remain compelling by historic standards, and we see more room for P/E expansion in growth stocks as the economic recovery strengthens.

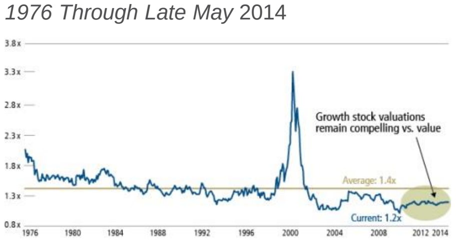
The Business Cycle and Equity Market Performance



This chart illustrates broad historical trends and generalities. It is not predictive and does not represent the performance of a specific investment.

Valuations Support the Case For Growth

Large-Cap Growth Stocks Relative to Non-Growth Stocks, Ratio of Forward P/E Ratios
1976 Through Late May 2014



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

This view of growth's potential is gaining currency: Late yesterday, Empirical Research Partners shifted its forecast from a neutral regime (3 out of 5) to growth-tilt regime (4 out of 5). This is the first time since 2008 Empirical has felt that growth would outperform value.

Empirical has long made the case that getting the regime correct ("knowing what game you are playing") is critical to knowing what quantitative tools will work, and when.

In every business cycle going back to 1970, growth has outperformed value in the last 12 to 36 months of the cycle. This has usually coincided with the following conditions:

- Flattening yield curve
- Narrow but widening valuation spreads
- Breadth of companies showing margin expansion narrows
- Market rewards high capital spending ratios
- Market rewards high price volatility (on a risk-adjusted basis)
- Market rewards earnings and price momentum (also on a risk-adjusted basis)

Growth Stocks Have Typically Outperformed During Late Cycle

Large-Capitalization Growth and Value Stocks
1953 – Mid April 2014; Recessions indicated by shaded areas

Past performance is no guarantee of future results. Source: Empirical Research Partners Analysis. Equally weighted data used for the lowest two quintiles of price-to-book ratios compared to growth stocks.

We expect the merits of growth equities will garner increased recognition as economic growth accelerates in the months ahead. Still, we believe that there will be disparities among companies' performances. In this environment, we expect our high-conviction, fundamentally driven approach will allow us to pick the winners from the losers within this more attractive growth universe.

Past performance is no guarantee of future results. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.
Opinions, estimates, forecasts, and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. We believe the information provided here is reliable. The views and strategies described may not be suitable for all investors. References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations.
Price to earnings ratio (P/E) is a valuation ratio of a company's current share price compared to its per-share earnings.
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Navigating the Stock Market:
The Long and the Short of Opportunity

June 2014

Q&A WITH:

Gary Black
EVP and Global CO-CIO
Calamos Investments
&
Brendan Maher, CFA
SVP Co-Portfolio Manager
Calamos Investments

To enhance their asset allocations, investors and financial advisors are increasingly turning to alternative strategies, including long/short equity funds. We sat down with Calamos Global Co-CIO Gary Black and Co-Portfolio Manager Brendan Maher, CFA, to learn more about alternatives and long/short equity funds. They discussed what differentiates the Calamos approach and the firm's extensive history with alternative strategies.

Q) To begin, what is an alternative strategy?

Gary Black: "Alternative" is a broad term for investment strategies that fall outside the traditional asset allocation categories: namely, stocks, corporate and government bonds, and cash. Hedge funds, private equity, real estate, commodities and currencies are examples of alternative investments. Typically, these types of alternatives are not structured to provide daily liquidity (the flexibility to sell on a day's notice), and command investment minimums that put them out of reach for most individual investors. They are also generally subject to less regulation and oversight versus mutual funds.

In recent years, we've seen growing demand from individual investors for different types of alternative investments—what we call "liquid alternatives." These include mutual funds that utilize sophisticated strategies that once were the near-exclusive domain of hedge funds. Compared with the alternative strategies favored by hedge funds and institutions, liquid alternatives generally offer greater transparency and liquidity as well as more reasonable investment minimums.

Some alternative strategies may entail higher levels of risk based on the strategies they use, but in Calamos Long/Short Fund, we guard against risks in many ways, including reducing market risk through holding "short" positions and rigorous daily monitoring. Above all, we believe that fully understanding a company is the best way to manage potential risks. We also make sure we understand how each investment is likely to work within the portfolio as a whole. In addition, we benefit from the expertise of a dedicated risk manager.

Q) How does Calamos Long/Short Fund work?
Brendan Maher: In this fund, we seek to produce equity-like returns with less volatility than the equity market. If we believe a stock will rise in value, we will buy the stock outright, as we would in a traditional equity fund. This is called a "long" position.

However, if we believe a stock will decline in value, we "short" the stock. In simplest terms, we borrow the stock and sell the borrowed shares to another buyer. We later buy back shares in the open market and return them to the lender, according to the terms we agreed upon. Shorting a stock is profitable if the stock price falls between the time we borrow the stock and when we return it. If the stock appreciates in value, the position would potentially lose money.

Overall, our goal is to generate alpha—higher than expected performance given the risk—on both our long and short investments.

Q) How might Calamos Long/Short Fund benefit an asset allocation?
GB: Our long/short approach gives us more opportunities to generate returns from our fundamental research and insights. Because we can profit from identifying both winners and losers, Calamos Long/Short Fund may be particularly beneficial when there are wide disparities in stock performance.

Also, difficult markets can create headwinds for long-only funds. Long/short equity funds have greater flexibility over full market cycles, including when the

OUR LONG/SHORT EQUITY EDGE:

» We aim to generate alpha* through both long and short positions within a high-conviction approach

» Our investment team includes seasoned professionals with deep expertise in hedge funds, long/short strategies and the industries they cover

» We follow a catalyst-driven and bottom-up fundamental equity investment approach

» A collaborative investment process supports a best ideas portfolio

» Alternative strategies are a core capability of our firm

* *Alpha is a measure of risk-adjusted performance*

stock market is overvalued and highly volatile.

Q) What led Calamos to introduce a long/short equity fund?
GB: Alternative strategies are a long-standing capability of the firm, so a long/short equity strategy was a natural extension of our expertise.

When Global Co-CIO John P. Calamos, Sr., founded the firm, he was using convertible securities to enhance the risk and return characteristics of his clients' portfolios. At that point, convertible securities could have been viewed as an alternative asset class because they weren't well known or broadly used. In 1990, we launched Calamos Market Neutral Income Fund, a liquid alternative fund designed to provide access to strategies that were not widely available to individual investors.

Q) What sets the Calamos team apart?
GB: While we launched Calamos Long/Short Fund in 2013, the fund draws upon an established research process and team. The co-portfolio managers on our team have an average of more than 10 years of industry experience. The team has been running similar strategies since before the launch of the Calamos mutual fund.

Historically, many alternative strategies have been run by a "star" manager—a single individual with high name recognition in the investment industry or financial press. But a star system lacks the stability of a team approach. With a team approach, we are better positioned to identify opportunities in a complex market environment.

Fundamental research requires time and specialization. We combine our comprehensive analysis of companies with deep understanding of the drivers unique to a given industry or sector. We call this specialized knowledge "domain expertise," and I believe the depth of our domain expertise sets this fund apart. For example, the co-portfolio manager responsible for the fund's health care sector research was once a practicing physician.

BM: In addition to this domain expertise, the fund is further differentiated by our highly collaborative investment process. As a group, we assess the best ideas each sector head brings. The entire team vets, reviews and analyzes each position within the portfolio. Here, we're trying to identify signposts, catalysts, potential hidden correlations and risks within the portfolio. We also benefit from the investment infrastructure of our firm, including a large research team and enhanced risk management capabilities.

Q) How else does Calamos Long/Short Fund differ from other long/short equity funds?
GB: We are high-conviction managers. Some long/ short equity funds use short positions exclusively as a hedge against potential downside, often in the form of exchange traded funds that track an index. In our approach, we seek to actively profit from shorting individual companies. We also use options to hedge against risk or to pursue an improved return profile.

Q) What opportunities do you see for the Fund today?
GB: I believe Calamos Long/Short Fund is well positioned for this environment. As economic recovery continues, we expect an increasing dispersion in companies' returns as investors give greater weight to fundamentals. In this environment, we believe our research expertise will serve us in good stead as we seek to identify the stocks with the brightest prospects, as well as those most challenged.

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- ALPS Sector Dividend Dogs ETFs Declare Second Quarter Distributions: June 25, 2014
- Month-End Portfolio Data Now Available for Ares Management's Closed-End Funds: June 20, 2014
- Calamos Investments Announce Monthly Distributions for July 2014: June 30, 2014
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- Eaton Vance Closed-End Municipal Bond Funds Declare Monthly Distributions: June 30, 2014
- Eaton Vance Tax-Managed Buy-Write Opportunities Fund Report Of Earnings: June 25, 2014
- IndexIQ Announces July 2014 M&A Deal Holdings in IQ Merger Arbitrage ETF (ticker:MNA): July 2, 2014
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