Capital Link's
CEF & ETF Monthly Newsletter

July 2015
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Capital Link's Closed-End Funds & Global ETFs Webinar Series

Business Development Companies (BDCs) - Differentiated Performance and Attractive Value

Date: Tuesday, July 28, 2015
Time: 10:00 AM – 11:00 AM ET

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PRESENTER:

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President and Chief Operating Officer
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Attractive Yield through Global Thematic Investing

Date: Tuesday, August 4, 2015
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PRESENTER:

Charles I. Clough, Jr., CFA
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Clough Capital Partners, LP

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The Month in Closed-End Funds: June 2015

PERFORMANCE

For the second consecutive month both equity and fixed income CEFs suffered negative NAV-based returns (-2.84% and -0.74% on average, respectively, for June) and market-based returns (-4.31% and -2.83%). Year to date, however, both groups just remained in positive territory, returning 0.41% and 0.91% NAV-based returns. While the Russell 2000 and the NASDAQ Composite managed to break into record territory in mid-June, advances to new highs were generally just at the margin. However, at June month-end concerns about the Greek debt drama, looming U.S. interest rate increases, Puerto Rico's inability to service its public debt, and China's recent market gyrations weighed heavily on investors. A positive finish for equities on the last trading day of June wasn't enough to offset the Greek debt-inspired meltdown from the prior day, and many of the major indices witnessed their first quarterly loss in ten, with the Dow Jones Industrial Average and the S&P 500 losing 0.88% and 0.23%, respectively, for Q2 2015, while the NASDAQ Composite gained 1.75%.

Volatility was on the rise in June. At the beginning of the month rate-hike worries plagued many investors after an upbeat jobs report raised the possibility of an interest rate hike this fall. The Labor Department reported that the U.S. economy had added a better-than-expected 280,000 jobs for May, beating analysts' expectations of 210,000. Despite a rise in the unemployment rate to 5.5% (as once-discouraged job seekers reentered the labor market), many pundits felt the Federal Reserve would be more likely to raise interest rates sooner rather than later. However, European equities showed signs of weakness, and investor handwringing began in earnest as investors contemplated the looming deadline for Greece to make its first debt payment to the IMF at the end of June. And while early in the month the Shanghai Composite rose above the 5,000 mark to its highest level since January 2008, on Friday, June 19, the Shanghai Composite posted its worst week in more than seven years as investors bailed on some recently strong-performing Chinese start-ups. Worries of high valuations and record levels of margin debt sparked the exodus. Investors' trepidations were not easily dispelled, and by mid-month more talk about a Greek exit ("Grexit") from the Eurozone and anxiety before the Federal Open Market Committee's June meeting led to further selloffs in the equity markets.

A combination of an impasse in the Greek debt talks along with a purported quadruplewitching day sent the Dow to a triple-digit decline on Monday, June 29, with Treasuries rallying on the news as investors looked toward safe-haven plays. For June the Dow, the S&P 500, and the NASDAQ were in the red, losing 2.17%, 2.10, and 1.64%, respectively, while a strong small-caps rally helped send the Russell 2000 up 0.59%. Nonetheless, interest concerns trumped the Greek drama, and for the month Treasury yields rose at all maturities, except the three-month. The ten-year yield rose 23 bps to 2.35% by monthend. The 30-year Treasury yield, rising 23 bps to 3.11%, also witnessed one of the largest rises for June of the group. At the short-end of the curve the three-month yield witnessed no change from its May closing value, remaining at 0.01%. The one-month yield rose 1 bp to 0.02%.

The Month in Closed-End Funds: June 2015

- For the second consecutive month both equity and fixed income closed-end funds (CEFs) suffered negative returns, with equity funds losing on average 2.84% on a net-asset-value (NAV) basis, while their fixed income counterparts lost 0.74% on average.
- For June only 5% of all CEFs traded at a premium to their NAV, with 7% of equity funds and 4% of fixed income funds trading in premium territory. Lipper's World Equity CEFs macro-classification witnessed the smallest widening of discounts for the month—19 basis points (bps) to 11.61%.
- For the third consecutive month all of Lipper's municipal bond CEF classifications posted returns in the red, with Intermediate Municipal Debt CEFs (-0.22%) mitigating losses better than the other classifications in the muni group.
- Despite the Greek debt drama, world equity CEFs (-2.04%) mitigated losses better than their mixed asset CEFs (-2.11%) and domestic equity CEFs (-3.41%) brethren.
- Growth CEFs (+0.68%) posted the only positive return in the equity universe for the month, while Energy MLP CEFs (-8.85%) was at the bottom.

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THOMSON REUTERS

For June the dollar lost ground against the pound (-2.84%), the euro (-1.47%), and the yen (-1.47%). Commodities prices also declined, with near-month gold prices dropping 1.54% to close June at $1,171.50/ounce. Front-month crude oil prices declined 1.38% to close the month at $59.47/barrel.

For the month only 6% of all CEFs posted NAV-based returns in the black, with 8% of equity CEFs and only 5% of fixed income CEFs chalking up returns in the plus column. Concerns over the possibility of a near-term Fed interest rate increase weighed on domestic equity CEFs, sending Lipper's domestic equity CEFs macro-group (-3.41%) to the bottom of the equity CEFs universe for the month. A jump in the yield curve and global uncertainty in the markets weren't much kinder to the remaining macro-groups, with world equity CEFs (-2.04%) mitigating losses only slightly better than their mixed asset CEFs (-2.11%) brethren.

A drop in commodity prices, along with avoidance of interest rate-sensitive securities pushed Lipper's Energy MLP CEFs classification (-8.85%, one of April's leaders) to the bottom of the equity universe for June, only slightly bettered by Utility CEFs (-5.52%) and Natural Resources CEFs (-5.26%). As a result of a strong rally in the Russell 2000 and the NASDAQ during the month, Growth CEFs (+0.68%) was the only classification in the CEF universe posting a plus-side return. Growth CEFs was followed by Developed Market CEFs (-1.15%), which benefitted from relatively strong performance from Japanese and Israeli CEFs. For the remaining equity classifications returns ranged from minus 2.56% (Value CEFs) to minus 1.39% (Pacific ex-Japan 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 group was ENGEX, Inc. (NYSE: EXGI, warehoused in Lipper's Growth CEFs classification), returning 15.37% on a NAV basis (EXGI did not trade on June 30, so no premium or discount was recorded). Following EXGI were John Hancock Financial Opportunities Fund (NYSE: BTO, housed in Lipper's Sector Equity CEFs classification), posting a 3.84% return and traded at a 1.68% premium at month-end; Japan Smaller Capitalization Fund, Inc. (NYSE: JOF, housed in Lipper's Developed Market CEFs classification), gaining 3.66% on a NAV basis and traded at an 11.41% discount on June 30; Tekla Life Sciences Investors (NYSE:HQL, also warehoused in Lipper's Sector Equity CEFs classification), rising 2.23% on a NAV basis and traded at a 2.39% discount at month-end; and Tekla Healthcare Investors (NYSE: HQH, housed in Lipper's Emerging Markets CEFs classification), posting a 1.55% NAV-based return and traded at a 0.28% premium on June 30.

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	8	27	70	7	93
Bond Funds	5	9	89	4	96
ALL CEFs	**6**	**17**	**81**	**5**	**95**

TABLE 2 AVERAGE NAV RETURNS, SELECTED PERIODS (%)

	JUNE	YTD	3-MONTH	CALENDAR-2014
Equity Funds	-2.84	0.41	-0.98	6.65
Bond Funds	-0.74	0.91	-0.89	11.56
ALL CEFs	**-1.63**	**0.70**	**-0.93**	**9.58**

TABLE 3 NUMBER OF IPOs, SELECTED 12-MONTH PERIODS

	JUNE 2015	CALENDAR-2014
ALL CEFs	**30**	**23**

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

3 MONTHS THROUGH 5/31/2015	281
COMPARABLE YEAR-EARLIER 3 MONTHS	377
CALENDAR 2014 AVERAGE	302

Source: Lipper, a Thomson Reuters company

For the month the dispersion of performance in individual equity CEFs—ranging from minus 13.44% to positive 15.37%—was wider than May's spread and more negatively skewed. The 20 top-performing equity CEFs posted returns at or above 0.08%, while the 20 lagging equity CEFs were below minus 7.27%.

Duff & Phelps Select Energy MLP Fund Inc. (NYSE: DSE), housed in Lipper's Energy MLP CEFs classification, shed 13.44% and sat at the bottom of the equity CEFs universe for the month. DSE traded at a 4.86% discount at monthend. Goldman Sachs MLP and Energy Renaissance Fund (NYSE: GER) posted the next poorest return in the equity universe, declining 13.11% and traded at a 3.36% premium at month-end. For June only 20 equity CEFs experienced NAV-based returns in the black.

Despite a late-month rally in Treasuries and dovish comments by Fed Chair Janet Yellen after the two-day federal policy meeting in June, Treasury yields rose across the yield curve, except for the three- month rate where there was no change from the May close. The ten-year yield rose 23 bps to 2.35% at month-end. For the third consecutive month none of the municipal bond CEFs classifications (-0.36%) witnessed plus-side returns for June. However, the municipal bond CEFs macro-classification did mitigate losses better than its domestic taxable bond CEFs (-1.12%) and world bond CEFs (-1.45%) brethren.

At the top of the domestic fixed income classification charts were U.S. Mortgage CEFs (-0.23%) and Loan Participation CEFs (-0.73%). At the bottom of the domestic taxable bond CEFs macro-group, High Yield CEFs (Leveraged) (-1.79%) suffered the largest negative return. As a result of continued uncertainty in the world markets, both classifications making up Lipper's World Income CEFs macro-classification (-1.45%) posted June returns in the lower third of the fixed income universe, with Global Income CEFs posting minus 1.03% but still mitigating losses better than Emerging Market Debt CEFs (-2.04%, the fixed income universe's poorest performing classification for June).

On the muni side Intermediate Municipal Debt CEFs (-0.22%) mitigated losses better than its cohorts, while New Jersey Municipal Debt CEFs (-0.52%) once again suffered the worst loss of the group. Single-state municipal debt CEFs (-0.35%) mitigated losses only slightly better than their national municipal debt CEF counterparts (-0.36%).

Two of the five top-performing individual CEFs in the fixed income universe were housed in Lipper's General Bond CEFs classification. However, at the top of the group was LMP Corporate Loan Fund Inc. (NYSE: TLI, housed in Lipper's Loan Participation CEFs classification), returning 2.08% and traded at an 11.25% discount on June 30. Following TLI were Eaton Vance Tax-Advantaged Bond and Option Strategies Fund (NYSE: EXD, housed in Lipper's General & Insured Municipal Debt CEFs [Leveraged] classification), tacking 1.37% onto its May month-end value and traded at an 11.52% discount at month-end; PIMCO Dynamic Income Fund (NYSE: PDI, housed in Lipper's Global Income CEFs classification), posting a 1.03% return and traded at a 6.92% discount on June 30; and PIMCO High Income Fund (NYSE: PHK, housed in Lipper's General Bond CEFs classification), returning 0.69% and traded at a 31.75% premium at month-end.

For the remaining funds in the fixed income CEFs universe monthly NAV-basis performance ranged from minus 6.52% for NexPoint Credit Strategies Fund. (NYSE: NHF, housed in Lipper's High Yield [Leveraged] CEFs classification and traded at a 10.06% discount on June 30) to 0.35% for PIMCO Income Strategy Fund (NYSE: PFL, housed in Lipper's General Bond CEFs classification), which traded at a 6.38% discount at month-end. The 20 top-performing fixed income CEFs posted returns at or above minus 0.03%, while the 20 lagging CEFs were at or below minus 2.26%. A total of only 17 fixed income CEFs witnessed plus-side performance for June.

PREMIUM AND DISCOUNT BEHAVIOR

For June the median discount of all CEFs widened 135 bps to 10.52%—worse than the 12-month moving average discount (8.92%). Equity CEFs' median discount widened 90 bps to 10.74%, while fixed income CEFs' median discount widened 162 bps to 10.44% (their largest month-end discount since October 2008). The World Income CEFs macro-classification's median discount witnessed the largest widening, a whopping 259 bps to 13.64%, while the World Equity CEFs macro-classification witnessed the smallest widening in the CEFs universe—19 bps to 11.61%.

For the month only 17% of all funds' discounts or premiums improved, while 81% worsened. In particular, 27% of equity funds and 9% of fixed income funds saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on June 30 (30) was 20 less than on May 29.

CEF Events and Corporate Actions

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CEF EVENTS AND CORPORATE ACTIONS

IPOs

Oxford Lane Capital Corp. (NASDAQ: OXLC) sold 1.8 million common shares at $15.65 each in its initial public offering, raising approximately $28.2 million in gross proceeds. Underwriters may exercise overallotment options for 270,000 additional common shares.

The initial public offering of Tekla World Healthcare Fund (NYSE: THW) priced 29 million shares at $20 each for a total issuance of $580 million. The total issuance may reach up to $667 million if underwriters exercise their overallotment options in full.

Four Wood Capital Partners launched Eagle Growth & Income Opportunities Fund (NYSE: EGIF). The fund raised approximately $121.5 million in gross proceeds, and if underwriters exercise their overallotment options the fund could raise up to $140 million.

RIGHTS, REPURCHASES, TENDER OFFERS

Preliminary results of the tender offer for up to 448,355 shares (5%) of Delaware Investments Dividend and Income Fund (NYSE: DDF) show approximately 1.2 million (13.7%) of the fund`s common shares were tendered. It is estimated that 36.5% of the tendered shares will be accepted for payment on a pro rata basis. The fund’s discount ended June about where it began the month—at 7.48%.

The Central Europe, Russia and Turkey Fund (NYSE:CEE) is offering to purchase up to 5% of its common shares at 98% of NAV on July 24, 2015. If more than 5% of the fund`s shares are tendered, the fund will purchase the shares from tendering shareholders on a pro rata basis. The fund’s discount widened in June from 7.83% to 11.08%.

Diversified Real Asset Income Fund (NYSE: DRA) will conduct a tender offer for up to 10% of its outstanding common shares at 99% of NAV if the fund’s shares trade at an average daily discount to NAV of more than 10% during the measurement period (July 10 to October 7, 2015). If the fund`s shares trade at an average daily discount of more than 10% during the measurement period, the fund will conduct a tender offer during fourth quarter 2015. The discount on DRA narrowed slightly in June from 10.77% to 9.73%.

MERGERS AND REORGANIZATIONS

Cornerstone Progressive Return Fund completed its merger into Cornerstone Strategic Value Fund (NYSE: CLM) on June 26, 2015. The exchange ratio was 0.765785 shares of CLM for each share of CFP The premium on CLM widened from 18.69% to 20.05% in June.

OTHER

Shareholders of Nuveen Diversified Commodity Fund (NYSE: CFD) approved a plan to convert the fund into an open-end exchange-traded fund (ETF), contingent on customary regulatory approvals. Assuming regulatory approval is obtained, the conversion of CFD to an ETF is expected to be completed in fourth quarter 2015. The discount on CFD actually widened in June, from 5.53% to 6.66%.

Tortoise MLP Fund (NYSE: NTG) modified its nonfundamental investment policy to reduce the minimum amount it invests in the equities of naturalgas-infrastructure master limited partnerships (MLPs) from at least 70% of its total assets to at least 50%. The fund’s discount widened in June from 10.50% to 14.08%.

LMP Real Estate Income Fund (NYSE: RIT) announced that a quorum was not present at the fund`s most recently convened annual meeting of shareholders (after adjourning meetings on May 29, twice on June 8, and on June 16, 2015). The failure of a dissident shareholder to vote either its own shares or the proxies entrusted to it prevented a quorum. BlackRock Health Sciences Trust (NYSE: BME) filed an initial registration statement to establish an at-the-market equity shelf program. Under the program the fund may raise additional equity capital by issuing new common shares at a price at or above the fund`s NAV.

Flaherty & Crumrine announced the retirement of Robert M. Ettinger, a member of the portfolio management team at Flaherty & Crumrine since he joined the firm in 1985. Until September 2014 he also served as the firm’s president. R. Eric Chadwick, Bradford S. Stone, and Donald Crumrine continue as portfolio managers for all Flaherty & Crumrine strategies.

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CEF Performance Statistics

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Category	Average 1Mo NAV Change	Average 1Mo Mkt Change	Average P/D 6/30/2015	Average P/D 5/31/2015	Average 1 Mo P/D Change	Average YTD NAV Change	Average YTD Mkt Change	Average YTD P/D Change (%)
California Municipal Debt Funds	-0.8%	-3.5%	-5.8%	-3.2%	-2.6%	5.2%	-3.7%	-1.2%
Convertible Securities Funds	-3.3%	-4.8%	-6.4%	-4.8%	-1.5%	5.4%	-4.0%	-3.4%
Core Funds	-3.1%	-3.1%	-7.1%	-7.3%	0.0%	11.2%	-2.1%	1.6%
Corporate BBB-Rated Debt Funds(Leveraged)	-2.0%	-2.9%	-10.5%	-9.7%	-0.9%	11.0%	-2.4%	-0.7%
Corporate Debt Funds BBB-Rated	-1.8%	-3.3%	-9.2%	-7.7%	-1.5%	9.3%	-3.4%	-0.8%
Developed Market Funds	-1.9%	-1.6%	-10.6%	-10.9%	0.3%	13.4%	7.4%	1.1%
Emerging Markets Funds	-2.5%	-4.1%	-10.2%	-8.4%	-1.9%	10.4%	0.6%	-1.1%
Emerging Mrkts Hard Currency Debt Funds	-3.1%	-5.1%	-13.3%	-11.4%	-1.9%	14.3%	-4.7%	-0.8%
Energy MLP Funds	-9.1%	-10.5%	-8.9%	-7.5%	-1.4%	4.4%	-17.4%	-5.3%
General & Insured Muni Debt Funds (Leveraged)	-0.9%	-2.9%	-9.3%	-7.4%	-1.9%	8.4%	-4.6%	-1.7%
General & Insured Muni Fds (Unleveraged)	-0.6%	-3.8%	-6.0%	-2.9%	-3.1%	2.4%	-5.3%	-3.8%
General Bond Funds	-1.5%	-4.6%	-8.7%	-5.7%	-3.0%	6.0%	-5.0%	-3.4%
Global Funds	-3.1%	-3.8%	-11.3%	-10.7%	-0.6%	11.7%	-3.2%	-1.9%
Global Income Funds	-1.8%	-4.7%	-11.2%	-8.4%	-2.7%	10.1%	-5.5%	-2.4%
Growth Funds	0.5%	-0.4%	-9.3%	-9.8%	0.0%	19.1%	-0.2%	0.0%
High Yield Funds	-1.8%	-3.7%	-12.3%	-10.7%	-1.6%	10.2%	-4.8%	-3.6%
High Yield Funds (Leveraged)	-2.6%	-4.8%	-11.4%	-9.4%	-2.0%	8.2%	-6.6%	-4.7%
High Yield Municipal Debt Funds	-0.9%	-4.0%	-7.4%	-4.4%	-3.0%	3.7%	-6.3%	-4.4%
Income & Preferred Stock Funds	-2.6%	-5.7%	-9.6%	-6.6%	-3.0%	8.7%	-3.8%	-1.8%
Intermediate Municipal Debt Funds	-0.6%	-1.0%	-5.8%	-5.4%	-0.4%	6.0%	-2.6%	-0.5%
Loan Participation Funds	-1.2%	-3.5%	-10.4%	-8.3%	-2.1%	10.5%	-0.4%	-0.9%
Natural Resources Funds	-5.6%	-8.5%	-12.0%	-9.1%	-2.1%	12.2%	-11.6%	-1.3%
New Jersey Municipal Debt Funds	-0.9%	-4.6%	-12.5%	-9.1%	-3.4%	12.3%	-5.7%	-1.6%
New York Municipal Debt Funds	-0.7%	-1.6%	-6.3%	-5.4%	-0.9%	7.9%	-1.7%	0.8%
Options Arbitrage/Opt Strategies Funds	-2.5%	-3.4%	-5.5%	-4.4%	-1.1%	6.6%	0.0%	0.0%
Other States Municipal Debt Funds	-0.8%	-1.8%	-7.4%	-6.2%	-1.0%	9.3%	-1.8%	0.7%
Pacific Ex Japan Funds	-1.7%	-1.5%	-11.6%	-11.7%	0.1%	10.5%	-1.2%	-2.1%
Pennsylvania Municipal Debt Funds	-0.9%	-3.8%	-13.1%	-11.7%	-2.6%	11.3%	-5.6%	-3.1%
Real Estate Funds	-3.3%	-6.1%	-14.6%	-11.3%	-1.4%	14.8%	-7.9%	-2.2%
Sector Equity Funds	-2.1%	-3.6%	-6.8%	-5.9%	-0.9%	7.4%	-1.3%	-1.7%
U.S. Mortgage Funds	-0.8%	-3.0%	-11.2%	-9.0%	-2.1%	9.3%	-4.0%	-2.8%
Utility Funds	-6.3%	-8.1%	-6.4%	-4.4%	-2.0%	6.0%	-11.0%	-1.4%
Value Funds	-3.0%	-4.1%	-13.3%	-12.6%	-0.6%	11.8%	-5.8%	-2.9%
Grand Total	-0.8%	-3.5%	-5.8%	-3.2%	-2.6%	5.2%	-3.7%	-1.2%

Top 5 Performing CEFs

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Fund Name	Category	Ticker Symbol	1-Month NAV Change	Rank
Engex Inc	Growth Funds	EXGI	15.4%	1
Japan Small Cap	Developed Market Funds	JOF	3.7%	2
J Hancock Finl Opptys	Sector Equity Funds	BTO	2.7%	3
Tekla Life Sciences Inv	Sector Equity Funds	HQL	2.2%	4
Tekla Healthcare Invest	Sector Equity Funds	HQH	1.5%	5

Fund Name	Category	Ticker Symbol	Year-to-Date NAV Change	Rank
RENN Fund	Global Funds	RCG	68.5%	1
Foxby Corp	Growth Funds	FXBY	43.3%	2
Self Storage Group	Real Estate Funds	SELF	41.6%	3
Equus Total Return	Core Funds	EQS	36.2%	4
Firsthand Technology Val	Sector Equity Funds	SVC	31.3%	5

Fund Name	Category	Ticker Symbol	1-Month Market Change	Rank
J Hancock Finl Opptys	Sector Equity Funds	BTO	9.9%	1
Federated Prem Intm Muni	Intermediate Municipal Debt Funds	FPT	5.7%	2
Japan Small Cap	Developed Market Funds	JOF	5.2%	3
BlackRock MuniYld AZ	Other States Municipal Debt Funds	MZA	3.3%	4
Aberdeen Japan Equity	Developed Market Funds	JEQ	2.1%	5

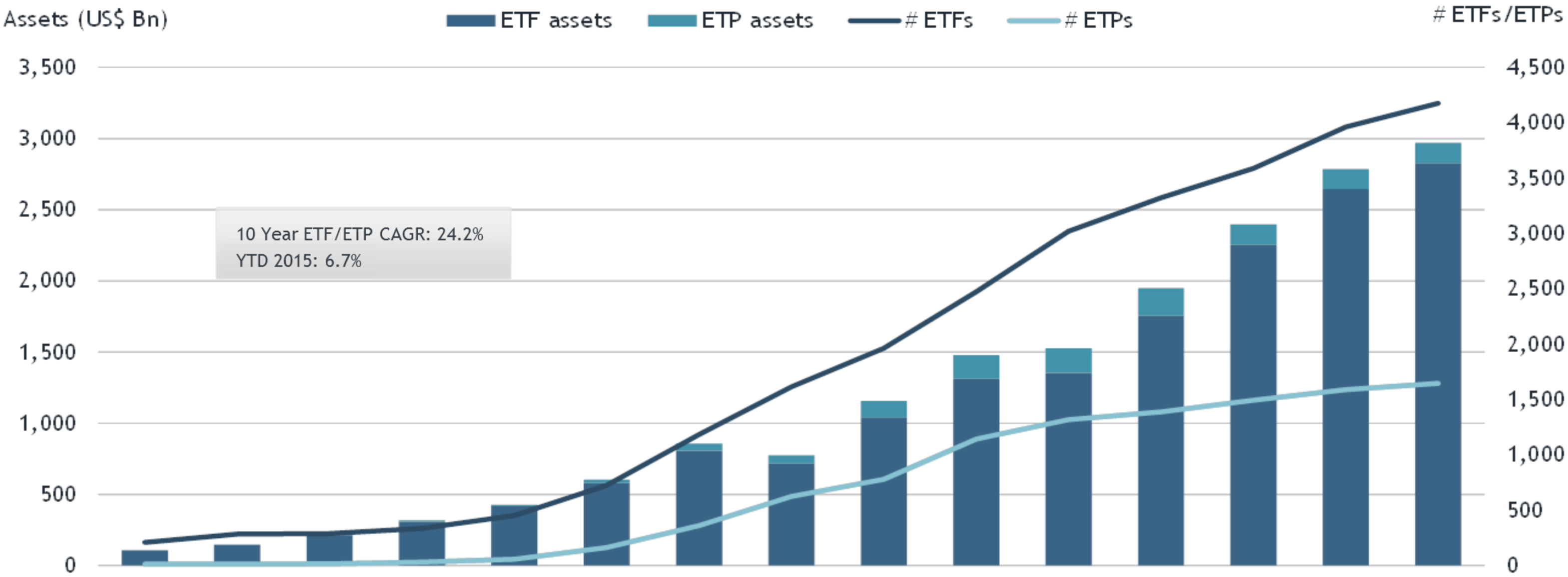
Fund Name	Category	Ticker Symbol	Year-to-Date Market Change	Rank
Aberdeen Japan Equity	Developed Market Funds	JEQ	22.0%	1
Cornerstone Total Return	Core Funds	CRF	21.4%	2
Japan Small Cap	Developed Market Funds	JOF	20.3%	3
J Hancock Finl Opptys	Sector Equity Funds	BTO	15.4%	4
Aberdeen Israel Fund	Developed Market Funds	ISL	14.3%	5

Fund Name	Category	Ticker Symbol	1-Month P/D Change	Rank
Cornerstone Total Return	Core Funds	CRF	7.8%	1
Miller/Howard High Inc E	Global Funds	HIE	7.7%	2
J Hancock Finl Opptys	Sector Equity Funds	BTO	6.7%	3
Federated Prem Intm Muni	Intermediate Municipal Debt Funds	FPT	5.6%	4
Nuveen AC Engy MLP Opps	Energy MLP Funds	JML	5.5%	5

Fund Name	Category	Ticker Symbol	Year-to-Date P/D Change	Rank
Cornerstone Total Return	Core Funds	CRF	38.1%	1
Cornerstone Strat Value	Core Funds	CLM	17.1%	2
Herzfeld Caribbean Basin	Emerging Markets Funds	CUBA	11.7%	3
DNP Select Income Fund	Utility Funds	DNP	11.4%	4
Nuveen AC Engy MLP Opps	Energy MLP Funds	JML	10.6%	5

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

At the end of June 2015, the Global ETF/ETP industry had 5,823 ETFs/ETPs, with 11,295 listings, assets of US$2.971 trillion, from 259 providers listed on 62 exchanges in 51 countries.



Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Jun-15
# ETFs	209	284	289	335	451	725	1,184	1,614	1,962	2,474	3,020	3,323	3,588	3,962	4,177
# ETFs/ETPs	221	296	304	365	507	888	1,544	2,238	2,741	3,617	4,337	4,711	5,082	5,552	5,823
ETF assets	105	142	212	310	417	580	807	716	1,041	1,313	1,355	1,754	2,254	2,643	2,828
ETF/ETP assets	109	146	218	319	426	603	857	774	1,158	1,478	1,526	1,949	2,398	2,784	2,971

Summary for ETFs/ETPs: Global

A record level of US$152 billion in net new assets (NNA) was gathered by ETFs and ETPs listed globally in the first half of 2015, surpassing the prior record of US$130 billion gathered in the first half of 2014, according to ETFGI's preliminary ETF and ETP global insights report for the first half of 2015. At the end of June 2015, the global ETF/ETP industry had 5,823 ETFs/ETPs, with 11,295 listings, assets of US$2.971 trillion, from 259 providers listed on 62 exchanges in 51 countries.

"June was a difficult month for most markets around the world. The S&P 500 index ended June down 2% for the month and finished the first half of 2015 up 1%. Market performance in the first half of 2015 was impacted by a number of uncertainties in the first half of 2015: the situation in Greece and the impact on the Eurozone, when the Fed will raise interest rates, volatility in the Chinese market and the MERS outbreak in South Korea." according to Deborah Fuhr, managing partner of ETFGI.

In the first half of 2015 record levels of net new assets (NNA) have been gathered by ETFs/ETPs listed globally with US$152 billion beating the prior record of US$130 billion in the first half of 2014. US listed ETFs/ETPs gathered US$103 billion, beating the previous record of US$76 billion gathered in the first half of 2012, while European listed ETFs/ETPs gathered US$40 billion, beating the US$32 billion gathered in the first half of 2014.

In June 2015, ETFs/ETPs listed globally gathered net inflows of US$24.8 Bn. Equity ETFs/ETPs gathered the largest net inflows with US$27.9 Bn, while commodity ETFs/ETPs saw net outflows of US$479 Mn and fixed income ETFs/ETPs experienced net outflows of US$4.0 Bn.

YTD through end of June 2015, ETFs/ETPs have seen net inflows of US$152 Bn. Equity ETFs/ETPs gathered the largest net inflows YTD with US$101.7 Bn, followed by fixed income ETFs/ETPs with US$35.4 Bn, and commodity ETFs/ETPs with net inflows of US$4.2 Bn

iShares and Vanguard tied in gathering the largest net ETF/ETP inflows in June with US$8.1 Bn, followed Yuanta with US$3.3 Bn net inflows.

In the first half of 2015 iShares gathered the largest net ETF/ETP inflows YTD with US$52.1 Bn, followed by Vanguard with US$44.8 Bn, WisdomTree with US$20.3 Bn and DB/x-trackers with US$19.1 Bn net inflows.

In June 2015, 82 new ETFs/ETPs were launched by 35 providers 12 ETFs/ETPs closed and there were a total of 29 listings removed from 7 exchanges. YTD through end of June 2015, 415 new ETFs/ETPs have been launched by 102 providers. 144 ETFs/ETPs have closed, with a total of 316 listings removed from 19 exchanges.

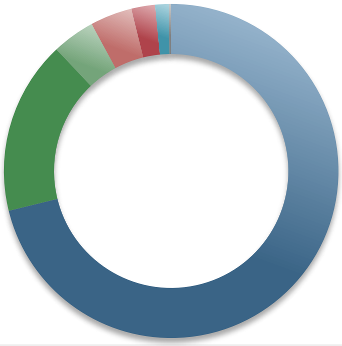
There are 431 ETFs/ETPs with greater than US$1 Bn in assets which hold a combined total of US$2,396 Bn, or 80.8%, of Global ETF/ETP assets, while 3,952 ETFs/ETPs have less than US$100 Mn in assets, 3,353 ETFs/ETPs have less than US$50 Mn in assets and 1,785 ETFs/ETPs have less than US$10 Mn in assets.

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.

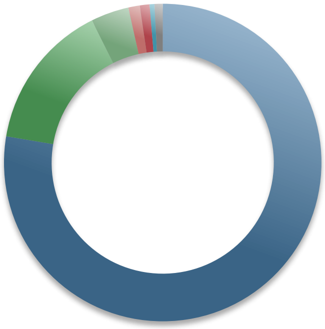
Global ETF/ETP Assets Summary

etfgi.com

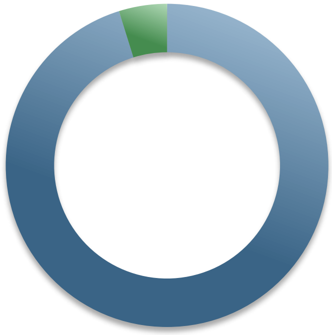
ETF/ETP assets by region listed



ETF/ETP assets by asset class



ETF/ETP assets by product structure



Region	# ETFs/ ETPs	Assets (US$ Bn)	% total
US	1,742	$2,114.5	71.2%
Europe	2,118	$499.2	16.8%
Asia Pacific (ex-Japan)	682	$123.3	4.2%
Japan	157	$120.5	4.1%
Canada	367	$67.8	2.3%
Middle East and Africa	708	$39.4	1.3%
Latin America	49	$6.4	0.2%
Total	**5,823**	**$2,971.2**	**100.0%**

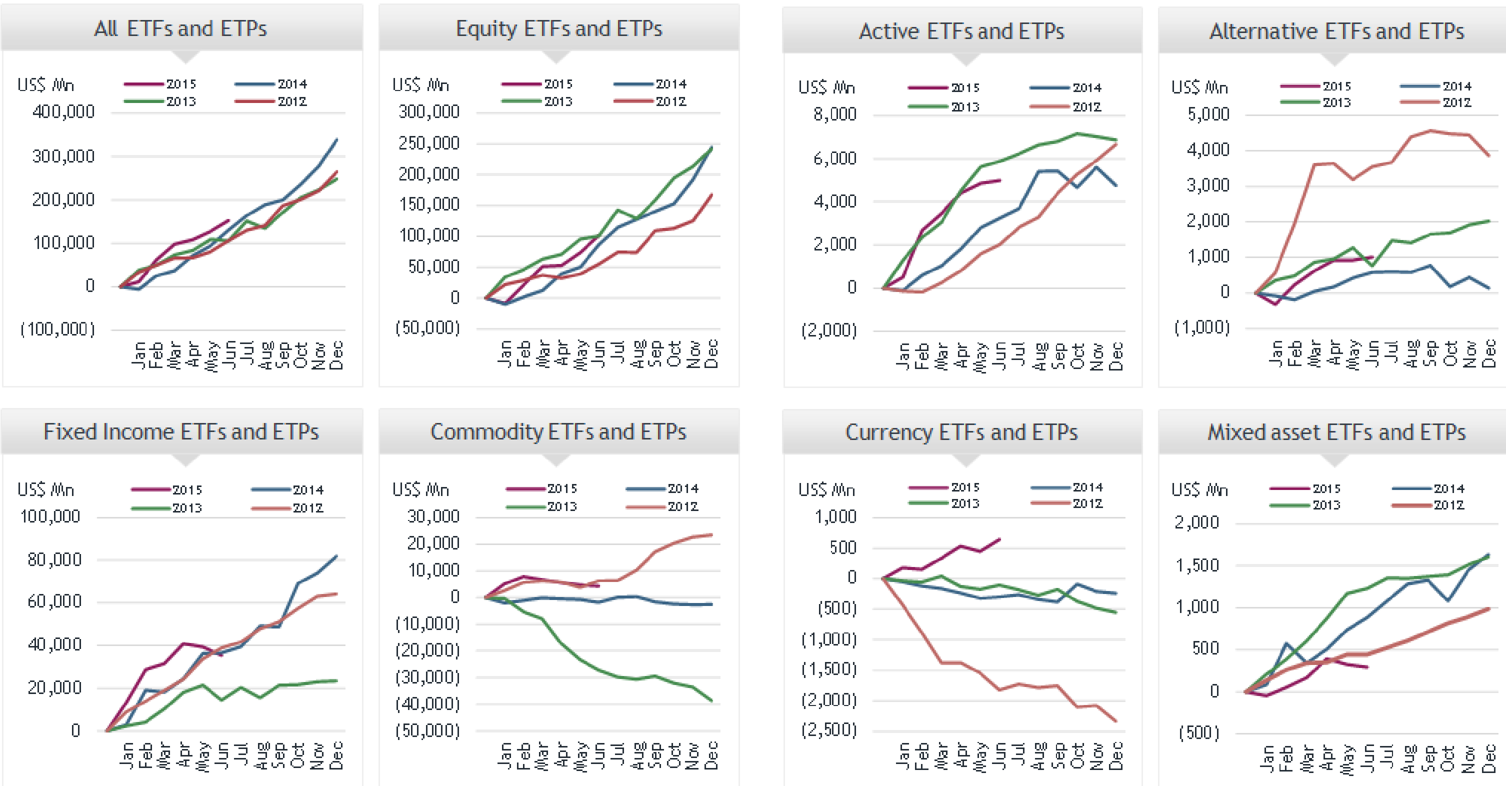
Asset class	# ETFs/ ETPs	Assets (US$ Bn)	% total
Equity	3,123	$2,307.0	77.6%
Fixed Income	858	$445.7	15.0%
Commodities	713	$115.2	3.9%
Leveraged	331	$34.5	1.2%
Active	212	$29.5	1.0%
Leveraged Inverse	165	$14.7	0.5%
Others	421	$24.5	0.8%
Total	**5,823**	**$2,971.2**	**100.0%**

Asset class	# ETFs/ ETPs	Assets (US$ Bn)	% total
ETF	4,177	$2,828.1	95.2%
ETP	1,646	$143.1	4.8%
Total	**5,823**	**$2,971.2**	**100.0%**

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

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

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



ETFs and ETPs listed globally gathered net inflows of $24,811 Mn in June. Year to date, net inflows stand at $152,312 Mn. At this point last year there were net inflows of $130,344 Mn.

Equity ETFs/ETPs saw net inflows of $27,902 Mn in June, bringing year to date net inflows to $101,735 Mn, which is greater than the net inflows of $86,576 Mn over the same period last year.

Fixed income ETFs and ETPs experienced net outflows of $3,972 Mn in June, reducing year to date net inflows to $35,363 Mn, which is less than the same period last year which saw net inflows of $36,573 Mn.

Commodity ETFs/ETPs saw net outflows of $479 Mn in June. Year to date, net inflows are at $4,233 Mn, compared to net outflows of $1,779 Mn over the same period last year.

Actively managed products saw net inflows of $127 Mn in June, bringing year to date net inflows to $4,994 Mn, which is greater than the net inflows of $3,244 Mn over the same period last year.

Products tracking alternative indices experienced net inflows of $87 Mn in June, growing year to date net inflows to $1,008 Mn, which is greater than the same period last year which saw net inflows of $579 Mn.

Currency products accumulated net inflows of $195 Mn in June. Year to date, net inflows are at $644 Mn, compared to net outflows of $297 Mn over the same period last year.

Products holding more than one asset class saw net outflows of $33 Mn in June, bringing year to date net inflows to $295 Mn, which is less than the net inflows of $886 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.

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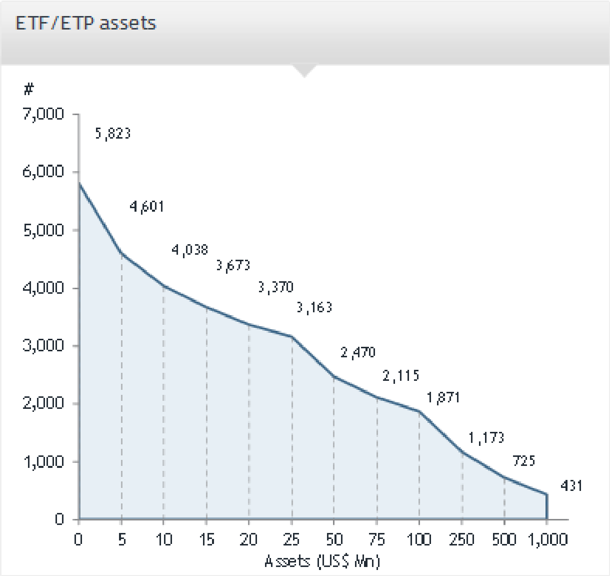
Distribution of ETFs/ETPs by size



Assets greater than (US$ Mn)	# ETFs/ ETPs	% total	Total assets (US$ Bn)	% total
0	5,823	100.0%	2,965	100.0%
5	4,601	79.0%	2,963	99.9%
10	4,038	69.3%	2,959	99.8%
15	3,673	63.1%	2,954	99.6%
20	3,370	57.9%	2,949	99.4%
25	3,163	54.3%	2,944	99.3%
50	2,470	42.4%	2,920	98.5%
75	2,115	36.3%	2,898	97.7%
100	1,871	32.1%	2,877	97.0%
250	1,173	20.1%	2,763	93.2%
500	725	12.5%	2,604	87.8%
1,000	431	7.4%	2,396	80.8%

431 ETFs/ETPs have greater than US$1 Bn in assets, while 1,871 have greater than US$100 Mn in assets and 2,470 have greater than US$50 Mn in assets. The 431 ETFs/ETPs with greater than US$1 Bn in assets hold a combined total of US$2,396 Bn, or 80.8%, of Global ETF/ETP assets.

ETF/ETP underlying benchmarks: developed equity

Top 20 by assets

Name	Assets (US$ Mn) Jun-15	NNA (US$ Mn) Jun-15	NNA (US$ Mn) YTD 2015
S&P 500 Index	321,470	(2,690)	(44,913)
MSCI EAFE Index	78,001	2,955	19,798
Nikkei 225 Index	58,425	1,740	7,394
CRSP US Total Market Index	57,701	1,352	5,885
TOPIX Index	49,728	1,424	8,313
S&P Mid Cap 400 Index	44,383	941	2,438
NASDAQ 100 Index	43,345	1,113	(2,680)
MSCI Japan Index	37,367	1,120	6,502
EURO STOXX 50 Index	35,510	1,417	5,787
Russell 2000 Index	31,540	2,842	(1,355)
Russell 1000 Growth Index	29,903	77	892
FTSE Developed ex North America Index	28,014	876	2,625
Russell 1000 Value Index	26,336	322	259
MSCI US REIT Index	23,737	(872)	(1,275)
DAX Index	20,250	1,501	1,223
Wisdom Tree Europe Hedged Equity Index	20,086	687	14,216
MSCI World Index	20,049	(213)	59
NASDAQ Dividend Achievers Select Index	19,799	(89)	(865)
S&P Financial Select Sector Index	19,131	894	(2,015)
CRSP US Large Cap Growth Index	18,817	211	1,007

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

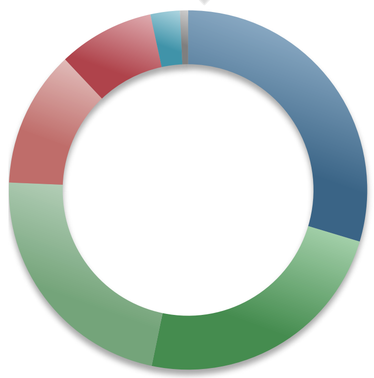
Top 20 by monthly net inflows

Name	Assets (US$ Mn) Jun-15	NNA (US$ Mn) Jun-15	NNA (US$ Mn) YTD 2015
MSCI EAFE Index	78,001	2,955	19,798
Russell 2000 Index	31,540	2,842	(1,355)
Nikkei 225 Index	58,425	1,740	7,394
DAX Index	20,250	1,501	1,223
TOPIX Index	49,728	1,424	8,313
EURO STOXX 50 Index	35,510	1,417	5,787
CRSP US Total Market Index	57,701	1,352	5,885
MSCI Japan Index	37,367	1,120	6,502
NASDAQ 100 Index	43,345	1,113	(2,680)
S&P Mid Cap 400 Index	44,383	941	2,438
S&P Health Care Select Sector Index	15,551	917	2,309
S&P Financial Select Sector Index	19,131	894	(2,015)
FTSE Developed ex North America Index	28,014	876	2,625
Wisdom Tree Europe Hedged Equity Index	20,086	687	14,216
S&P Regional Banks Select Industry Index	2,882	664	525
WisdomTree Japan Hedged Equity Index	18,156	629	4,292
MSCI Germany Index	7,381	550	2,703
MSCI United Kingdom Index	4,643	526	774
FTSE Developed Europe Index	14,635	454	3,014
StrataQuant Health Care Index	4,140	426	1,158

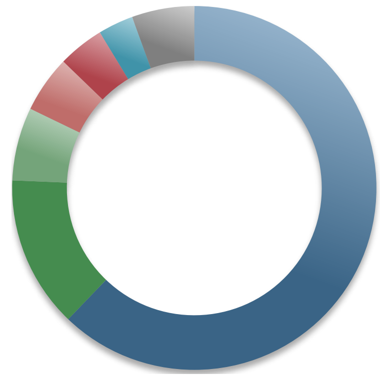
Year to Date ETF / ETP Product Launches

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	123	29.6%
Asia Pacific (ex-Japan)	98	23.6%
Europe	93	22.4%
Middle East and Africa	51	12.3%
Canada	36	8.7%
Japan	11	2.7%
Latin America	3	0.7%
Total	**415**	**100.0%**

Asset class	# ETFs/ETPs	% total
Equity	258	62.2%
Fixed income	56	13.5%
Leveraged	27	6.5%
Active	21	5.1%
Inverse	17	4.1%
Commodities	13	3.1%
Others	23	5.5%
Total	**415**	**100.0%**

Structure	# ETFs/ETPs	% total
ETF	319	76.9%
ETP	96	23.1%
Total	**415**	**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.

ARPS Discounts Widen as Investor Base Shifts

July 6, 2015

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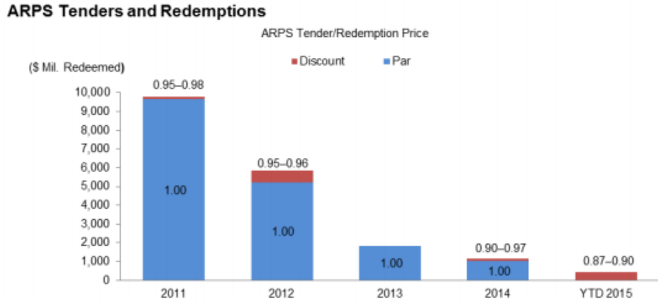
ARPS Discounts Widen: Closed-end funds (CEFs) are redeeming auction-rate preferred stock (ARPS) at wider discounts. So far in 2015, $440 million of ARPS was tendered, of which $418 million was done at a discount. Fitch expects the redemptions to continue for the remaining $6 billion in ARPS that remains outstanding across CEFs today.

Alternate Ways To Leverage: The capital markets today offer alternative financing options, such as variable-rate demand preferred shares (VRDPs) and variable municipal term preferred shares (VMTPs) issued by municipal funds and privately placed notes and preferred stock issued by taxable funds. While slightly more expensive than ARPS, these refinancing options may be attractive for CEFs given the prospect of rising rates, especially when combined with a discounted ARPS redemption.

ARPS Tenders and Redemptions



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Rating Actions

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

- **Fitch Rates Preferred Shares Issued by two Deutsche Closed-End Funds – June 1, 2015**
- **Fitch Affirms Stone Tower Credit Funding I Ltd. Notes at 'BBB(sf)' – June 4, 2015**
- **Fitch Confirms Invesco Muni Funds VMTP Shares after Maturity Extensions – June 5, 2015**
- **Fitch Rates & Affirms Nuveen Muni CEF Preferred Shares on Reorganization' – June 8, 2015**
- **Fitch Affirms ARPS and VMTP Shares of 5 MFS Muni Closed-End Funds at 'AAA' – June 10, 2015**
- **Fitch Rates Clearbridge Energy MLP Fund Inc. Sr. Notes & Preferred Stock; Affirms Existing Ratings – June 12, 2015**
- **Fitch Affirms L-T and Assigns S-T Ratings on VRDP Shares of 2 BlackRock Muni Closed-End Funds – June 17, 2015**
- **Fitch Affirms Preferred Shares Issued by Two Federated Municipal Funds at 'AAA' – June 19. 015**
- **Fitch Affirms Jay Street Market Value CLO's Senior Notes at 'BBB(sf)' – June 22, 2015**
- **Fitch Affirms Gabelli Fund Auction Preferred Shares at 'AA' – June 23, 2015**
- **Fitch Affirms Aberdeen Asia-Pacific Income Fund Notes at 'AAA' and MRPS at 'AA' – June 26, 2015**
- **Fitch Affirms Preferred Shares of Three Neuberger Berman Funds at 'AA' – July 1, 2015**
- **Fitch Rates VMTP Shares Issued by Nuveen Closed-End Funds – July 1, 2015**
- **Fitch Affirms DTF Tax-Free Income Inc. VMTP Shares at 'AAA' – July 7, 2015**
- **Fitch Affirms DNP Select Income Fund Shares at 'AAA' – July 7, 2015**

Closed-End Fund

May 2015

We would like to share with you our review and outlook for the closed-end fund market as of May 31, 2015. For the month, the market price total return of the Morningstar U.S. All Taxable ex-Foreign Equity Closed-End Fund Index1 was −0.7%, while its return on net asset value (NAV) was +0.1%. Year to date, the index had a total return of +2.5% based on market price and +2.7% based on NAV. By comparison, the S&P 500 Index2 and the Barclays Capital U.S. Aggregate Bond Index3 had total returns of +1.3% and −0.2% for the month, and +3.2% and +1.0% for the year to date, respectively.

Investment Review

Closed-end funds declined in May, outperforming most fixed income indexes but trailing equity markets. Global economic growth remained positive, although a revised U.S. gross domestic product report showed that the U.S. economy contracted 0.7% in the first quarter. The strength of the U.S. dollar has taken a toll on exports, but many other aspects of the U.S. economy have been healthy, including job growth. The yield on the 10-year Treasury note drifted higher, which generally hindered income-oriented asset classes such as closed-end funds.

Equity closed-end funds outperformed their fixed income counterparts. Closed-end funds' discounts to net asset value (NAV) remained well wide of their long-term averages. The average discount for taxable fixed income funds ended the month at 6.8%, compared with an 18-year average discount of 2.7%. Equity funds (excluding commodities) ended the month with an average discount of 6.9% to NAV, compared with an 18-year average of 5.0%.

Performance in the equity group was mixed. Energy resources funds declined, falling −4.8% based on market price. Master limited partnership funds (−3.3% total return based on market price1) similarly retreated; crude oil prices weakened in May after rallying in April. However, commodity funds (+0.6%) advanced as weaker macro data led to somewhat improved demand for metals perceived as safe havens, such as silver and gold; closed-end funds in the commodity group invest primarily in those metals. Funds that invest in health biotech securities (+5.1%) led the group; investors continued to respond positively to robust mergers and acquisitions activity in the space.

Convertible bond funds (+1.7%) led the taxable fixed income group. Funds in the mortgage group (+0.3%) also advanced. Funds in the senior loan group declined −1.0% based on market price; performance tended to be more resilient compared with other taxable fixed income funds given the generally lower duration, credit-sensitive nature of the underlying securities that these funds invest in. Multi-sector funds (−1.1%) and preferred securities funds (−1.4%) declined despite the group's above-average dividend fundamentals. Investment grade funds (−2.1%) fell as higher quality, longer-dated securities fell out of favor.

Tax-exempt municipal bond funds declined, trailing most taxable fixed income fund categories. Headline risk associated with municipal trouble spots including Illinois and Puerto Rico may have contributed to both municipal closed-end fund discount widening and municipal open-fund outflows during the month of May. Additionally, increased volatility in U.S. Treasury and German government bond yields broadly hindered returns. Lower energy prices also continued to weigh on the budgets of select regions with high economic dependencies on oil. However, the overall longer-term outlook for municipal securities remained positive as the U.S. economy continued to add jobs.

Closed-End-Fund New Issue Market

With discounts to NAV below their historical averages and recently issued funds trading below their initial public offering (IPO) prices, underwriters have been reluctant to launch closed-end funds. However, an income-focused convertible bond fund had a successful offering in May—the second closed-end-fund IPO since November 2014. The IPO environment remains challenged, and we expect activity there to be sporadic until discounts narrow.

Investment Outlook

With discounts for closed-end funds exceeding their long-term averages, we continue to find a wide array of undervalued funds across fixed income and equity categories. In general, our focus remains on funds that we believe offer greater potential to benefit from a continued recovery in the global economy. We particularly see opportunities in well-managed credit-sensitive fixed income funds trading at attractive valuations.

Due to the size of current discounts across the closed-end fund market, we do not expect to see meaningful new issuances in either fixed income or equity categories in the next several months.

(1) Returns are based on market price per Bloomberg L.P. Sector constituents are determined as per the Morningstar U.S. All Taxable ex-Foreign Equity Closed-End Fund Index. The Morningstar U.S. All Taxable ex-Foreign Equity Index measures the market-cap-weighted total return of taxable equity and fixed income closed-end funds - it excludes international, regional and country closed-end funds.
(2) The S&P 500 Index is an unmanaged index of 500 large capitalization, publicly traded stocks that is frequently used as a general measure of stock market performance.
(3) The Barclays Capital U.S. Aggregate Bond Index includes U.S. government, corporate and mortgage-backed securities with maturities of at least one year.

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Should You Buy Prospect Capital Corporation? COO Grier Eliasek Gives Some Very Interesting Answers

July 15, 2015

Authored by:
Manos Schoinakis
Seeking Alpha

Summary

- Discount to NAV will disappear in the medium term. Historical evidence to support that.
- Rising interest rate environment in favor of the company.
- Real estate portfolio allocated in emerging domestic markets chasing long-term value.
- All three planned spinoffs in the form of rights offering.
- A share buyback may be an option but with the ultimate attention to the company's credit rating.

On June 22th, I conducted an interview with Prospect Capital Corporation's (NASDAQ:PSEC) President and COO, Mr. Grier Eliasek. The questions and answers are shown below. However, I should inform the readers that I changed the structure of the majority of the questions to follow the grammatical and syntax rules of the English language, given that in the oral communication these rules may be a little more fluid, especially when one of the speakers (me) is a non-native English speaker and certainly doesn't have a politician's or a lawyer's gift: fluency. The basic meaning and content of the questions has remained intact though.

Me: In page 13 of your recently created corporate overview report, found in your website, we can see how the stock's price reacted after it traded at discounts to NAV similar or greater than the ones we find today. In all four cases that are presented, the underlying reasons are related to market dislocations such as the U.S. credit crisis and its transmission to the E.U. What is the cause, in your opinion, of the current discount to NAV?

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Market Videos

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July 13, 2015
Bob Carey of First Trust: *Greece, China, Alcoa and the Global Economy*

July 6, 2015
Brian Wesbury of First Trust: *Happy 4th of July*

July 10, 2015
Elias Grier of Prospect Capital Corporation: *Mid-Year Outlook: Private Equity and Debt*

June 30, 2015
Alex Bryan of Morningstar: *An Enhanced Value Strategy Gives This ETF an Edge*

July 8, 2015
Craig Chan of Nomura: *Look out: Currency hedging is on the loose in ETF world*

June 22, 2015
Ben Johnson of Morningstar: *2 Low-Cost ETFs for Broad U.S. Stock Exposure*

Bond ETFs: Benefits, Challenges, Opportunities

July 2015

Authored by:
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Head of New Business Development for iShares
iShares by BlackRock

EXECUTIVE SUMMARY

- The rapid growth of assets in bond ETFs juxtaposed with the perception of growing liquidity challenges in fixed income markets has raised some questions about the liquidity of ETFs.
- ETF trading today offers a vision of the future state of the bond market, exhibiting low cost, transparent, electronic trading in a standardized, diversified product.
    - ETFs can help enhance price discovery, provide investors with low execution costs to establish a diversified portfolio, and increase bond market liquidity and transparency.
    - ETF liquidity is incremental to the underlying bond market liquidity because buyers and sellers can offset each other's transactions without necessarily having to trade in the underlying market.
    - Even during periods of market stress, ETF shares are at least as liquid as the underlying portfolio securities.
- Commonly voiced concerns about ETFs actually relate to a small subset of exchange-traded products. A systematic classification schema can help investors and regulators focus on these funds.
- There are several concrete steps that regulators and policy makers can take to promote the benefits of ETFs more widely while also addressing genuine challenges. These include ETF market structure enhancements, regulatory capital treatment, and streamlining the approval process for creating ETFs.

Many questions have recently been raised about the liquidity of Exchange Traded Funds (ETFs). In this ViewPoint, we seek to address these questions, with reference to the structural features of ETFs, the value of exchange listing and the role of Authorized Participants (APs)‡. We also discuss the benefits of ETFs, including transparency and price discovery, and some of the challenges, including the need for a classification system that better distinguishes among several types of ETFs that have varied structural features. Finally, we offer some suggestions for concrete regulatory actions that can extend the benefits of ETFs to a broader investor base and improve financial stability by accelerating market structure transition from principal-based trading of bonds to an agency model.

Recent discussions about bond ETFs often refer to a "liquidity mismatch" between highly liquid bond ETFs and the underlying bond markets. The concerns reflect the intersection of two recent trends: the rapid growth of assets in bond ETFs alongside the perception of growing liquidity challenges in fixed income markets.1 In these discussions, the term "liquidity" is often used as a catch-all phrase for several concepts, which has created confusion and led to the conflation of distinct issues. We need to start by distinguishing between "market liquidity" and "liquidity terms". Market liquidity refers to the ability of investors to trade assets without unduly large price movements, whereas liquidity terms refers to the structural features of a fund that determine how often and under what conditions shareholders can redeem. Liquidity terms include redemption frequency (e.g., daily, monthly), fund structure (e.g., openend fund, ETF, closed-end fund, private fund, etc.), and redemption provisions (e.g., notice periods, ability to gate the fund, redemption fees), or the ability to make redemptions in-kind. In times of financial stress, overall market liquidity can be severely challenged. In these conditions, there may be a "liquidity mismatch" between a fund that provides unlimited liquidity terms (the ability to redeem each day for cash) and the market liquidity of its underlying holdings, which may be difficult to sell if the fund needs to satisfy redemptions. For reasons discussed herein, ETF shares often provide greater market liquidity than the ETF's holdings. In BlackRock's ViewPoint "Addressing Market Liquidity" published in July 20152, which is a companion to this ViewPoint, we discuss how market participants are adapting their investment strategies to reflect the evolution of the bond markets.

Bond issuance has hit new records since the Financial Crisis as borrowers take advantage of low interest rates, leading to increased market fragmentation as dozens or even hundreds of unique securities may be issued by the same corporation. This trend, coupled with lower turnover and transaction sizes in the over-the-counter (OTC) corporate bond market, has led to discussions of potential methods to improve bond markets. BlackRock has proposed: (a) larger issuers incorporating a greater use of more liquid benchmark issues into their capital structures, (b) greater use and acceptance of "all-to-all" trading venues where multiple parties can come together to transact, and (c) expansion of trading protocols to help increase the number of ways that market participants can interact with each other to find additional means of sourcing liquidity.

In many ways, bond ETFs offer a vision of this future. Rather than trade hundreds of unique bonds, buyers and sellers of exposure to a bond market segment (such as high yield) can make a single trade in a bond ETF that represents that segment. By concentrating trading demand in a single instrument that trades continuously with centrally-reported quotations, bond ETFs help buyers and sellers of bonds find each other efficiently without having to rely on OTC dealers. Both institutional and retail investors in bond ETFs benefit from this, as ETFs provide quick diversification, transparency, intraday liquidity and lower trading costs, resulting in a rapid growth in bond ETFs in recent years. Although bond ETFs are often lumped together with traditional open-end bond funds, their structure and behavior are significantly different. A closer look at these underlying features helps explain how ETFs improve market liquidity and can actually be part of the solution rather than exacerbate market liquidity issues. This analysis leads naturally to a discussion of real challenges for ETF understanding and adoption that should be addressed. Finally, this provides a foundation for specific policy recommendations to improve markets for all participants.

Comparison of ETFs and Other Fund Structures

ETFs, traditional open-end funds, and closed-end funds are often referred to collectively as "funds". While it is true that they operate under a similar regulatory regime, the fund types have different mechanisms for providing liquidity to investors and establishing prices at which share transactions occur. In a traditional open-end mutual fund, investors buy new shares and redeem existing shares directly with the fund at a specified time each day at a price that is the fund's best estimation of net asset value (NAV) per share. As a result, when there is a significant imbalance between buyers and sellers of an open-end fund, the fund must typically purchase or sell fund holdings in response. A closed-end fund, in contrast, has a fixed number of shares that are listed on a stock exchange. As a result, buying and selling of closed-end fund shares occurs at an agreed market-determined price between investors on the exchange without the fund's involvement. Any imbalance between buyers and sellers affects the exchange price, but does not result in purchases or sales of holdings by the fund. In a closed-end fund, there is no mechanism to reconcile differences between the exchange price and NAV, and exchange prices commonly exhibit premiums and discounts to NAV.

ETFs are based on a hybrid approach. Like closed-end funds, ETFs can be bought or sold intraday on the exchange at a market-determined price. Unlike closed-end funds, however, ETFs incorporate a mechanism for keeping the market price within close range of NAV by adjusting the supply of available shares based on investor demand. Most ETF investors can trade shares only on the exchange. Nonetheless, a small group of investors, known as Authorized Participants (APs)[3], can trade directly with an ETF. APs are sophisticated institutional trading firms that enter into a contract with the ETF specifying rules for creating and redeeming ETF shares. APs are not agents of the ETF – they are not required to create or redeem ETF shares under any circumstances, and only do so when it is in their interest. Some APs act only on their own behalf, while others may act as agents for a variety of clients. When APs create or redeem shares with an ETF, they do so at NAV (like with an open-end mutual fund) but typically transact for large blocks of shares in-kind rather than for cash (unlike with an open-end mutual fund). Because ETF share creations and redemptions are typically done in-kind, which frequently involves complex transfers of thousands of securities, ETFs issue and redeem shares only with APs rather than with the general public. APs' ability to purchase new ETF shares, and redeem existing ETF shares, directly with the ETF in-kind has a variety of benefits for all investors discussed below.

The Role of Arbitrage and of Authorized Participants

When sellers of ETF shares exceed buyers, the price of the ETF shares on the exchange declines, just as you would see with the share price of other equity securities, including shares of closed-end funds. Exchange transactions directly between buyers and sellers provide each with liquidity without requiring the ETF to buy or sell holdings. If the exchange price of the ETF shares deviates from the value of the ETF's holdings, it is apparent to any interested observers[4]. When this occurs, traders can take advantage of the valuation deviation by opposing the market trend – ETF shares must be purchased when trading at a discount, and sold short when trading at a premium. This process causes traders to supply liquidity on the exchange when supply and demand imbalances occur. Trading positions resulting from such activity are closed out, and profits realized, by redeeming any ETF shares purchased at a discount for the ETF Basket, which is then sold to realize the price deviation, or by delivering the ETF Basket to the ETF to create new shares which can be delivered to close out short positions taken while ETF shares traded at a premium. This type of so-called "arbitrage" trading occurs readily with ETFs because ETFs are transparent (that is, they generally publish their holdings) and because it is relatively simple for APs, or other trading firms that have the ability to trade with or through APs, to close out and realize the value of arbitrage trades by exchanging ETF shares for the ETF Basket (or vice versa). This trading activity has the beneficial effect of causing Aps to create or redeem ETF shares in a manner that adjusts the supply of outstanding ETF shares to match demand, resulting in keeping the ETF share price on the exchange aligned with the value of the ETF's underlying holdings. This permits ETFs to incorporate beneficial features of both closed-end and open-end funds. Like closed-end funds, much of the demand to buy and sell ETF shares can be satisfied by exchange transactions, with any oversupply of shares for sale on the exchange resulting in decreasing the exchange price (rather than a direct redemption of fund shares that in turn results in a sale of the fund's underlying holdings). In the event supply and demand for ETF shares on the exchange does not balance at a price that closely reflects the value of the ETF's holdings, however, arbitrage trading will cause APs to adjust the supply of outstanding shares.

Exchange Trading Liquidity Can be Greater than Underlying Markets

ETF shares are traded intraday on exchanges. The

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volume of ETF shares traded on exchanges can be many times greater than the amount of shares issued or redeemed directly by the ETF. Data from the Investment Company Institute (ICI) for US ETFs regulated as publicly-offered funds under the US Investment Company Act from January 3, 2013, to June 30, 2014 shown in Exhibit 1 demonstrates that, while there are differences among various ETFs, on average, exchange volume (referred to as "secondary activity" in the charts below) has been between 3 and 5 times aggregate "creates" and "redeems" (referred to as "primary activity" in the charts below). In addition, Exhibit 1 shows that average daily aggregate creations and redemptions for all bond ETFs involve less than 0.34 percent of aggregate bond ETF total net assets.

In reviewing individual ETFs, we find a similar pattern. The exchange volume for several of the largest bond ETFs as highlighted in Exhibit 2 is frequently many multiples of the aggregate creation/redemption activity in the corresponding ETF.

Exhibit 1: PRIMARY AND SECONDARY ACTIVITY IN US-DOMICILED BOND ETFs (January 3, 2013-June 30, 2014)

Investment objective	Number of ETFs	Total net assets ($ billions)	Average daily creations/ redemptions ($ millions)	Primary market relative to total net assets (percent)	Average daily volume ($ millions)	Secondary relative to Primary (ratio)
Domestic	194	254	867	0.34	3,802	4.4
Domestic high-yield	27	46	149	0.32	738	5.0
Municipal	35	13	19	0.15	101	5.3
Other domestic	132	195	698	0.36	2,964	4.2
International	53	19	64	0.33	224	3.5
Emerging Markets	20	11	46	0.42	169	3.7
Other International	33	8	18	0.21	55	3.1
Bond ETFs (Total)	**247**	**273**	**931**	**0.34**	**4,026**	**4.3**

Source: Antoniewicz, Rochelle and Jane Heinrichs, 2014. "Understanding Exchange-Traded Funds: How ETFs Work," ICI Research Perspective 20 (September). Investment Company Institute, Washington DC. Available at www.ici.org/pdf/per20-05.pdf.

Exhibit 2: PRIMARY AND SECONDARY VOLUMES OF LARGEST BOND ETFs

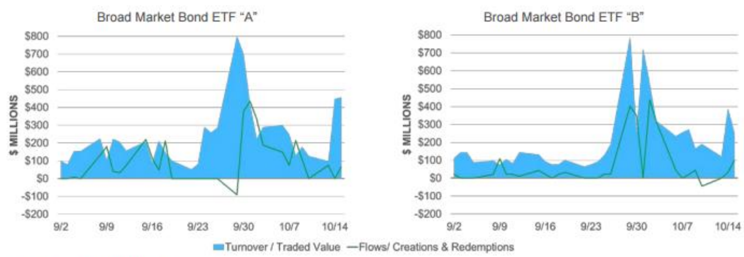
	NAV ($ billions)	Secondary Market Volume ($ millions)	Secondary vs. Primary Market Ratio
Broad Market Bond ETF "A"	27	224	3.2
Broad Market Bond ETF "B"	25	226	6.1
U.S. Investment Grade Corporate Bond ETF	21	331	3.9
Short-Term Bond ETF	16	95	6.0
Inflation-protected U.S. Treasury Bond ETF	14	75	4.6
High Yield Bond ETF	13	594	4.8
1-3 Year Credit Bond ETF	11	49	2.1
Short-term Corporate Bond ETF	10	60	4.8
High Yield ETF	10	292	3.3
1-3 Year Treasury Bond	9	98	2.8

Source: Bloomberg. 2015 Average Daily 1/1/15-6/30/15 For education and illustration purposes only.

One of the frequent concerns raised about ETFs relates to the availability of market liquidity in periods of market stress. The actual experience of ETFs during the Financial Crisis, in the wake of the Taper Tantrum and again after the sudden departure of Bill Gross from PIMCO illustrates that the market was readily able to find prices at which buyers and sellers were willing to transact -- so much so that exchange trading volume of bond ETFs spiked. For example, for one of the largest broad market bond ETFs, the ratio of secondary to primary market volume since the fund's inception in 2007 to mid-2015 has been between 3.8 and 7.5. Not coincidentally, during the height of the Financial Crisis, this ETF experience its highest observed ratio, 7.5 times exchange volume to aggregate creations and redemptions. In the so-called "Taper Tantrum" of the summer 2013, the Federal Reserve unexpectedly announced that it would begin tapering back its $70 billion a month bond and mortgage backed securities purchase program, sparking widespread fears of rising interest rates. Bond prices fell steeply June 18- 19, 2013 followed by a rebound June 24-25, 2013. During this period, volume in the largest high yield bond ETF spiked to as high as 25% of the underlying market.

Exhibit 3 shows the increased volume in two of the largest broad market bond ETFs in the wake of Bill Gross' departure from PIMCO in October 2014. For investors who wanted to stay invested in core US fixed income while changing managers, these ETFs provided a low cost way to quickly establish this exposure in their portfolios.

Exhibit 3: TURNOVER AND FLOWS – TWO BROAD MARKET BOND ETFs



Source: Bloomberg, 9/1/14-10/15/14

As we have mentioned, during the Financial Crisis, fixed income markets came under severe pressure. Consider, for example, the largest ETF offering exposure to broad US investment grade corporate bonds and underlying bond market volumes in the period January 2008-August 2009. In Exhibit 4 below, we plot the trading volumes in the underlying corporate bond markets in billions of dollars and the volume in this ETF in millions of dollars.

As liquidity in the underlying bond markets declined in June 2008, investors increasingly turned to this ETF for liquidity. The ETF continuously traded, in an orderly manner, while underlying bond market activity declined. Because the ETF continued to match buyers and sellers of investment grade bond exposure while the market for individual investment grade bonds ceased to function effectively, the ETF permitted market participants the best means of establishing the real current value at which transactions in investment grade bonds could occur. The same is true for other bond ETFs and for other stressed periods, including corporate credit funds in the "Taper Tantrum" of 2013. Of course, premiums and discounts often widen in stressed times, but we caution against interpreting this phenomenon as mispricing. Rather, the ETF price, which is determined by actual transactions between willing buyers and sellers, can move very quickly to reflect prevailing conditions while NAV, which is calculated once daily based on known previous bond transactions or estimates of value (which may not be occurring frequently during stressed markets), tends to adjust to new market levels with a lag. Because ETF share prices may "lead" other indications of underlying bond value, ETFs can provide insight into the direction of the markets for the underlying securities. This "price discovery" attribute is an important feature of ETFs.

Click here for complete reading

Xpert Insights: Market outlook from Dodd Kittsley

July 8, 2015

Authored by:
Dodd Kittsley
Director, head of ETF strategy
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Greek contagion: This time it's different

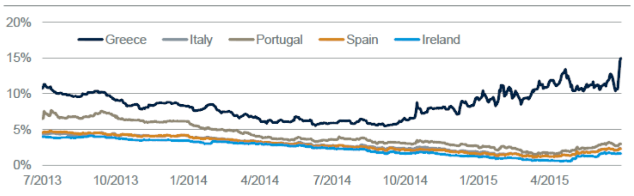
After a period of relative calm, Greece is back in the headlines. The recent failure to negotiate an extension to its aid program and the ensuing referendum result has highlighted the dangers of political brinkmanship and once again has driven the prospect of "Grexit" to new heights.

Of course, despite its outsized news flow, Greece itself remains a small part of the European economy. At $238bn, its 2014 GDP represents just 1.8% of the Eurozone's total output. The market cap of the Athens Stock Exchange at that same date was €46bn and represented just 0.72% of the €6.3tn aggregate value of the Eurozone's equity markets.1 It's also worth remembering that MSCI reclassified Greece an emerging market during a 2013 review.

However, despite its relatively small size, Greece still occupies investors' minds for one key reason: the extent to which a crisis might prove to be the spark that sets the Eurozone ablaze.

In our view, investors can afford to be relatively more sanguine about contagion risk than in 2010-2012, when the severity of the Greek situation first became apparent. Three factors – macroeconomics, management tools and market response – all indicate that, whatever the outcome of this latest round of the crisis, the Eurozone is better placed today to withstand Greek uncertainty.

Figure 1: You can go your own way: 10-year bond yields for Greece, Ireland, Italy, Portugal and Spain (GIIPS)



Source: Deutsche Asset & Wealth Management, Factset as of 6/30/2015.
[1]Source: World Federation of Exchanges.

Macroeconomic progress

One of the key differences between Greece today vs. pre-2010 - and one of the most compelling in terms of a lower likelihood for financial contagion - is the extent to which foreign banks have lowered their exposure to Greek debt. According to data from the Bank for International Settlements, foreign bank exposure to Greek debt declined from $269 billion in 2008 to $161 billion in 2010, and to $67 billion at the end of 2014.

This reduction in private sector exposure has been made possible by the growing influence of the official sector. The "Troika" of the European Commission, the ECB and the IMF collectively hold around 75% of the Greek government's €323bn debt. Of course, this may all come as cold comfort to the European taxpayers and the contributors to IMF coffers who now bear much of the ultimate risk of a Greek default, but the fact remains that Greek default risk is now much more widely dissipated than before.

It's also important to note that the overall economic picture in some of the other periphery nations has strengthened. For 2015, Deutsche Asset & Wealth Management is forecasting real GDP growth of 2.6% for Spain, 1.5% for Portugal and 3.5% for Ireland. These improving growth prospects, combined with their relatively less burdensome debt-to-GDP levels, put these economies into stark contrast with Greece.

Management tools

Why else might investors feel relatively more reassured today about the Eurozone's ability to mitigate potential spillover? One answer has to be that policy makers are better-prepared than ever to deal with such a crisis, both in terms of their propensity to operate with unified resolve and also through the sheer range of innovative policy tools that have been introduced in recent years. Mario Draghi's now-famous commitment, made during his speech in London in 2012, that the ECB was "ready to do whatever it takes to preserve the euro" has surely been backed up with action. It's worth taking a moment to review the current policy landscape:

Quantitative Easing (QE): In January 2015, the ECB announced a huge expansion of its asset purchase program, committing to spend an average of €60bn per month until at least September 2016 on a range of securities that includes Eurozone sovereign bonds.

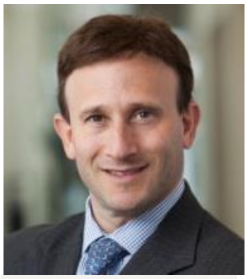
European Stability Mechanism (ESM): Introduced in October 2012 as a permanent successor to the European Financial Stability Facility (EFSF), the ESM is specifically designed to ensure financial stability within the Eurozone by issuing debt under its umbrella which can then be used to provide assistance to Eurozone member states in trouble. It currently has €450bn of unused lending capacity.

European Financial Stabilization Mechanism (EFSM): Designed to provide assistance to member states that are experiencing financial difficulties, the EFSM can provide loans of up to €60bn subject to certain conditionality.

Click here for complete reading

Mid-Year Outlook - Investment Directions

June 29, 2015



Authored by:
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The year so far has played out largely within our expectations. The divergence in economic growth and central bank policy had some predictable effects, with the most obvious being a stronger U.S. dollar. But there were some surprises. Interest rates unexpectedly plunged early in the year before abruptly rebounding in May. The U.S. economy got off to a rough start, just as Europe notched a surprisingly good first quarter. With six months down, where are the potential opportunities for the rest of 2015?

Fed Liftoff: Not the End of the World

While interest rates are likely to stay low by historical standards, the Federal Reserve (Fed) has made it clear that it is getting close to finally raising short-term interest rates. This is a significant event that could push market volatility beyond the unusually low levels of the past few years, but we think most of the ups and downs will be short-lived for stocks. It is a different story, however, for short-term bonds and high-dividend stocks, which will most likely struggle under higher rates.

U.S. Economy Slow, but Moving Forward

Many investors had high hopes for the U.S. economy going into the year, but the dollar's drag on corporate earnings and other one-off factors unexpectedly slowed down the pace. From our angle, the U.S. economy is headed in the right direction, and growth should regain some lost momentum in the next six months.

Our Game Plan

We still have high conviction in our preference for stocks over bonds. Although stocks are not as cheap as before, bonds remain expensive. We believe U.S. stocks can climb higher, albeit at a muted pace, but we more often look overseas—Europe, Japan and even the more volatile emerging markets—for better bargains. Also worth considering in a low-growth environment: nontraditional asset classes such as infrastructure or real estate.

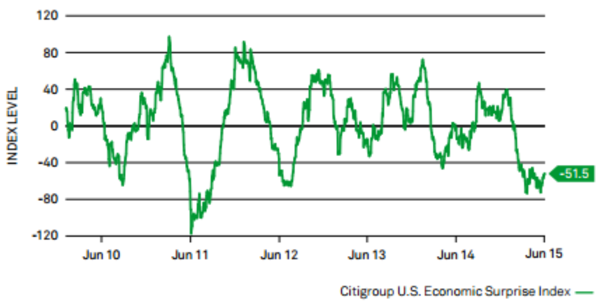
United States

We are underweight U.S. stocks. A clear sign of strength has yet to emerge from the blurry U.S. economic picture, as uptrends in the housing and labor markets stand in contrast with consumer caution and productivity languor. An index of economic surprises hovers just above a three-year low, although the trend is toward improvement (see the chart below). This economic unevenness together with still quiescent inflation has kept the Fed tentative on when to start raising short-term interest rates, but we think this is about to change. Hiring strength and a modest but concrete pickup in wage growth are a big part of why we expect growth to reaccelerate in the second half. More investors (us included) are now penciling in an autumn rate hike.

While the current growth pace is far from inspiring, mixed data so far this year has paradoxically boosted U.S. stocks. As the economy gains momentum, however, the six-year-old bull market could still find support amid strong mergers and acquisitions activity and record-level share buybacks. We believe U.S. stocks can post further gains before the end of the year, albeit with greater volatility. But don't forget that U.S. stocks are relatively expensive: traditional defensive stocks (utilities and telecommunications) are especially pricey and probably not as safe as they might seem (see Hot Topic on Pg. 7). Better equity opportunities are mostly found outside of the United States.

THE U.S. IN A BLUR

U.S. economic readings, while still worse than expected, are seemingly improving, as the Citigroup U.S. Economic Surprise Index indicates. We think the picture for the second half of the year could look better than now.



Sources: Thomson Reuters Datastream, Citigroup, BlackRock Investment Institute, as of 6/8/15.

International Developed Markets

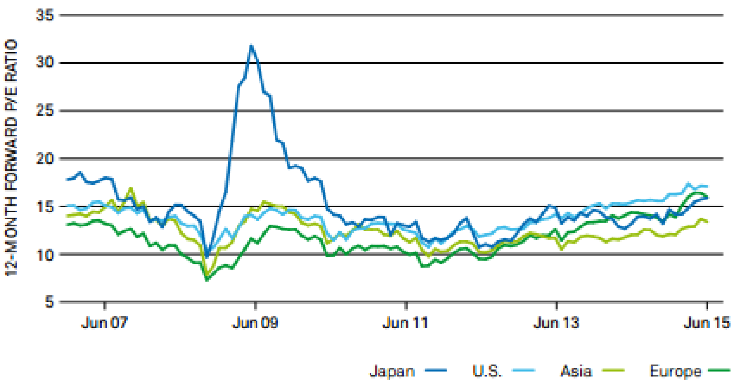
We are overweight in the eurozone. Despite giving back some of this year's strong results as interest rates shot higher across the continent, we look for modest outperformance of eurozone equities over the balance of 2015. In our view, European fixed income was becoming increasingly disconnected from the economic realities of improved growth and fading deflation risks. We think the eurozone economy will slowly but steadily recover alongside the European Central Bank's (ECB's) commitment to expand its balance sheet and a firming in consumer and business confidence measures. In addition, eurozone stocks are now only modestly cheap compared to U.S. stocks (see the chart below), yet offer better expected earnings revisions. Failure to resolve the bailout negotiations with Greece would raise near-term risks, but would not derail the broader investment case for eurozone equities. Investors may want to consider holding currency hedged exposure given expectations for the euro to again turn lower.

We hold an overweight to Japanese stocks. Market watchers often highlight Japan's aging and shrinking population, persistent economic malaise and high public debt as reasons to be cautious on Japanese stocks, but we think they conceal an important structural shift taking place in company boardrooms across the country: a bigger focus on shareholder value. Japanese companies have historically preferred to sit on mountains of cash (equivalent today to roughly 40% of Japan's equity market capitalization) and oftentimes make questionable capital expenditures, rather than returning this cash to shareholders in the form of dividends and share repurchases. This is changing. Return on equity (ROE) has risen to nearly 9%. This is still well below the ROE of U.S. companies, though the price-to-book ratio of Japanese equities is half of that of U.S. stocks. Meanwhile, the latest economic data point to a slow but firming grind out of Japan's short-lived recession.

We are neutral toward Australia and Canada. For these commodity-producing countries, newfound stability in oil prices is not enough to counter weakness in base metals, higher interest rates and moderately appreciating exchange rates. However, additional rate cuts from the Bank of Canada and the Reserve Bank of Australia can't be ruled out. Relatively high dividend yields should also help support equity returns.

EUROPE NO LONGER THE BIGGEST BARGAIN

The valuation gap between Europe and the United States is not as wide after Europe's decent performance so far this year.



Sources: Thomson Reuters Datastream, BlackRock Investment Institute, as of 6/15/15.

Emerging Markets

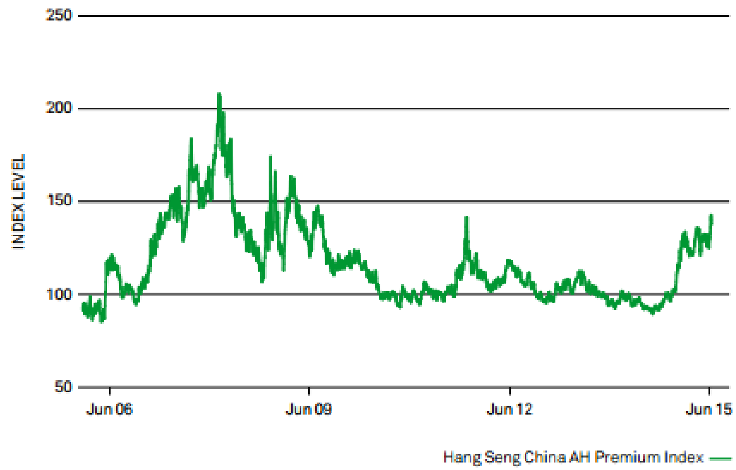
We hold a benchmark weight to emerging markets. The enthusiasm for emerging-market equities stalled out toward the end of the second half. Although a reversal in the U.S. dollar and repricing for a later liftoff of the Fed funds target rate lent support in March and April, weaker economic growth expectations in the emerging world alongside higher developed world interest rates weighed on performance. We retain our preference for emerging Asia, despite downgrading Chinese stocks to neutral.

We reduce our overweight on Chinese stocks to neutral but maintain a preference for Hong Kong-listed H-shares over Shanghai-listed A-shares. It is true that officials still have considerable ammunition to address doubts about the health of the Chinese economy, but this year's rally has left the mainland indexes trading at a significant premium. Price-to-earnings (P/E) ratios on the Shanghai Stock Exchange have more than doubled from last summer's lows, while multiples for stocks listed in Shenzhen have increased by roughly 150%. In less than a year, these mainland markets have gone from cheap to pricey, trading much higher than their five-year average valuations. As enthusiasm for a further opening of Chinese stock markets to foreign investors runs high and may have boosted mainland valuations, the premium for owning A-shares is now at its highest level since 2009 (see the chart below). Investors therefore may prefer to gain exposure to China from the less expensive Hong Kong-listed H-shares.

We have a neutral allocation to Brazilian equities. Expectations for Brazil's economy are poor: a 1.3% contraction in economic activity during 2015, high inflation and a weakening currency. The Bovespa Index turned higher this year on hopes for a fiscal austerity plan, but Brazilian equities are likely to face headwinds, including downward earnings revisions and central bank efforts to contain inflation. Adding to the pain is potentially more political fallout from the largest corruption scandal in Brazil's history involving the partly state-owned oil company.

SHANGHAI AND SHENZHEN FLY HIGHER THAN HONG KONG

Financial market liberalization and easy monetary policy have propelled A-shares to the largest premium over H-shares since 2009.



Sources: Bloomberg, BlackRock Investment Institute, as of 6/15/15. Past performance does not guarantee future results.

Global Sectors

We underweight U.S. utilities and global consumer staples. Despite their traditional "safe-haven" appeal, both sectors have lagged the broader market this year, especially utilities (see the chart below), as interest rates moved sharply higher. But even with the underperformance and more limited scope for higher bond yields, these defensive, higher dividend-yielding sectors remain relatively expensive.

We favor health care, especially pharmaceuticals, over other defensive sectors. Although pharmaceuticals and biotechnology stocks have typically underperformed during periods of rising interest rates, this is somewhat offset by several positive structural factors: aging populations, advances in genomics, an accelerating innovation cycle and underutilization of health care in developed countries. In fact, health care is the best performing sector this year so far despite higher interest rates. Valuations may appear stretched on the surface, but this assessment needs to be balanced against relatively strong expected profit growth and better earnings momentum.

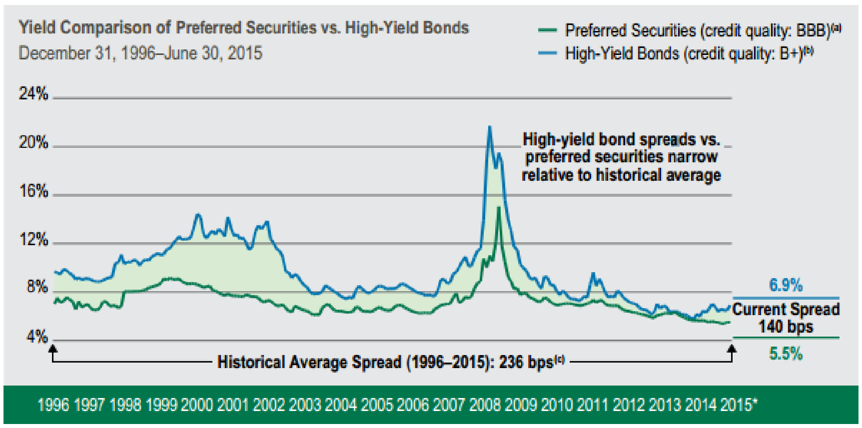
Click here for complete reading

Preferred Securities: Offer Better Value Than High-Yield Bonds

July 2015

As economic growth trends higher, conventional wisdom suggests that investors reposition portfolios away from interest-rate-sensitive bonds and into those securities that are more credit sensitive. Within credit-sensitive fixed income, we see better value in preferred securities than in high-yield bonds. This view is supported by the yield spreads between high-yield bonds and investment-grade preferred securities being narrow relative to the historical average.

Preferred securities currently offer similar income, better credit quality, and in our view, better value than high-yield bonds. As shown in the chart below, high-yield bond investors would need to go down five notches in credit quality before they would find yields comparable to those of investment-grade-rated preferred securities .



If your strategy is to overweight credit-sensitive fixed income, we recommend that you allocate to preferred securities.

At June 30, 2015. Source: Morningstar.

*Year-to-date data.

Performance data quoted represents past performance. Past performance is no guarantee of future results. The information presented above does not reflect the performance of any fund or other account managed or serviced by Cohen & Steers, and there is no guarantee that investors will experience the type of performance reflected above. There is no guarantee that any historical trend illustrated above will be repeated in the future, and there is no way to predict precisely when such a trend might begin. An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes. Note: Yields shown on a yield-to-maturity basis.

(a) BofA Merrill Lynch Fixed Rate Preferred Securities Index tracks the performance of fixed-rate U.S. dollar-denominated preferred securities issued in the U.S. domestic market.

(b) BofA Merrill Lynch High-Yield Master Index tracks the performance of U.S. dollar-denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market.

(c) Historical Average starts 12/31/96 and ends 6/30/15. See back page for Risks of Investing in Preferred Securities.

Credit Ratings and Current Yields of Preferred Securities Compared With High-Yield Bonds

REIT Preferred Securities Index(a) | High-Yield Bond Sub-Indexes(b) | High-Yield Bond Index(c)

Standard & Poor's Credit Ratings				Yield
Investment-Grade	Lower Medium	BBB+		
		BBB(d)	**Preferred Securities BBB Index(a)**	5.5
		BBB-		
Non-Investment Grade	Speculative	BB+		
		BB	High-Yield Bond BB Sub-Index(b)	5.3
		BB-		
	Highly Speculative	**B+(d)**	**High-Yield Bond B+ Index(c)**	**6.9**
		B	High-Yield Bond B Sub-Index(b)	7.0
		B-		
	Substantial Risk in Poor Standing	CCC	High-Yield Bond CCC Sub-Index(b)	11.3

Yield axis: 0% 2% 4% 6% 8% 10% 12%

At June 30, 2015. Source: Morningstar.

Performance data quoted represents past performance. Past performance is no guarantee of future results. The information presented above does not reflect the performance of any fund or other account managed or serviced by Cohen & Steers, and there is no guarantee that investors will experience the type of performance reflected above. An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes. Note: Yields shown on a yield-to-maturity basis.

(a) BofA Merrill Lynch Fixed Rate Preferred Securities Index tracks the performance of fixed-rate U.S. dollar-denominated preferred securities issued in the U.S. domestic market.

(b) Sub-index values derived from BofA Merrill Lynch High-Yield Master Index. As of 6/30/15, High-Yield Bond Sub-Index (BB) represents 46.5% of the main index; High-Yield Bond Sub-Index (B) represents 39.2% of the main index and High-Yield Bond Sub-Index (CCC) represents 13.8% of the main index.

(c) BofA Merrill Lynch High-Yield Master Index tracks the performance of U.S. dollar-denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market.

(d) Weighted-average credit rating of total indexes.

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Perspectives on China's Market Meltdown: Long-Term Opportunity Remains

July 10, 2015

Authored by:
Nick Niziolek, CFA
Senior Vice President, Senior Co-Portfolio Manager, Head of International Research
Calamos Investments

We believe:

- There are considerable opportunities in China for disciplined, fundamentally driven investors.
- Because the rally in China's A-share market (shares that are primarily owned by mainland investors) was too quick and too strong, a pull-back in the market was not unexpected.
- The magnitude of the correction, coupled with the inability of policy to restore investor confidence, has been a surprise.
- Investor behavior is reminiscent of U.S. markets in 2008 and 2009, when liquidity dried up and many investors were forced to sell liquid blue chip companies over less-liquid smaller-cap securities. This created a significant opportunity for us then, and we believe this could set up a similar opportunity now.
- China's medium- and longer-term secular tailwinds remain intact. Global geopolitical aspirations will drive China's government to transition the Chinese economy from investment-led growth to consumption-led growth, and from the public sector to the private sector. The Chinese government is committed to expanding its economic and military influence in Asia and globally. Over the medium term, we've seen an opening of capital markets and a bid to internationalize the renminbi. (For more on our perspectives of China, read our recent blog "A Long-Term View for China".)

Margin financing fueled much of the rally in Chinese stocks, particularly in less-liquid smaller-cap Chinese A-shares. As the market began to correct and many of these securities were locked down for multiple days, the sell-off spread to more liquid holdings. This week, the panic has spread to the China H-share, Taiwan, and ADR markets, as forced sellers with illiquid assets have sold anything liquid to meet margin requirements, including many high-quality H-share blue chip companies. As in the U.S. sell-off in 2008, many of the Chinese blue chips that have been caught up in the selling frenzy had not rallied to dizzying valuations nor have their fundamentals deteriorated, in our view.

A Closer Look at Valuations

During recent months, news coverage has focused on high valuations in Chinese equities. Less well known is that many of the most pronounced valuation dislocations were in the Chinese A-share market, with the media often quoting backward-looking P/E ratios or focusing on specific segments of the market. In our view, the valuations of many other Chinese stocks have remained at much more reasonable levels.

For example, as of July 8, 2015 the CSI 300 Index, a benchmark of the top 300 A-share stocks by market cap, traded at 13.6x forward earnings, which is 5-10% below historical averages. In contrast, the MSCI China Index (H-shares) trades at 7.4x forward earnings, more than 20% below its 10-year average, nearly 20% below the MSCI Emerging Markets Index and nearly 40% below the S&P 500 Index.

Our Approach in the Current Environment

Over recent months, we had been monitoring valuations and fundamentals, leading us to reduce exposure to several positions that became more fully valued. In some cases, we reallocated capital into more defensive convertible securities (see our recent post, "Investing in China's Expanding Universe of Opportunity While Maintaining a Risk-Managed Approach" for more) as well as into more attractively valued equities. With the pullback we've seen in the H-Share listed market, we continue to focus on individual company fundamentals, valuations and secular trends where we can selectively allocate capital.

Our team continues to encourage investors to look past the short-term noise and remain focused on the longer-term potential. The economic transition that China is attempting is incredibly challenging. Right now, Chinese regulators have taken a kitchen-sink approach. While it hasn't achieved the desired effect, it affirms the depth of China's commitment to stabilize its markets. As always, our process and approach to investing in China focuses on understanding downside risks, and despite the market dislocations we've seen, we believe our approach positions us well for the eventual recovery.

Click here for complete reading

New Horizons: Corporate governance in Japan

July 2015

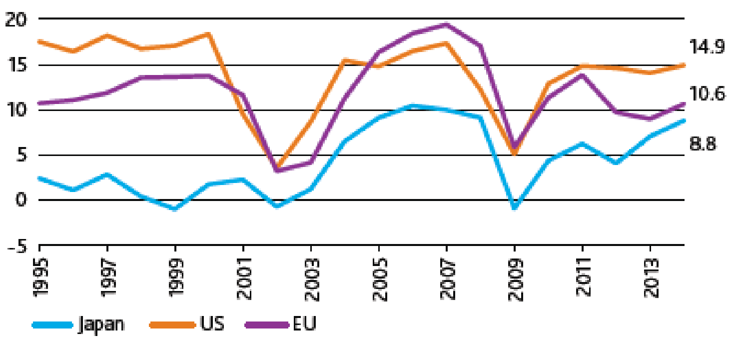
Introduction

Corporate governance in Japan has long been a source of anguish for foreign investors. Companies were run as much to preserve social harmony as to maximize profits, and shareholders were at the bottom of a long list of stakeholders. Accusations from foreign investors of Japanese companies include lacking a focus on shareholder returns, retaining too much cash, holding stakes in suppliers and other friendly companies. They argue these factors contribute to lower performance in terms of return-on-equity (ROE)1 and other metrics (See charts 1, 2).

Many management teams turned a deaf ear to calls for improvements in corporate governance and capital efficiency in form (e.g. board structures) and function (e.g. a more shareholder-focused management philosophy). Investor groups, such as the Asian Corporate Governance Association (Aberdeen is a member), have arranged country visits, authored white papers on corporate governance, and engaged with industry groups, in an attempt to drive reform and development. But progress was painfully slow.

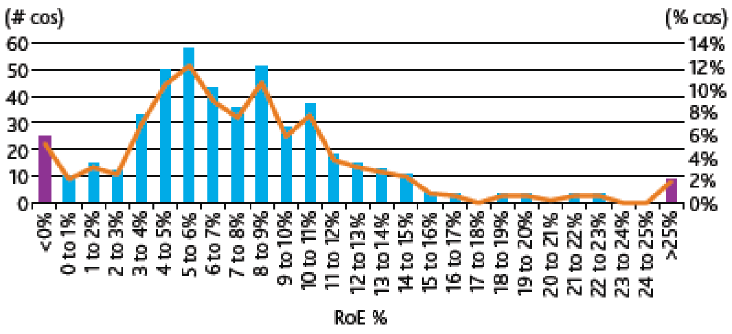
A corporate governance code out this month is the latest in a series of developments that suggests things may finally be changing. What's more, the degree of consensus on the need for corporate governance reform has been encouraging. These reforms may eventually drive incremental growth in ROE and profits, which will support sustainable improvements in share prices.

Chart 1: Low ROEs – Developed market ROEs (%)



Source: CLSA, MSCI, Bloomberg, 23 June 2015. For illustrative purposes only.

Chart 2: Poor show – ROEs below 5% at 30% of Topix[2] companies



Source: CLSA, Bloomberg, company data, 23 June 2015. For illustrative purposes only.

What's new?

Earlier this month Japan's new corporate governance code, the country's first, came into force. This code, which arrives in the wake of related measures, seeks to hold companies more accountable to shareholders. The guidelines draw on the Organisation for Economic Co-operation and Development's Principles of Corporate Governance, but are 'tailored' for Japanese companies.

An example of these guidelines is for companies to annually examine and justify cross-shareholdings, which may threaten the cozy business relationships that have been a defining feature of corporate Japan. The code also requires firms to appoint at least two external directors, in a bid to shake up compliant corporate boards.

As with earlier corporate governance-related reforms, the code is voluntary. What gives these measures some teeth is the fact that Tokyo Stock Exchange listing rules require companies to comply with these guidelines, or provide a decent explanation for their failure to do so.

The professor

The corporate governance code is the latest in a series of developments stretching back to 2013. In August of last year, Professor Kunio Ito, who was heading a Ministry of Economy, Trade and Industry-sponsored enquiry, published a report that recommended ways to improve the relationship between companies and investors. Ito made a number of recommendations that included encouraging companies to improve capital efficiency through targeting an ROE of at least 8%. Echoing concerns expressed by shareholders on capital allocation, the review noted investors' preference for '…reserves to be returned to shareholders in the event that they cannot be effectively put to work', while recommending better engagement between investors and companies.

The index

Another development that aims to embed the notion of shareholder value was the JPX-Nikkei 400 index,3 a new benchmark conceived as a way of highlighting better-performing companies through metrics valued by shareholders. In particular, inclusion is determined by companies' scores on ROE (40% weight), three-year cumulative operating profits (40%), and market capitalisation (20%). Companies are also assessed on the appointment of outside directors, adoption of International Financial Reporting Standards, and whether they disclose information in English.

The index has proved useful in spurring firms into action: as an example, when metal-cutting firm Amada was left out last year, the company announced a clearer capital return policy through increasing dividends and share buybacks. In addition, it added independent directors to its board. The company however is still awaiting its inclusion into the index.

Investors

Early last year, the Financial Services Authority released its 'Principles for Responsible Institutional Investors' document – better known as the stewardship code – which serves as a framework of obligations to ensure investors play a bigger role engaging with listed companies.

Modeled on a set of guidelines released in the UK in 2010, the code encourages investors to challenge management on broader issues of governance and strategy, rather than focusing on shorter-term questions relating to financial performance. In particular, the code references the fact that investors might wish to discuss topics such as 'governance, strategy, performance, capital structure, and risk management'.

Once again these guidelines were issued on a 'comply or explain' basis, but investors that have signed up (including Aberdeen) are expected to disclose this fact and the ways in which they have fulfilled their obligations.

Aberdeen's view

Aberdeen has been investing in Japan for around three decades, and our investment process involves looking for management teams that can be trusted and who are committed to creating value for shareholders. We are also long term investors, with an average holding period of nearly seven years in our core Japanese equity strategy.

This means we spend a significant amount of time on corporate governance issues. In our meetings with companies, we discuss management, capital allocation, board structure and succession planning. This is a critical hurdle for us, and only after we are comfortable with the management do we consider valuations. These discussions, both internal and with companies, continue after we have made an investment.

That said, we are not 'activist' and we do not invest with a deliberate aim of returning capital or changing a company's strategy. Rather, we believe it is our job to engage and challenge management on how they run their companies. We take every opportunity to share our thoughts with our invested companies: as an example, we attended 11 annual general meetings (AGM) in Japan last year, where we were often the only institutional investor present. But because we hold our invested companies' shares through nominee accounts, we have, on occasion, been denied entry to AGMs. While there are moves to ensure such shareholder rights, we await more concrete details.

Room for improvement

Last year, Aberdeen fund managers visited 133 Japanese companies, just some of the 962 companies we visited throughout the Asia Pacific region. These visits are typically routine, but occasionally this type of engagement is spurred by an event.

At times, there are corporate decisions that we disagree with – this could be by design, or by poor advice. Examples include equity issuance with no clear use of proceeds, dilutive convertible bond issuance, or agreeing to be sold at a price that does not reflect the true value of a company. Indeed, while Japan has made some progress on corporate governance matters, we still have concerns over such issues.

In particular, new shares are often issued without pre-emptive rights. In Japan, company law only requires shareholder approval if the purchase price is considered unfair to existing shareholders, or in cases where justification is absent. Meanwhile, stock exchange rules require a shareholder vote only when dilution is greater than 25%, or if a change of control occurs. Existing shareholders are therefore, in the majority of cases, diluted without their approval.

We believe that amending listing rules on this matter would improve corporate governance and enhance protection of minority shareholders. Introducing limits on the size of issuances, and allowing shareholders the right to approve a 'general mandate' to make such issuances, would strengthen the rights of shareholders.

Must try harder

Another area of concern is that of friendly tender offers. These offers, typically initiated by a major shareholder (e.g. a corporate with a 30 per cent stake), may substantially undervalue the target company. In addition, the target company often assists the major shareholder through an issuance of treasury shares at the same offer price. While these transactions require third-party views, they are effectively related-party transactions that are prejudicial to minority shareholders.

We believe stronger rules are needed to govern such transactions, and that company management teams should focus on extracting value for all shareholders, rather than transferring this value to a friendly party.

And finally

The new corporate governance code calls on companies to appoint at least two outsiders to their boards. We believe that good quality directors can add value to the board through constructive and robust debate.

The majority of our invested companies have already introduced or added outside directors, and in some cases, directors that are based overseas. While we welcome the renewed urgency for companies to meet the requirements of the governance code, these changes have to be meaningful. New board appointments should know their responsibilities and should not be afraid to speak out. After all, independent directors at Olympus and Sony had failed to prevent, respectively, accounting fraud and loss of competitiveness.

Developments over the past 18 months suggest progress on corporate governance reform. However we must guard against compliance in form rather than substance. While there is much excitement about share buybacks – something that is not new to Japan as better-run companies have been doing so for years – we are cautious of companies mechanically launching buybacks to keep investors, analysts and regulators happy, without much thought to valuations or their longerterm strategy for returning capital. We suggest companies consider paying special dividends, in addition to buying back shares.

All these changes have made an impact: Japan was ranked third (behind Hong Kong and Singapore) in the last bi-annual Asian Corporate Governance Association survey, up one position from the 2012 poll. This achievement deserves recognition, but there is still room for further improvement.

Click here for complete reading

Aberdeen Indonesia Fund, Inc. (IF)

July 2015

Authored by:
Bharat Joshi
Investment Manager
Aberdeen Asset Management

Key points

• Indonesia's investment appeal is undiminished despite slowing growth
• Joko Widodo now heads a working coalition that forms a majority in legislature
• Steady progress on building new infrastructure is crucial for investor
Confidence
• We're confident our holdings will continue to focus on improving balance sheet and cost efficiencies to drive earnings
• Aberdeen's highly experienced and stable team has been investing in Indonesia since 1997

Why are you enthusiastic about Indonesia despite a slowing economy?

First-quarter growth was sub-par at 4.7%, mainly because of weak demand for commodities and government infrastructure project delays. While the market is preoccupied with short-term delays in public-works spending, we see great potential over the long term. That's because Indonesia, with a population about half the size of Europe, is growing from a much lower base than its neighbors. An urban middle class is already boosting domestic consumption. While home grown demand is important, policymakers will also seek to rebalance the economy away from exporting raw commodities to higher-value goods and services.

Can the government eventually deliver on reforms?

President Joko Widodo took office last October but he has already slashed fuel subsidies, a move that has freed up some US$18 billion in annual savings for infrastructure investment. He has set up a one-stop shop for investment approvals that reduces red tape and scope for corruption. Although he still faces opposition from both within and outside his own party, Widodo now heads a working coalition that forms a majority in the legislature. This should make it easier to push through reform bills.

What policy action is crucial for improving investor confidence?

Steady progress on building new infrastructure – power plants, ports, roads – is crucial. In a positive development, Widodo kicked off the construction of two power plants in Java last month. Policymakers must also reform the legal and regulatory frameworks for doing business in Indonesia. Investors want to see better transparency and other measures that create a more dependable business environment. A larger industrial sector creates better-paying jobs that underpin income growth and domestic demand. In time, these should buffer the current account against cyclical commodities demand. That said, there's a risk that inefficient implementation, complex land acquisition and poor agency coordination will keep investment growth from taking off.

Why did Indonesian stocks fall?

Lackluster corporate earnings compounded worries over slowing growth. Consequently, local stocks, as measured by the Jakarta Composite Index (JCI), returned around 5.0% in local currency terms in the year to date (as at 22 June), while a weak rupiah exacerbated losses in US dollar terms. Foreign investment also fell in the first quarter, as investor confidence appeared to wane after a delay in infrastructure projects. We anticipate a pickup in loan growth on the back of greater government spending, accelerated capital investments and a potential easing of mortgage loan-to-values.

Do you expect any earnings downgrades for Indonesian companies/equities?

Commodities and materials exporters have suffered because of slower demand from China. However, the market has already priced in the pressure on earnings and we see new opportunities to increase our stakes in good quality companies that are trading at attractive valuations. We also think investor confidence may return later this year as the pace of infrastructure spending picks up.

What were your biggest stock disappointments last year?

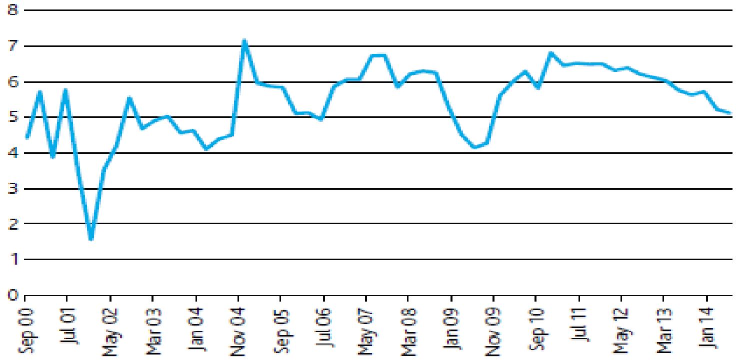
Cement maker Holcim Indonesia's stock price fell on the back of soft demand, rising labor and electricity costs and a postponement of government infrastructure projects. The opening of its new plant was also delayed. Even so, we remain extremely comfortable with this name. For the first time in a decade, the company is increasing its total cement capacity by nearly 40%, consolidating its position as the third-largest player in the market.

Another stock that didn't do well was Wintermar, a marine and offshore services provider. The company's investment in a new fleet of vessels has yet to pay off as the government halted exploration and production spending for the oil & gas sector because of a lack of leadership at the top – the former oil regulator chief was charged for corruption – pending last year's election. The collapse in oil prices also led to falling demand as existing clients deferred or cancelled their capital expenditure (capex) spending. That said, we expect demand to pick up as oil prices gradually recover. In the longer term however, the government's reform efforts will also encourage more private investments in the sector.

Name some stock examples you like.

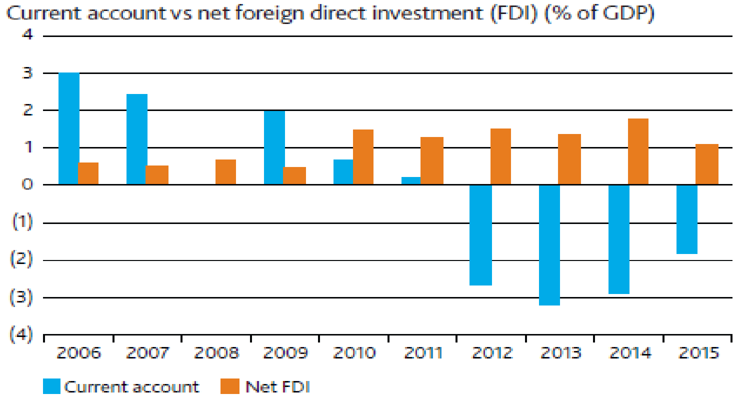
One stock pick would be Unilever Indonesia, a leading fast-moving consumer goods company. It is well-positioned to capture growth in a nation with a huge domestic population and rising disposable income.

Chart 1: Growth has slowed but there's no need to panic
Gross Domestic Product (GDP) Year over Year (YOY, %)



Source: Bloomberg, June 2015. For illustrative purposes only.

Chart 2: Current account deficit is narrowing
Current account vs net foreign direct investment (FDI) (% of GDP)



Source: CLSA, CEIC, June 2015. Note: 2015 estimate is for 1Q15.
For illustrative purposes only.

The company is well run, with a strong balance sheet and defensible earnings. Auto distributor and retailer Jardine Cycle & Carriage is another name we like. The majority of its earnings are from its Indonesian unit, Astra International, a leader in the car and motorcycle market, palm oil sector and heavy equipment industry. The company is poised to benefit from growth in the under-penetrated domestic car market, with only 40 out of 1,000 people owning a car.

What experience do you have in Indonesia?

We have considerable expertise in this market, having managed a dedicated Indonesian portfolio since 1997. We run a concentrated portfolio of around between 25 to 30 stocks, all of which we know intimately. In 2014, we made 116 company visits. Our office in Jakarta serves as a platform for us to build on our expertise.

What do you see as your key competitive advantage?

I see our track record of investing in Indonesian equities for over 16 years as an important competitive advantage. As in many of the larger emerging market countries, it takes time to develop a deep understanding of where the best investment opportunities are. It also takes a stock-picking approach to make effective use of that knowledge. Our investment process is thus our second competitive advantage. Finally, it needs a stable investment team who have worked closely together over many years to exploit fully the opportunities as and when they arise.

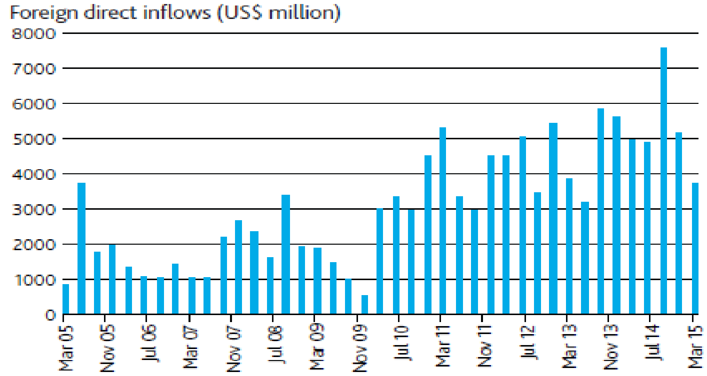
We hold the companies highlighted.

Aberdeen Indonesia Fund, Inc. (IF)
Top Ten Holdings*

	Holding %
Bank Permata	12.6
Bank OCBC Nisp	10.3
Jardine Cycle and Carriage	8.8
Unilever Indonesia	5.6
Holcim Indonesia	5.0
MP Evans Group PLC	4.9
Mandom Indonesia TBK PT	3.9
Sepatu Bata PT	3.9
Bank Central Asia TBK PT	3.9
Petra Foods	3.6
Total	**62.4**

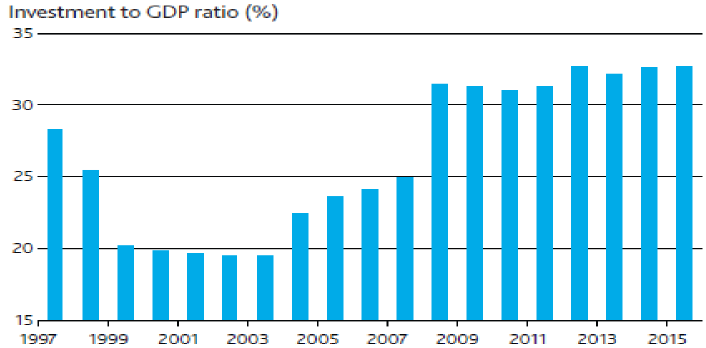
* As of May 31, 2015. Holdings are subject to change and are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities shown. The top 10 holdings are reported by share class. Certain companies listed may be held in additional share classes not listed above.

Chart 3: FDI inflows await a pick up
Foreign direct inflows (US$ million)



Source: Bloomberg, June 2015. For illustrative purposes only.

Chart 4: Investments are steadily growing
Investment to GDP ratio (%)



Source: CLSA Asia-Pacific Markets, CEIC, June 2015.
Note: 2015 estimate is for 1Q15. For illustrative purposes only.

Fund Updates

- Aberdeen Greater China Fund, Inc. Announces Performance Data And Portfolio Composition – June 19
- Aberdeen Asia-Pacific Income Investment Company Limited Announces Monthly Distribution – July 10
- Month-End Portfolio Data Now Available for Ares Management's Closed-End Funds – July 20
- Ares Dynamic Credit Allocation Fund Declares Monthly Distribution of $0.117 Per Share – July 13
- Distribution Dates and Amounts Announced for Certain BlackRock Closed-End Funds – July 1
- BMO Asset Management Inc. Announces Cash Distributions for BMO Exchange Traded Funds – June 18
- Clough Global Opportunities Fund Short Interest Down 47.9% in June (GLO) – June 26
- The Central Europe, Russia and Turkey Fund, Inc. Announces Commencement of Tender Offer – June 25
- Certain Deutsche Closed-End Funds Declare Monthly Distributions – June 10
- Duff & Phelps Closed-End Funds Announce Dividends – June 18
- Eaton Vance Tax-Advantaged Dividend Income Fund Adopts Managed Distribution Plan And Declares Monthly Distribution – July 1
- Month-End Portfolio Data Now Available for Federated Investors' Closed-End Funds – June 15
- First Trust Global DividendSeeker Fund Announces Monthly Cash Distribution – June 18
- First Trust Advisors L.P. Announces Distributions for Exchange-Traded Funds – June 23
- First Trust Energy Income and Growth Fund Declares Quarterly Dividend– July 9
- Fitch Rates Clearbridge Energy MLP Fund Inc. Sr. Notes & Preferred Stock; Affirms Existing Ratings – June 12
- Guggenheim Investments Declares Equity Exchange Traded Funds Quarterly Distributions – June 23
- Guggenheim Strategic Opportunities Fund (GOF) Plans Monthly Dividend of $0.18 – July 2
- Horizons Announces June 2015 Distributions for Certain Active ETFs – June 19
- Certain Morgan Stanley Closed-End Funds Declare Mid Year Dividends – June 19
- Neuberger Berman Closed-End Intermediate Municipal Funds Announce Monthly Distributions – July 15
- The New Ireland Fund, Inc. Announces Payment of Quarterly Distribution – June 25
- Putnam Announces Distribution Rates for Closed-End Funds – June 10
- The Swiss Helvetia Fund, Inc. Declares Income And Capital Gains Distributions – June 25
- Tortoise MLP Fund, Inc. Announces Modification to an Investment Policy – June 25
- Wells Fargo Advantage Closed-End Funds Declare Monthly Dividends – June 26
- WisdomTree ETFs Declare Distributions – June 22

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