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The Month in Closed-End Funds: November 2015

PERFORMANCE

For the sixth month in seven equity and fixed income CEFs on average suffered downside performance on a NAV basis (-1.93% and -0.13%, respectively) for November, while for the second month in four they also posted negative returns on a market basis (-2.90% and -0.80%). Year to date equity CEFs remained in the red on a NAV basis for the fifth straight month, down 6.11%, while fixed income CEFs remained in the black, returning 1.41% on average. For the month most of the major broad-based indices just barely chalked up plus-side returns, with the Dow Jones Industrial Average Price Only Index and the S&P 500 Composite Price Only Index returning 0.32% and 0.05%, respectively, while the Russell 2000 Price Only Index returned 3.12%. The Shanghai Price Only Composite and Nikkei 225 posted a couple of the stronger returns in the global markets, returning 0.57% and 1.29%, respectively, for November. That was in spite of late-month news that Chinese regulators were investigating two of China’s major brokerage firms over suspected violations of securities rules and as investors continued to anticipate offsetting monetary policies from the European Central Bank (ECB) and the U.S. Federal Reserve.

Despite a better-than-expected jobs report at the beginning of November, M&A news in the biotech industry, and a jump in financials, investors remained wary during the month in anticipation of the Fed raising interest rates in December. The Labor Department said the U.S. economy added 271,000 jobs for October—above the consensus-expected 185,000. Softer EU GDP data, weak economic reports from China, and worse-than-expected retail sales data mid-month led to one of the largest weekly losses in months. A large slide in oil prices placed a further pall over equities. However, comments by Fed policy makers indicating they would raise interest rates in a slow and careful manner, accompanied by news that the ECB will combat low inflation by deploying stimulus measures in December, helped ease investors’ concerns, leading to one of the largest weekly gains in the S&P 500 in almost a year. Strong earnings reports and an increase in quarterly dividends from the likes of Intuit and Nike were offset by news of slowing growth in emerging markets and by ongoing geopolitical concerns. Energy and mining shares were hit particularly hard during the month as concerns over excessive oil supplies and disappointing Chinese economic data played on investor psyche.

During the month the yield on the two-year Treasury note shot up to and then settled at 0.94%, its highest level in five years. Treasury yields rose at all maturity levels along the curve as the market priced in the odds of a rate hike in December at 70%, with the largest increase witnessed in the six-month, two-year, and three-year yields, 19 bps each to 0.42%, 0.94%, and 1.24%, respectively.

The Month in Closed-End Funds: November 2015

- For the sixth month in seven equity and fixed income closed-end funds (CEFs) suffered downside performance on average, declining 1.93% and 0.13%, respectively, on a net-asset-value (NAV) basis for November.
- For November only 8% of all CEFs traded at a premium to their NAV, with 8% of equity funds and 8% of fixed income funds trading in premium territory. The World Income CEFs macro-classification witnessed the largest widening of discounts for the month—186 basis points (bps) to 14.74%.
- For the fifth consecutive month all Lipper municipal bond CEF classifications posted plus-side returns, with New Jersey Municipal Debt CEFs (+0.94%) posting the strongest return in the fixed income universe for November.
- All the equity macro-groups posted returns in the red for November, with domestic equity funds (-2.38%) suffering the largest decline. Their mixed-asset CEFs (-0.66%) and world equity CEFs (-1.74%) brethren didn’t fare much better.
- Energy MLP CEFs (-11.15%, October’s leader) and Natural Resources CEFs (-4.88%) were the cellar dwellers of the equity universe for November.

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THOMSON REUTERS

For November the dollar gained against the euro (+4.18%), the pound (+2.58%), and the yen (+2.15%). Commodities prices declined, with near-month gold prices dropping 6.63% to close November at $1,065.80/ ounce. Front-month crude oil prices sank 10.60% to close the month at $41.65/barrel.

For the month 46% of all CEFs posted NAV-based returns in the black, with only 32% of equity CEFs and 57% of fixed income CEFs chalking up returns in the plus column. Energy- and natural resources-related stocks took it on the chin during the month, sending Lipper's domestic equity CEFs macro-group (-2.38%) to the cellar of the equity CEFs universe for the second month in three. World equity CEFs (-1.74%) and mixed-asset CEFs (-0.66%) didn't fare much better.

Concerns over a global glut in oil supplies, Saudi Arabia's refusal thus far to cut its oil output, the potential for an interest rate increase in December, and a slumping Chinese economy weighed heavily on Lipper's Energy MLP CEFs classification (-11.15%, October's leader), pushing it to the bottom of the equity universe. It was bettered somewhat by Natural Resources CEFs (-4.88%). With a rally in some tech and small-cap issuers during the month, Growth CEFs was the equity universe leader, posting a 3.06% return for November. For the remaining equity classifications returns ranged from minus 4.01% (Utility CEFs) to 0.21% (Options Arbitrage/Options Strategies CEFs).

Three of the five top-performing individual equity CEFs were housed in Lipper's Sector Equity CEFs classification. However, at the top of the pack **Engex Inc. (OTC: EXGI,** housed in the Growth CEFs classification) jumped 16.47% on a NAV basis. EXGI did not trade on November 30 and thus did not report a premium or discount. Following EXGI were two funds from the Sector Equity CEFs classification: **First Trust Specialty Finance & Financial Opportunities Fund (NYSE: FGB)**, posting a 7.37% return and traded at a 5.66% discount on November 30, and **John Hancock Financial Opportunities Fund (NYSE: BTO),** gaining 6.30% on a NAV basis and traded at a 3.48% premium at month-end. Next were **Columbia Seligman Premium Technology Growth, Inc. (NYSE:STK**, warehoused in the Options Arbitrage/Options Strategies classification), rising 4.42% on a NAV basis and traded at a 5.39% premium on November 30, and **Tekla World Healthcare Fund (NYSE: THW**, warehoused in the Sector Equity CEFs classification), posting a 3.91% NAV-based return and traded at a 16.44% discount at month-end.

For the month the dispersion of performance in individual equity CEFs—ranging from minus 16.31% to positive 16.47%—was narrower than October's spread and more negatively skewed. The 20 top-performing equity CEFs

CLOSED-END FUNDS LAB

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

	NAV RETURNS POSITIVE	PREMIUM/DISCOUNT		NOW TRADING AT	
		BETTER	WORSE	PREMIUM	DISCOUNT
Equity Funds	32	35	63	8	92
Bond Funds	57	28	70	8	91
ALL CEFs	**46**	**31**	**67**	**8**	**91**

TABLE 2 AVERAGE NAV RETURNS, SELECTED PERIODS (%)

	NOVEMBER	YTD	3-MONTH	CALENDAR-2014
Equity Funds	-1.93	-6.11	-0.71	6.65
Bond Funds	-0.13	1.41	0.63	11.56
ALL CEFs	**-0.89**	**-1.73**	**0.06**	**9.58**

TABLE 3 NUMBER OF IPOs, SELECTED 12-MONTH PERIODS

	NOVEMBER 2015	CALENDAR-2014
ALL CEFs	**25**	**23**

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

3 MONTHS THROUGH 10/31/2015	315
COMPARABLE YEAR-EARLIER 3 MONTHS	258
CALENDAR 2014 AVERAGE	302

Source: Thomson Reuters Lipper

posted returns at or above 0.95%, while the 20 lagging equity CEFs were at or below minus 8.39%.

Only 84 CEFs in the equity universe posted positive returns for the month. At the bottom of the pile was **Center Coast MLP & Infrastructure Fund (NYSE: CEF**, housed in Lipper's Energy MLP CEFs classification), shedding 16.31% of its October-closing NAV price; CEF traded at a 42.21% discount at month-end. **Kayne Anderson Midstream/ Energy Fund, Inc. (NYSE:KMF**, also warehoused in the Energy MLP CEFs classification) posted the next poorest return in the equity universe, declining 16.05%. In total, 14 of the 15 worst performing CEFs in the universe were housed in the Energy MLP CEFs classification.

The Treasury yield curve shifted upward at all maturity levels during the month, reflecting the Fed's commitment to raising rates sometime in the near future. The six-month, two-year, and five-year Treasury yields witnessed the largest increases, rising 19 bps each to 0.42%, 0.94%, and 1.24%, respectively. The ten-year yield rose 5 bps to 2.21% at month-end. For the fourth month in five two of the three fixed income CEF macro-groups posted negative returns, with municipal bond CEFs (+0.83%) posting the only plus-side return, followed by world income CEFs (-0.50%) and domestic taxable bond CEFs (-1.29%) as investors took a risk-off approach to investing.

Despite the ECB's commitment to deploy extensive stimulus measures, with increased geopolitical concerns and weak economic data coming out of China, it wasn't too surprising to see Lipper's World Income CEFs classifications posting November returns in the lower third of the fixed income universe; Global Income CEFs (-0.49%) slightly outpaced Emerging Market Debt CEFs (-0.51%).

As a result of Fed decision-makers' hawkish tone and mixed economic news and earnings reports, investors' risk-off approach pushed October's group leaders to the bottom of the pile for November. High Yield (Leveraged) CEFs and High Yield CEFs declined 2.30% and 1.94% for November. Despite the increased rhetoric by a few Fed governors about imminent interest rate increases, Loan Participation CEFs (-1.65%) remained toward the bottom of the domestic taxable fixed income macro-group. None of the classifications in this group were in the black for the month.

For the fifth consecutive month all Lipper municipal debt CEF classifications posted plus-side returns. New Jersey Municipal Debt CEFs (+0.94%) posted the strongest return of the group, while Intermediate Municipal Debt CEFs (+0.48%) posted the lowest return. National municipal debt CEFs (+0.84%) just managed to outpace their single-state municipal debt CEF counterparts (+0.81%).

Two of the five top-performing individual CEFs in the fixed income universe were housed in Lipper's General Bond CEFs classification: at the top of the group were **PIMCO High Income Fund (NYSE: PHK)**, returning 4.01% and traded at a 26.23% premium on November 30, and **PIMCO Corporate & Income Strategy Fund (NYSE: PCN)**, returning 3.35% and traded at a 3.64% discount at month-end. Following those two CEFs were **Pioneer ILS Interval Fund (NASDAQ: XILSX**, an interval hybrid CEF warehoused in the High Yield [Leveraged] CEFs classification), tacking 1.89% onto its October month-end value; **Templeton Global Income Fund (NYSE: GIM**, housed in Lipper's Global Income CEFs classification), posting a 1.70% return and traded at a 14.42% discount on November 30; and **Eaton Vance Municipal Income Trust (NYSE: EVN,** housed in Lipper's General & Insured Municipal Debt [Leveraged] CEFs classification), returning 1.65% and traded at a 2.84% premium at month-end.

For the remaining funds in the fixed income CEFs universe monthly NAV-basis performance ranged from minus 4.92% for **Avenue Income Credit Strategies Fund (NYSE: ACP**, housed in Lipper's High Yield [Leveraged] CEFs classification and traded at a 13.73% discount on November 30) to 1.62% for **Eaton Vance Municipal Income 2028 Term Trust (NYSE:ETX**, housed in Lipper's General & Insured Municipal Debt [Leveraged] CEFs classification), which traded at an 11.37% discount at month-end. The 20 top-performing fixed income CEFs posted returns at or above 1.20%, while the 20 lagging CEFs were at or below minus 2.92%. A total of 145 fixed income CEFs witnessed negative performance for November.

PREMIUM AND DISCOUNT BEHAVIOR

For November the median discount of all CEFs widened 37 bps to 9.95%—slightly worse than the 12-month moving average discount (9.55%). Equity CEFs' median discount widened 47 bps to 11.77%, while fixed income CEFs' median discount widened 32 bps to 8.73%. The World Income CEFs macro-classification's median discount witnessed the largest widening in the CEFs universe, 186 bps to 14.74%, while the General Municipal Bond CEFs macro-classification witnessed the smallest widening of discounts—13 bps to 6.79%.

For the month only 31% of all funds' discounts or premiums improved, while 67% worsened. In particular, 35% of equity funds and 28% of fixed income funds saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on November 30 (44) was 9 less than on October 30.

CEF EVENTS AND CORPORATE ACTIONS

IPOs

There were no CEF initial public offerings in November.

RIGHTS, REPURCHASES, TENDER OFFERS

Directors of **The Korea Fund (NYSE: KF)** announced an adjustment to the fund's share repurchase program whereby it will continue to repurchase (in each 12-month period ended June 30) up to 10% of its common shares. However, repurchases will be at differing discount trigger levels that will not be announced. The discount on KF held steady in November and ended at 10.8%.

Trustees of **Reaves Utility Income Fund (NYSE: UTG)** have authorized a one-for-three rights offering. The per-share subscription price will be the lesser of 95% of NAV or the five-day average market price at expiration. The offering expires December 11, 2015.The small (1.3%) discount on UTG briefly went to a premium for a few days before investors changed their minds and sent the fund's discount far back to 6.3%.

Preliminary results of the recent repurchase offer for up to 30% (approximately 2.0 million shares) of **Western Asset Variable Rate Strategic Fund (NYSE: GFY)** saw roughly 67% (4.5 million shares) tendered. On a pro rata basis shareholders will have about 45% of their tendered shares bought back. The discount on GFY widened from 7.1% to 9.1% in November.

Preliminary results of the recent repurchase offer for up to 10% (approximately 802,000 shares) of **BlackRock Enhanced Government Fund (NYSE: EGF)** saw roughly 66% (5.3 million shares) tendered. On a pro rata basis shareholders will have about 15% of their tendered shares bought back. The discount on EGF held steady to end November at 5.8%.

MERGERS AND REORGANIZATIONS

Directors of **Western Asset Global Partners Income Fund (NYSE: GDF)** and **Western Asset Global High Income Fund (NYSE: EHI)** approved a proposal to merge GDF into EHI, subject to shareholder approval. If approved, the merger is expected to occur during second quarter 2016. The discount on EHI slipped from 13.5% to 16.1% in November.

At a special meeting **Montgomery Street Income Securities (NYSE: MTS)** shareholders approved the dissolution and liquidation of the 42-year-old fund.

OTHER

Donald F. Crumrine will retire from Flaherty & Crumrine on December 31, 2015. Don Crumrine was a member of the portfolio management team of Flaherty & Crumrine since he co-founded the firm in 1983 and was also the firm's chairman until September 2014.

Directors of **Western Asset High Yield Defined Opportunity Fund (NYSE: HYI)** approved a modification to the fund's investment policy (effective immediately) to permit purchases of equity securities directly. Under the previous investment policy the fund could hold only common stocks that result from a corporate restructuring or stock conversion. The discount on HYI crept wider in November, from 10.4% to 12.5%.

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CEF Performance Statistics
LIPPER

Lipper Classification	1Mo Nav	1 Mo Mkt	Nov P/D	Oct P/D	1 Mo P/D chg	YTD NAV Change	YTD Mkt Change	YTD P/D Change (%)
California Municipal Debt Funds	0.3%	-1.2%	-2.9%	-1.4%	-1.5%	-0.6%	1.2%	1.7%
Convertible Securities Funds	-2.7%	-4.4%	-13.9%	-12.3%	-1.6%	-10.6%	-18.5%	-9.7%
Core Funds	-1.4%	-1.8%	-11.9%	-11.0%	-0.1%	-8.3%	-11.3%	-1.7%
Corporate BBB-Rated Debt Funds(Leveraged)	-1.0%	-1.4%	-8.8%	-8.4%	-0.4%	-4.6%	-3.4%	1.1%
Corporate Debt Funds BBB-Rated	-0.8%	-0.9%	-5.5%	-5.4%	-0.1%	-5.0%	-2.2%	2.7%
Developed Market Funds	-0.9%	-1.9%	-13.2%	-12.1%	-1.0%	1.8%	-0.1%	-1.8%
Emerging Markets Funds	-2.6%	-2.8%	-12.0%	-11.4%	-0.2%	-12.4%	-16.1%	-3.0%
Emerging Mrkts Hard Currency Debt Funds	-1.0%	-2.6%	-13.8%	-12.4%	-1.4%	-10.3%	-11.5%	-1.4%
Energy MLP Funds	-12.5%	-15.1%	-6.7%	-3.8%	-3.0%	-43.0%	-44.4%	-3.1%
General & Insured Muni Debt Funds (Leveraged)	0.5%	-0.2%	-6.9%	-6.3%	-0.6%	-1.1%	-0.4%	0.7%
General & Insured Muni Fds (Unleveraged)	0.2%	-0.4%	-3.7%	-3.1%	-0.6%	-0.2%	-1.7%	-1.5%
General Bond Funds	-0.9%	-2.1%	-9.0%	-7.9%	-1.1%	-6.5%	-8.9%	-3.7%
Global Funds	-1.5%	-1.3%	-14.3%	-14.3%	0.0%	-9.0%	-13.6%	-4.9%
Global Income Funds	-1.2%	-2.7%	-10.2%	-8.9%	-1.4%	-8.9%	-10.4%	-1.5%
Growth Funds	2.8%	1.7%	-9.2%	-8.7%	-0.6%	-11.4%	-4.7%	0.1%
High Yield Funds	-2.5%	-4.5%	-11.2%	-9.9%	-1.3%	-8.9%	-15.6%	-5.6%
High Yield Funds (Leveraged)	-3.0%	-4.8%	-12.6%	-11.1%	-1.5%	-11.1%	-16.5%	-6.0%
High Yield Municipal Debt Funds	0.2%	0.2%	-3.8%	-3.7%	-0.1%	-1.1%	-1.6%	-0.8%
Income & Preferred Stock Funds	-0.8%	-0.5%	-9.0%	-9.1%	0.1%	-4.1%	-4.7%	-1.0%
Intermediate Municipal Debt Funds	0.1%	-0.2%	-5.2%	-4.9%	-0.3%	-1.2%	-0.9%	0.1%
Loan Participation Funds	-2.1%	-1.5%	-10.7%	-11.5%	0.8%	-6.5%	-7.7%	-1.2%
Natural Resources Funds	-5.8%	-9.2%	-13.4%	-11.4%	-2.0%	-27.1%	-31.3%	-2.7%
New Jersey Municipal Debt Funds	0.5%	-1.5%	-9.4%	-7.6%	-1.8%	-2.7%	-1.0%	1.5%
New York Municipal Debt Funds	0.4%	0.8%	-4.9%	-5.4%	0.5%	-0.8%	1.3%	2.0%
Options Arbitrage/Opt Strategies Funds	-0.3%	0.4%	-5.4%	-6.2%	0.8%	-5.3%	-5.6%	0.0%
Other States Municipal Debt Funds	0.3%	0.1%	-6.7%	-6.3%	-0.2%	-0.8%	0.6%	1.3%
Pacific Ex Japan Funds	-3.8%	-4.0%	-12.8%	-12.6%	-0.2%	-10.6%	-13.7%	-3.3%
Pennsylvania Municipal Debt Funds	0.4%	0.3%	-11.8%	-11.9%	-0.1%	-1.2%	-3.6%	-2.3%
Real Estate Funds	-0.3%	-2.7%	-13.5%	-12.3%	-1.3%	-2.1%	-6.9%	-2.6%
Sector Equity Funds	-1.5%	-2.9%	-7.6%	-6.7%	-0.9%	-7.2%	-12.5%	-1.9%
U.S. Mortgage Funds	-0.7%	-2.1%	-10.3%	-9.0%	-1.3%	-3.0%	-6.4%	-1.9%
Utility Funds	-4.6%	-5.1%	-8.4%	-8.0%	-0.4%	-16.5%	-19.7%	-3.5%
Value Funds	-1.2%	-2.2%	-13.8%	-13.0%	-0.8%	-6.2%	-9.9%	-3.5%

Top 5 Performing CEFs

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Fund Name	Category	Ticker Symbol	1-Month NAV Change	Rank
Engex Inc	Growth Funds	EXGI	16.5%	1
J Hancock Finl Opptys	Sector Equity Funds	BTO	6.3%	2
First Tr Spec Fin&Finl	Sector Equity Funds	FGB	4.5%	3
Tekla World Healthcare	Sector Equity Funds	THW	3.2%	4
PIMCO Corp & Inc Strat	General Bond Funds	PCN	2.5%	5

Fund Name	Category	Ticker Symbol	Year-to-Date NAV Change	Rank
Japan Small Cap	Developed Market Funds	JOF	21.0%	1
New Ireland Fund	Developed Market Funds	IRL	13.1%	2
Aberdeen Japan Equity	Developed Market Funds	JEQ	11.8%	3
New Germany Fund	Developed Market Funds	GFN	11.4%	4
Vertical Capital Income	U.S. Mortgage Funds	VCAPX	9.1%	5

Fund Name	Category	Ticker Symbol	1-Month Market Change	Rank
RENN Fund	Global Funds	RCG	12.4%	1
J Hancock Tx-Ad Gl Sh Yd	Global Funds	HTY	9.5%	2
J Hancock Finl Opptys	Sector Equity Funds	BTO	6.8%	3
Columbia Sel Prm Tech Gr	Options Arbitrage/Opt Strategies Funds	STK	6.4%	4
Nuveen SP500 Buy-Wr Inc	Options Arbitrage/Opt Strategies Funds	BM	5.1%	5

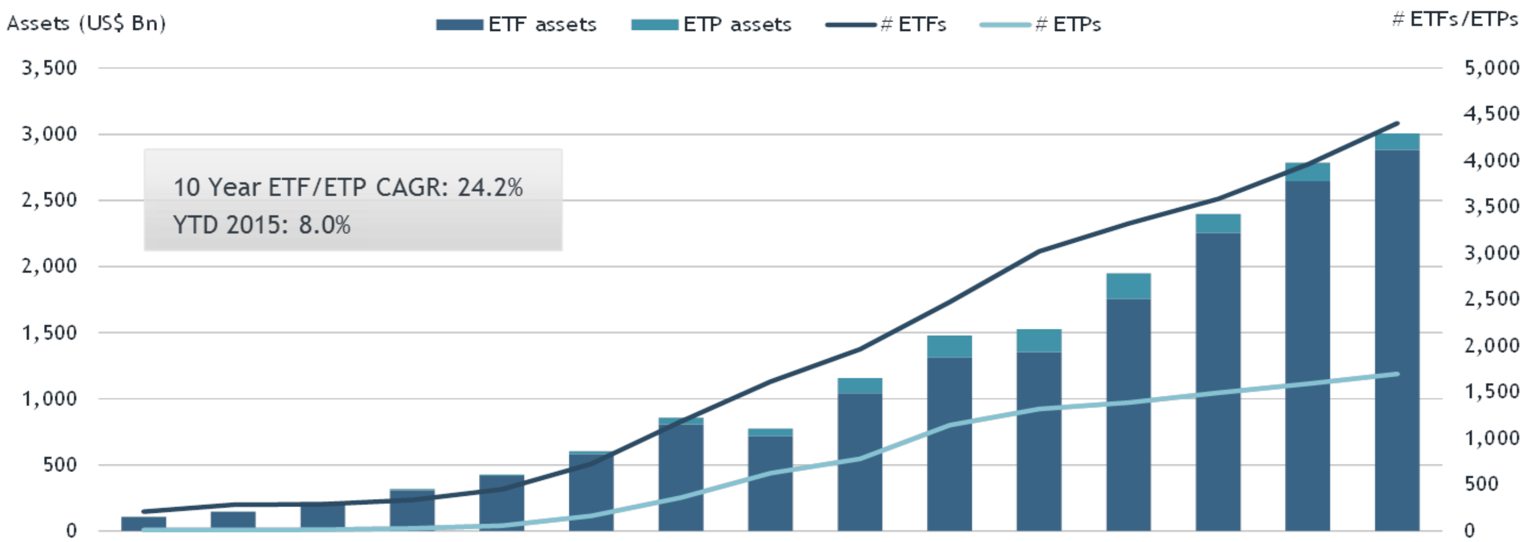
Fund Name	Category	Ticker Symbol	Year-to-Date Market Change	Rank
J Hancock Finl Opptys	Sector Equity Funds	BTO	21.3%	1
Japan Small Cap	Developed Market Funds	JOF	20.0%	2
Aberdeen Japan Equity	Developed Market Funds	JEQ	13.7%	3
New Ireland Fund	Developed Market Funds	IRL	11.5%	4
Eaton Vance T-M B-W Opps	Options Arbitrage/Opt Strategies Funds	ETV	9.2%	5

Fund Name	Category	Ticker Symbol	1-Month P/D Change	Rank
J Hancock Tx-Ad Gl Sh Yd	Global Funds	HTY	10.7%	1
RENN Fund	Global Funds	RCG	8.9%	2
PIMCO Gl StksPLUS & Inc	Options Arbitrage/Opt Strategies Funds	PGP	7.8%	3
Columbia Sel Prm Tech Gr	Options Arbitrage/Opt Strategies Funds	STK	4.7%	4
Nuveen SP500 Buy-Wr Inc	Options Arbitrage/Opt Strategies Funds	BM	4.2%	5

Fund Name	Category	Ticker Symbol	Year-to-Date P/D Change	Rank
J Hancock Finl Opptys	Sector Equity Funds	BTO	11.4%	1
Global High Income	Emerging Mrkts Hard Currency Debt Funds	GHI	11.4%	2
Strategic Global Income	Global Income Funds	SGL	10.9%	3
DNP Select Income Fund	Utility Funds	DNP	10.4%	4
Managed High Yield Plus	High Yield Funds (Leveraged)	HYF	10.3%	5

Global ETF and ETP asset growth as at end of November 2015

At the end of November 2015, the Global ETF industry had 4,406 ETFs, with 9,337 listings, assets of US$2.880 trillion, from 243 providers on 61 exchanges. At the end of November 2015, the Global ETF/ETP industry had 6,103 ETFs/ETPs, with 11,732 listings, assets of US$3.008 trillion, from 275 providers on 63 exchanges.



Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Oct-15
# ETFs	209	284	289	335	451	725	1,184	1,614	1,962	2,474	3,020	3,323	3,588	3,962	4,344
# ETFs/ETPs	221	296	304	365	507	888	1,544	2,238	2,741	3,617	4,337	4,711	5,082	5,552	6,017
ETF assets	105	142	212	310	417	580	807	716	1,041	1,313	1,355	1,754	2,254	2,643	2,867
ETF/ETP assets	109	146	218	319	426	603	857	774	1,158	1,478	1,526	1,949	2,398	2,784	3,001

Summary for ETFs/ETPs: Global

ETFs/ETPs listed globally have gathered a record US$319.4 billion in net new assets as of the end of November 2015 which is 15% above the record level of US$277.3 billion of net new assets gathered at this point in 2014. This marks the 22nd consecutive month of positive net inflows. The global ETF/ETP industry had 6,104 ETFs/ETPs, with 11,733 listings, assets of US$3.0 trillion, from 275 providers listed on 63 exchanges in 51 countries at the end of November, according to ETFGI's Global ETF and ETP insights report for November 2015 (click here to see ETFGI's chart of global ETF/ETP asset growth)

In the first eleven months of 2015 record levels of net new assets have been gathered by ETFs/ETPs listed globally with net inflows of US$319.3 Bn marking a 15% increase over the prior record set during the first eleven months of 2014. In the United States net inflows reached US$201.7Bn, which is 5% higher than the prior record set last year, in Canada net inflows at US$11.4 Bn are up 10.7% over the prior record set in 2012, while in Europe year to date (YTD) net inflows climbed to US$72.6 Bn, representing a 18% increase on the record set YTD through end of November 2014. In Japan, YTD net inflows were up 210% on the prior record set in 2013, standing at US$33.7 Bn at the end of November 2015.

"Global markets were mostly down in November, developed markets outside the US declined 1%, emerging markets ended down 3% while the Dow Jones Industrial Average and the S&P 500 ended up less than 1%." according to Deborah Fuhr, managing partner at ETFGI.

In November 2015, ETFs/ETPs gathered net inflows of US$29.9 Bn. Equity ETFs/ETPs gathered the largest net inflows with US$28.2 Bn, while commodity ETFs/ETPs saw net outflows of US$111 Mn and fixed income ETFs/ETPs saw net outflows of US$24 Mn.

YTD through end of November 2015, ETFs/ETPs have seen net inflows of US$319.3 Bn. Equity ETFs/ETPs gathered the largest net inflows YTD with US$206.6 Bn, followed by fixed income ETFs/ETPs with US$81.6 Bn, and commodity ETFs/ETPs which have gathered net inflows of US$3.1 Bn.

iShares gathered the largest net ETF/ETP inflows in November with US$15.9 Bn, followed by Vanguard with US$7.9 Bn, First Trust with US$1.6 Bn, Schwab ETFS with US$1.3 Bn, Guggenheim with US$797 Mn and Powershares with US$754 Mn in net inflows.

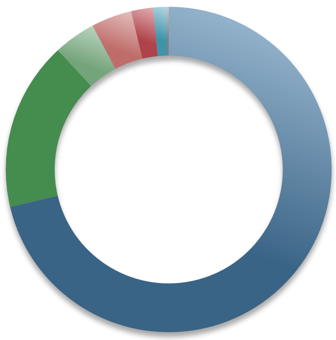
YTD, iShares gathered the largest net ETF/ETP inflows YTD with US$112.0 Bn, followed by Vanguard with US$74.7 Bn, DB/x-trackers with US$27.2 Bn, WisdomTree with US$20.3 Bn, Nomura with US$16.1 Bn and Schwab ETFs with US$12.3 Bn in net inflows.

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

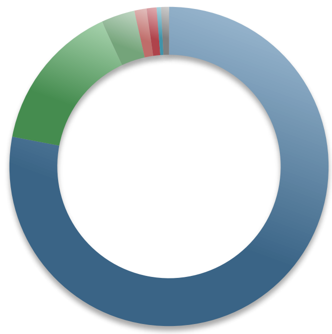
Global ETF/ETP Assets Summary

etfgi.com

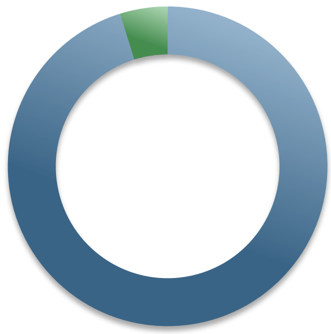
ETF/ETP assets by region listed



ETF/ETP assets by asset class



ETF/ETP assets by product structure



Region	# ETFs/ ETPs	Assets (US$ Bn)	% total
US	1,824	$2,147.8	71.4%
Europe	2,198	$503.5	16.7%
Japan	169	$131.6	4.4%
Asia Pacific (ex-Japan)	771	$116.4	3.9%
Canada	373	$66.3	2.2%
Middle East and Africa	721	$37.1	1.2%
Latin America	47	$5.2	0.2%
Total	**6,103**	**$3,007.9**	**100.0%**

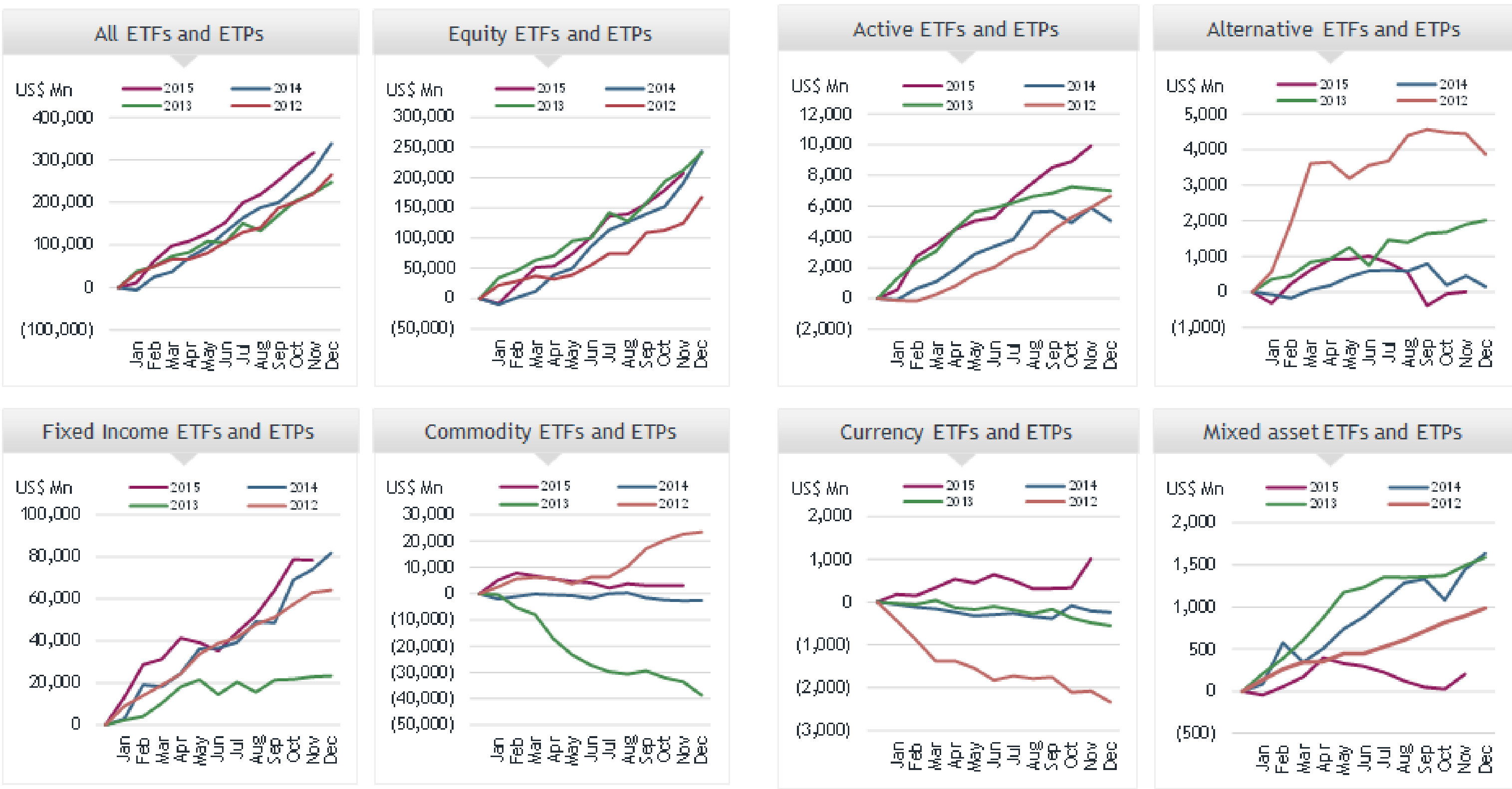
Asset class	# ETFs/ ETPs	Assets (US$ Bn)	% total
Equity	3,326	$2,320.1	77.1%
Fixed Income	872	$479.0	15.9%
Commodities	700	$96.4	3.2%
Leveraged	358	$40.4	1.3%
Active	238	$33.5	1.1%
Leveraged Inverse	180	$13.4	0.4%
Others	429	$25.2	0.8%
Total	**6,103**	**$3,007.9**	**100.0%**

Asset class	# ETFs/ ETPs	Assets (US$ Bn)	% total
ETF	4,406	$2,880.0	95.7%
ETP	1,697	$127.9	4.3%
Total	**6,103**	**$3,007.9**	**100.0%**

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

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

YTD 2015 vs 2014, 2013, 2012 ETF and ETP net new assets by asset class: Global



ETFs and ETPs listed globally gathered net inflows of $29,879 Mn in November. Year to date, net inflows stand at $317,154 Mn. At this point last year there were net inflows of $277,260 Mn.

Equity ETFs/ETPs saw net inflows of $28,423 Mn in November, bringing year to date net inflows to $207,609 Mn, which is greater than the net inflows of $191,089 Mn over the same period last year.

Fixed income ETFs and ETPs experienced net outflows of $264 Mn in November, reducing year to date net inflows to $78,400 Mn, which is greater than the same period last year which saw net inflows of $73,881 Mn.

Commodity ETFs/ETPs saw net outflows of $106 Mn in November. Year to date, net inflows are at $3,110 Mn, compared to net outflows of $2,707 Mn over the same period last year.

Actively managed products saw net inflows of $1,013 Mn in November, bringing year to date net inflows to $9,960 Mn, which is greater than the net inflows of $5,939 Mn over the same period last year.

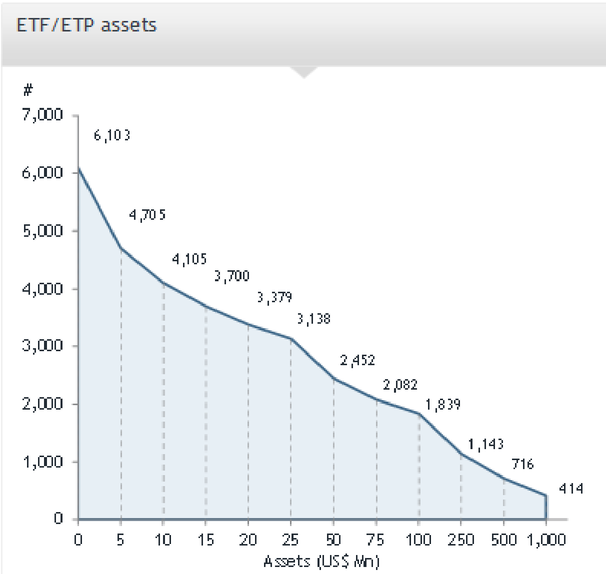
Products tracking alternative indices experienced net inflows of $63 Mn in November, growing year to date net inflows to $9 Mn, which is less than the same period last year which saw net inflows of $452 Mn.

Currency products accumulated net inflows of $679 Mn in November. Year to date, net inflows are at $1,012 Mn, compared to net outflows of $206 Mn over the same period last year.

Products holding more than one asset class saw net inflows of $175 Mn in November, bringing year to date net inflows to $201 Mn, which is less than the net inflows of $1,447 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/ ETPs	% total	Total assets (US$ Bn)	% total
0	6,103	100.0%	3,002	100.0%
5	4,705	77.1%	2,999	99.9%
10	4,105	67.3%	2,995	99.8%
15	3,700	60.6%	2,990	99.6%
20	3,379	55.4%	2,984	99.4%
25	3,138	51.4%	2,979	99.2%
50	2,452	40.2%	2,954	98.4%
75	2,082	34.1%	2,931	97.7%
100	1,839	30.1%	2,910	97.0%
250	1,143	18.7%	2,796	93.2%
500	716	11.7%	2,644	88.1%
1,000	414	6.8%	2,429	80.9%

414 ETFs/ETPs have greater than US$1 Bn in assets, while 1,839 have greater than US$100 Mn in assets and 2,452 have greater than US$50 Mn in assets. The 414 ETFs/ETPs with greater than US$1 Bn in assets hold a combined total of US$2,429 Bn, or 80.9%, of Global ETF/ETP assets.

ETF/ETP underlying benchmarks: developed equity

Top 20 by assets

Name	Assets (US$ Mn) Nov-15	NNA (US$ Mn) Nov-15	NNA (US$ Mn) YTD 2015
S&P 500 Index	344,684	2,153	(26,028)
MSCI EAFE Index	78,029	1,080	23,015
Nikkei 225 Index	61,692	(817)	12,685
CRSP US Total Market Index	58,084	631	6,862
TOPIX Index	51,791	289	12,632
NASDAQ 100 Index	48,198	868	(902)
S&P Mid Cap 400 Index	44,291	211	3,419
EURO STOXX 50 Index	38,314	(235)	10,441
MSCI Japan Index	37,097	448	8,031
Russell 1000 Growth Index	31,649	835	1,953
Russell 2000 Index	30,949	2,353	(560)
FTSE Developed ex North America Index	29,148	1,493	5,869
Russell 1000 Value Index	27,508	504	2,013
MSCI US REIT Index	26,917	441	550
DAX Index	22,067	128	3,386
Wisdom Tree Europe Hedged Equity Index	21,790	619	15,766
CRSP US Large Cap Growth Index	20,965	350	2,703
MSCI World Index	20,015	471	631
S&P Financial Select Sector Index	19,615	700	(1,533)
NASDAQ Dividend Achievers Select Index	19,402	(37)	(1,318)

Top 20 by monthly net inflows

Name	Assets (US$ Mn) Nov-15	NNA (US$ Mn) Nov-15	NNA (US$ Mn) YTD 2015
Russell 1000 Index	15,823	2,528	4,142
Russell 2000 Index	30,949	2,353	(560)
S&P 500 Index	344,684	2,153	(26,028)
MSCI EAFE IMI Index USD	8,769	1,635	5,629
FTSE Developed ex North America Index	29,148	1,493	5,869
MSCI EAFE Index	78,029	1,080	23,015
NASDAQ 100 Index	48,198	868	(902)
Russell 1000 Growth Index	31,649	835	1,953
S&P Financial Select Sector Index	19,615	700	(1,533)
Dow Jones Internet Composite Index	4,811	669	2,168
S&P Technology Select Sector Index	13,936	637	(369)
CRSP US Total Market Index	58,084	631	6,862
Wisdom Tree Europe Hedged Equity Index	21,790	619	15,766
S&P Preferred Stock Index	14,547	559	2,918
Russell 1000 Value Index	27,508	504	2,013
S&P 500 Growth Index	15,241	492	1,231
MSCI World Index	20,015	471	631
MSCI Japan Index	37,097	448	8,031
FTSE EPRA/NAREIT Developed Europe Index	988	444	469
MSCI US REIT Index	26,917	441	550

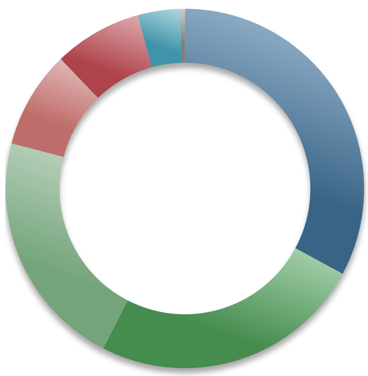
Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources, and data generated by our in-house team.

Year to Date ETF / ETP Product Launches

etfgi.com

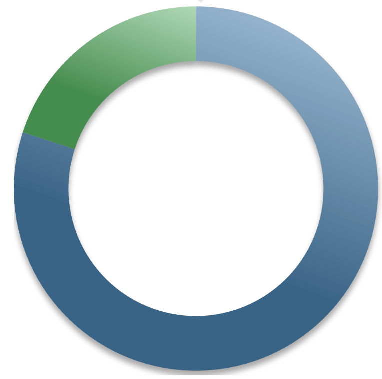
YTD ETF/ETP product launches

ETFs/ETPs by region listed



ETFs/ETPs by asset class

ETFs/ETPs by product structure



Region	# ETFs/ETPs	% total
US	261	31.8%
Europe	216	26.3%
Asia Pacific (ex-Japan)	191	23.2%
Middle East and Africa	64	7.8%
Canada	59	7.2%
Japan	28	3.4%
Latin America	3	0.4%
Total	**822**	**100.0%**

Asset class	# ETFs/ETPs	% total
Equity	521	63.4%
Fixed income	87	10.6%
Leveraged	62	7.5%
Active	51	6.2%
Leveraged Inverse	30	3.6%
Inverse	28	3.4%
Others	43	5.2%
Total	**822**	**100.0%**

Structure	# ETFs/ETPs	% total
ETF	650	79.1%
ETP	172	20.9%
Total	**822**	**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.

Aberdeen Emerging Markets Equities

December 2015

Authored by:
Devan Kaloo
Head of Global Emerging Markets
Aberdeen Asset Management

Money has been flowing out of emerging markets ahead of a U.S. Federal Reserve (Fed) rate hike. When will this stop?

Emerging markets have been suffering from outflows, particularly in July and August, after Chinese A-shares tumbled from multi-year highs. We saw rising volatility in the markets on concerns ranging from a slowdown in China to the timing of the Fed's rate hike. While it is difficult to pinpoint when these outflows will stop (and we do not attempt to time the market), commodity exporters and those with large external debts remain vulnerable when the Fed takes center stage later this month. However, much of the bad news, including weak currencies, soft commodity prices and slowing growth, appears to have already taken place. Hence, an expected and gradual rate hike is not likely to hurt sentiment too much. More importantly, emerging countries are now better positioned for the rate hike compared to the "taper tantrum" in 2013, thanks to improved external balances and higher reserves.

Will China's slowing economy stop a global recovery?

China's economy is slowing, not collapsing. The deceleration is a necessary consequence of restructuring an export- and investment-led economy towards a more sustainable model with consumption and services as its main growth pillars. This is a good thing. In fact, the services sector now accounts for a larger percentage of China's gross domestic product (GDP) than manufacturing. Given the lackluster external environment, and despite several policy missteps so far, our view is that the government will continue supporting growth with fiscal and monetary policy. That said, waning Chinese demand, which translates into weaker commodity prices, remains a key risk for EM exporters. The developing economies that made use of the boom years to strengthen their current account balances and increase productivity are better-placed to weather the "new normal" of lower levels of trade and investment.

Where do you stand on valuations?

Share prices are reasonable and markets offer value. Our companies are very strong; they've not stretched their balance sheets and they've been working hard to cut costs for some time now. But we need a catalyst for earnings. Other than the U.S., there are few big engines of growth to supplement domestic consumption. In this environment, we'll be happy to take advantage of any further price weakness to build positions in companies we know well. Looking further ahead, we are confident that with limited risk of contagion, a renewed credit cycle, the benefit of cheaper energy and high savings, Asia in particular will attract many investors back to the asset class.

Your biggest exposure is India, number two is Brazil. The first is a "Fragile Five" economy, while the second is flirting with stagflation. Why?

There are two important points here: the first is the incredible diversity within the EM universe, while the second is that good companies are found in the most challenging environments. In the case of India, the economy has come a long way in a short time. The Reserve Bank of India has been building up the country's defenses against capital flight since the "taper tantrum" of 2013. Foreign exchange reserves are near record levels, while sensible policies have narrowed the current account deficit to manageable levels. On the other hand, a combination of economic mismanagement and falling global commodity prices means Brazil is flirting with double-digit inflation even as the economy faces the prospect of two consecutive years of contraction. Yet in both markets we find companies that we like. We have always been fans of India's companies, even before it became fashionable. Brazil is perhaps more controversial. Despite the obvious challenges, we continue to believe in the prospects for companies that we believe are clear market leaders taking market share and doing very well in a difficult operating environment.

Narendra Modi, India's prime minister, lost a high-profile state election. Does this put his reforms in jeopardy?

The defeat of the Bharatiya Janata Party (BJP) in the Bihar state election is another setback for India's prime minister. The upper house of parliament continues to block land acquisition legislation central to infrastructure development, while little progress has been made on a nationwide goods and services tax. But this shouldn't overshadow what's been achieved at the state level. Modi's emphasis on "competitive federalism," or getting states to compete for investment, is paying off. Seven states have eased land acquisition processes, while even more have set up land banks, which consist of government land made available for industrial use. Bihar's chief minister, Nitish Kumar, may not be a BJP man, but he is known to be reform-minded and his win should signal a continuation of such policies in the state. Modi's party reinforced its commitment to reform by quickly announcing new plans to liberalize foreign direct investment rules following the results of the Bihar poll.

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Fitch: Closed-End Funds Well Capitalized for 2016, Face Higher Interest Rate Risk

December 10, 2015

Authored by:
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The 2016 rating outlook for the U.S. closed-end fund (CEF) sector remains stable, reflecting strong covenants that protect against asset coverage declines, prudent leverage management, and modest leverage levels entering the year. Fitch's outlook covers both taxable and municipal CEFs, and related market value structures (MVS).

Volatility was the main driver of changes in leverage ratios as observed with MLP/energy CEFs and Puerto Rico CEFs in 2015. Fitch expects managers to actively manage capital structures and nominal leverage levels to comply with asset coverage restrictions and avoid forced deleveraging.

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2016 Outlook: Closed-End Funds/Market Value Structures

December 10, 2015

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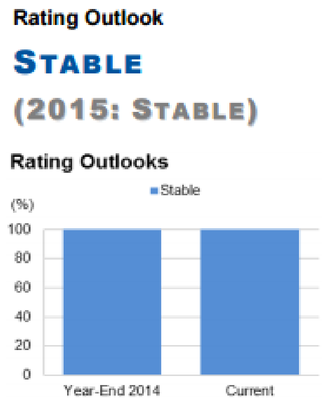
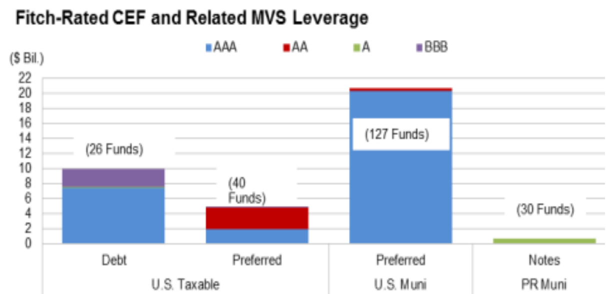
Strong Covenants Drive Stable Ratings: For 2016, Fitch Ratings maintains a stable outlook on ratings assigned to $36.3 billion of debt and preferred stock across 157 municipal and 50 taxable closed-end funds (CEFs), as well as several market value structures (MVS). The stable outlook primarily reflects the covenants in debt and preferred securities issued by CEFs and MVS that require dynamic deleveraging to maintain defined levels of asset coverage relative to outstanding debt and preferred stock.

Asset Volatility Affects Leverage: Asset volatility directly affects leverage levels. Volatility increased for certain CEF sectors (Puerto Rico CEFs and MLP/energy CEFs) during 2015. Fitch expects CEF managers will continue to actively manage leverage levels in the face of additional volatility in 2016.



Source: Fitch.



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Rating Actions

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

- **Fitch Rates Term Preferred Shares Issued by Nuveen Closed-End Fund – November 16, 2015**
- **Fitch Affirms Madison Arbor Senior Notes at 'AAA' – November 30, 2015**

Closed-End Funds – An analysis of the closed-end fund market

November 13, 2015

Authored by:
Mariana F. Bush, CFA
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Causes & Opportunity

One of the more unique aspects of closed-end funds (CEFs), relative to other packaged products such as open-end mutual funds or unit investment trusts (UITs), is the dynamic between the market price and the net asset value (NAV), which may lead to widening and narrowing premiums and discounts. This report explains why premiums and discounts exist, why these may widen and narrow, as well as how this dynamic may create opportunities for CEF investors.

Why they occur

Changes in the demand for a CEF have a different impact on its shares than on an open-end mutual fund. Similar to open-end mutual funds, CEFs are registered under the Investment Company Act of 1940 and hold a collection of securities that are actively managed by investment professionals. The basket of securities is valued at its aggregate market value, which is then adjusted for any liabilities and expenses, creating an NAV. The NAV is then divided by the total outstanding shares, creating an NAV per share. This is where the similarities start to diverge.

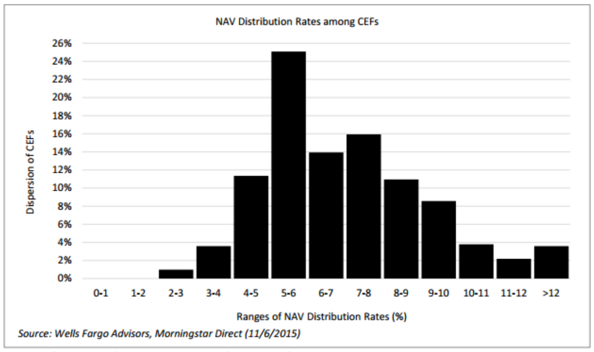
The number of shares of a typical open-end mutual may change on a daily basis, which will increase or decrease the total assets in the fund. CEFs, like stocks, raise capital primarily through an initial public offering (IPO). Once the IPO process is completed, CEFs are "closed" (i.e. no more assets flow into the portfolio, except for any leveraging of the assets), and the shares are listed on an exchange.1 As such, after the IPO, the only means by which investors can gain exposure to a CEF is to purchase the shares on an exchange during market hours similar to trading stocks. Therefore, even though the NAV fluctuates as the value of the portfolio's underlying holdings change, the market price of the CEF is determined by market forces. While the market price and the NAV often move in tandem, changes in demand may cause the market price to deviate from the NAV, creating a premium (i.e., the market price is higher than the NAV) or a discount (i.e., the market price is lower than the NAV). It should be noted that the liquidity of CEFs resembles that of micro-cap stocks, thus making the market prices of these vehicles quite sensitive to changes in demand, which is sometimes evident by sharp fluctuations in the premiums and discounts.

Attractive and consistent distribution rates

In our opinion, an important driver of investor demand for CEFs is the attractiveness and consistency of their distribution rates. Regardless of the asset class, both the NAV distribution rates and the market-price distribution rates2 are usually greater than those provided by most stocks and other structures with equivalent underlying exposure (e.g., exchange-traded products (ETPs), mutual funds, UITs, etc.).

Several characteristics contribute to the superior distribution power of a CEF. First, many CEFs use leverage to enhance their distribution rates. Second, discounts tend to increase the distribution rate based on market price to shareholders without increasing the risks of the portfolio. Also, many CEFs tend to invest in securities with a higher yield or expected total return due to lower credit quality, longer duration and/or less liquidity. The CEF structure lends itself to holding less liquid securities because portfolio managers need not worry about inopportune and/or unexpected redemptions, due to the "closed-end" structure. Keep in mind that many CEFs, especially those that hold equities, establish managed distributions and set a distribution in a somewhat arbitrary manner. Ideally, the distribution should be set at a reasonable level that is in line with the portfolio's expected total return over time. The distribution of a CEF may include net interest income from bonds and dividend income from stocks; as well as capital gains and/or return of capital. Note that if the distribution rate is set too high, the CEF's NAV will erode over time.

As of November 6, 2015, the median distribution rate for those CEFs with a regular monthly or quarterly distribution is 7.1% (based on NAV) and 7.7% (based on market price.) Note that only 7% of the CEF universe has a distribution frequency other than monthly or quarterly, while 74% pay a monthly distribution and 19% do so quarterly. The chart below illustrates the dispersion of NAV distribution rates among CEFs. For example, 25% of the CEF universe has NAV distribution rates between 5% and 6%. Note that no CEF with a regular distribution has an NAV distribution rate below 2%, and those with NAV distribution rates between 2% and 4% are mostly municipal CEFs — single state



Past performance does not guarantee future results.

funds and/or municipal term trusts with only a few years until termination — that would have higher tax-equivalent NAV distribution rates. In other words, some of the lowest tax-equivalent NAV distribution rates currently in the CEF universe are generally above 4%. Also note that many of the highest NAV distribution rates — the outliers on the right of the chart — are probably not sustainable over the longer term increasing the likelihood of future reductions in distributions.

Distribution changes

Changes in a distribution can impact the valuation of a CEF. Usually, a reduction in distribution — especially if it is not anticipated — tends to negatively impact a CEF's valuation, and vice versa. Typically, the magnitude of a distribution change will have a corresponding impact on a CEFs valuation. Additionally, the impact on the valuation is partly dependent upon where the valuation is at the time of the declaration of the distribution. For example, a sizeable distribution reduction will more than likely have a larger impact on a CEF trading at a substantial premium versus one already trading at a wide discount.

Outlook for the underlying asset class

Additional factors that impact valuations include market volatility and investor sentiment as well as the outlook for the CEF's underlying asset class. In fact, when certain types of open-end funds experience outflows, discounts among CEFs with a similar exposure tend to widen, and vice versa. In some cases, a previous disappointing experience will reduce the interest for a CEF even after its valuation becomes compelling. For example, a substantial bet (involving derivatives or options) by the manager that caused sharp NAV underperformance, a substantial cut in distribution after many years of stable distributions, or an untimely IPO are some of the "scars" that may keep investors from buying a CEF regardless of how inexpensive its valuation may be.

Opportunity

Given the unique and often misunderstood market-price/NAV relationship, we believe it is worthwhile for investors to take the premium/discount factor of CEFs into consideration during the selection process. Yet, a wide enough discount alone should not be sufficient when selecting a CEF for purchase. Instead, investors should consider other factors as well such as portfolio exposure, leverage, sustainability of the distribution, and liquidity. Clearly, a wide premium — a double-digit premium in particular — should be avoided because investors take an unnecessary risk, in our opinion.

1 CEFs are able to raise additional capital through follow-on (secondary) offerings, rights offerings and at-the-market offerings. However, this is uncommon among the majority of CEFs.
2 The NAV and market price distribution rates are calculated by annualizing the most recent regular distribution and dividing it by the NAV or market price, respectively

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The Return of Volatility and the Case for Earnings Quality

November 18, 2015

Authored by:
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A Snapshot of Q3 Flows and Trends

Despite healthy net inflows totaling $44.8 billion in Q3, in line with $45 billion of net inflows in Q2, US-listed exchange-traded fund (ETF) assets declined by $132 billion for the quarter, to $1.99 trillion.1 This quarter-over-quarter decline—the first since Q2 of 2013—was caused primarily by a correction in global equities. Nonetheless, domestic equity was the strongest category for the quarter, bringing in $22.8 billion in net inflows, marking the first quarter of positive net flows for the category in 2015. The taxable bond category followed close behind with roughly $22 billion in net inflows, compared to less than $1 billion of net inflows for the previous quarter. The alternative category also had a significant increase in net inflows at $4 billion, the majority of which came from leveraged long and inverse ETFs. The largest reversal in Q3 came from the international equity category, which suffered $1.3 billion in net outflows, after leading all categories for net inflows for the previous quarter with $46.5 billion. Sector equity ETFs also reversed course, with $2.6 billion in net outflows, compared to $2.4 billion of net inflows for the previous quarter.

Table 1[1]

US Category Group	Estimated Net Asset Flows Previous Quarter (Q2 2015)	Estimated Net Asset Flows Q3 2015
Allocation	$720,410,018	($133,597,486)
Alternative	$881,655,569	$4,024,043,604
Commodities	($1,692,716,753)	($561,415,379)
International Equity	$46,571,361,300	($1,300,647,998)
Municipal Bond	$709,268,198	$675,414,564
Sector Equity	$2,350,903,132	($2,670,979,071)
Taxable Bond	$944,052,284	$21,965,566,286
US Equity	($5,481,821,507)	$22,810,356,549

ETF Tax-Efficiency Highlighted

The relative tax-efficiency of ETFs compared to traditional open-end mutual funds is one benefit that is often overlooked, in our opinion. On an annual basis, both traditional mutual funds and ETFs are required to distribute net realized capital gains to shareholders. If a fund is held in a taxable account, shareholders must pay taxes on all such distributions. In 2014, 78% of traditional US equity open-end mutual funds made capital gains distributions, while only 8% of US equity ETFs did so. Even among index funds, ETFs were significantly more tax-efficient with 6% of funds making capital gains distributions compared to 65% of traditional US equity open-end index funds.2

The Importance of Earnings Quality and the Case for FTLS

During the past four years of the current bull market, which commenced on 3/9/09, both earnings growth and increasing valuations have been important drivers of US stock market performance. From 9/30/2011 through 9/30/2015, trailing 12-month earnings for the S&P 500 Index grew at a 6% rate, while the trailing P/E ratio for the index increased from under 13 times earnings to over 17 times earnings—much closer to the 15-year average of 17.8 times earnings (See Charts 3 and 4 on the following page).3 Because valuations are much closer to historical averages than just a few years ago, we believe that investor attention may shift more heavily towards earnings growth over the next few years. This seems to have been the case over the past 12 months, as valuations have remained relatively stable, with the trailing-12 month P/E multiple for the S&P 500 Index decreasing slightly from 17.4 to 17.2.

Chart 1
Total US Equity Open-End Funds

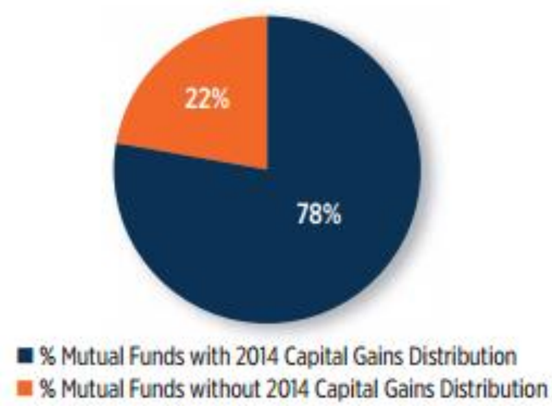


Chart 2
Total US Equity ETFs

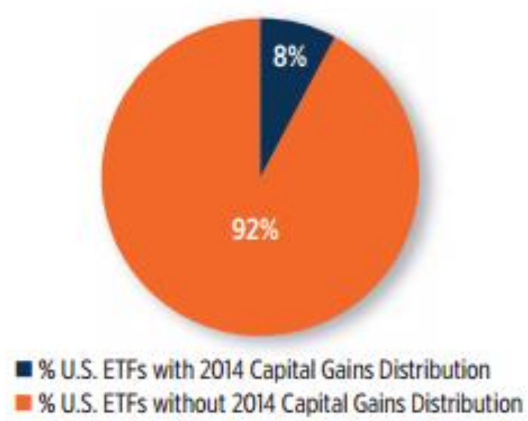


Chart 3*
S&P 500 Index: Trailing 12-month Earnings/Share (3/9/09-9/30/15)

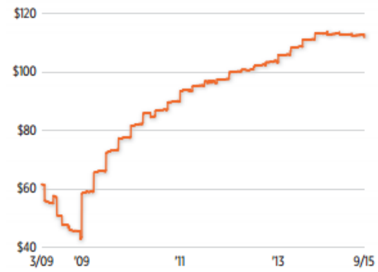


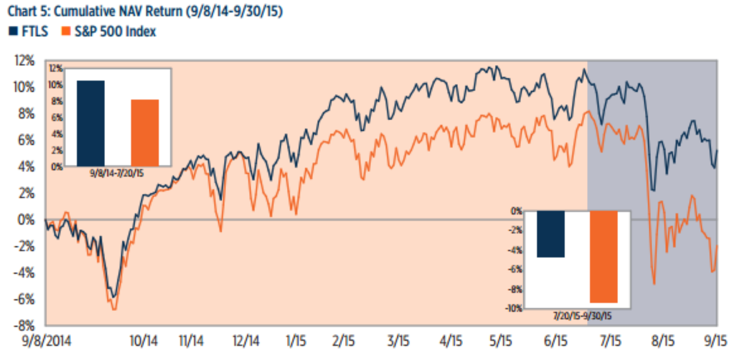
Chart 4*
S&P 500 Index: Price/Earnings (Trailing 12-Months) (3/9/09-9/30/15)

With investors more focused on companies' earnings and future earnings growth, as opposed to finding undervalued companies that may see their multiples expand, it may be an especially prudent time to dig deeper into companies' balance sheets and income statements. Comparisons with industry peers may help identify how aggressive or conservative a company's accounting assumptions are, which can serve as a measure of earnings quality.

Earnings quality analysis forms the primary basis by which stocks are selected for the First Trust Long/Short Equity ETF (FTLS). This actively managed ETF employs a long/short strategy, targeting approximately 70%-80% net market exposure.4 One potential benefit of combining a short strategy with a traditional 100% long portfolio is that it enables the portfolio manager to bet against certain stocks that they expect to underperform, while investing in others they expect to outperform. The fund constructs its long portfolio by favoring stocks with high quality earnings, while concurrently shorting stocks with low quality earnings.

During its first year, FTLS produced compelling results. From inception on 9/8/14 through 9/30/15, FTLS posted a 4.9% average annual total return, compared to a -1.9% average annual total return for the S&P 500 Index. Importantly, the fund achieved much of this outperformance by mitigating losses on days in which the S&P 500 Index posted unusually large declines. While the S&P 500 lost more than 1.5% on 17 days, FTLS did so on only 5 days (9/8/2014-9/30/15). Moreover, not only did FTLS outperform when the S&P 500 Index was moving higher (9/8/14-7/20/15), it also outperformed when the index pulled back (7/20/15-9/30/15) (See Chart 5 below).

Chart 5: Cumulative NAV Return (9/8/14-9/30/15)



Performance data quoted represents past performance. Past performance is not a guarantee of future results and current performance may be higher or lower than performance quoted. Investment returns and principal value will fluctuate and shares when sold or redeemed, may be worth more or less than their original cost. You can obtain performance information which is current through the most recent month-end by visiting www.ftportfolios.com.

The current bull market in US stocks is the third longest in history. We believe that investors can potentially benefit from a long/short approach to stock selection at this stage of the bull market, especially if market breadth starts to narrow moving forward. The strategy employed by FTLS doesn't simply rely on earnings quality analysis as a way to potentially select the best performing stocks in the near term; the fund seeks long-term, risk-adjusted outperformance by also utilizing earnings quality analysis to help identify which stocks may be more at risk of underperformance, in order to short or steer clear of those stocks.

» Performance Summary as of 9/30/15 (%)	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception
FTLS Performance*							
Net Asset Value (NAV)	-2.49	0.60	6.38	–	–	–	4.93
Market Price	-2.43	0.21	6.34	–	–	–	4.99
Index Performance							
S&P 500 Index**	-6.44	-5.29	-0.61	–	–	–	-1.85

Performance data quoted represents past performance. Past performance is not a guarantee of future results and current performance may be higher or lower than performance quoted. Investment returns and principal value will fluctuate and shares when sold or redeemed, may be worth more or less than their original cost. You can obtain performance information which is current through the most recent month-end by visiting www.ftportfolios.com.

FTLS inception date is 9/8/2014. Expense ratio: 1.17%. Management fees are 0.95% and leverage costs are 0.22%. Leverage costs include expenses associated with short sales transactions.

***Market Price** returns are based on the midpoint of the bid/ask spread. Returns are average annualized total returns, except those for periods of less than one year, which are cumulative.

****The S&P 500 Index is the fund's benchmark.** The index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown. Indexes are unmanaged and an investor cannot invest directly in an index.

Click here for complete reading

October Flash Flows: Rally Puts ETFs on Record-Setting Course

November 20, 2015

Authored by:
David B. Mazza
Head of Research, SPDR ETFs/SSGA Funds
State Street Global Advisors

Global stock and bond markets bounced back from a summer slump to rally in October, putting the ETF industry on a record-setting course with over $173.9 billion of inflows through the end of the month.

After posting two consecutive months of declines, the MSCI ACWI Index staged its biggest rally in four years, rising 7.7%. The US rally was even stronger, with the S&P 500® Index gaining 8.3%. The move allowed the S&P 500 to sneak back into positive territory after being down more than 9% at its August low. The buying action was stoked by strong earnings reports in the Technology and the Health Care sectors. In Health Care, 86% of firms reported earnings that were higher than expected.

Outside the US, global stock exchanges joined the rally. The EURO STOXX 50® Index gained 9% and China's CSI 300 Index returned 11% due in large part to the willingness of central banks in the regions to follow accommodative monetary policies—both forecasted and enacted.

October also saw high yield bonds break a slump that had pushed credit spreads to 130 basis points (bps) above their five-year average. The last time credit spreads were that wide was in the summer of 2012 at the peak of the European sovereign debt crisis. With a newfound appetite for risk, investors jumped in, tightening spreads by 70 bps by the end of the month.

Here's a look at how ETF flows shaped up in October:

Investors pile in to equity ETFs

With equities in "risk-on" mode and posting near double-digit returns in some regions, investors followed the trend and allocated capital to all but one segment of the ETF market. As displayed in the "October 2015 Asset Class Flows" graph below, equity inflows were almost $16 billion, while more than $11 billion went to fixed income funds. For the month, 98% of inflows went to equity and fixed income ETFs, with commodity, alternative and specialty funds taking in the remaining 2%.

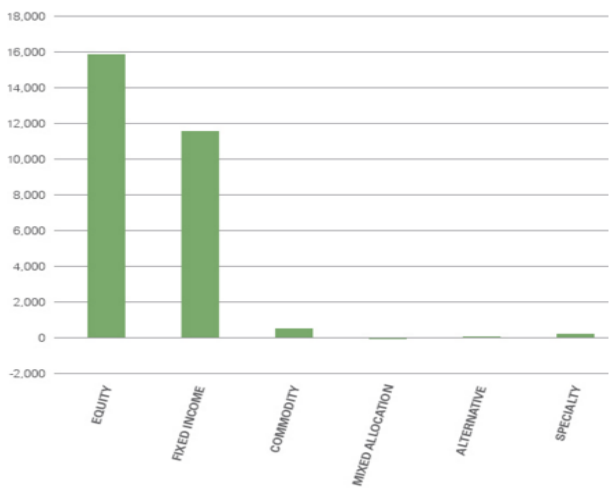
The home team takes it

Over the last six months, US funds have amassed nearly four times as many assets than the upstart currency hedged ETF category. It appears the currency hedged trade still exists but may have waned from its early year torrid pace when the dollar rallied 8% through the first quarter.

Faith in the US consumer drives sector flows

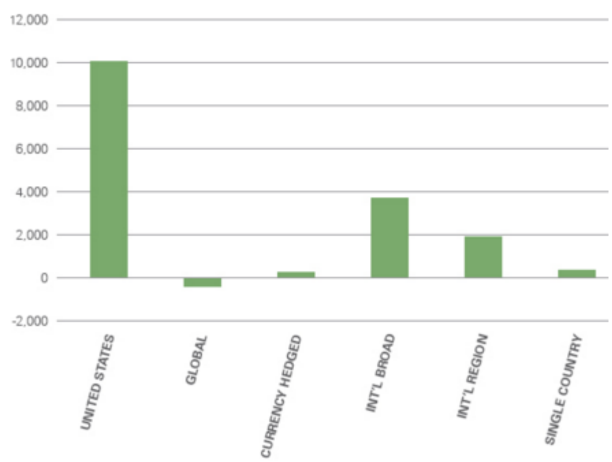
As depicted in the "October 2015 Equity Sector ETF Flows" graph below, consumer-related sectors added a combined $2.1 billion in October. Consumer staples took in $1.5 billion while just under $700 million of flows went into consumer discretionary funds. Tech funds gathered $1.2 billion, getting back on the positive side of the inflows ledger for the year. Health care ETFs, despite a steady flow of companies in the sector beating earnings estimates, had outflows during the month due to ongoing political rhetoric and single stock news.

October 2015 Asset Class Flows ($M)



Source: Bloomberg, State Street Global Advisors, as of 10/30/2015

October 2015 Equity Geographical Flows ($M)



Source: Bloomberg, State Street Global Advisors, as of 10/30/2015

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On the Road: Implications of Fiscal Stimulus in a Presidential Election Cycle

November 30, 2015

Authored by:
Michael Arone, CFA
Chief Investment Strategist, State Street Global Advisors

Just as presidential candidates are on the road engaging in debates and meeting with voters ahead of the 2016 presidential election, I've been on the road speaking with Investment Professionals about what the election means for government spending, financial markets and investors.

I recently traveled to Florida to speak with financial advisors, where I shared my view that the 2016 presidential election cycle means the "age of austerity" is ending as Congress approves spending measures in order to woo voters. I explained that this spending may have unintended consequences for the US dollar, and that there are sectors that could benefit from increased government spending.

Congress boosts fiscal spending ahead of the presidential election

During major elections, Congress is known to approve spending measures to curry favor with voters and the upcoming presidential election is no exception.

Late last month, Congress passed a budget deal that will boost domestic and defense spending while extending the debt limit until March of 2017. The deal increases discretionary spending by $80 billion over two years, with $50 billion available in fiscal 2016. It also requires the Energy Department to sell crude oil from the Strategic Petroleum Reserve, raising $5.1 billion over 10 years, and for two years the deal lifts the sequester budget caps put in place by the 2011 Budget Control Act.

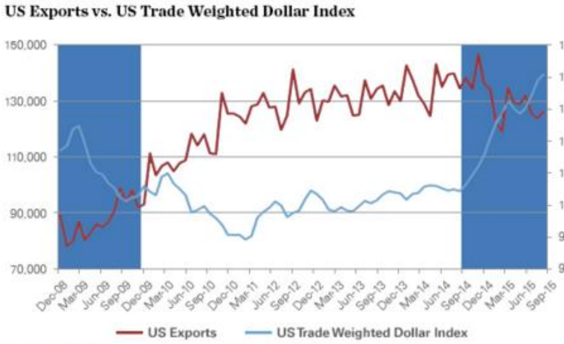
Adding to this fiscal stimulus, the House passed a multi-year highway bill in early November that includes more than $300 billion in transportation and infrastructure programs.

End of the age of austerity may constrain the US dollar

From 2011 until 2014—what I refer to as the age of austerity—government policy detracted from US GDP. The newly passed legislation means government spending is likely to serve as a cushion to GDP through 2017. However, we all know there is no such thing as a free lunch and Washington's attempt to move away from austerity will have consequences.

One consequence is that the federal budget deficit is forecast to increase in 2016 after having declined for four years. Another consequence, which many investors I speak with are not expecting, is that the strength of the US dollar could slow in the next two years as the trade deficit widens.

In previous years, quantitative easing measures implemented by the Federal Reserve (Fed) helped push down the value of the dollar. As depicted in the "US Exports vs. US Trade Weighted Dollar Index" graph below, that drove demand for US exports, helping to shrink the trade deficit. But that trend has reversed itself. In the past 12 months, the dollar has strengthened considerably, making US exports more expensive for trade partners and widening the US trade deficit.



Source: State Street Global Advisors, Bloomberg, as of 9/30/2015

Market participants seem to be operating under the principal that we will see continued strength in the US dollar as Europe and Asia take a page from the Fed's playbook, implementing accommodative monetary policies to stimulate growth. However, I believe the impending US budget deficit and widening trade deficit are signaling that the tailwinds that have bolstered the dollar's strength are easing and evolving headwinds could constrain its ascent.

Government spending could embolden the Federal Reserve

It's no surprise that the advisors I spoke with in Florida wanted to understand how this presidential election will impact markets and what pockets of opportunities might emerge.

With government spending set to increase for the first time in years, companies like General Electric and UPS that rely on government contracts for a high percent of their sales stand to benefit. The industrial sector could get a boost from the first increase in defense spending since 2010, as could aerospace and defense stocks.

It also seems increasingly possible that the government's fiscal stimulus could embolden the Fed to move toward a path of interest rate normalization.

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Uncommon Sense: Where Have All the Risk-Takers Gone?

December 4, 2015

Authored by:
Michael Arone, CFA
Chief Investment Strategist, State Street Global Advisors

The market downdraft this summer appears to have rekindled fears that the post-financial crisis bull run has morphed into a bubble that's about to pop. The unprecedented size, scope and length of accommodative global monetary policies have exacerbated investors' fears. With stock prices having tripled in six years, investors are now bracing for the worst.

My Uncommon Sense view—where I challenge a prevailing consensus driving the market—is that the only "bubble" I see is in the use of the word. Conservatism and risk aversion rule the day. Capital markets participants are very conservatively positioned in cash, hedged investments and low volatility portfolios. In this environment, risk-takers have all but disappeared.

Choosing the Path of Risk Aversion

Investors, like generals, have a habit of fighting the last war. Seven years after the worst of the financial crisis, capital market participants and corporate executives can't seem to fully shake off those dark days. As a result, investors and executives are shying away from making bold new investment decisions and accepting only low-risk outcomes.

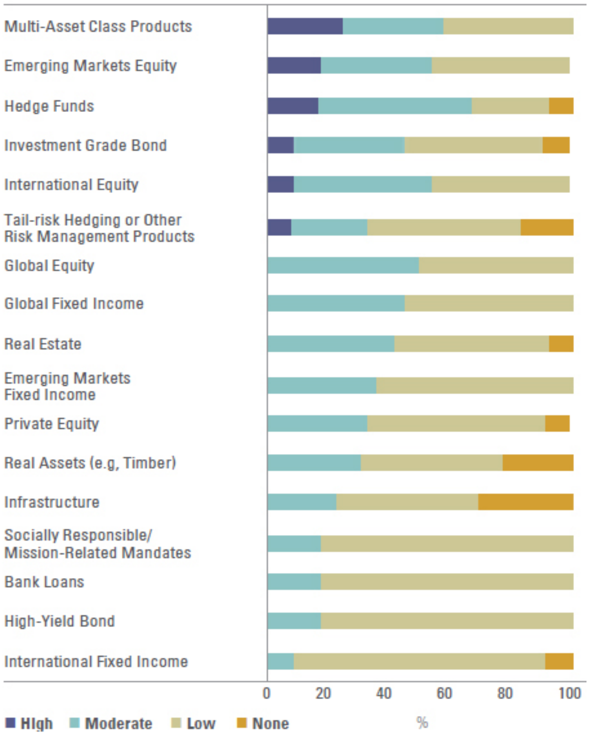
A quick look at how three key categories of market participants are allocating their capital shows that risk-takers have left the building, at least for now:

1. **Institutional investors**: According to a survey by Cerulli Associates, there has been a surge in demand by these market participants for investment strategies that seek to safeguard portfolios and offer low correlation to traditional stock and bond investments. According to eVestment, holdings of low volatility assets have nearly tripled, jumping to $106 billion in the second quarter of 2015 from $36 billion in 2012.

2. **Investment banks and market makers**: Primary dealers for fixed income are so risk averse that they are reluctant to act as market makers who are standing ready to buy and sell when investors want to. New regulations have decreased the profitability of dealers who trade and carry bonds on their balance sheets, prompting them to retreat from the traditional dealer model and focus on their core businesses.

3. **Corporations**: Instead of acquisitions, investments and capital expenditures, corporations have allocated about $1 trillion back to shareholders through stock buybacks and increased dividends over the last 12 months. Despite record profitability and solid balance sheets, capital expenditures are still lower than they were in 2002—a sure sign that risk aversion still rules the day.

Consultants' Expected New Manager Search Activity for Private DB Pension Plans



Source: Cerulli Associates: The Cerulli Report: 2015 Investment Consultants: Trends Reshaping the Investment Consulting Landscape - Exhibit 6.05. Report released October 2015, data above shows expectations over next 12 months.

What Does This Mean for Investors?

The US housing debacle, European sovereign debt crisis, Japan's deflation battle, China's economic slowdown, the end of the commodity super-cycle and "currency wars" have all but convinced investors we're entering a secular bear market with another plunge lurking just around the corner. Those who have managed their investments anticipating a repeat of the global financial crisis may have missed a wonderful opportunity in global stocks.

The truth is that the bull market has been driven by earnings—which have increased by 170% since the lows in 2009—not by quantitative easing or share buybacks. The economy continues to grow at a reasonable pace, corporate balance sheets are solid, interest rates are low and inflation has been kept in check. This is the type of environment that would suggest more risk taking.

Click here for complete reading

Gamma Trading: Why Big Market Swings Can Be Good News

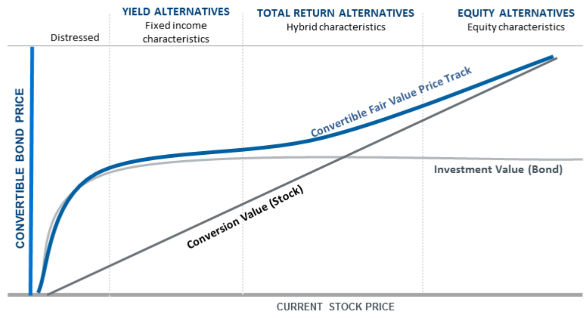
November 20, 2015

Authored by:
Jason Hill
SVP, Co-Portfolio Manager
Calamos Investments

Authored by:
David O'Donohue
Vice Persident, Co-Portfolio Manager
Calamos Investments

When it comes to your investment portfolio, volatility can be an unsettling word. For strategies that utilize convertible arbitrage though, market volatility can be a welcomed phenomenon, as we may be able to profit from it through what is referred to as gamma trading. In a convertible arbitrage strategy, we are buying convertible bonds and selling short shares of the underlying stock as a hedge. If the stock rises, we will lose money on the shares we are short but we will make money on the bonds we own as they appreciate in value.

This brings us to our topic, gamma trading. To understand gamma trading, we have to begin with another Greek letter: delta. Keep in mind that from here on out, we'll be discussing theoretical outcomes, not the performance of any security. If you look at the convertible fair value price track (Figure 1), you can see that as the price of the underlying stock rises, the convertible value rises, and as the stock value falls, the convertible value falls as well. (For more on the convertible fair value price track, see the Calamos guide.) How much the convertible value rises or falls for a given stock move is referred to as delta. The higher the delta, the higher the sensitivity to the stock's moves.



If we look back at the price track, we can see that sensitivity to stock moves (delta) increases as the stock price advances and the bond becomes more equity-like (higher delta). Price sensitivity falls as the stock price declines and the convertible becomes more bond-like (lower delta). The change in delta as stock price moves is what we refer to as gamma.

Now the big question: how might we profit from this?

As noted earlier, in a convertible arbitrage strategy, if a stock rises, we will lose money on the shares we are short but we will make money on the bonds we own as they will appreciate in value. If we think the stock is undervalued, we can short fewer shares (a bullish hedge). Or, if we think a stock is overvalued, we can short more shares (a bearish hedge). More frequently however, we implement what is called a delta neutral hedge. If we are on a delta neutral hedge, the money we make on the bond and the money we lose on the stock should be equal and offset. Unlike a bullish or bearish hedge where we are seeking to profit from the stock rising or falling, a delta neutral hedge seeks to profit simply from stock volatility.

As we discussed earlier, as the stock moves, our delta changes (gamma) and we need to adjust our position if we wish to maintain a similar hedge. As the stock rises, our delta increases, which means we need to short additional shares to stay on a similar neutral hedge. Conversely, as the stock falls, our delta falls and we need to cover shares to remain on the neutral hedge. From a mechanical standpoint, we continually sell as a stock advances (sell high) and buy as a stock declines (buy low). The more volatility in the market, the more stocks rise and fall—which can give us more opportunities to sell high and buy low.

Let's look at a hypothetical example. We own an XYZ convertible bond that converts into 100 shares of XYZ stock and has a .50 delta. On Day 1, we would short 50 shares of XYZ stock to be on a neutral hedge. If on Day 2 the stock rises and our delta increases to .60 we would short another 10 shares of stock to remain neutral. Let's say on Day 3 or Day 4 the stock price declines back down to the original Day 1 level. We would then buy back the extra 10 shares we shorted. We would still be on a neutral hedge with the same bond and stock prices as on Day 1 but we now have real profits booked on shares we sold high and then bought low.

In Figure 2, we show an example of gamma trading over a longer period. The chart shows five sales and five purchases of XYZ, which together produce the desired pattern of buying low and selling high. As the stock price moves, we buy or sell based on the change in delta (gamma). At the end of the period, the stock price is very similar to where it was at the start of the period, and theoretically, the convertible bond price and the delta would be fairly similar to their starting levels, as well. If we had simply held the position, we may have only minimal profits or losses. However, in this hypothetical example, we have locked in realized profits from the five sets of gamma trades.

So while big market swings may not be comfortable for most investors, they can provide a convertible arbitrage strategy with lots of gamma trading opportunities.

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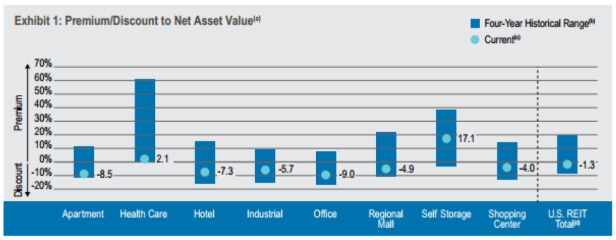
COHEN & STEERS

U.S. REIT Valuations Are Attractive

November 2015

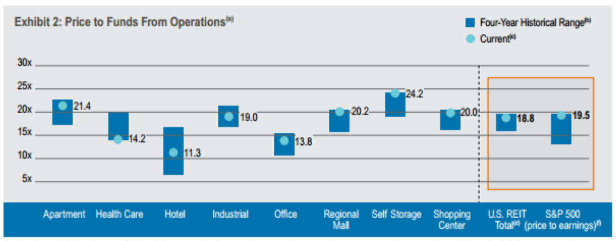
U.S. REIT valuations are at attractive levels relative to their four-year range, as seen in the first chart. In the second chart, we show that REIT prices are near the middle of the four-year range relative to cash flows, while the broader stock market's prices relative to earnings are at their highest levels during this period. We believe this represents a compelling opportunity for REIT investors.



At October 31, 2015. Source: Cohen & Steers estimates based on proprietary qualitative and quantitative metrics. Only major REIT sectors are shown individually.

Performance data quoted represents past performance. Past performance is no guarantee of future results.

Many U.S. REITs can currently be purchased at prices that are below their underlying asset values compared with the higher premiums typically seen in the past four years.



At October 31, 2015. Source: Cohen & Steers estimates based on proprietary qualitative and quantitative metrics. Only major REIT sectors are shown individually.

Performance data quoted represents past performance. Past performance is no guarantee of future results.

Many U.S. REITs are priced near the mid-point of the four-year range versus earnings at a time when the broad stock market is priced close to its high point.

The Added Value of Active Portfolio Management

We believe that investing in U.S. REITs with an experienced active manager offers several important advantages over passively managed investments such as exchange-traded funds (ETFs). Here are a few reasons why:

Different REITs are better suited for different phases of an economic cycle. Certain REITs may be more or less cyclical than others, depending largely on the duration of their leases, which can range from a single day (hotels) to a decade or more (hospitals). An active manager can adjust a portfolio's allocation depending on their economic outlook in an effort to enhance absolute returns over full market cycles.

Flexibility among market capitalizations. ETFs are typically weighted by market cap, meaning that large-cap REITs will dominate the portfolio's holdings. By contrast, an active manager can increase allocations to select small-cap REITs that may offer greater growth potential.

Finding opportunities through fundamental company analysis. An active manager may conduct extensive research of each company, evaluating its management team, its acquisition and development strategy, the quality of its properties, and the strength of its balance sheet, using these inputs to assess the stock's value relative to its peers.

Cohen & Steers' actively managed U.S. REIT solutions

Open-End Mutual Funds		
Cohen & Steers Realty Shares	CSRSX—no load	
Cohen & Steers Real Estate Securities Fund	CSEIX—Class A CSCIX—Class C CSDIX—Class I	CIRRX—Class R CSZIX—Class Z
Cohen & Steers Institutional Realty Shares	CSRIX—Institutional	

Cohen & Steers open-end funds are distributed by Cohen & Steers Securities, LLC.

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Fund Updates

- AllianceBernstein Closed-End Funds Announce Distribution Rates – November 23
- Distribution Dates and Amounts Announced for Certain BlackRock Closed-End Funds – December 1
- BMO Asset Management Inc. Announces Cash Distributions for BMO Exchange Traded Funds – November 18
- Calamos Closed-End Funds (NASDAQ: CHI, CHY, CSQ, CGO, CHW and CCD) Announce Monthly Distributions for December 2015 – November 30
- CIFC Corp. Announces Third Quarter of 2015 Results and a Quarterly Dividend – November 12
- Cushing® Energy Income Fund Announces Monthly Distribution – December 1
- Month-End Portfolio Data Now Available for Federated Investors' Closed-End Funds – November 16
- First Asset Closed-End Funds - November Distributions – November 19
- FT PORTFOLIOS CANADA CO. ANNOUNCES CASH DISTRIBUTION FOR ITS EXCHANGE TRADED FUNDS – November 19
- Guggenheim Investments Announces December 2015 Closed-End Fund Distributions – December 1
- GUGGENHEIM INVESTMENTS EXCHANGE-TRADED FUNDS DECLARE MONTHLY DISTRIBUTIONS – November 30
- Horizons ETFs Announces Estimated 2015 Annual Capital Gains Distributions – December 4
- John Hancock Premium Dividend Fund declares $0.09 dividend – December 2
- John Hancock Premium Dividend Fund Notice To Shareholders - Sources Of Distribution Under Section 19(a) – November 30
- Legg Mason Partners Fund Advisor, LLC Announces Distributions for Certain Closed End Funds Pursuant to their Managed Distribution Policy – November 16
- MFS Releases Closed-End Fund Income Distribution Sources for Certain Funds – November 23
- Several Nuveen Closed-End Funds Declare Capital Gains – November 10
- Royce Closed-End Funds 4Q15 and Year-End Distributions – December 3
- Swiss Helvetia Fund Inc. (SWZ) Increases Dividend to $0.41 Per Share – December 9
- Tekla Healthcare Opportunities Fund Paid Distribution – November 30
- The Korea Fund, Inc. Announces Common Stock Distribution – December 1
- The Swiss Helvetia Fund, Inc. Declares Income And Capital Gain Distributions And Announces Extension Of Stock Repurchase Program – December 8

The Case For Multi-Sector Credit Investing

Wednesday, December 9, 2015 | 11:00 AM ET

John DiSpigno:
All right, Nicolas, thank you very much and thank you Capital Link. We really appreciate Stone Harbor Investment Partners for being a part of your webinar series. As he mentioned, David Torchia and Steffen Reichold here with us.

Today's discussion is based on our expertise, Stone Harbor Investment Partner is an institutional fixed income manager. We've been managing assets since the early 1990s and we thought as a topic that we thought would be interesting, we have discussion on the hunt for global yield, understanding the evolution of credit market, and achieving total return through emerging market debt.

So with that, I'll start off with David Torchia who will be discussing a multi-sector and a multi-asset credit strategy, and the benefit of it. Thanks, David.

David Torchia:
All right, so I have this slide in front of them, right?

John DiSpigno:
Yes, correct.

David Torchia:
Thank you everyone for joining today and I'll begin on page – slide two of the materials that we had sent. By now, many of you on this call probably have some familiarity with multi-asset credit strategies.

If there's a frustration that institutional investors have, it's that there is no standardization and that many different names exist for these strategies.

You probably heard names like unconstrained fixed income, opportunistic fixed income, diversified global credit, absolute return, I could go on but really all of these names including multi-asset credit, you know, are probably pointing to, you know, the same types of strategies perhaps with a bit of variation.

Certainly, I can describe for you how we view multi-asset credit at Stone Harbor. We'll define multi-asset credit as any mandate where clients give us the ability to go anywhere in the world of fixed income in pursuit of meeting a total return objective.

Two of those common objectives are shown on slide two. On one hand, there's an absolute total return target of between 5 percent and 8 percent on an annualized basis. Another example of an objective would be stated in LIBOR terms, in this case LIBOR plus 4 percent or 5 percent on an annualized basis.

As it relates to benchmarks, we find that many multi-asset credit strategies have no benchmarks and that's based upon quite frankly strong investor preference against having benchmarks. Again, if a benchmark is used, it's typically a cash plus or a LIBOR plus reference, as I just went over or alternatively a diversified custom benchmark similar to what is shown on the slide, as an example. Perhaps a third investment grade, a third high yield, and a third emerging debt.

You know, we also have the question of how many asset classes. Now, that's something that will vary by manager. At Stone Harbor, we prefer more asset classes, the widest global opportunity set. Other managers prefer more concentrated strategies that may only focus on two or three sectors.

Featured Presenters

David Torchia
Portfolio Manager, Head of Multi-Sector Strategies/Investment Grade
Stone Harbor

Steffen Reichold, PhD
Emerging Markets Debt Portfolio Manager/Economist
Stone Harbor

Stone Harbor Investment Partners

Slide three shows the multi-asset credit structure as we define it at Stone Harbor. The traditional investment grade asset classes are shown in the orange shades while some attractive total return opportunities can certainly be found in these sectors. Their real appeal lies in their defensive nature.

Through market cycle, defensive positions are a must for multi-asset credit portfolios.

The four green boxes in the middle cover the higher risk corporate sectors; U.S. high yield, European high yield, and bank loans represent these sub investment grade classes. Emerging corporates provide exposure to emerging market risks through the entirety of the rating spectrum.

Lastly, the two blue boxes on the right represent the emerging debt sovereign universe split between hard currency and local currency.

Turning to the next slide, I mean, it's probably true that institutional investors that spent the last two decades methodically diversifying their fixed income portfolios which started as a portfolio of traditional investment grade bonds, expanded into high yield and immerging debt, and that's really what's depicted in the left pie chart.

The latest entrant, if you want to call it that, I guess, for the sake of this example, emerging market corporates is shown in the right pie. And the point of the right pie is that it's sort of an attempt to fit emerging credit into what might already be, you know, a crowded spectrum of various fixed income sectors.

Now, as pension sponsors globally contemplate the next step in fixed income, many have come to the conclusion that the portfolio lacks an integrated approach, hence, the need for and the development of multi-asset credit strategies which provide active allocation across fixed income asset classes. And, again, that's the point at the right pie where we're showing the green shaded multi-strategy -- multi-asset credit as being central to a integrated fixed income approach.

The next slide, slide number five shows return dispersion of the major fixed income sectors over the last 15 years. The presence of – and you can see there's obviously over that 15-year time period for each of the asset classes, some fairly wide dispersion, the presence of such return dispersion suggests that there are opportunities to add incremental returns through an act of allocation approach.

The next slide which is slide six shows – and this is our, you know, sort of classic heat map, shows that there is a not one sector that can be consistently relied upon to deliver top returns. Indeed, as the title of the slide suggests, opportunities vary overtime and by cycle.

In fact, if you look at, you know, here in 2015. Now, this is year to date through September 30th but over that time period, you know, good old U.S. treasuries were the best performing, you know, major fixed income sector in the world.

So it isn't always the case that higher risk sectors are going to deliver the returns that are commensurate with the yields that they have.

Moving on then to slide number seven. Did you ever have the feeling that asset classes specifically fixed income credit sectors are becoming more correlated? Well, if you have that feeling, you're right. Now, we have some evidence to support that on slide seven.

This slide shows correlations between investment grade corporates and other higher risk credit sectors. We've analyzed two-time periods here on the slide, basically pre-global financial crisis and post crisis. And I think what the analysis does show pretty consistently is that market correlations are rising and the implication here is that this – that indeed there are fewer safe havens as a result.

Slide eight will post the next question, have you ever thought that fixed income credit markets are becoming more volatile? Well, in this case, you'd only be partially correct with regard to that statement.

Now, here on slide eight, we're looking at the same time period as we did on the previous slide pre and post crisis.

Now, what it does show is that investment grade corporate volatility has indeed jumped, you know it's – to some extent doubled pre crisis versus post crisis. However, as for the higher risk credit components like high yield and emerging markets, that isn't necessarily the case. Volatility is relatively flat or in some cases is actually declined.

The implication here, investment grade assets may offer less risk reduction opportunities than they have historically.

The final point I would make is on slide nine. Here we show evidence of credit quality between asset classes converging. Now, if you look at investment grade credit quality shown on the left, that is pretty clearly migrated lower over the past decade, while the high yield universe is depicted on the right slide, had slightly improved overall credit quality or even if it hasn't slightly improved, it certainly hasn't gone in the other direction.

But this is another reason why we believe multi-asset credit strategies make sense. In that, these strategies are not constrained by arbitrary sector definitions and credit rating guidelines.

In concluding then, just on, you know, the final slide, page 10, multi-asset credit strategies have adopted to address the low return world investors are grappling with, Stone Harbor's approach to multi-asset credit emphases tactical sector allocation as a key driver of alpha in this low return world.

And ultimately, some of what I've covered in the last 10 or 15 minutes helps illustrate some of those key points. Thanks very much, John, and thank you all.

John DiSpigno:
Thank you, David. At this point we'll hand it over to Steffen Reichold. As David mentioned, we utilize all sectors of emerging markets debt within our multi-sector approach and – Steffen, can you talk about the opportunities and the case core within immerging at this time? Thank you, Steffen.

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International Stocks with Sustainable Dividend Yields

Tuesday, December 1, 2015 | 11:00 AM ET

Kristen Winther:
Thank you, Nicholas.

Good morning, everyone.

Welcome to this webinar, dedicated to discussing international stocks with sustainable dividend yield. Historically, income investors have turned predominantly to the bond market for income oriented investments, but low bond yields and periodic market volatility pose a challenge in today's environment. With interest rates at low levels globally, equities, paying higher dividend rates, may be an alternative to meet an ongoing need for income.

As mentioned, my name is Kristen Winther, and I am Vice President of ETF Licensing Strategy at MSCI, and I'll be your moderator for today's call. I'd like to start by welcoming our two panelists for today, Pete Kokenos and Lisa Poniewaz. Pete Kokenos is the Vice President of ETF Client Coverage at MSCI. Pete has over 10 years of industry experience with a focus on ETFs, mutual funds and managed accounts at firms like Morgan Stanley Wealth Management and JP Morgan.

Lisa Poniewaz is ETF Regional Vice President at Deutsche Asset and Wealth Management. During her career, Lisa has also served as a business development associate within the private bank channel at Black Rock and has worked as a due diligence analyst and portfolio specialist from Merrill Lynch's Managed Solutions Platform. Lisa is also a CFA charter holder.

During today's' presentation, both Pete and Lisa will take a close look at the characteristics of a high dividend yield hedged strategy and also its implementation. So with that, I will hand it over to Pete Kokenos and his presentation on MSCI's high dividend yield hedged indexes.

Pete, please go ahead.

Pete Kokenos:
Thanks a lot, Kristen.

And thank you everyone, for joining us today. Before we jump into the presentation, let me tell you a little bit about MSCI. MSCI is an independent provider of research driven insights and tools for investors. MSCI has deep expertise in the areas of risk and performance management, and these are based on many years of academic research, real world experience and collaboration with our clients.

MSCI has been at the forefront of index construction and (means) for more than 40 years, launching its first equity index in 1969, and as the markets evolve, MSCI evolves with them and the world – in an innovative way, and thinks about alternative approaches to classifying the equity world and index development. For example, the development of the MSCI Family of Factor indexes, including the Yield Factor.

These are just some of the reasons why today, I'd like to focus on MSCI's global equity indexes, factors generally, and we'll (dive) down into the yield factor a bit, and also to discuss the importance of currency hedging, given that we are talking about global equity portfolios, it's important to note this. With that, let's jump into the presentation.

Featured Moderator

Kristen Winther
Vice President, ETP Licensing Strategy
MSCI

Featured Presenters

Pete Kokenos
ETF Client Coverage, Vice President
MSCI

Lisa Poniewaz, CFA
ETF Regional Vice President
Deutsche Asset & Wealth Management

On slide two, I wanted to provide some context around the global market environment, and this is driving investors to consider alternative sources of income. So, here are really three reasons why I think – (three reasons of the) many, I think you might want to consider this. There's a low rate environment across developed markets, which you can see here in the chart at the top right, depicting some of the main global bond markets, and they have a declining trend across all of them, since 1999.

You also notice the US 10 year treasury yield is pretty thin, this is causing investors to go elsewhere and seek other options for income. Additionally, consider that global equities might help diversify investors income source, as investors trend towards US equities for dividend income, this market has been pretty flat for more than 20 years, which you can see in the chart on the bottom right.

And in a moment, I'll demonstrate how much a reinvested dividend can positively affect total performance of a foreign investor. So, may main points really are, there is an increased demand for income from an aging population with maturing pension plans, and this is triggering renewed interest in income investing and doing so globally. And really, the low bond yields across regions – they're having periodic bouts of market volatility. They're creating a challenging environment for income investors. This trend, yes it could start to change as global rates potentially start to rise in the near future, but they can be pretty low for a while.

So, if you turn to slide three, let's discuss how significant a reinvested dividend can be. I really like this chart. It looks at the difference between price and total return, and this tells us quickly the impact of a dividend. Let me lay out the slide for you a bit. There's a lot of stuff here. The blue portion of the bar is your stock price return. The orange part of the bar is your dividend contribution, and together, you have a total return of an index. I've organized the indexes so that you're looking at the parent index, and that's followed immediately by its high dividend yield index, and that goes from left to right.

So, as you could see here, across these 15 year return examples, the high dividend yield index has a higher return than its parent counterpart. And the dividend component of return has been considerable part of those returns. I also want to mention when I refer to the parent index, I'm simply speaking of the market cap version of the MSCI index.

So, take a look at the EAFE high dividend yield index, 4.11 percent of its return can be attributed to its dividend, which in total, outpaces the EAFE parent by 1.77 percent, almost 2 percent. And by the way, EAFE is one of MSCI's well known indexes and stands for Europe, Australasia and Far East, EAFE.

An even more amazing picture if you look at the Eurozone index and the EMU index right in the middle of the chart, the Eurozone High Dividend Yield Index yield is contributing almost 100 percent of the total return over this 15 year period. And that's outperformed its parent by 1.23 percent annualized. So, let's notice here and – you know, if you look all the way to the right side, and so let's (notice) the very right part of the chart where the contribution of dividends, as a percentage of total return on the US market cap index, that's less that any other international developed market shown here like EAFE or Eurozone.

This really supports the idea that you can diversify your portfolio by going global for income. And it also provides a good story on the value proposition of compounding dividends.

If you turn to the next slide, let's take a moment to talk about what is a factor and why is factor investing gaining so much traction. So, this is slide four, and you can see that factor investing aims to capture return premiums through persistent exposure to characteristics of a stock like a (yopin). Factor investing can offer three – really three options to own an equity by combining attractive elements of a – (both) – for – of a traditional passive and active management strategy, and this is used to capture a risk adjusted return. So simply said, factor investing represents an active decision implemented in a passive index.

On the (ven diagram) in the upper right here, you could see that factor investing sits right between active and passive management.

MSCI's 40 years of research, as well as much more academic research in the market has shown that 60 factors have historically earned this persistent premium. Those factors are value, quality, low vol, low size, momentum, and of course today's star, yield. So, the MSCI Family of Factors, it aims to provide factor exposure in a transparent (rules) based and flexible way for clients.

Let's turn to slide five and let's focus a bit on the yield factor itself and take a look at the yield factor itself. And take a look at the construction process of high – of the high dividend yield index. The MSCI methodology is designed first and foremost to target high yield equities. It seems pretty straightforward enough, but in a high yield index, or really and factor index, you want to avoid traps. This is where you avoid names that are (cheap for a reason) or high yielding because the price is quickly declining.

And this is a recurring theme that we deploy across all our factor indexes, how to you avoid flights to junk in a quality index, momentum reversals in a momentum index, value traps in a value index, and of course, yield traps in a yield index? There are four main checks for the high dividend yield index. Those are dividend persistence, the yield trap, a sustainable dividend and quality. And I'll go a bit more into detail on each one of these in the next slide.

So, only the stocks that pass these filters and that have a high dividend of 30 percent more than the parent index will be included in the MSCI High Dividend Yield Index. You can imagine that these indexes tend to be a bit more focused and have a higher exposure to the dividend paying stocks than the parent, which you would expect.

A unique aspect of how MSCI thinks about high yield securities is with the quality stream. And that's calculated using a fundamental variable like – namely return on equity, debt to equity and earnings variability. And additionally, the MSCI index (and the) construction – are constructed so that they allow for a currency hedge overlay.

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