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# The Month in Closed-End Funds: February 2015

## PERFORMANCE

In February investors pushed U.S. stocks to their best monthly gains in four years on news of stabilizing oil prices, hopes of an end to the Greek debt drama, a tentative peace agreement between Russia and Ukraine, and continued central bank liquidity. The S&P 500 Index posted its strongest monthly gain since October 2011, rising 5.49% for February. During the month the Dow Jones Industrial Average closed above the 18,000 mark for the first time this year, closing the month out at 18,132.70 and adding 5.64% to its end-of-January value. One of the big pluses during the month for market participants was the 3.2% gain in near-month oil prices, which broke a seven–month-long losing streak for the beleaguered commodity. At month-end Thomson Reuters' Proprietary Research team reported that of the 483 S&P 500 companies that had reported fourth quarter 2014 earnings thus far, 70% reported earnings above analyst expectations, beating the long-term average of 63%. For February equity CEFs broke a two-month losing streak, posting a plus-side NAV-based return (+3.19% on average) and market-based return (+3.52%). Meanwhile, fixed income CEFs were in the red, losing 0.05% on a NAV basis and 0.17% on a market basis.

At the beginning of the month investors ignored a strong January nonfarm payrolls report—the economy added 275,000 jobs during the month, making it the twelfth straight month the U.S. economy added more than 200,000 jobs to the payrolls—and turned to fresh concerns about Greece and news the Federal Reserve could hike short-term rates as early as June. The European stock market posted solid gains early in the month after learning of better-than-expected Q4 2014 economic growth and on news Greek creditors were working to resolve the deadlock over debt payments; they eventually agreed to a four-month extension of Greece's bailout. Further stoking the markets, PMI readings out of Europe showed business activity in the region grew at a faster rate in February than had been expected, reaching a seven-month high. At month-end revisions to U.S. economic growth took a little wind out of the sails as GDP figures were shown to have grown at a slower pace than was originally estimated. However, a rise in pending home sales to their highest levels since August 2013 helped keep the markets on track.

With the news of Greece's financial bailout extension and that the Fed could raise short-term interest rates as soon as June, for the month Treasury yields rose at all maturities above six months, with the ten-year yield jumping 32 bps to 2.00% by month-end. The 30-year Treasury yield, jumping 35 bps to 2.60%, witnessed the largest increase for February of the group. At the short-end of the curve the three-month and six-month yields witnessed no change from their January closing values.

**The Month in Closed-End Funds: February 2015**

- Once again equity and fixed income closed-end funds (CEFs) went their separate ways in February. Equity CEFs posted their first month of plus-side returns in three, rising on average 3.19% on a net-asset-value (NAV) basis. Meanwhile, their fixed income counterparts suffered a negative return on average, losing 0.05% for the month.
- For February only 11% of all CEFs traded at a premium to their NAV, with 13% of equity funds and 10% of fixed income funds trading in premium territory. Lipper's municipal bond CEFs macro-group witnessed the largest widening of discounts for the month—25 basis points (bps) to 6.82%.
- Breaking a 12-month trend, all of Lipper's municipal bond CEF classifications posted returns in the red, with New Jersey Municipal Bond CEFs (-1.78%) suffering the largest loss of the fixed income universe.
- World equity CEFs (+3.78%) outpaced their domestic equity CEFs (+3.10%) and mixed-asset CEFs (+2.50%) brethren.
- Core CEFs (+5.09%) posted the strongest return in the equity universe for the month, while Real Estate CEFs (-0.59%) was at the bottom.

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THOMSON REUTERS

For February the dollar once again gained against the euro (+0.81%) and the yen (+1.92%) but lost against the pound (-2.41%). Commodities prices were mixed, with near-month gold prices declining 5.17% to close the month at $1,213.10/ounce. Meanwhile, front-month crude oil prices rose 3.15% to close the month at $49.76/barrel.

For the month 60% of all CEFs posted NAV-basis returns in the black, with 86% of equity CEFs and only 40% of fixed income CEFs chalking up returns in the plus column. News of rising oil prices, the four-month extension to the Greek bailout, and better-than-expected Q4 2014 economic growth in Europe catapulted Lipper's world equity CEFs macro-group (+3.78%) to the top of the equity CEF universe and pushed Lipper's mixed-asset CEFs (+2.50%) macro-group (the leader in the prior five months) to the bottom. Domestic equity funds (+3.10%) were sandwiched between the two for February.

Clawing its way to the top of the charts, Lipper's Core CEFs classification (+5.09%) led the equity universe and was followed closely by Options Arbitrage/Options Strategies CEFs (+4.97%) and Growth CEFs (+4.70%). After being at the top of the charts for three consecutive months Real Estate CEFs was relegated to the cellar for February, posting a loss of 0.59% for the month as concerns of rising interest rates impacted interest rate-sensitive issues. Utility CEFs (-0.07%) was the only other CEF equity classification posting returns in the red. For the remaining equity classifications returns ranged from 0.50% (Pacific ex-Japan CEFs) to 4.50% (Global CEFs).

Three of the five top-performing individual equity CEFs were housed in Lipper's World Equity CEFs macro-classification, with Templeton Russia & East European Fund, Inc. (NYSE: TRF, warehoused in Lipper's Emerging Markets CEFs classification), rising to the top of the charts, returning 11.40% on a NAV basis and traded at an 8.57% discount on February 27. Following TRF were Columbia Seligman Premium Technology Growth, Inc. (NYSE: STK, housed in Lipper's Options Arbitrage/ Options Strategies CEFs classification), posting a 10.27% return and traded at a 1.84% premium at month-end; Morgan Stanley Eastern Europe Fund, Inc. (NYSE:RNE, also housed in Lipper's Emerging Markets CEFs classification), gaining 9.99% on a NAV basis and traded at a 1.10% discount at month-end; Aberdeen Australia Equity Fund, Inc. (AMEX:IAF, warehoused in Lipper's Developed Markets CEFs classification), rising 8.96% on a NAV basis and traded at a 7.48% discount on February 27; and Source Capital, Inc. (NYSE: SOR, warehoused in Lipper's Core CEFs classification), posting an 8.35% NAV-based return and traded at a 10.98% discount at month-end.

For the month the dispersion of performance in individual

# 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 | 86 | 48 | 47 | 13 | 87 |
| Bond Funds | 40 | 46 | 51 | 10 | 90 |
| **ALL CEFs** | **60** | **47** | **49** | **11** | **89** |

## TABLE 2 AVERAGE NAV RETURNS, SELECTED PERIODS (%)

| | FEBRUARY | YTD | 3-MONTH | CALENDAR-2014 |
|---|---|---|---|---|
| Equity Funds | 3.19 | 2.30 | 0.72 | 6.65 |
| Bond Funds | -0.05 | 1.52 | 1.37 | 11.56 |
| **ALL CEFs** | **1.33** | **1.85** | **1.09** | **9.58** |

## TABLE 3 NUMBER OF IPOs, SELECTED 12-MONTH PERIODS

| | FEBRUARY 2015 | CALENDAR-2014 |
|---|---|---|
| **ALL CEFs** | **27** | **23** |

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

| | |
|---|---|
| 3 MONTHS THROUGH 1/31/2015 | 209 |
| COMPARABLE YEAR-EARLIER 3 MONTHS | 275 |
| CALENDAR 2014 AVERAGE | 302 |

**Source:** Lipper, a Thomson Reuters company equity CEFs—ranging from minus 7.15% to positive 11.40%—was narrower than January's spread and more positively skewed. The 20 top-performing equity CEFs posted returns at or above 6.90%, while the 20 lagging equity CEFs were below minus 0.77%.

With the Turkish central bank, despite Turkey's experiencing relatively high inflation, cutting its interest rates for a second consecutive month in response to mounting political pressure to boost economic growth, it wasn't surprising to see Turkish Investment Fund, Inc. (NYSE: TKF), housed in Lipper's Emerging Markets CEFs classification, shed 7.15% and sit at the bottom of the equity CEFs universe for the month. TKF traded at an 11.54% discount on February 27. Pressure on interest rate-sensitive issues weighed on Lipper's Real Estate CEFs classification. LMP Real Estate Income Fund Inc (NYSE:RIT) posted the next poorest return in the equity universe, declining 3.81% and traded at a 10.94% discount at month-end. For February only 35 equity CEFs experienced NAV-based returns in the red.

Despite a slight decline in yields toward month-end as a result of tepid economic news that led many to doubt the Fed's resolve to raise interest rates in the near term, strong nonfarm payrolls reports and the Fed's official speeches during the month indicated the central bank could hike short-term rates as early as June pushed up yields. The Treasury curve rose at all maturities greater than six months. The ten-year yield rose 32 bps to 2.00% at month-end. In contrast to January General Municipal Bond CEFs (-1.55%) was the only Lipper fixed income macro-classification with all of its classifications experiencing returns in the red.

At the top of the group charts domestic taxable bond CEFs (+1.75%) led the way, followed closely by the World Income CEFs (+1.53%) macro-classification. At the top of the fixed income classification charts were High Yield CEFs (Leveraged) (+2.76%) and High Yield CEFs (+2.54%), followed closely by Loan Participation CEFs (+1.90%). New Jersey Municipal Debt CEFs (-1.78%) was at the bottom of the fixed income universe. National municipal debt CEFs (-1.49%) mitigated losses better than their single-state municipal debt CEF counterparts (-1.62%).

As a result of stronger economic growth and Greece's four-month debt extension, both classifications making up Lipper's World Income CEFs macro-classification (+1.53%) posted returns in the black for February. Emerging Markets Debt CEFs (+1.60%) slightly outpaced its Global Income CEFs (+1.48%) cousin for the month. While domestic taxable fixed income funds performed strongly for February, higher-quality issues took it on the chin: Corporate Debt BBB-Rated (Leveraged) CEFs (-0.11%) and Corporate Debt BBB-Rated CEFs (-0.09%) suffered the only losses of that group. Among domestic taxable fixed income CEFs the remaining classification returns ranged from 0.74% (U.S. Mortgage CEFs) to 1.61% (General Bond CEFs). None of the municipal debt CEF classifications posted plus-side returns for February.

Four of the five top-performing individual CEFs in the fixed income universe were housed in Lipper's domestic taxable bond CEFs macro-group. At the top of the group was NexPoint Credit Strategies Fund (NYSE: NHF, housed in Lipper's High Yield CEFs [Leveraged] classification, and January's laggard), returning 5.41% and traded at a 15.32% discount at February month-end. Following NHF were PIMCO High Income Fund (NYSE: PHK, housed in Lipper's General Bond CEFs classification), tacking 5.03% onto its January month-end value and traded at a 60.57% premium on February 27, and Stone Harbor Emerging Markets Income Fund (NYSE: EDF, housed in Lipper's Emerging Market Debt CEFs classification), posting a 4.28% return and traded at a 6.55% premium at month-end.

For the remaining funds in the fixed income CEFs universe monthly NAV-basis performance ranged from minus 3.24% for Eaton Vance Municipal Income 2028 Term Trust (NYSE:EXT, housed in Lipper's General & Insured Municipal Debt CEFs [Leveraged] classification and traded at an 11.80% discount on February 27) to 3.92% for Neuberger Berman High Yield Strategies Fund Inc. (NYSE: NHS), housed in Lipper's High Yield CEFs [Leveraged] classification and traded at a 10.16% discount at month-end. The 20 top-performing fixed income CEFs posted returns at or above 3.16%, while the 20 lagging CEFs were at or below minus 2.14%. A total of 210 fixed income CEFs suffered downside performance for February.

## PREMIUM AND DISCOUNT BEHAVIOR

For February the median discount of all CEFs narrowed 20 bps to 8.36%—slightly better than the 12-month moving average discount (8.54%). Equity CEFs' median discount narrowed 11 bps to 8.89%, while fixed income CEFs' median discount narrowed 34 bps to 8.01%. The High Yield CEFs classification's median discount witnessed the largest narrowing of discounts, 60 bps to 9.30%, while the General Municipal Bond CEFs macro-classification witnessed the largest widening in the CEFs universe—25 bps to 6.82%.

For the month 47% of all funds' discounts or premiums improved, while 49% worsened. In particular, 48% of equity funds and 46% of fixed income funds saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on February 27 (62) was nine less than on January 30.

## CEF EVENTS AND CORPORATE ACTIONS

### IPOs

Little Harbor Advisors launched Little Harbor MultiStrategy Composite Fund (LHSMX), a hybrid interval fund. The fund sold 600,000 shares at $500 each, for gross proceeds of $300 million.

### RIGHTS, REPURCHASES, TENDER OFFERS

European Equity Fund (NYSE: EEA) announced that its tender offer for up to 5% (460,000 shares) of its common shares saw nearly 4.4 million shares tendered. The heavily oversubscribed offer meant that under the final pro rata calculation, 10.5% of tendered shares were accepted for payment.

### MERGERS AND REORGANIZATIONS

Trustees of Cornerstone Strategic Value Fund (NYSE:CLM) and Cornerstone Progressive Return Fund (NYSE: CFP) approved the merger of CFP into CLM. Shareholders will vote on the matter at a special meeting expected to be held in Q2 2015.

### OTHER

Shareholders of Morgan Stanley Eastern Europe Fund (NYSE: RNE) approved a liquidation plan recommended by the board of directors. The liquidation is expected to be completed by the end of Q1 2015.

Shareholders of Royce Focus Trust (NASDAQ: FUND) voted to transfer the investment management of the fund from Royce & Associates to Sprott Asset Management and elected a new slate of directors. After the changes take effect on March 9 the fund's name will be changed to Sprott Focus Trust. Sprott intends to propose that the newly elected directors consider adoption of a new quarterly distribution policy at their initial meeting.



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## Market Videos

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**March 16, 2015**
John Cole Scott of Closed-End Fund Advisors: *BDC Fourth Quarter 2014 NAV and Portfolio Progress*


**March 4, 2015**
Daisy Maxey of WSJ: *Keep ETF Trading Costs Down*

**March 6, 2015**
Brian Wesbury of First Trust: *Strong Jobs, Foolish Stocks*

**March 3, 2015**
Grier Eliasek of Prospect Capital: *How to invest in growth*

**March 6, 2015**
Mike Rawson of Morningstar: *This ETF's Index Is a Victim of Its Own Success*


**February 23, 2015**
Ben Johnson of Morningstar: *This ETF Takes the Euro Out of European Dividend Payers*

# CEF Performance Statistics

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| Category | Average 1Mo NAV Change | Average 1Mo Mkt Change | Average P/D 2/28/2015 | Average P/D 1/31/2015 | Average 1 Mo P/D Change | Average YTD NAV Change | Average YTD Mkt Change | Average YTD P/D Change (%) |
|---|---|---|---|---|---|---|---|---|
| California Municipal Debt Funds | -1.9% | -2.9% | -3.4% | -2.4% | -1.0% | 0.3% | 1.6% | 1.2% |
| Convertible Securities Funds | 3.9% | 2.7% | -4.3% | -3.1% | -1.2% | 2.2% | 2.0% | -0.2% |
| Core Funds | 4.6% | 5.2% | -8.7% | -9.1% | 0.9% | 1.2% | 1.4% | 0.8% |
| Corporate BBB-Rated Debt Funds(Leveraged) | -0.4% | -0.8% | -9.7% | -9.4% | -0.3% | 1.5% | 1.7% | 0.2% |
| Corporate Debt Funds BBB-Rated | -0.4% | -0.4% | -7.8% | -7.8% | 0.1% | 0.8% | 1.5% | 0.6% |
| Developed Market Funds | 4.8% | 5.4% | -11.3% | -11.8% | 0.5% | 5.4% | 6.0% | 0.4% |
| Emerging Markets Funds | 3.5% | 4.4% | -7.8% | -8.5% | 0.7% | 2.2% | 3.8% | 1.2% |
| Emerging Mrkts Hard Currency Debt Funds | 1.2% | 1.0% | -11.6% | -11.5% | -0.1% | -0.2% | 0.7% | 0.8% |
| Energy MLP Funds | 2.5% | 3.6% | -3.3% | -4.3% | 0.9% | -2.5% | -1.7% | 0.3% |
| General & Insured Muni Debt Funds (Leveraged) | -2.1% | -2.8% | -6.4% | -5.8% | -0.7% | 0.3% | 1.6% | 1.2% |
| General & Insured Muni Fds (Unleveraged) | -1.3% | -1.7% | -1.2% | -0.8% | -0.4% | 0.4% | 1.5% | 1.0% |
| General Bond Funds | 1.0% | 0.8% | -3.8% | -3.5% | -0.3% | 0.9% | 2.1% | 1.6% |
| Global Funds | 4.1% | 4.0% | -10.0% | -9.8% | -0.2% | 2.4% | 1.7% | -0.6% |
| Global Income Funds | 0.9% | 0.9% | -7.9% | -7.9% | 0.0% | -0.1% | 0.8% | 0.9% |
| Growth Funds | 4.2% | 6.2% | -4.9% | -6.2% | 1.3% | -3.9% | 2.4% | 1.5% |
| High Yield Funds | 2.0% | 1.6% | -8.6% | -8.1% | -0.5% | 1.0% | 0.8% | -0.3% |
| High Yield Funds (Leveraged) | 2.1% | 2.3% | -7.0% | -6.9% | -0.2% | 1.8% | 1.9% | -0.2% |
| High Yield Municipal Debt Funds | -1.4% | -1.7% | -1.6% | -1.4% | -0.2% | 0.4% | 1.8% | 1.4% |
| Income & Preferred Stock Funds | 1.2% | 0.8% | -6.0% | -5.3% | -0.7% | 1.7% | 3.8% | 1.9% |
| Intermediate Municipal Debt Funds | -1.4% | -1.4% | -4.2% | -4.2% | 0.0% | 0.4% | 1.7% | 1.1% |
| Loan Participation Funds | 1.4% | 3.6% | -8.3% | -10.1% | 1.8% | 1.3% | 2.9% | 1.2% |
| Natural Resources Funds | 3.1% | 4.1% | -6.7% | -7.4% | 0.7% | -1.1% | 2.5% | 4.0% |
| New Jersey Municipal Debt Funds | -2.2% | -0.3% | -7.0% | -8.8% | 1.8% | -0.1% | 4.2% | 3.8% |
| New York Municipal Debt Funds | -2.2% | -1.6% | -5.4% | -5.9% | 0.5% | 0.0% | 2.2% | 2.1% |
| Options Arbitrage/Opt Strategies Funds | 4.5% | 4.8% | -3.7% | -4.3% | 0.6% | 2.3% | 4.1% | 1.9% |
| Other States Municipal Debt Funds | -2.0% | -1.5% | -6.1% | -6.6% | 0.5% | 0.3% | 2.5% | 2.0% |
| Pacific Ex Japan Funds | 0.5% | 0.4% | -10.5% | -10.4% | -0.1% | -1.4% | -2.4% | -1.0% |
| Pennsylvania Municipal Debt Funds | -1.8% | -2.1% | -9.0% | -8.9% | -0.4% | 0.2% | 1.6% | 1.1% |
| Real Estate Funds | -0.7% | -1.1% | -12.2% | -12.2% | 0.0% | 2.7% | 1.6% | -1.3% |
| Sector Equity Funds | 1.7% | 0.4% | -5.6% | -4.6% | -1.0% | 3.6% | 3.0% | 0.4% |
| U.S. Mortgage Funds | 0.2% | -0.6% | -8.1% | -7.3% | -0.9% | 0.2% | 0.3% | 0.2% |
| Utility Funds | -0.6% | 0.1% | -3.7% | -4.5% | 0.7% | -1.0% | 0.2% | 1.2% |
| Value Funds | 3.3% | 3.6% | -11.4% | -10.9% | -0.5% | 1.0% | 0.0% | -1.0% |

# Top 5 Performing CEFs

LIPPER

| Fund Name | Category | Ticker Symbol | 1-Month NAV Change | Rank |
|---|---|---|---|---|
| Templeton Russia & E Eur | Emerging Markets Funds | TRF | 11.4% | 1 |
| Engex Inc | Growth Funds | EGI | 10.6% | 2 |
| Morg Stan East Europe | Emerging Markets Funds | RNE | 10.0% | 3 |
| Aberdeen Australia Eqty | Developed Market Funds | IAF | 9.0% | 4 |
| Wildermuth Endowment Str | Options Arbitrage/Opt Strategies Funds | WESFX | 8.4% | 5 |

| Fund Name | Category | Ticker Symbol | Year-to-Date NAV Change | Rank |
|---|---|---|---|---|
| ASA Gold & Prec Met Ltd | Sector Equity Funds | ASA | 13.2% | 1 |
| India Fund | Emerging Markets Funds | IFN | 12.0% | 2 |
| Aberdeen Japan Equity | Developed Market Funds | JEQ | 10.6% | 3 |
| Morg Stan India Inv | Emerging Markets Funds | IIF | 9.4% | 4 |
| New Germany Fund | Developed Market Funds | GFN | 9.0% | 5 |

| Fund Name | Category | Ticker Symbol | 1-Month Market Change | Rank |
|---|---|---|---|---|
| Cornerstone Total Return | Core Funds | CRF | 15.1% | 1 |
| Cornerstone Strat Value | Core Funds | CLM | 13.6% | 2 |
| Herzfeld Caribbean Basin | Emerging Markets Funds | CUBA | 13.3% | 3 |
| Templeton Russia & E Eur | Emerging Markets Funds | TRF | 13.0% | 4 |
| Morg Stan East Europe | Emerging Markets Funds | RNE | 11.7% | 5 |

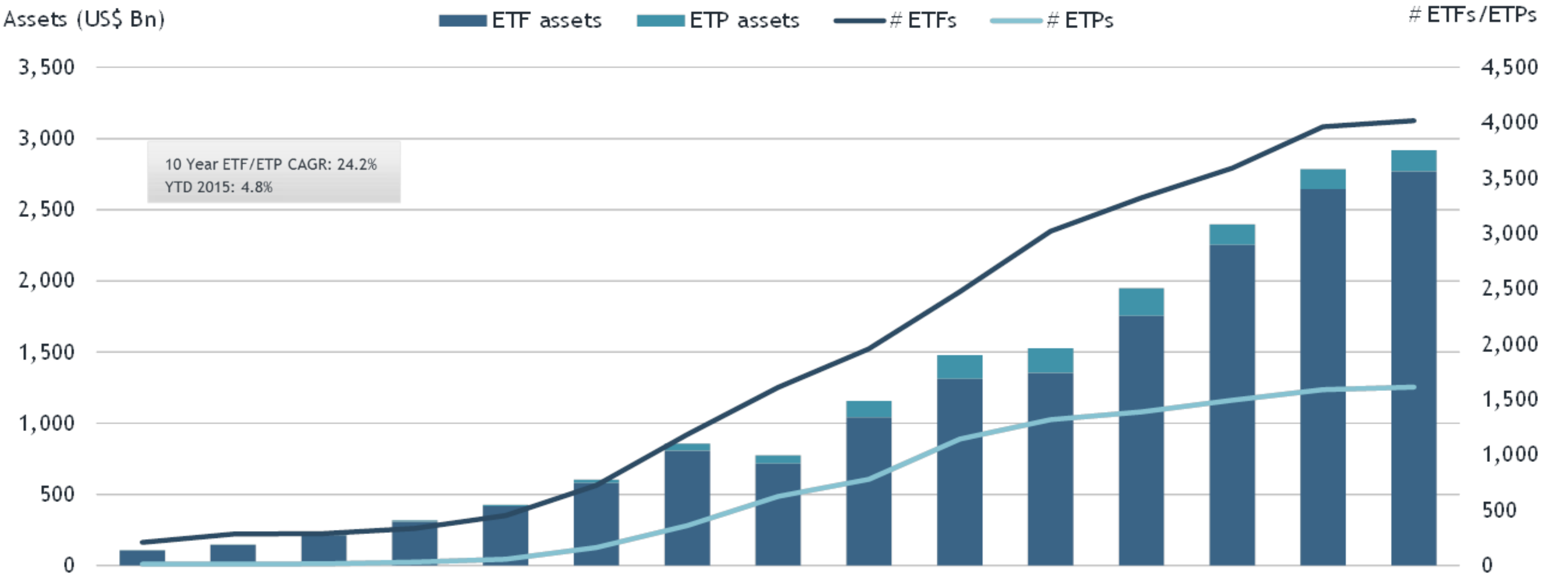
| Fund Name | Category | Ticker Symbol | Year-to-Date Market Change | Rank |
|---|---|---|---|---|
| PIMCO Gl StksPLUS & Inc | Options Arbitrage/Opt Strategies Funds | PGP | 18.9% | 1 |
| Cornerstone Total Return | Core Funds | CRF | 18.0% | 2 |
| India Fund | Emerging Markets Funds | IFN | 15.2% | 3 |
| Herzfeld Caribbean Basin | Emerging Markets Funds | CUBA | 14.2% | 4 |
| Aberdeen Japan Equity | Developed Market Funds | JEQ | 13.7% | 5 |

| Fund Name | Category | Ticker Symbol | 1-Month P/D Change | Rank |
|---|---|---|---|---|
| Cornerstone Total Return | Core Funds | CRF | 12.7% | 1 |
| Cornerstone Strat Value | Core Funds | CLM | 11.1% | 2 |
| PIMCO Gl StksPLUS & Inc | Options Arbitrage/Opt Strategies Funds | PGP | 10.2% | 3 |
| Herzfeld Caribbean Basin | Emerging Markets Funds | CUBA | 6.1% | 4 |
| J Hancock Tx-Ad Gl Sh Yd | Global Funds | JTG | 5.7% | 5 |

| Fund Name | Category | Ticker Symbol | Year-to-Date P/D Change | Rank |
|---|---|---|---|---|
| PIMCO Gl StksPLUS & Inc | Options Arbitrage/Opt Strategies Funds | PGP | 26.6% | 1 |
| Cornerstone Total Return | Core Funds | CRF | 20.7% | 2 |
| PIMCO High Income | General Bond Funds | PHK | 15.8% | 3 |
| Cornerstone Strat Value | Core Funds | CLM | 14.9% | 4 |
| Herzfeld Caribbean Basin | Emerging Markets Funds | CUBA | 12.7% | 5 |

## Global ETF and ETP asset growth as at end of February 2015

At the end of February 2015, the Global ETF/ETP industry had 5,632 ETFs/ETPs, with 10,902 listings, assets of US$2.919 trillion, from 246 providers on 63 exchanges in 51 countries




| Year | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Feb-15 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| # ETFs | 209 | 284 | 289 | 335 | 451 | 725 | 1,184 | 1,609 | 1,959 | 2,474 | 3,020 | 3,323 | 3,590 | 3,966 | 4,020 |
| # ETFs/ETPs | 221 | 296 | 304 | 365 | 507 | 888 | 1,544 | 2,233 | 2,738 | 3,617 | 4,337 | 4,711 | 5,084 | 5,556 | 5,632 |
| ETF assets | 105 | 142 | 212 | 310 | 417 | 580 | 807 | 716 | 1,041 | 1,313 | 1,355 | 1,754 | 2,254 | 2,643 | 2,769 |
| ETF/ETP assets | 109 | 146 | 218 | 319 | 426 | 603 | 857 | 774 | 1,158 | 1,478 | 1,526 | 1,949 | 2,398 | 2,785 | 2,919 |

## Summary for ETFs/ETPs: Global

Assets in ETFs/ETPs globally reached a new record high of 2.919 trillion US dollars at the end of February 2015 according to ETFGI assets invested in ETFs/ETPs globally reached a new record high of US$2.919 trillion at the end of February 2015, according to ETFGI's preliminary monthly ETF and ETP global insight report for February.

March 9th marked the 25th anniversary of the listing of the first ETF in Canada.

ETFs/ETPs listed globally:
The global ETF/ETP industry had 5,632 ETFs/ETPs, with 10,902 listings, from 245 providers listed on 63 exchanges in 51 countries. We expect the assets to break through the US$3 trillion milestone in the first half of 2015. There were US$50.7 billion in net new asset (NNA) inflows in February – the second largest NNA month on record.

"Investors allocated the majority of net new assets to equities as the US market rebounded from a difficult January to end February with both the S&P 500 and the Dow up 6% for the month. Volatility declined during the month. Developed markets were up 6% for the month, while emerging and frontier markets were up 3%" according to Deborah Fuhr, managing partner of ETFGI.

In February 2015, ETFs/ETPs saw net inflows of US$50.7 Bn. Equity ETFs/ETPs gathered the largest net inflows with US$30.4 Bn, followed by fixed income ETFs/ETPs with US$15.6 Bn, and commodity ETFs/ETPs with US$2.9 Bn in net inflows. On a YTD basis the net new asset flows into fixed income, commodities, active ETFs and globally are at record levels at US$28.8 Bn, US$8.0 Bn, US$2.7 Bn and US$62.0 Bn respectively.

iShares gathered the largest net ETF/ETP inflows in February with US$19.9 Bn, followed by Vanguard with US$5.9 Bn and SPDR ETFs with US$4.3 Bn net inflows. On a YTD basis, iShares gathered the largest net ETF/ETP inflows with US$26.9 Bn, followed by Vanguard with US$15.7 Bn and WisdomTree with US$6.8 Bn net inflows.

In February 2015, 79 new ETFs/ETPs were launched by 31 providers. Including cross listings, there were 163 new listings from 36 providers on 15 exchanges. 16 ETFs/ETPs closed and there were a total of 17 listings removed from 3 exchanges

The top 100 ETFs/ETPs, out of 5,632, account for 56.2% of Global ETF/ETP assets. 424 ETFs/ETPs have greater than US$1 Bn in assets, while 3,827 ETFs/ETPs have less than US$100 Mn in assets, 3,240 ETFs/ETPs have less than US$50 Mn in assets and 1,728 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

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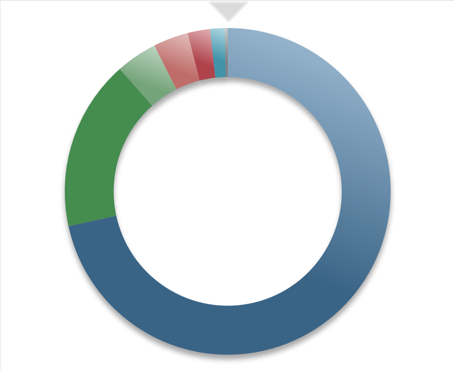
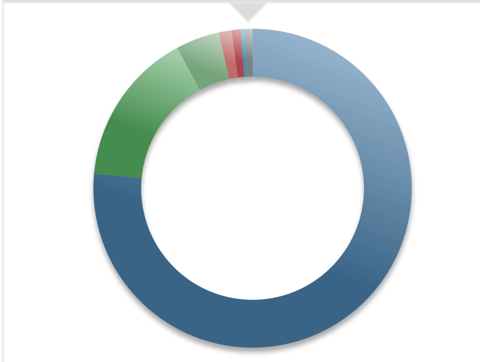
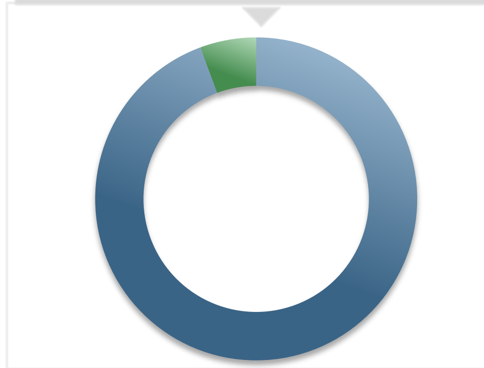
ETF/ETP assets by region listed



ETF/ETP assets by asset class



ETF/ETP assets by product structure



| Region | # ETFs/ ETPs | Assets (US$ Bn) | % total |
|---|---|---|---|
| US | 1,667 | $2,089.6 | 71.6% |
| Europe | 2,109 | $494.8 | 17.0% |
| Asia Pacific (ex-Japan) | 609 | $118.3 | 4.1% |
| Japan | 151 | $102.3 | 3.5% |
| Canada | 355 | $65.2 | 2.2% |
| Middle East and Africa | 694 | $40.8 | 1.4% |
| Latin America | 47 | $7.8 | 0.3% |
| **Total** | **5,632** | **$2,918.8** | **100.0%** |

| Asset class | # ETFs/ ETPs | Assets (US$ Bn) | % total |
|---|---|---|---|
| Equity | 2,982 | $2,248.9 | 77.1% |
| Fixed Income | 838 | $448.8 | 15.4% |
| Commodities | 710 | $123.9 | 4.2% |
| Leveraged | 324 | $35.3 | 1.2% |
| Active | 200 | $27.7 | 0.9% |
| Leveraged Inverse | 163 | $12.4 | 0.4% |
| Others | 415 | $21.6 | 0.7% |
| **Total** | **5,632** | **$2,918.8** | **100.0%** |

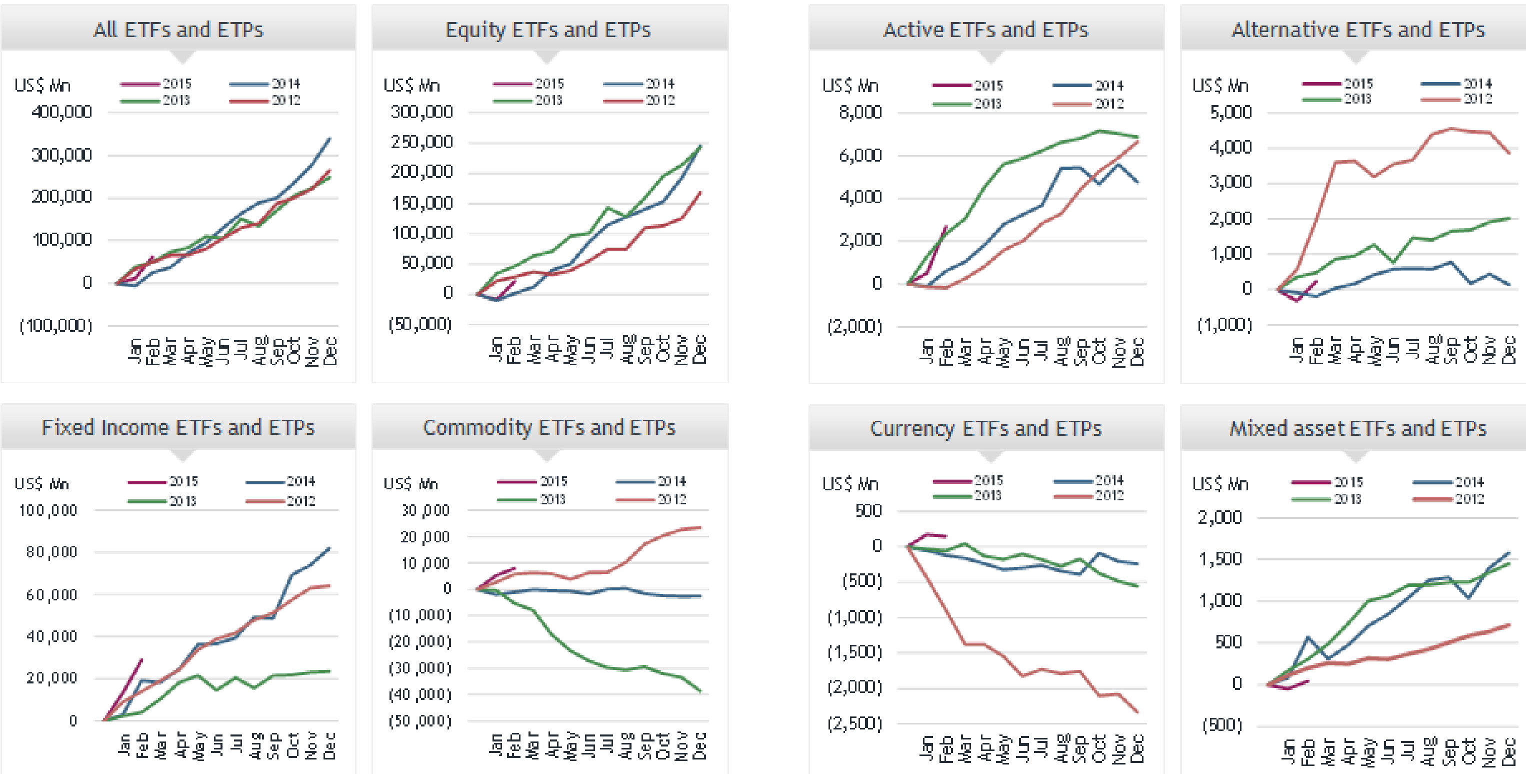
| Asset class | # ETFs/ ETPs | Assets (US$ Bn) | % total |
|---|---|---|---|
| ETF | 4,020 | $2,768.5 | 94.9% |
| ETP | 1,612 | $150.3 | 5.1% |
| **Total** | **5,632** | **$2,918.8** | **100.0%** |

*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.*

# Global Year to Date Net New Assets

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




ETFs and ETPs listed globally gathered net inflows of $50,577 Mn in February. Year to date, net inflows stand at $61,874 Mn. At this point last year there were net inflows of $25,073 Mn.

Equity ETFs/ETPs saw net inflows of $30,437 Mn in February, bringing year to date net inflows to $21,613 Mn, which is greater than the net inflows of $1,674 Mn over the same period last year.

Fixed income ETFs and ETPs experienced net inflows of $15,620 Mn in February, growing year to date net inflows to $28,821 Mn, which is greater than the same period last year which saw net inflows of $19,117 Mn.

Commodity ETFs/ETPs accumulated net inflows of $2,700 Mn in February. Year to date, net inflows are at $7,873 Mn, compared to net outflows of $1,085 Mn over the same period last year.

Actively managed products saw net inflows of $2,164 Mn in February, bringing year to date net inflows to $2,679 Mn, which is greater than the net inflows of $630 Mn over the same period last year.

Products tracking alternative indices experienced net inflows of $547 Mn in February, growing year to date net inflows to $232 Mn, which is greater than the same period last year which saw net outflows of $183 Mn.

Currency products saw net outflows of $27 Mn in February. Year to date, net inflows are at $150 Mn, compared to net outflows of $118 Mn over the same period last year.

Products holding more than one asset class saw net inflows of $93 Mn in February, bringing year to date net inflows to $47 Mn, which is less than the net inflows of $568 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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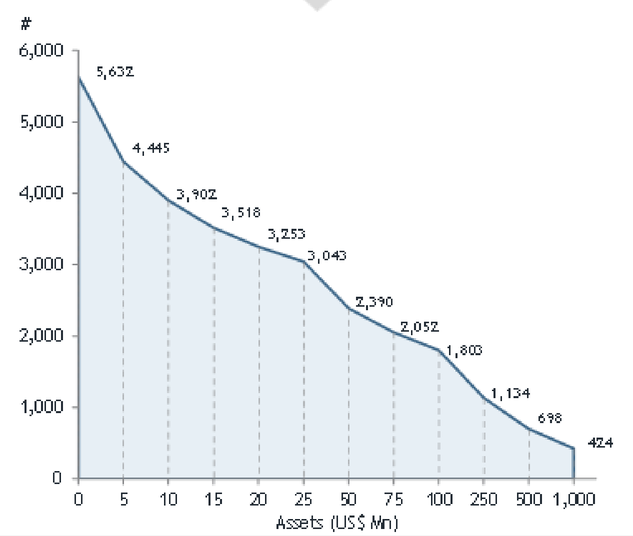
## Distribution of ETFs/ETPs by size

ETF/ETP assets




| Assets greater than (US$ Mn) | # ETFs/ ETPs | % total | Total assets (US$ Bn) | % total |
|---|---|---|---|---|
| 0 | 5,632 | 100.0% | 2,913 | 100.0% |
| 5 | 4,445 | 78.9% | 2,911 | 99.9% |
| 10 | 3,902 | 69.3% | 2,907 | 99.8% |
| 15 | 3,518 | 62.5% | 2,902 | 99.6% |
| 20 | 3,253 | 57.8% | 2,898 | 99.5% |
| 25 | 3,043 | 54.0% | 2,893 | 99.3% |
| 50 | 2,390 | 42.4% | 2,869 | 98.5% |
| 75 | 2,052 | 36.4% | 2,848 | 97.8% |
| 100 | 1,803 | 32.0% | 2,827 | 97.0% |
| 250 | 1,134 | 20.1% | 2,719 | 93.3% |
| 500 | 698 | 12.4% | 2,564 | 88.0% |
| 1,000 | 424 | 7.5% | 2,369 | 81.3% |

424 ETFs/ETPs have greater than US$1 Bn in assets, while 1,803 have greater than US$100 Mn in assets and 2,390 have greater than US$50 Mn in assets. The 424 ETFs/ETPs with reater than US$1 Bn in assets hold a combined total of US$2,369 Bn, or 81.3%, of Global ETF/ETP assets.

## ETF/ETP underlying benchmarks: developed equity

### Top 20 by assets

| Name | Assets (US$ Mn) Feb-15 | NNA (US$ Mn) Feb-15 | NNA (US$ Mn) YTD 2015 |
|---|---|---|---|
| S&P 500 Index | 348,116 | 1,483 | (25,939) |
| MSCI EAFE Index | 63,799 | 2,135 | 3,219 |
| CRSP US Total Market Index | 55,112 | 1,495 | 2,753 |
| NASDAQ 100 Index | 51,374 | 1,334 | 3,523 |
| Nikkei 225 Index | 44,677 | 768 | (2,160) |
| S&P Mid Cap 400 Index | 43,059 | 736 | 901 |
| TOPIX Index | 40,710 | 995 | 1,682 |
| EURO STOXX 50 Index | 33,255 | 700 | 2,651 |
| MSCI Japan Index | 29,969 | (1,118) | (2,424) |
| Russell 2000 Index | 29,925 | 1,184 | 55 |
| Russell 1000 Growth Index | 29,580 | 287 | 132 |
| MSCI US REIT Index | 28,455 | 5 | 562 |
| Russell 1000 Value Index | 26,548 | 142 | (20) |
| FTSE Developed ex North America Index | 25,356 | (673) | (426) |
| DAX Index | 21,617 | 1,176 | 1,837 |
| NASDAQ Dividend Achievers Select Index | 21,176 | (583) | (468) |
| MSCI World Index | 20,534 | 266 | 680 |
| S&P Financial Select Sector Index | 18,885 | (136) | (2,220) |
| CRSP US Large Cap Growth Index | 18,848 | 306 | 719 |
| CRSP US Large Cap Value Index | 18,231 | 156 | 756 |

*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) Feb-15 | NNA (US$ Mn) Feb-15 | NNA (US$ Mn) YTD 2015 |
|---|---|---|---|
| S&P 500 Index | 12,132 | 2,432 | 5,331 |
| NASDAQ 100 Index | 63,799 | 2,135 | 3,219 |
| S&P Mid Cap 400 Index | 5,136 | 1,499 | 1,674 |
| MSCI Japan Index | 55,112 | 1,495 | 2,753 |
| WisdomTree Japan Hedged Equity Index | 348,116 | 1,483 | (25,939) |
| Wisdom Tree Europe Hedged Equity Index | 51,374 | 1,334 | 3,523 |
| CRSP US Total Market Index | 13,773 | 1,318 | 1,788 |
| MSCI EAFE Index | 29,513 | 1,240 | 55 |
| FTSE Developed ex North America Index | 21,617 | 1,176 | 1,837 |
| JPX-Nikkei Index 400 | 40,710 | 995 | 1,682 |
| S&P Energy Select Sector Index | 44,677 | 768 | (2,160) |
| S&P Preferred Stock Index | 43,059 | 736 | 901 |
| MSCI World Index | 6,193 | 720 | 997 |
| S&P Health Care Select Sector Index | 33,249 | 700 | 2,651 |
| S&P Equal Weight Index | 12,677 | 694 | 735 |
| S&P US 600 Small Cap Index | 990 | 663 | 745 |
| CRSP US Large Cap Growth Index | 12,292 | 572 | 874 |
| Russell 2000 Value Index | 9,195 | 537 | 678 |
| S&P Consumer Discretionary Select Sector Index | 14,174 | 507 | 1,202 |
| Russell 1000 Value Index | 12,741 | 499 | 786 |

# Year to Date ETF / ETP Product Launches

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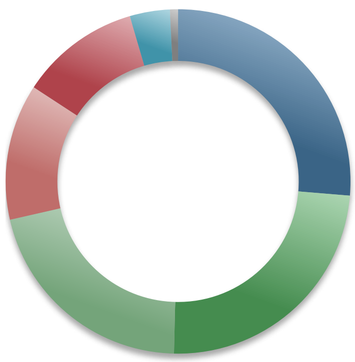
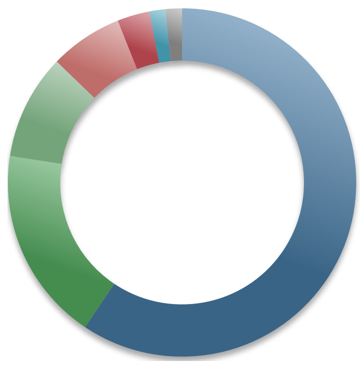
## YTD ETF/ETP product launches

# ETFs/ETPs by region listed



# ETFs/ETPs by asset class



# ETFs/ETPs by product structure

| Region | # ETFs/ETPs | % total |
|---|---|---|
| Europe | 35 | 26.3% |
| US | 32 | 24.1% |
| Asia Pacific (ex-Japan) | 28 | 21.1% |
| Canada | 17 | 12.8% |
| Japan | 15 | 11.3% |
| Middle East and Africa | 5 | 3.8% |
| Latin America | 1 | 0.8% |
| **Total** | **133** | **100.0%** |

| Asset class | # ETFs/ETPs | % total |
|---|---|---|
| Equity | 79 | 59.4% |
| Fixed income | 24 | 18.0% |
| Leveraged | 13 | 9.8% |
| Active | 9 | 6.8% |
| Leveraged Inverse | 4 | 3.0% |
| Inverse | 2 | 1.5% |
| Others | 2 | 1.5% |
| **Total** | **133** | **100.0%** |

| Structure | # ETFs/ETPs | % total |
|---|---|---|
| ETF | 100 | 75.2% |
| ETP | 33 | 24.8% |
| **Total** | **133** | **100.0%** |

*Source: ETFGI, Bloomberg, ETF/ETP providers.*

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

# Fitch: Private Funds Pose Most Systemic Asset Management Risk

March 23, 2015

Authored by:
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Fitch Ratings-New York-23 March 2015: Private funds, i.e. hedge funds, pose the greatest systemic risk for the investment management sector based on key risk indicators identified by the Financial Stability Board's (FSB) latest consultation paper, according to Fitch Ratings.

The paper on non-bank, non-insurance financial institutions that may pose systemic risk takes a dual approach for investment management, focusing on investment funds and asset managers, was published earlier this month. The latest FSB consultation paper identifies size (with and without regard to leverage), substitutability, interconnectedness, complexity and cross-jurisdictional activities as potential drivers of systemic risk in the investment management space. These factors are considered in the context of private less-regulated funds, regulated funds and asset managers.

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# Rating Actions

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

- **Fitch Rates New Legg Mason BW Income Fund Pfd 'AA'– February 19, 2015**
- **Fitch Affirms Western Asset/Legg Mason Loan Fund ARPS at 'AAA' – February 23, 2015**
- **Fitch Affirms 'AAA' Pfd Stock of 4 PIMCO Corporate Closed End Funds' – February 23, 2015**
- **Fitch Affirms 'AAA' Preferred Ratings of AllianzGI Convertible & Income Fund II – February 23, 2015**
- **Fitch Rates and Affirms Preferred Shares of Western Municipal Closed End Funds – February 25, 2015**
- **Fitch Affirms Eaton Vance Loan Funds' Term Preferred Shares at 'AA' – February 26, 2015**
- **Fitch Affirms Auction Market Preferred Stock Ratings of two Eaton Vance Funds at 'AAA' – February 26, 2015**
- **Fitch Affirms Pioneer Closed-End-Fund Preferred Shares at 'AAA' – February 27, 2015**
- **Fitch Rates Preferred Shares of Western Municipal Closed End Fund – March 4, 2015**
- **Fitch Affirms Preferred Shares of Two Deutsche Closed-End Funds 'AAA' – March 6, 2015**
- **Fitch Affirms Ratings of Two Franklin Closed End Funds at 'AAA' – March 10, 2015**
- **Fitch: Denali Fund Preferred Shares PIF – March 10, 2015**
- **Fitch Rates Western Municipal Closed-End Fund VRDPs 'AAA/F1' – March 11, 2015**

# Cohen & Steers Closed-End Fund Strategy

January 2015

Authored by:
**Douglas Bond**
*Executive Vice President*
Cohen & Steers

We would like to share with you our review and outlook for the closed-end fund market as of January 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 0.2%, while its return on net asset value (NAV) was −0.6%. By comparison, the S&P 500 Index2 and the Barclays Capital U.S. Aggregate Bond Index3 had total returns of −3.0% and 2.1% for the month, respectively.

## Investment Review

Closed-end funds advanced in January, outperforming the broader equity markets but trailing most fixed income indexes. Investors generally grew concerned with the increased possibility of deflation, particularly in the Eurozone, as well as the potentially adverse impact of a stronger U.S. dollar. However, aggressive monetary easing aimed at spurring growth and sparking inflation helped drive sovereign bond yields lower, which tended to increase the appeal of income-oriented asset classes such as closed-end funds.

Closed-end funds' discounts to NAV remained well below their long-term averages. The average discount for taxable fixed income funds ended the month at 5.2%, compared with an 18-year average discount of 2.7%. Equity funds (excluding commodities) ended the month with an average discount of 6.3% to NAV, compared with an 18-year average of 4.9%.

Fixed income closed-end funds widely benefited from falling Treasury yields and a low inflationary environment. The yield on the 10-year Treasury fell from 2.2% to 1.7% during the month. The taxable municipal category (5.1% total return in the index1 ) led the fixed income group. Both taxable and tax-exempt municipal bonds produced strong returns in the period. There were some indications that lower energy prices were beginning to weigh on the budgets of select regions with high economic dependencies on oil, such as Alaska. However, this was overshadowed by the prospect of increased sales tax collections and toll road fees associated with the potential for greater consumer spending as a result of lower gas prices. Municipal securities also continued to benefit from improvements in job growth, home sales and reduced debt issuance during the period.

Preferred securities funds (4.4%) rose as the generally longer durations of preferred securities were a tailwind for returns amid declining interest rates. Investment grade funds (3.4%) similarly did well. Multi-sector funds (1.2%) also had solid returns, helped by above-average dividend fundamentals. Funds in the senior loan (−0.4%), limited duration (0.0%) and emerging market income (−0.2%) categories underperformed.

The equity group had negative NAV returns, but performed better than the broad equity market, assisted by a generally more diversified asset class exposure in their underlying portfolios. Within the equity group, commodity funds (10.3%) were the exception, outperforming as the environment of heightened economic uncertainty largely boosted demand for assets perceived as safe havens, such as gold and silver; closed-end funds in the commodity group invest primarily in gold and other precious metals. Health biotech funds (4.0%) also performed well, aided by their relative insulation from concerns around low energy prices and deflation. Closed-end funds that invest in financials declined 8.3%; bank stocks came under pressure in January on a reduced profit outlook, as net interest margins were expected to remain lower for longer given the flatter shape of the yield curve.

*New Issuance of Closed-End Funds Slowed*

Underwriters remained reluctant to launch new funds during the period, much like in 2014, when net proceeds had declined 72% from 2013. Discounts for existing funds were wide of their historical averages and recently issued funds traded below their IPO prices, discouraging investor demand for new products.

## 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. In particular, we see opportunities in well-managed credit-sensitive fixed income funds trading at attractive valuations.

Due to the size of current discounts cross the closed-end-fund market, we do not expect to see meaningful new issuance in either fixed income or equity categories in the next several months. This could change if discounts draw closer to their historical averages.

(1) Returns are based on market price per Bloomberg L.P. Sector constituents are determined as per the Morningstar U.S. All Taxable exForeign 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-cap 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. Benchmark returns are shown for comparative purposes only and may not necessarily be representative of the Fund's portfolio. Performance data quoted represents past performance.



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# Technology Dividends — A Missing Ingredient in Your Equity Income ETF

February 2015

Authored by:
**Ryan O. Issakainen, CFA**
*Senior Vice President*
*Exchange Traded Fund Strategist*
First Trust

Over the past 5 years, few themes have more consistently resonated with ETF investors than equity income.1 Since 9/30/2009, equity income ETFs have collectively gathered over $50 billion in net inflows, with positive net inflows in 19 out of the last 20 quarters.2 This recent popularity can largely be attributed to investors' growing appetite for income in a yield-starved interest rate environment, combined with the perception that dividend-paying stocks may be less risky than non-dividend payers.

As we've discussed in previous newsletters, however, one of the risks that investors face with equity income ETFs is sector concentration. While there is nothing inherently wrong with overweighting certain sectors while underweighting others, large sector bets may produce unexpected or undesirable results. For example, on 9/30/08, just before the collapse of the financial services sector, equity income ETFs allocated an asset-weighted average of 42.6% to financial stocks, representing a 26.6 percentage point overweight relative to the S&P 500 Index.3 Unfortunately for investors, financial stocks suffered extreme negative returns over the next 6 months. Interestingly, the financial sector is currently the second most underweight sector within equity income ETFs, relative to the S&P 500 Index.4 Conversely, utilities and consumer staples are the two most overweight sectors within equity income ETFs, with average allocations 8.1 and 7.0 percentage points higher than the S&P 500 Index, respectively.5 (See Table 1 below)

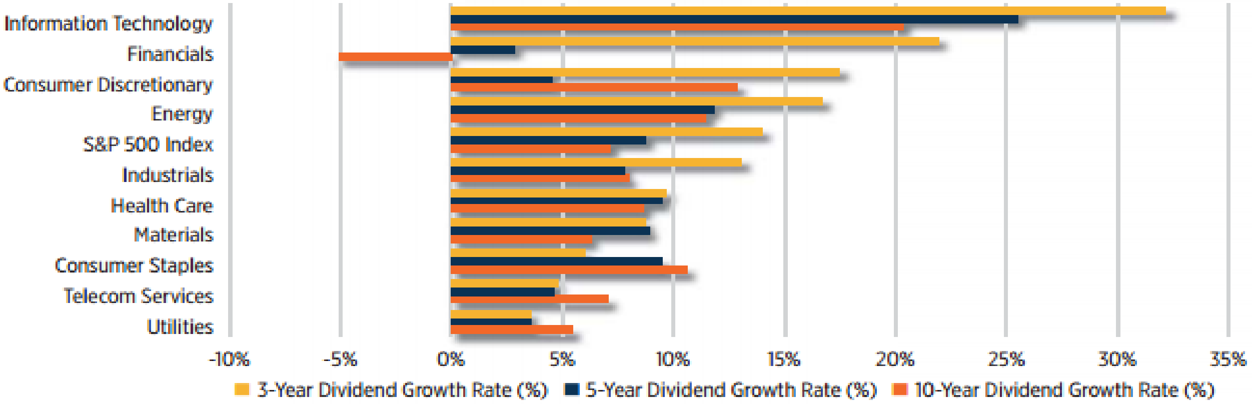
An equally important consideration for equity income ETFs is which sectors are underweight. As of 9/30/14, technology was the most underweight sector within equity income ETFs, with a 10.1 percentage point lower asset-weighted average allocation than the S&P 500 Index.6 This is especially notable because the information technology sector's dividend growth rate has exceeded all other sectors over the past 3, 5, and 10 years (see Chart 1 below), and the sector currently pays more dividends than any other sector in the S&P 500 Index.7

**Table 1: Sector Allocations as of 9/30/14**

| | S&P 500 Sector Weight | Equity Income ETFs Average Sector Weights* | Overweight/Underweight |
|---|---|---|---|
| Information Technology | 19.7% | 9.5% | -10.1% |
| Financials | 16.3% | 11.3% | -5.0% |
| Health Care | 13.9% | 9.4% | -4.5% |
| Consumer Discretionary | 11.7% | 8.3% | -3.4% |
| Energy | 9.7% | 8.9% | -0.8% |
| Telecommunication Services | 2.4% | 3.8% | 1.3% |
| Materials | 3.5% | 6.5% | 3.0% |
| Industrials | 10.3% | 14.2% | 3.9% |
| Consumer Staples | 9.6% | 16.5% | 7.0% |
| Utilities | 3.0% | 11.1% | 8.1% |

*Asset-weighted average
Source: Morningstar Direct. An index cannot be purchased directly by investors. Past performance is no guarantee of future results. This chart is for illustrative purposes only and not indicative of any actual investment.

**Chart 1: S&P 500 Sector Dividend Growth Rates as of 9/30/14**




Source: Bloomberg. An index cannot be purchased directly by investors. Past performance is no guarantee of future results. This chart is for illustrative purposes only and not indicative of any actual investment.

In this newsletter, we will take a closer look at why many equity income ETFs have avoided the technology sector, why we believe investors should consider increasing exposure to dividend-paying technology stocks, and how the First Trust NASDAQ Technology Dividend Index Fund (TDIV) may be utilized to complement investors' equity income ETFs.

### Why are equity income ETFs underweight technology?

One erroneous assumption about why equity income ETFs tend to underweight the technology sector is that the universe of dividend-paying technology stocks is much smaller than other sectors. While this may have been true in years past, today there are more dividend-paying stocks from the S&P 500 information technology sector (46) than the utilities (30), consumer staples (38), health care (34), energy (39), materials (29), and telecom services (5) sectors.8

Another faulty assumption is that there are too few technology companies with above average dividend yields. In fact, roughly half the dividend-paying technology stocks in the S&P 500 offer higher dividend yields than that of the S&P 500 Index.

In reality, equity income ETFs tend to underweight the technology sector because index rules have prevented many from adapting to an evolving universe of dividend-paying stocks. For example, many popular equity income ETFs track indices requiring long-term dividend policy growth, such as the well-known S&P 500 Dividend Aristocrats Index, which requires 25 consecutive years of dividend increases. Such requirements screen out many technology stocks that have only recently begun paying dividends over the past 5 years or so.

In other instances, index rules may include "buffers" that favor stocks already included in an equity income index versus potential new holdings. While such rules are intended to reduce portfolio turnover, an unintended consequence has been that a large group of potential new holdings from the technology sector have had a more difficult path to entry versus other more entrenched holdings. In some cases, the outperformance of dividend-paying technology stocks, with increasing share prices resulting in lower dividend yields, has prevented such stocks from ranking high enough for indices that select stocks on the basis of dividend yield.

### Why should equity income investors consider overweighting technology?

We believe the technology sector is well positioned for dividend growth, which has historically been associated with better performance compared to stocks lacking dividend growth. According to Ned Davis Research, during the 30 year period ending on 12/31/13, US stocks that initiated or increased dividend payments produced a 10.1% average annual return, compared to a 7.6% average annual return for dividend-paying stocks that neither increased nor decreased dividends. As indicated in the Chart 1, the technology sector has produced the strongest dividend growth of any sector over the past 3, 5, and 10 years.

In the wake of the financial crisis of 2008, technology companies began to dramatically increase balance sheet liquidity. From 9/30/08 to 9/30/14, members of the S&P 500 information technology sector collectively increased holdings of cash and marketable securities from $245 billion to over $732 billion.9 This provides both a cushion supporting current dividend policies, as well as a potential source of future dividend growth.

Moreover, the case for potential dividend growth in the technology sector is bolstered by strong free cash flows and earnings compared to current dividends. As of 9/30/14, the S&P 500 Information Technology sector had a 6.5% free cash flow yield10 and a 5.2% earnings yield,11 both significantly higher than the sector's 1.5% dividend yield. This spread between dividends compared to free cash flows and earnings suggests that technology companies may have more room to organically support longer term dividend increases, rather than simply distributing excess cash retained over the past several years.

Lastly, the information technology sector's ratio of total debt to total assets is the lowest of any sector in the S&P 500 Index.12 This suggests that if and when interest rates increase in the months and years ahead, these companies may be less impacted by increased borrowing costs as debt rolls over compared to other, more leveraged companies.

### A strategy to increase exposure to technology dividends

While many technology companies have matured to the point where a dividend policy makes sense, a number of others still do not pay dividends. Most traditional technology ETFs provide exposure to both groups. The First Trust NASDAQ Technology Dividend Index Fund (TDIV) is an ETF that holds 96 stocks (as of 9/30/14), avoiding technology companies that have not paid dividends within the past 12 months, or with a dividend yield below 0.5%. Accordingly, TDIV may be a useful tool for investors seeking to increase exposure to dividend-paying technology stocks. As of 9/30/14, TDIV's 30-Day SEC yield was 2.63%; the underlying portfolio's free cash flow yield and earnings yield were 7.4% and 6.1%, respectively.

The popularity of equity income ETFs shows few signs of slowing. These funds offer a variety of strategies for investors to gain exposure to dividend-paying stocks. But investors should be aware of potential risks and missed opportunities that may accompany current sector allocations for many of these funds. Hence, we believe investors would be well served to "look under the hood" at sector allocations within their equity income ETFs, and consider augmenting exposure to certain underweight sectors, especially technology.

1Included in this group are non-sector US equity ETFs whose names suggest a "dividend" or "income" strategy.
2Morningstar Direct, as of 9/30/14.
3Morningstar Direct. As of 9/30/14, there were 17 US listed equity income ETFs. ETF AUM-weighted average sector allocation is used in this comparison to best represent the sector allocation of most investor dollars.
4Morningstar Direct, as of 9/30/14.
5Morningstar Direct, as of 9/30/14
6Morningstar Direct.
7Bloomberg, as of 9/30/14.
8Bloomberg, as of 9/30/14.
9Bloomberg.
10"Free cash flow" represents the cash generated by a company, net of its investments to maintain or grow its business. "Free cash flow yield" compares this value to a security's market price.
11"Earnings yield" is a comparison of earnings to a security's market price.
12Bloomberg, as of 9/30/14.
Past performance is not a guarantee of future results and there is no assurance that the events or improvements mentioned herein will continue.

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# Xpert Spotlight: Market outlookfrom Dodd Kittsley

March 9, 2015

Authored by:
**Dodd Kittsley**
*Director, head of ETF strategy*
Deutsche Asset & Wealth Management

## Rise of currency-hedged ETFs has only just begun

Many international equity exchange-traded funds (ETFs) posted negative return in 2014 despite the positive performance of the equities they held. How could this be? The answer: currency exposure. In 2014 the MSCI EAFE Index returned 5.9% in local currency terms but –4.9% in U.S. dollar terms, a difference of 10.8 percentage points. Investors may have chosen the right equities, but saw their return negatively swamped out by the ongoing broad-based strength of the U.S. dollar. Investors are now taking action to protect their equity return from the impact of currency by increasingly allocating to currency-hedged ETFs.

Currency-hedged ETFs tracking international equities have exhibited dramatic growth over the past three years, with assets surging in excess of $36 billion. As Figure 1 illustrates, assets in currency-hedged Japanese equities have risen modestly since the start of 2014, but investors are thinking about currency hedging more broadly today than in the past. Funds offering exposures beyond Japan have brought in assets at the quickest pace, growing from 3% of currency-hedged assets in January 2013 to more than 58% today. Of the approximately $12 billion of inflow to currency-hedged ETFs year-to-date, almost 90% has been directed to exposures that are not exclusively Japan-focused, particularly broad developed-market equities (ETFs tracking the MSCI EAFE Index) and European equities.

Quite simply, investors have taken notice of the broad-based appreciation of the U.S. dollar relative to other developed-market currencies that has occurred over the past several months. The relative strength of the U.S. economy has led to monetary policy divergence: The U.S. Federal Reserve (Fed) ended its program of asset purchases in October, and is contemplating raising interest rates. Meanwhile, in an effort to kickstart inflation and economic growth, the European Central Bank (ECB) and Bank of Japan (BOJ) have lowered rates and are engaging in asset purchases. Central banks around the world, from Switzerland and Australia, are cutting rates as well. The resulting strength of the U.S. dollar has been broad-based, giving investors cause to re-evaluate the currency exposure of their international equity allocations.

Flows into European equity ETFs demonstrate that investors are embracing currency-hedged ETFs as a way to express a view on a region's equities without currency exposure. Figure 2 shows cumulative net inflows to unhedged and currency-hedged European equity ETFs from June 2014 through February 2015. As the U.S. dollar began to strengthen in earnest in July, flows to unhedged European equity ETFs turned negative. At the same time, however, investors began to put money to work in currency-hedged European equity ETFs. Investors clearly have a healthy appetite for European companies, but no taste for the euro as the ECB engages in quantitative easing amidst negative rates (and a record rate differential).

Currency-hedged flows into European equity ETFs also suggest that improving growth prospects in Europe, and resultant inflow to the region's equities, may not help the euro. If the breakdown in hedged vs. unhedged inflows to European equities outside of ETFs resembles the flow picture shown in Figure 2, even large equity buying will not put upward pressure on the euro. Deutsche Bank's George Saravelos notes that improving growth in Europe has historically been associated with portfolio outflows: European investors, cheered on by the better business climate, go risk-on and buy foreign assets.

We expect that utilization of currency-hedged ETFs has only just begun: Most currency strategists are forecasting multi-year continued strength of the U.S. dollar, a view that we share at Deutsche Asset & Wealth Management. We believe the strength of the U.S. dollar could persist in coming years, encouraging investors to consider currency-hedged ETFs.

Figure 1: Assets in currency-hedged equity ETFs have grown since the start of 2014 (in $ millions)

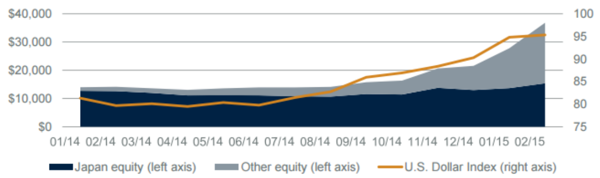
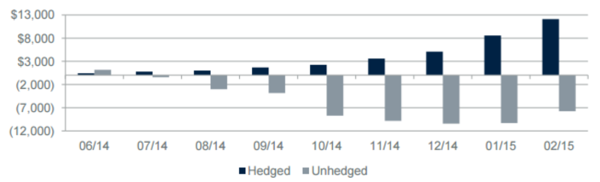



Figure 2: Cumulative net cash flow to unhedged and currency-hedged European equity ETFs (in $ millions)




Source: Deutsche Bank as of 2/27/15.

The comments, opinions and estimates contained herein are based on or derived from publicly available information from sources that we believe to be reliable. We do not guarantee their accuracy. This material is for informational purposes only and sets forth our views as of this date. The underlying assumptions and these views are subject to change without notice.

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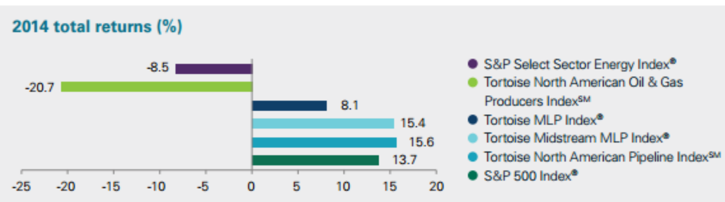
# Tortoise Talk

January 2015

The broad energy sector enjoyed strong performance for much of 2014, benefiting from the robust volumes of oil and natural gas being produced out of North American shales. However, energy stocks retreated significantly in the fourth quarter as investors reacted to falling crude oil prices. One factor pressuring oil prices was increasing global supply, particularly out of Libya, where production had recently resumed after being halted for some time due to political turmoil, and also increased production from the U.S. Other factors included slowing global demand growth and a strengthening U.S. dollar. Prices began moving lower after peaking in late July, then fell sharply in late November after the Organization of the Petroleum Exporting Countries (OPEC), unwilling to cede market share to North American shale producers, announced it would not cut its current crude oil production of 30 million barrels per day (MMbbl/d). As can be the case in the short term, the market did not necessarily decipher quality, and stocks across the value chain were affected. Upstream oil and gas producers were significantly impacted, but midstream MLPs and other pipeline companies also pulled back during the fourth quarter, albeit to a lesser extent, as their cash flows typically are not directly affected by commodity price volatility and tend to have steadier, fee-based revenues.

Broad equity market performance was solid during the year, with the S&P 500 Index® reaching record highs. However, performance was mixed across sectors, with utilities leading the market for the period, closely followed by consumer staples and health care. Energy was the only sector to deliver negative results for the year. Interest rates remained low, although in December, the Federal Open Market Committee suggested it may take a slightly less accommodative path for future monetary policy than it had previously expected, though not necessarily in the immediate future. The U.S. economy expanded, with upbeat economic data showing gains in manufacturing and consumer spending and, perhaps most significant, an unemployment rate that edged down to 5.6 percent in December, down 1.1 percent since the beginning of the year.1 The global economy, however, slowed perceptibly, with weakness particularly in Europe and Asia.




[1]Periods reflect 12/31/2013 – 12/31/2014. Source: Bloomberg. It is not possible to invest directly in an index. Please see index definitions on disclaimer page. **Past performance is no guarantee of future results.**

The latter half of 2014 proved to be challenging for the energy sector. Some upstream oil and gas producers struggled not only with declining oil prices but additionally with pipeline takeaway capacity constraints, despite the pace of infrastructure build-out. As reflected in the performance chart on the previous page, oil and gas producers finished the year well into negative territory, a stark reversal of their 21.1 percent total return for 2013.

MLPs had relatively strong performance during the first three quarters, however they pulled back in the fourth quarter, with the Tortoise MLP Index® posting an 8.1 percent return for the year. Within MLPs, performance varied, as midstream MLPs dramatically outperformed upstream MLPs, marking their third consecutive year of relative outperformance. This year's performance disparity was pronounced, with the Tortoise Midstream MLP Index returning 15.4 percent for the year and the Tortoise Upstream MLP Index returning -42.2 percent for the same period. Likewise, pipeline companies, as represented by the Tortoise North American Pipeline Index,SM posted a 15.6 percent return for the year. This relative outperformance by the midstream sector was driven largely by the fundamental attributes of midstream companies; they have access to essential, long-lived and scarce assets that fuel our economy and tend to offer recurring, fee-based revenues.

During the year, the average MLP yield as represented by the Tortoise MLP Index® was 5.5 percent, ending the year at 5.8 percent. MLPs underperformed other yield-oriented asset classes in 2014, such as real estate investment trusts (REITs) and utilities, as reflected by the FTSE NAREIT Equity REIT Index and the Dow Jones Utility Average Index, which generated 28.0 percent and 30.6 percent total returns, respectively. This is a sharp change from 2013, when MLPs significantly outperformed both REITs and utilities.

## Value chain overview

**Upstream: Progress despite challenges**

Despite declining oil prices in the second half of the year, robust North American oil and gas production continued in 2014.

*Crude oil*

Crude oil prices clearly ran the gamut in 2014, with West Texas Intermediate (WTI) starting the year at $98.42 per barrel (bbl), peaking at $107.62 per bbl on July 23, and then falling dramatically to close the year at $53.27 per bbl, the lowest level since 2009. Despite this uncertain backdrop, North American crude oil production remained robust, averaging an estimated 8.7 MMbbl/d in 2014 and expected to increase to an annual average of 9.3 MMbbl/d in 2015.2

We expect drilling activity will decline in both newer and more mature tight oil basins. Strong production should continue in the Bakken shale in North Dakota, the Eagle Ford shale in South Texas and the Permian basin in West Texas, where we expect producers to focus more on the core areas and less on fringe areas under development. We think oil prices likely will remain high enough to support drilling in these key basins, although efficiencies will take on greater importance. In the face of this growth, petroleum imports have declined; the share of total U.S. liquid fuels consumption met by net imports fell to an estimated 27 percent in 2014, a dramatic decrease from 60 percent in 2005.2 The Energy Information Administration (EIA) expects the share of consumption met by imports will drop to 20 percent in 2016, which would bethe lowest level since 1968.

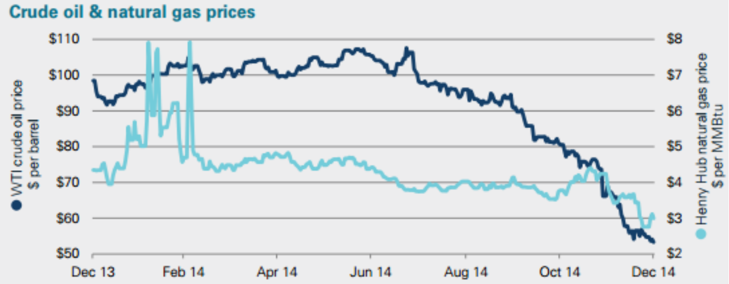
While falling oil prices have been challenging in the short term, particularly for upstream oil and gas producers, this is not the first time we have seen short-term volatility in the energy sector. Consistent with our investment philosophy, we believe that investments in quality companies, when combined with long-term fundamentals, will continue to create opportunity. The overarching reality is that although currently there is a global oil supply/demand imbalance, we believe that the laws of economics ultimately will prevail. Lower prices may discourage short-term production growth but may also spur demand. We anticipate this will drive prices in the other direction, and the cycle will continue. We think that over the long term, prices will return to a range that is economical for production to continue broadly.

*Natural gas*

Natural gas production also has remained robust, with volumes in 2014 reaching an estimated average of 70.1 billion cubic feet per day (Bcf/d) for the lower 48 states,2 setting the highest monthly production average on record. Natural gas production is expected to grow by an estimated annual rate of 3.1 percent in 2015,2 with the Marcellus being the predominant U.S. natural gas basin in this low-price environment. Build-out of Marcellus infrastructure should, in our view, support rising natural gas production volumes in 2015 and beyond.

U.S. natural gas inventories were drawn down to 11-year lows during the harsh 2013/2014 winter. Aggressive injection activity over the summer and fall brought storage levels back up, and working inventories on Jan. 2 were 9 percent above the level at the same time one year ago and 2 percent lower than the previous five-year average (2010-2014).2 However, the EIA expects that natural gas demand over the winter will be met even if the U.S. experiences another colder-than-normal season, due to increased production and new pipeline projects. Natural gas price fluctuations were significant in 2014, driven largely by seasonal demand. Natural gas opened the year at $4.34 per million British thermal units (MMBtu) and peaked at $7.92 per MMBtu on March 4 as freezing temperatures gripped much of the nation. Natural gas prices began to decline as inventory levels recovered due to mild summer weather and a relatively mild 2014/2015 winter thus far across much of the nation, closing the year at $2.99 per MMBtu.

**Crude oil & natural gas prices**




Source: Bloomberg. Note: MMBtu = million British thermal units

**Midstream: Greater pipeline takeaway capacity still a need**

Midstream pipeline companies own and operate essential, long-lived assets and generally have steady, recurring, fee-based cash flows. Pipelines carry a variety of products, so it's important to note that different types of pipelines will be more affected by lower crude oil prices than others. Natural gas pipeline companies should be the least affected as their performance isn't directly tied to crude oil prices and natural gas production is still on the rise, though we continue to monitor re-contracting rates. Crude oil pipelines earn fees based on the volumes they transport, so the price of oil does not directly affect these companies either. However, if the price of oil remains low, it is possible that volumes may be affected over time. In this scenario, companies transporting from areas with higher breakeven prices will be more affected than others. While lower crude oil prices may be a headwind for some energy companies, we expect it to benefit refined product pipeline companies, as we see the potential for increased consumer demand thanks to lower prices at the pump.

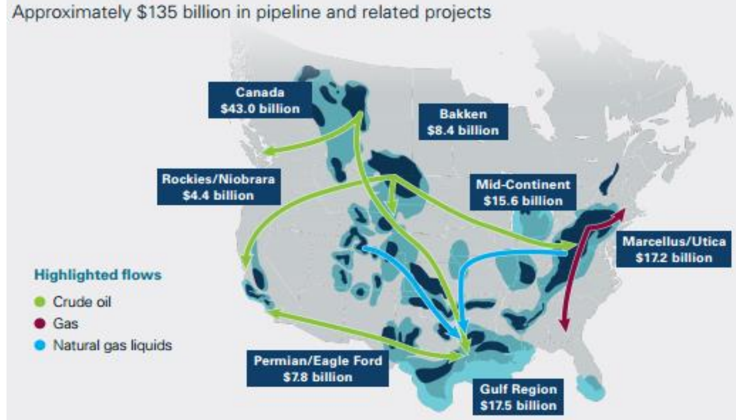
**Midstream asset characteristics**

| Asset class fundamentals | Operating characteristics |
|---|---|
| Essential assets | Scarce assets that fuel our economy |
| Long-lived | Economic lives > 50 years |
| Recurring revenues | Fee-based long-term contracts |
| Inelastic demand | Commodities used for daily needs |
| High barriers to entry | Capital-intensive construction |
| Monopolistic | Regulatory protection |

The volume and location of oil and natural gas being produced out of North American shales, in particular the premier fields highlighted previously, are driving pipeline companies to build additional infrastructure. In spite of lower crude oil prices, the project backlog continues to be robust with an estimated approximate $135 billion in projects through 2017. The visible growth from projects underway provides clarity to cash flows and growth potential in 2015 and into 2016. These capital expenditures are supported largely by shipper commitments, including crude oil projects to debottleneck along the Gulf Coast refining complex and to add capacity out of the Permian basin. Additionally, there are natural gas projects to relieve takeaway constraints in the Northeast. We believe new natural gas projects will continue at a fairly constant pace, but new crude oil-related projects will continue at a slower clip if prices remain low.

**Midstream projections 2015e - 2017e**

Approximately $135 billion in pipeline and related projects




Source: Tortoise Capital Advisors as of 12/31/2014. Note: Total capital investment also includes miscellaneous other projects totaling approximately $22 billion. The projections on this page are based on industry estimates and are no guarantee of future outcomes.

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# Alternatives 101: Tools for Enhancing Asset Allocation

February 2015

## Welcome to Alternatives 101

Historically, many investors considered a basic portfolio of stocks, bonds, and cash to be well diversified. Now, a wide range of "alternative" investments may potentially provide investors with opportunities to further customize an asset allocation, mitigate the impact of market

volatility, and improve income or capital appreciation prospects. The alternatives category includes many types of investments with varying risk and reward characteristics. Alternatives are available in different structures, from private partnerships to mutual funds. Because not all alternative strategies are suitable for every investor, your financial advisor will work with you to address your unique needs.

## The Potential Benefits of Alternatives

» Alternatives typically do not move in lockstep with stock or bond markets. This low correlation is often helpful for overall diversification. The theory is that when stocks or bonds decline, alternatives may provide better performance.

» Alternatives typically have lower betas* than traditional investments, meaning a greater proportion of their price movements relate to investment-specific factors rather than market-wide trends. As a result, alternatives may prove more resilient to market headwinds.

» Alternatives can help customize your portfolio. Because they typically have different risk and return profiles than stocks and bonds, alternatives may address individual needs, beyond what stocks and bonds alone can do.

## A History of Alternatives

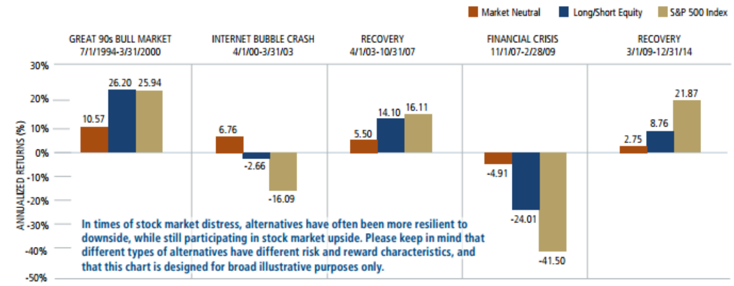
In past decades, alternative investments were generally available only to institutions or qualified investors. Now the alternatives marketplace offers more choices for more investors, including a growing selection of mutual funds registered under the Investment Act of 1940. Financial advisors have identified many uses for alternatives. Approximately 70% of independent investment advisors recommended alternatives to at least some of their clients, according to the 2014 Advisor Benchmarking RIA Trend Report from WealthManagement.com.

Why has interest in alternatives grown? During the Tech Bubble in the early 2000s and the more recent financial crisis, the stock market fell precipitously. As a result, financial advisors have sought ways to lessen exposure to broad market risk. Increasingly, advisors have turned to alternatives, due to their potentially lower correlation to broad equity and bond markets. Although certain alternatives may be as risky as or even riskier than traditional investments, when included in an asset allocation, they may contribute to improved overall portfolio returns, and their use as portfolio diversifiers has become more common.

## Alternatives Meet Many Needs

The alternatives category covers a range of asset classes and investment structures. Some alternative investments are illiquid and privately transacted, such as real estate and private equity. These types of alternatives typically cannot be sold on a day's notice, have investment minimums that put them out of reach for most individual investors, and may be subject to less regulation and oversight. In contrast, "liquid alternatives" such as exchange traded funds and mutual funds provide greater transparency and liquidity as well as more accessible investment minimums.

**FIGURE 1. ALTERNATIVES PROVIDE EXPANDED POTENTIAL FOR MANAGING MARKET RISK**

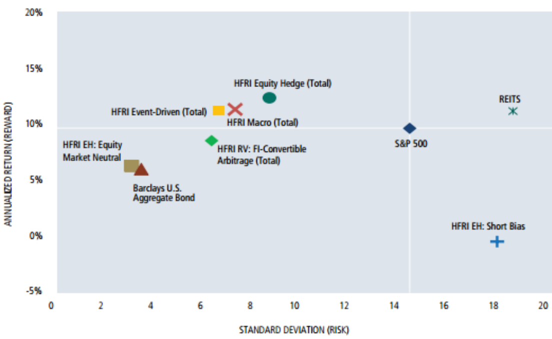



**Past performance is no guarantee of future results.**

Source: Morningstar. Market neutral is represented by the HFRI EH: Equity Market Neutral Index. Long/Short Equity is represented by the HFRI Equity Hedge (Total) Index. Please see "Additional Information" for index definitions.

**FIGURE 2. RISK/REWARD CHARACTERISTICS OF SELECT ALTERNATIVE CATEGORIES**

January 1990–December 31, 2014




As Figure 2 shows, alternative strategies have different risk and reward profiles. Due to this variance, your advisor will work with you to identify strategies that may be most appropriate to your personal situation.

» The long/short HFRI Equity Hedge (Total) Index earned higher returns with less volatility than the S&P 500 Index.

» The HFRI EH: Equity Market Neutral Index has participated in equity upside but with bond-like volatility.

## TYPES OF ALTERNATIVE FUNDS

» Long/short equity. Managers of long/short equity funds seek to benefit from stocks that are appreciating in price as well as from those that are declining in price.

» Market neutral. In a market neutral strategy, a manager attempts to generate positive performance, regardless of whether a market goes up or down. A market neutral fund may seek to be neutral with respect to overall changes in stock market price, interest rates, or other more specific factors.

» Arbitrage. Arbitrage refers to taking advantage of price discrepancies. As investors engage in arbitrage, by buying a particular asset in one place or manner and selling it in another, the asset's price tends to equalize. In practice, arbitrage investment strategies involve taking offsetting positions in securities that should ultimately converge or diverge in price.

» Short-only equity. This strategy seeks to identify stocks most likely to fall in value.

» Long/short fixed income. A long/short fixed income strategy combines a portfolio of bond investments with a selection of short bond positions. Fund managers seek to earn a reasonable return while reducing the credit or duration risks of some of the bonds in the portfolio.

» Global macro. Whereas long/short strategies typically focus on security-specific factors, global macro strategies focus on macroeconomic themes. Global macro managers try to predict the effect of macroeconomic or geopolitical factors on various financial assets and invest accordingly using a wide range of instruments.
» Event driven. Mergers, acquisitions, and other corporate events may cause temporary inefficiencies in the price of a company's stock or other securities. Event-driven strategies seek to take advantage of these inefficiencies.
» Multi-manager versus single-manager funds. Multi-manager funds, or fund of funds, allocate pooled assets across a range of specialized asset managers. Multi-manager funds have the potential to add diversification and selection benefits, though at the cost of additional management fees.

### PRIVATE EQUITY

» Venture capital. In exchange for an equity ownership stake, venture capital investors provide financial resources to early-stage startups they expect to grow substantially.
» Traditional private equity. Traditional private equity may deal with either young or mature businesses. Private equity investors may purchase and grow private companies or purchase all outstanding shares of a public company.

### REAL ESTATE/INCOME PRODUCING PROPERTIES

» Commercial and industrial. Institutional investors, such as pension funds, may own commercial real estate directly with the aim of creating an income stream from rental revenues. Smaller investors can access rental income and potential capital appreciation through real estate investment trusts (REITs), which can be either private or publicly traded. For example, investors may choose industrial REITs if they expect economic growth to increase demand for warehouses and factories.

### COMMODITIES

» Commodity trading advisors (CTAs) and commodity hedge funds. CTAs and commodity hedge funds focus on different securities related to the commodity markets.
» MLPs. Master Limited Partnerships, or MLPs, refer to certain businesses in the energy and natural resources sectors that are structured to take advantage of special tax rules. As limited partnerships, MLPs do not pay corporate taxes. MLPs may trade on public exchanges, offering investors income-producing investments with much more liquidity than typical partnerships.

## Liquid Alternatives: A Closer Look

### NEW OPPORTUNITIES FOR INDIVIDUAL INVESTORS

Many financial advisors look to liquid alternatives to enhance their clients' asset allocations. Liquid alternatives can provide access to sophisticated investment strategies, while also offering transparency, lower minimums, and daily liquidity. Even with these benefits, however, it's important to remember that alternative approaches may involve increased risk, depending on the strategies they use.

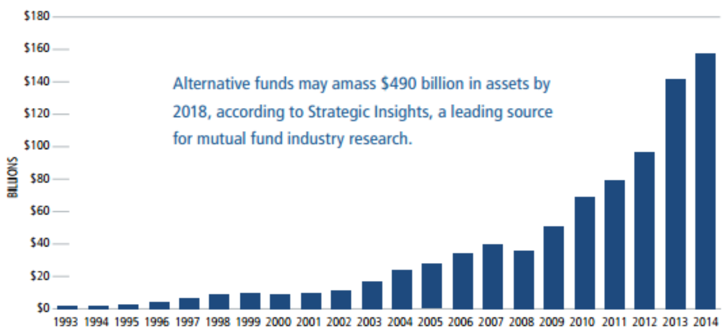
## Long/Short Equity: A Closer Look

Long/short equity funds are a popular type of liquid alternative. This strategy seeks equity-like returns with less volatility than the equity market, by profiting from stocks that are going up as well as those that are going down.

Long position. When a manager purchases a stock because they believe it will rise in value, it is a long position. The goal is to capture an increase in value through this long position. In a long/short equity fund, the manager buys the stock outright, just as in a traditional long-only equity fund.

Short position. When a manager believes a stock will fall in price, they may establish a short position. In simplest terms, they borrow the stock (typically from a broker), sell the borrowed shares to another buyer and collect the proceeds. At an agreed-upon time, they must return the shares to the lender. If the price of the stock has declined, the manager will be able to purchase the shares in the open market at a lower price than those they sold. Shorting a stock is profitable if the stock price falls between the time it is borrowed and the time it is returned.

**LIQUID ALTERNATIVE MUTUAL FUNDS: AN INCREASINGLY IMPORTANT ASSET ALLOCATION TOOL**




Source: Morningstar.

**POTENTIAL BENEFITS OF LIQUID ALTERNATIVES**

Compared with the alternative strategies favored by hedge funds and institutions, liquid alternatives generally offer:

» Greater transparency
» Higher liquidity (e.g., daily)
» More reasonable investment minimums
» Potential protection from market downside
» Opportunities for portfolio customization

**POTENTIAL BENEFITS OF LONG/SHORT EQUITY**

**Enhance Return Potential.** Shorting provides more ways to generate returns from fundamental research and insights. Also, difficult markets can create headwinds for long-only managers. By varying the percentage of longs and shorts in a portfolio, a manager can adapt to changing market conditions.

**Mitigate Volatile Markets.** Long/short strategies may be particularly beneficial when there are wide disparities in stock performance. In such markets, the potential to benefit from both longs and shorts may increase.

**Reduce Risk.*** As part of a multi-faceted risk management process, a manager can combine long and short strategies to potentially lessen the risks of individual positions. They can also diversify among short positions and employ other techniques in an attempt to mitigate downside.

Click here for complete reading

# Global Real Estate Securities

March 2015

Authored by:
**Jon Cheigh**
*Executive Vice President and Portfolio Manager*
Cohen & Steers

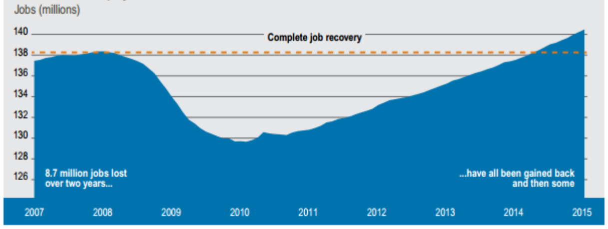
Global real estate securities delivered strong absolute returns in 2014 and outperformed the broader global stock market. The outperformance occurred against a backdrop of improving U.S. economic growth, continued global growth and a decline in sovereign bond yields around the world.

Those factors allowed for generally healthy real estate fundamentals and access to capital at attractive terms, while the low-interest-rate environment drew investors to the above-average yields offered by real estate securities. We continue to see attractive potential for listed real estate across the global landscape, given stable-to-improving demand stemming from job growth in many markets. This update highlights what we think will be drivers of opportunity in 2015 and gives our views from a regional perspective.

## Economic Growth and Employment

The strong recent performance for real estate securities partly reflected expectations that fundamentals will continue to benefit from positive economic growth and associated employment creation. In the U.S., where these trends have been more pronounced, the economy has been adding between 100,000 and 300,000 jobs per month, and has now gained back all of the jobs lost amid the financial crisis, as shown in Exhibit 1.

**Exhibit 1: Total Employment in the United States[(a)]**
Jobs (millions)




**At January 31, 2015.** Source: Bureau of Labor Statistics.

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.

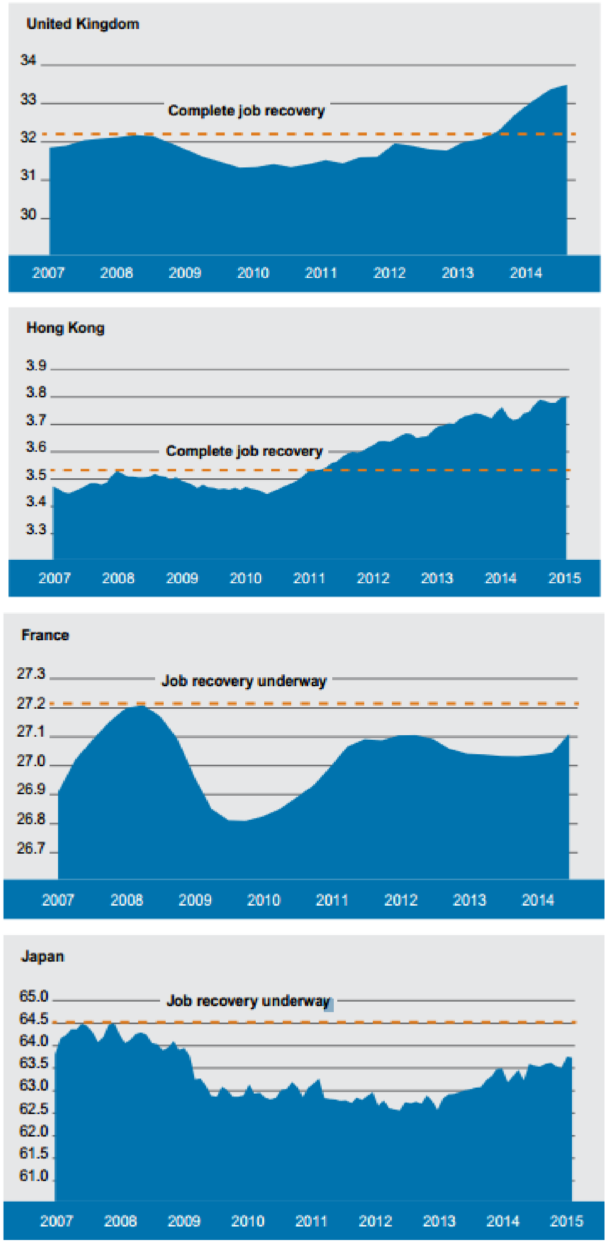
(a) Non-farm payrolls, seasonally adjusted represent the total number of U.S. employees on the payroll of businesses. Farm employees, self-employed individuals, employees on strike, and employees on leave or laid off are not included.

## The Implications of Lower Oil Prices

The dramatic decline in oil prices over the past few months presents both opportunities and risks with regard to commercial real estate, but should be a net positive in our view, especially for investors able to identify clear beneficiaries. Starting with a country view, the biggest net importers of oil would seem to be high on that list. As a major oil importer relative to the size of its GDP, Japan, for one, stands to see an economic boost, as does much of Europe, as indicated in Exhibit 3 on the following page.

The U.S., which is a large producer as well as importer of oil, should be a net beneficiary, in our view. Thanks to lower gasoline prices, U.S. consumers have a greater ability to pay apartment rents, for example, and shop more at local malls. When they consume more goods, demand for warehouse storage and activity improves. Real estate stands to benefit from a number of such multipliers, with those nickels and dimes potentially accruing to meaningful levels. To the extent it helps lift GDP, a stronger U.S. economy is also a driver of better overall office and hotel demand. Of course, as active managers, we are cognizant of the risks associated with oil-sensitive markets, such as Texas apartments and offices.

**Exhibit 2: And the Job Market Recovery Extends Internationally...**
Jobs, MM

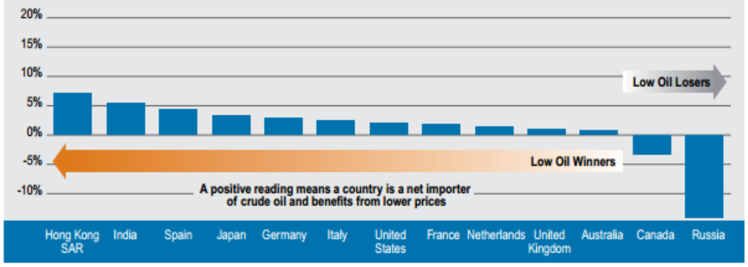


## Our Regional Perspective

A favorable combination of economic growth and lower energy costs, along with the appeal of above-average income in a low-interest-rate world, stands to support real estate securities globally. Here are our views on the major regions in which we invest.

**Exhibit 3: Oil Importers Stand to Benefit the Most From Low Oil Prices**

Net Oil Imports as a Percentage of GDP in 2012[a]




Source: International Monetary Fund (IMF), Evercore ISI and Cohen & Steers.

The views and opinions are as of the date of publication and are subject to change without notice. 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 will begin. This chart is for illustrative purposes only and does not reflect information about any fund or other account managed or serviced by Cohen & Steers.

(a) 2012 was used because it is the most recent year in which this type of data is considered to be final. Calendar years after 2012 contain a degree of forward numbers and projections. Gross domestic product (GDP) is one of the primary indicators used to gauge the health of a country's economy. It represents the total dollar value of all goods and services produced over a specific time period.

North America. We expect the U.S. economy to continue to improve, assisted by lower oil prices. A positive economic tailwind should drive further increases in demand for all types of properties, and we believe the supply picture will remain favorable as well. While supply has been slowly creeping up, we see little grounds for concern at present. In this environment, we believe U.S. REITs can generate earnings growth of high-single digits to low-double digits, depending upon the property type, supporting more dividend growth. Increasingly, we see listed real estate companies in the U.S. tilting from acquisitions in favor of development as a source of growth.

Europe. We believe the U.K. continues to offer attractive value, as the current expansion cycle has room to continue, in our view. London has seen very strong residential prices, which may have started to correct at the highest end. However, our focus is on the commercial market, where rising cash flows have helped drive net asset values higher. We expect London office supply to modestly increase in 2016–17.

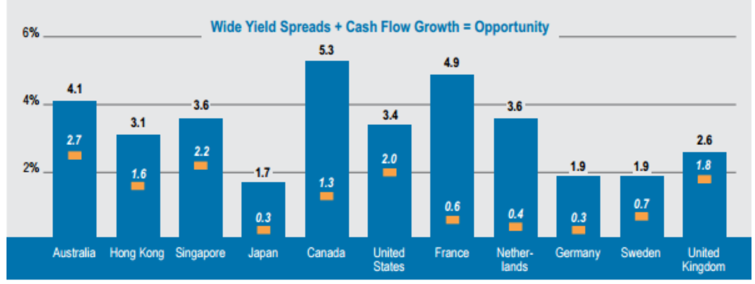
On the continent, we believe real estate fundamentals have bottomed. We see rental growth ranging from flat in weaker markets to the 2.5% area in stronger markets, which, combined with savings from refinancings, is generating earnings growth as high as 6%. That may seem mild compared with growth rates in the U.S., although to us it means that values are very discounted. Investors are overlooking durable business models that pay attractive income streams, especially relative to local bond yields, within companies with good growth potential.

Asia Pacific. We are finding value within certain markets and specific stocks. For example, within Hong Kong, stocks are trading at steep discounts to net asset values; in Japan, property developers also trade at sizable discounts, while J-REITs are at premiums. Given Australia's lackluster economic growth lately, our focus is on companies with meaningful offshore assets in markets with more compelling fundamentals.

## Real Estate Dividends Are Well Above Sovereign Yields

Exhibit 4 below shows how real estate dividend yields compare with sovereign bond yields across major markets. As 2015 began, the average yield on U.S. REITs was 140 basis points above the 10-year Treasury yield, which is even wider than REITs' historical average. More dramatic differentials are visible in countries such as the Netherlands and France, markets where investor pessimism has led to yield spreads greater than 400 basis points.

**Exhibit 4: Global Real Estate Securities Dividend Yield vs. Regional 10-Year Government Bond Rates[a]**




**At February 28, 2015.**

*Performance data quoted represents past performance. Past performance is no guarantee of future results.* The views and opinions are as of the date of publication and are subject to change without notice. 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 will begin. This chart is for illustrative purposes only and does not reflect information about any fund or other account managed or serviced by Cohen & Steers.

(a) FTSE EPRA/NAREIT Developed Real Estate Index. Global Real Estate Securities dividend yield represents the weighted average dividend yield for all dividend paying stocks in the respective country and country in the respective region. 10-year government bond rates represented by each country's generic 10-year government bond yield.

## Diversification with Potential for Reduced Risk

Today, correlations for both the U.S. and global real estate securities markets have settled back to levels more typical of their historical behavior, as shown in Exhibit 5. REITs have historically been excellent diversifiers, providing returns that are not correlated with stocks or bonds. However, during the global recession and credit crisis, return patterns for REITs and other stocks converged, as the strains affecting financial markets affected many industries and asset classes in similar ways. REITs continued to trade closely with the stock market until 2012, when correlations across a wide range of sectors and asset classes began to trend lower.

Going forward, a structural factor may help keep correlations near their historical averages or even bring them lower. At the end of 2014, Standard & Poor's and MSCI announced that they will define REITs as a new, distinct industry in their Global Industry Classification Standard (GICS) methodology of stock index construction. Currently REITs are embedded in the financial sector, along with banks and insurance companies, which have very different business models and drivers of performance. With the change

Click here for complete reading

# Aberdeen Asia Pacific Equities

February 2015

Authored by:
**Hugh Young**
*Managing Director*
Aberdeen Asset Management

### How are Asian markets performing?

Regional stocks started the year positively, with the Morgan Stanley Capital International (MSCI) Asia Pacific ex Japan index1 up around 2.6% (as at 9 February) in U.S. dollar terms. Indian stocks led the way after a surprise rate cut by the Reserve Bank of India. China and Hong Kong stocks rose on hopes of further stimulus after gross domestic product (GDP) growth missed official targets for the first time in 17 years. Bucking the trend was the A-share market, which ended lower after regulators imposed margin trading curbs. Another solid performer was the Philippines, where growth surpassed expectations. Singapore was a notable laggard. Share prices weakened after the local authorities acted to tame the currency's appreciation.

### What are the risks?

In China, property prices continue to fall amid oversupply and credit growth remains at elevated levels. Despite this, we believe Beijing has the balance sheet strength to manage any fallout in an orderly fashion. Meanwhile, lacklustre Chinese data could pave the way for further stimulus. In India and Indonesia, the new governments have started off well with reforms. Investor confidence has risen sharply and a failure to live up to expectations could frustrate investors. In the near term, the prospect of a U.S. rate hike and a stronger dollar could lead to fund outflows from Asia. However, in our view, the normalization of monetary policy is a good thing as it weans markets off speculative capital.

### Are Asian equities attractively-valued?

Yes. Asian stocks are at a forward multiple of 13 times for Financial Year 15, which is not only historically cheap, but also at a significant discount to developed markets that are trading at around 17 times. Profitability across the region is improving as companies undertake cost cutting measures to boost margins. Those that have been prudent are likely to see better earnings, particularly with the strengthening U.S. dollar putting downward pressure on local currencies. Earnings growth this year is thus likely to be in the high single digits, reflecting the challenging operating environment that companies face.

### Are you still finding value in Indian equities?

Indian stocks had a good run with the Bombay Stock Exchange Sensitive Index (BSE Sensex) Sensex2 returning over 40% (in U.S. dollar terms) in 2014. At a multiple of 18.5 times for Financial Year 15, stocks are trading near historical highs. We believe Narendra Modi's new government has made good progress on reforms, the most notable being the abolition of fuel subsidies and the lessening of bureaucratic inefficiencies. In our view, investor confidence has risen significantly. But a big defeat to an upstart party in New Delhi state elections suggests momentum might be slowing. A lot of expectation is priced into stocks. We've taken profits but we remain overweight this market because of the quality of companies.

### How are companies coping with slowing Chinese growth?

We believe China's rebalancing will inevitably produce winners and losers. Reduced demand has compelled commodity exporters to cut costs. Beijing's crackdown on corruption has likewise affected luxury good makers, while a property slowdown is hurting developers and lenders. On the other hand, we believe China's push towards demand-led growth is a good thing for consumer companies that benefit from rising middle class incomes over the longer term. As for our portfolio, we believe companies we are invested in show little indication of financial stress, thanks to their healthy balance sheets and cashflow generation, as well as sustainable business models.

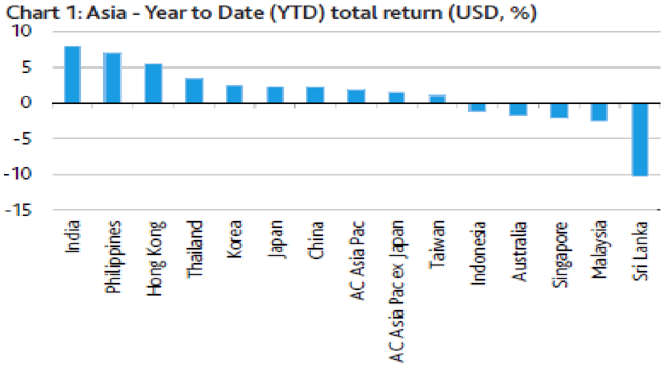
## Key points

### Aberdeen believes:

- Regional stocks started the year in positive territory, with India an outperformer
- Asian policymakers are making encouraging progress on reforms needed to rekindle growth
- Prospect of a U.S. rate hike and a stronger dollar could lead to outflows from Asia in the near term
- Normalization of monetary policy a good thing as it weans markets off speculative capital
- Asian stocks are attractively valued on a historical basis and versus developed markets

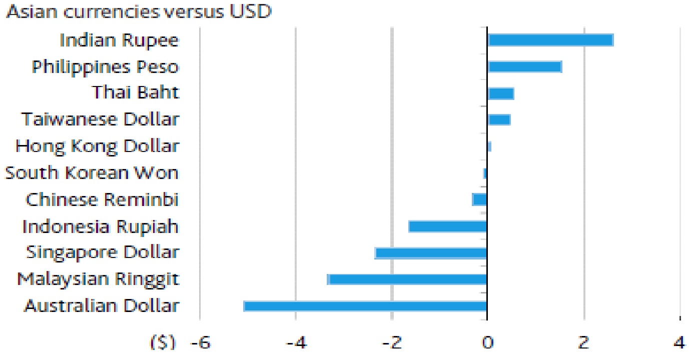
1 The MSCI AC Asia Pacific ex Japan Index captures large and mid-cap representation across 4 of 5 Developed Markets countries (excluding Japan) and 8 Emerging Markets countries in the Asia Pacific region. Indices are unmanaged and have been provided for informational purposes only. You cannot invest directly in an index.

Chart 1: Asia - Year to Date (YTD) total return (USD, %)




Source: Bloomberg, MSCI, 31 January 2015. PAST **PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS.** For illustrative purposes only. Indices are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. Individuals cannot invest directly in an index. Index performance is not indicative of the performance of the Fund itself. For detailed Fund performance, please visit aberdeen-asset.us.

Chart 2: U.S. dollar strength putting downward pressure on Asian currencies
Asian currencies versus USD




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

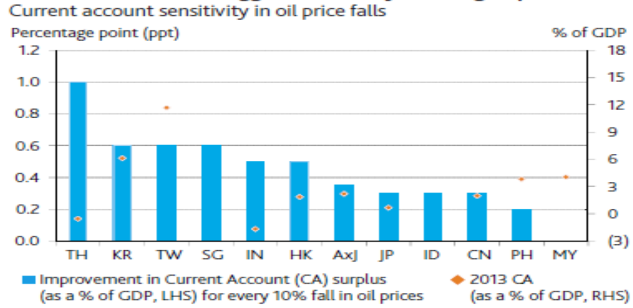
## How has Joko Widodo's new government fared so far?

Jokowi has won over investors by reducing costly gasoline subsidies amid plummeting oil prices, freeing up revenue needed for infrastructure spending. He has also taken steps to arrest the decline of Indonesia's energy sector by addressing corruption and back red tape. At the grassroots level, accessibility to education and healthcare is improving. Despite an encouraging start, an opposition-dominated parliament could hinder progress. Investors have to be patient as it could take time for reform efforts to bear fruit. We believe the country's long-term growth prospects are underpinned by good demographics, a large domestic population and rising middle class wealth.

## Why have Thai equities risen this year despite a listless economy?

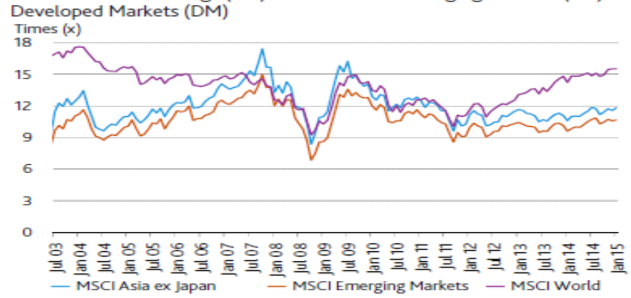
Stocks have benefited from domestic buying, helped by a plunge in the oil price which is seen as a boon to the economy (see chart 3 below), although not necessarily to the stock market given energy is a large constituent. The Stock Exchange of Thailand (SET) extended its run in the first two months of the year after rallying over 15% in U.S. dollar terms in 2014. Investors have been buying not only stocks but also government bonds, pushing the 10-year bond yield to its lowest level since 2008. The country's current account surplus should widen markedly, which is reassuring for the baht if regional currencies come under pressure from U.S. monetary tightening.

Chart 3: Thailand's the biggest beneficiary of falling oil prices*
Current account sensitivity in oil price falls




Source: CLSA Asia Pacific Markets, January 2015. For illustrative purposes only.
* Current account sensitivity is based on 2013 GDP, exports and imports data (Mar 14 for India). TH – Thailand, KR –Korea, TW – Taiwan, SG – Singapore, IN – India, HK – Hong Kong, AxJ – Asia ex Japan, JP – Japan, ID – Indonesia, CN – China, PH – Philippines, MY – Malaysia, GDP - gross domestic product. LHS=Left Hand Scale. RHS= Right Hand Scale

Chart 4: Stocks are cheap compared to the developed world
Forward Price / Earnings (P/E) for Asia versus Emerging Markets (EM) and Developed Markets (DM)




Source: Bloomberg, MSCI, January 2015. For illustrative purposes only. The MSCI Emerging Markets Index captures large and mid-cap representation across 21 Emerging Markets (EM) countries.
The MSCI World is a stock market index of 1,606 'world' stocks. The index includes a collection of stocks of all the developed markets in the world, as defined by MSCI. The index includes securities from 23 countries but excludes stocks from emerging and frontier economies.

2 The benchmark index of the Bombay Stock Exchange (BSE) is composed of 30 of the largest and most actively-traded stocks on the BSE. Initially compiled in 1986, the Sensex is the oldest stock index in India.

# Strategic beta: Marrying active management insights with the discipline of rules-based investing

**IN BRIEF**

•Traditional indices that weight securities according to their market capitalization have inherent biases that expose investors to certain risks and potentially reduce their returns by systematically exposing them to overvalued stocks or high-risk concentrations.

•Strategic beta, sometimes referred to as "smart beta," is a different approach to structuring index-based portfolios that aims to balance perceived deficiencies in cap-weighted indices. Strategic beta strategies follow strict rules in a controlled, repeatable process—just like a traditional index—but the rules are often more sophisticated and can resemble investment management techniques more commonly found in active management.

•Strategic beta strategies generally aim to improve investor returns or reduce risks relative to cap-weighted benchmarks. The latest generation of strategic beta strategies combines multiple factor exposures to deliver convenient institutional-quality investment solutions.

•Investors can choose to hold strategic beta within diversified global multi-asset portfolios as a replacement for cap-weighted indices, or as a complement to cap-weighted, single-factor or actively managed strategies.

For decades, active managers have attempted to beat the market, yet little attention has been paid to the market index they are trying to beat. The traditional indexing approach is to buy all of the securities in a market or market segment and to weight those holdings based on market capitalization (i.e., the stocks with the biggest market value make up a larger portion of the index). This approach to passive investing has become increasingly popular for investors looking for "cheap beta" (average market returns with low fees), but it has significant shortcomings that are only just starting to be recognized beyond the academic literature. Numerous studies have demonstrated that there are different investment approaches than cap-weighting that can provide investors with equity exposures in a more risk/reward-aligned manner (see "Beyond equity beta: A closer look at factor-based approaches," on page 4).

While these approaches go by a number of names, most commonly "smart beta," we prefer the term strategic beta because the strategies are built around specialized indices that have a strategic investment objective in mind.1 These objectives include attempting to improve returns or reduce risk relative to a traditional cap-weighted index.

In this paper, we explain the concept of strategic beta, recap its evolution, compare its approach to traditional cap-weighted methodologies and explore its application within portfolios.

## A closer look at the drawbacks of cap-weighted indexing

Since the first index fund was launched in 1976,2 cap-weighted indexing has become the prevailing form of equity index investing due to the ease with which managers could implement investment strategies. Indexing also grew in popularity as the efficient-market hypothesis emerged as a prominent theory in the 1960s and 1970s, which implies that every dollar invested is equally well informed and that security prices at any time "fully reflect" all available information.3

While CAPM was widely embraced in the 1970s when index funds were launched, market theory has long since moved on. This means investors in traditional cap-weighted indices are not taking advantage of several decades' worth of advanced financial research. In addition, the construction methodology behind traditional cap-weighted indices creates implicit biases that could potentially increase certain risks and reduce returns:

•Excessive risk concentrations. Traditional cap-weighted indices may expose investors to unintended risk concentrations as asset price bubbles form. Consider that cap-weighted indices, by definition, concentrate assets in the largest companies. The S&P 500 index is a perfect illustration: More than 65% of its assets were invested in just the top 100 largest securities (and roughly 18% in just the top 10 securities) as of May 2014. This concentration challenge inherent to cap-weighted indices gets worse in certain market cycles, particularly as asset bubbles form. As Exhibit 1A illustrates, the information technology sector made up 32.3% of the S&P 500's market capitalization in June 2000 during the technology bubble, compared with its 15-year average of 18.2%. Similarly, during the 1980s to mid-1995, Japan represented 44.1% of the MSCI World Index in December 1988, compared with its 15-year average of 26.8% (Exhibit 1B). Such sector or geographic concentrations may result in even higher risk concentrations. These high-risk concentrations could make sense if the investor has an explicit bullish view on specific sectors or geographies.

•Systematic exposure to overvalued securities. Another shortcoming of cap-weighted indices is their inherent bias toward overvaluation. Cap-weighted solutions assign a greater index weight to the more "expensive" company.

1 Ben Johnson, "The Strategic Factor of Smart Beta," Morningstar Advisor, April 10, 2014

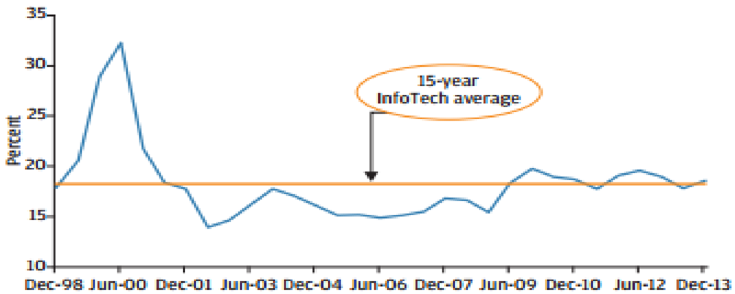
2 John C. Bogle, "The First Index Mutual Fund: A History of Vanguard Index Trust and the Vanguard Index Strategy." (Speech, Bogle Financial Markets Research Center, April 1997).

3 Eugene F. Fama, "Efficient capital markets: A review of theory and empirical work," The Journal of Finance. Vol. 25, No. 2 (1970): 383-417.

Authored by:
**Ogden H. Hammond**
*Head of ETF Strategy & Business Development*
JP Morgan Asset Management

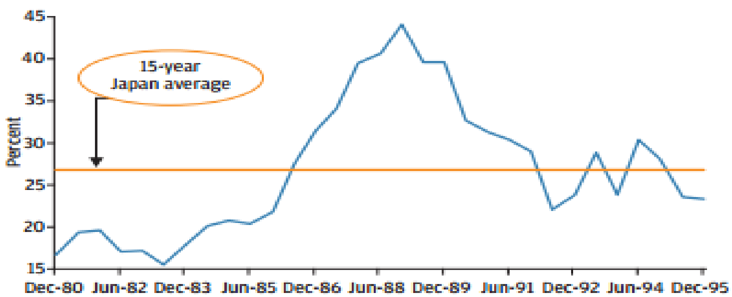
**Traditional cap-weighted indices can expose investors to unintended risk concentrations**

**EXHIBIT 1A: INFORMATION TECHNOLOGY'S CAP-WEIGHTED ALLOCATION IN THE S&P 500 DURING THE TECHNOLOGY BUBBLE (1999 TO 2013)**




Source: Bloomberg; data of December 31, 2013. Shown for illustrative purposes only.

**EXHIBIT 1B: JAPAN'S CAP-WEIGHTED ALLOCATION IN THE MSCI WORLD INDEX (1981 TO 1995)**




Source: FactSet and MSCI; data of December 31, 2013. Shown for illustrative purposes only.

This, at times, can lead to a correspondingly high proportion of funds invested in potentially overvalued stocks.

In a hypothetical example, consider the two companies shown in Exhibit 2 (next page). Each company has the same fundamentals, but Company A has a higher stock price and, hence, a higher market cap. A fund tracking a cap-weighted index would have double the representation of Company A compared with Company B (0.40% versus 0.20%), regardless of the fact that Company A trades at a higher multiple to fundamentals. Holding other variables constant and in the absence of specific stock-return forecasts, Company B appears more economically attractive than Company A given its lower stock price.

**Cap-weighted indices have an inherent preference for overvalued stocks**

**EXHIBIT 2: A HYPOTHETICAL EXAMPLE COMPARING COMPANIES WITH IDENTICAL FUNDAMENTALS BUT DIFFERENT STOCK PRICES**

| | Company A | Company B |
|---|---|---|
| Earnings | $1 billion | $1 billion |
| Book value | $10 billion | $10 billion |
| Market capitalization | $20 billion | $10 billion |
| Price/earnings ratio | 20x | 10x |
| Price/book ratio | 2x | 1x |
| Index weight | 0.40% | 0.20% |

Source: J.P. Morgan; for illustrative purposes only.

## Blurring the lines between active and passive strategies

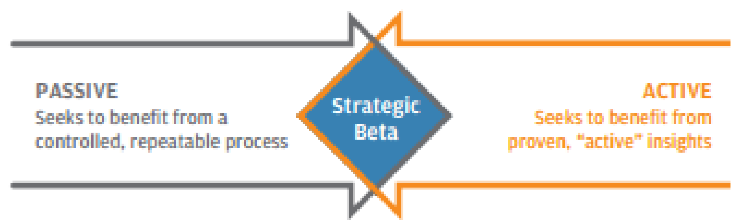
In recent years, the line between active and passive investing has blurred and given rise to a host of non-traditional indices that attempt to capture the best of both worlds. Strategic beta strategies are squarely located between active and passive approaches. In other words, many strategic beta strategies attempt to marry active management insights with the discipline of a rules-based investment approach (Exhibit 3). While still transparent and rules-based, the strategies can differ from passive cap-weighted index strategies in two important dimensions:

1. They employ different securities-weighting methodologies that typically aim to offer superior diversification for the index compared with cap weighting. These weighting mechanisms range from simple (e.g., equal stock weights) to progressively more sophisticated (e.g., minimum volatility, risk parity, maximum Sharpe Ratio).
2. They select individual securities for the index in a similar manner to many active managers. Strategic beta strategies often focus on providing exposure to specific systematic risk factors, behavioral anomalies or structural inefficiencies that may exist in the market, instead of simply broad market exposure.

J.P. Morgan's strategic beta strategies combine a transparent rules-based index approach with investment techniques similar to those underlying some of our most sophisticated actively managed strategies. Specific investment rules are defined to achieve specific exposures (e.g., size, value, momentum, low volatility) that the manager believes will outperform comparable cap-weighted indices over time. The strategies follow those rules in a controlled, repeatable process, resulting in institutional-quality investment solution.

**Combining active management insights with a rules-based investment approach**

**EXHIBIT 3: STRATEGIC BETA INCORPORATES FEATURES OF BOTH PASSIVE AND ACTIVE MANAGEMENT**




Source: J.P. Morgan; for illustrative purposes only.

## The evolution of strategic beta

Strategic beta strategies have a long and storied history, but for years they have been relatively inaccessible to all but the largest and most sophisticated institutional investors. Using investment structures such as exchange-traded funds (ETFs), these strategies are becoming available to more investors, ranging from smaller institutions to wealth management advisors and retail investors.

# Fund Updates

- Aberdeen Asia-Pacific Income Investment Company Limited Announces Monthly Distribution – March 10
- Aberdeen Australia Equity Fund, Inc. Announces Performance Data And Portfolio Composition – March 17
- The Asia Tigers Fund, Inc. Announces Performance Data And Portfolio Composition – March 17
- Distribution Dates and Amounts Announced for Certain BlackRock Closed-End Funds – March 2
- BlackRock Launches iShares Short Maturity Municipal Bond ETF – March 5
- BlackRock Expands Bond ETF Lineup With 7 Defined Maturity Funds – March 13
- Cohen & Steers Closed-End Opportunity Fund, Inc. (FOF) and Cohen & Steers Global Income Builder, Inc. (INB) Declare March 2015 Quarterly Distributions – March 9
- DoubleLine Income Solutions Fund Declares March 2015 Monthly Distribution – March 2
- Certain Deutsche Closed-End Funds Declare Monthly Distributions – March 10
- Distribution Dates and Amounts Announced for Certain Eaton Vance Closed-End Funds – March 13
- Eaton Vance Tax-Advantaged Dividend Income Fund Report of Earnings – March 17
- Federated Investors' Closed-End Municipal Funds Declare Monthly Dividends – March 10
- Month-End Portfolio Data Now Available for Federated Investors' Closed-End Funds – March 16
- Guggenheim Investments Exchange-Traded Funds Declare Monthly Distributions – February 27
- Guggenheim Investments Announces March 2015 Closed-End Fund Distributions – March 2
- Invesco Advisers Announces Portfolio Management Changes for Invesco Municipal Closed-End Funds – March 6
- Ivy High Income Opportunities Fund Announces Monthly Distribution – March 2
- John Hancock Closed-End Funds Release Earnings Data – February 27
- MFS Releases Closed-End Fund Income Distribution Sources for Certain Funds – February 27
- MFS Announces Closed-End Fund Distributions – March 2
- The New Ireland Fund, Inc. Announces Record Date and Payment Date for Quarterly Distribution – March 11
- Pioneer Investments Declares Monthly Distributions for Closed-End Funds – March 3
- Putnam Announces Distribution Rates for Closed-End Funds – March 11
- Tortoise Energy Independence Fund, Inc. Provides Unaudited Balance Sheet Information and Asset Coverage Ratio Update as of Feb. 28, 2015 – March 2
- Tortoise Pipeline & Energy Fund, Inc. Provides Unaudited Balance Sheet Information and Asset Coverage Ratio Update as of Feb. 28, 2015 – March 2
- Voya Infrastructure, Industrials and Materials Fund Declares Quarterly Distribution – March 16

# Emerging European Equities – Beyond Volatility

Tuesday, February 24, 2015 | 11:00 AM ET

**Sebastian Kahlfeld:**
Good morning from Frankfurt, Germany, this is Sebastian Kahlfeld speaking. I'm here together with Sylwia Szczepek, Manager of the Central Europe and Russia Turkey Fund. And before I hand over to Sylwia who's the portfolio manager, I would like to give you a brief overview of Deutsche Asset and Wealth Management's team that just focused at the emerging European equities here which team -- with the team which I'm actually heading.

I'm also running as the portfolio -- deputy portfolio manager for the team, myself, for a couple of years by now. I joined the company in 2005, so I know the operations here pretty much from the ground, but without any further ado, just want to shed some light on Sylwia Szczepek who rejoined the company last year again. She's been a long running portfolio manager for the emerging European equities here until 2007 and she left the company for short brief of time at the competitor's firm.

Fortunately, for us she rejoined us last year, strengthening our team here and broadening our expertise so that we have a little bit more of resources available for the coverage of our really interesting universe. As you might now, we have seen quite a lot of volatility, we'll come to that in a later stage, but for now, I rather want to focus a bit more on the team setup here.

So, we have quite a lot of knowledge on the team. Actually you can see that on slide number three, which you have in your presentations deck. Before we look at this presentation I have to highlight that you have an abridged presentation in front of you. A large version will be provided online at a later stage. We'll be talking about the markets in quite a lot of detail later on.

That slides will be provided in that stack at a later stage. Here we'll focus in the presentation which you have in front of you right now only on the team and the investment process, which is of course very interesting for you as we really need update you here however hat has changed, actually it hasn't, but you -- just to get you familiar with Sylwia and her style and how that fits into the firm.

As I've mentioned before Sylwia has 14 years of investment experience and universe. She's been with us until 2007. And her core expertise is in running Central Eastern Russia and Turkey Funds, (SNF) previous career here at Deutsche Asset & Wealth.

She's been running mutual funds and have been closely cooperating with the team or the colleagues who have been running the fund which we are talking about today before and I've been the deputy for that fund during that time as well, so we are very happy to welcome her back on board and having now more resources to focus actually on one of the largest market in our portfolio which is still Russia, a market which we have to talk about in more detail at a later stage.

But, as you might know, the market is very demanding so we decided to put the previous fund manager (Daniel Staparov) who's been running the fund for one and a half years in between, more at focus on Russian market, that is not meaning that he's not supporting us any longer on the CEE fund, but just that we have more resources dedicated exclusively to the Russian market, which remains in the range of 40 percent to 50 percent on average in the portfolio you see on the platform for Central Europe and Russia, plus Turkey, so it's a very important market and I think with that set-up, we are better equipped for the current volatility.

## Featured Presenters

**Sylwia Szczepek**
*Portfolio Manager for CEEMEA Equities: Frankfurt*
Deutsche Asset & Wealth Management

**Sebastian Kahlfeld**
*Portfolio Manager for Emerging Markets Equity: Frankfurt*
Deutsche Asset & Wealth Management

Deutsche Asset & Wealth Management

We also have one colleague who joined in 2012, (Meeja Kim), a junior who has been growing ever since. She started looking at the Central European markets, namely Poland, Czech Republic and Hungary.

But she's also growing more and more into the Russian market because she's also a Russian national, although her name is Korean. She originates from Novosibirsk, Russia and has a very detailed knowledge of the situation there on the ground, so we are trying to get her more into the Russian market in order to strengthen our expertise there further.

If you look at the retail products, for instance for the Russian product last year, performance has been very good so I think that strategy has been working. Also, per end of last year you know the performance figures probably, to say the CEE fund has also picked up significantly in performance, so I think we are on the right track there to continue and performing like that.

Without spending more time on the team structure there, I would like to hand over to Sylwia Szczepek, the Portfolio Manager of the CEE fund.

**Sylwia Szczepek:**
Good morning, here Sylwia speaking. So, I think we could start from investment process slide, take you to Slide nine, you have it in front of you probably. So, in our portfolio construction structure, the fund manager is the driver of the investment process, so my idea for the portfolio are coming of course from different sources. We have our internal research recommendation platform called (G-CUBE), we're using as well as of course external research recommendations platform.

We have our (CIO View), which is a very important source of information, where we get more ideas, considering top down approach, as well from (CIO View), we having global topics which are related as well to top down ideas and industrial trends. Very important source of information for me, for us.

Management meetings, so we have plenty management meetings on high level like CEO level and CFO level, so very -- we have a number of -- large number of companies coming to Frankfurt, but as well of course going to the regions, we are going to Russia, to Turkey, to see three countries, to have the knowledge of the markets.

What we are using that right now, in my analysis or our analysis is around some different quantities screening tools, of course a big issue our portfolio guidance for us as well.

On the portfolio construction side, how we are coming to bottom up ideas, it's index of analysis, so we are looking for stocks which have a reliable business model. We are profitable from structural trends and we are looking for expansion of market share. We trying or I'm trying to concentrated portfolio, so average number of stocks is depends on the situations, starting from 40 to 60 stocks.

Very important issues of course, management quality for us, so we are trying to meet our companies very often and have regular updates directly or on the contract cost. On Page 11, you see our core strategy, so core strategy of course, long term investment. It's approximately roughly Page 11, 80 percent of the fund.

We are looking for the quality and growth at reasonable price. So -- sorry, Page 10. Sorry, quality focus and means of core solid company fundamentals, strong balance sheet. We put a lot of focus as well on dividends.

As you know, almost all over the place we have actually no interest rate environment, so the dividends layers are attractive businesses, it's very important for us as well. Of course attractive valuation.

On the other hand, we see on Page 11, we try to be of course a bit opportunistic, so we choose stocks where we see significant discount and (turnaround) story, profitability or cash flow improvement, of course improvement in corporate governance, changes in the management, and potential M&A candidates.

So, that is usually of investment horizon up to 12 months. So, this is a combination of this two strategies for the fund.

Unfortunately, other slides are still not on the webinar side, but we just wanted to discuss of course, market outlook and our positioning. So, all of these numbers -- all these numbers at the end of December, what we are talking about, so if you're looking at our country positioning, we were underweight Russia, underweight Greece, and being neutral in Poland and slightly underweight in Turkey.

On performance, performance was unfortunately we're underperforming benchmark in 2014, but performance improved significantly in the first quarter and in January as well.

Considering our biggest position, upper end of December, is interested, our biggest position is Gazprom, then following (Glucol), then Polish insurance company, (PZU), then there is (Conoqa and Magnate) is at the end of December.

On the market outlook, on Russia, probably everybody knows it, it was one of the worst performing markets in 2014. Market was -- Russian market was hit mainly by job verticals around Ukraine and then following sanctions from EU and US and of course, on top of this, what came was falling oil price and ruble collapse, so that was all of what the cost the market being so weak in the -- last year.

Market -- Russian market shows of course highest correlation to ruble exchange rate and to falling oil price. What we saw, domestic sector suffered mostly last year and exporters were relatively immune because of the weaker currency and big export part, and -- so it means the outperformers were exporters and high dividend layers.

State companies were hit hardest. Fundamentals are still -- macro fundamentals are still weak at the moment, but we see very -- we see long valuations compared to the history and we see some calming down situation on the political front and better outlook for oil price could give Russian market an upside.

Click here for complete reading

# Gateway to Attractive Yield Investments

Tuesday, March 10, 2015 | 11:00 AM ET

**Grier Eliasek:**
Nicolas, thank you very much. It's a pleasure to speak with everyone today.

Before I dive in, I want to let folks now that we've done a series of these webinars with various providers. We generally do about these once or twice per quarter. They're generally geared and oriented towards folks that are newer investors in prospect to get, you know, review of business development companies and our review of prospect capital because of quarterly earnings calls and of being so focused on what's new and different as opposed to kind of bringing people back to beginning on what our company is all about.

So, for more insights on the latest and greatest, those are really the better place to go are our earnings calls. But I will attempt to answer as many questions as possible about the industry and our businesses as well here today.

And as always, if you have follow-up questions, please don't hesitate to reach out to us directly after this call and you can reach out to Mike Cimini, our head of investor relations, (Michelle Meda) who spearheads capital markets; Brian Oswald, our chief financial officer and myself as well.

And as I dive in to talk about business development companies starting on Page 2 and I'll mention the paginations so you can follow along and look at the same slides. I guess I would ask the question here at the outset, where else beyond business development companies can you find double digit cover dividends and a discount, a significant discount to book value and a low interest rate in growing economy environment? That's a really a remarkable time from a value standpoint to look at business development companies like Prospect Capital.

And the opportunities, I think, have presented themselves here in the early, prior 2015 because of a rough 2014 related to removal from indices and related to just global credit scares concerning energy and the price of crude oil. The first of which is in the rearview mirror for BDC stocks are about the future, not the past, of course, and the second of which is arguably way overstated when you look at credit books for BDCs.

So, with those opening remarks, I'll dive in on Page 2. For those of you not familiar with business development companies, BDCs were '40 Act regulated vehicle that's quite tax efficient as long as we've had at least 90 percent of our income to investors in respect certain diversity in other compliance tests than we pay no corporate taxation.

BDCs currently are limited to one-to-one debt-to-equity as a really risk management protection for investors. That's been in place for a while. One of the potentially interesting catalysts to our sector is a potential expansion in that leverage. There's pending legislation in Congress to take the leverage from one-to-one debt-to-equity to two-to-one as an allowed maximum as well as to exclude certain types of preferred which currently count as debt under the test and would -- what we've had said just be excluded altogether from the leverage test which presents an interesting opportunity for return-on-equity expansion for BDCs as a potential industry catalyst later this year. And I'm happy to talk more about that later.

BDC is also fair value of their assets on a quarterly basis.

## Featured Presenter

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

PROSPECT CAPITAL

Moving ahead to Page 3, the industry has grown significantly over the years. You now have almost 50 publicly-traded BDCs. We were one of the earlier ones to go public 11 years ago, combined market cap of the industry is over $30 billion now.

And BDCs are primarily corporate credit entities that primarily make loans to private companies, so-called middle market companies and there's a substantial U.S.-focused on these companies as well which might a relief to some that view the U.S. as a safe port in the storm, looking at all the issues that Europe is going through at the present time.

I mentioned the leverage restriction. When you compare of a business development company to another corporate credit animal like a bank which is about 10 times levered in BDCs at one X or even at two X, assuming new legislation passes, have quite conservative capital structures by comparison.

Because of the 90 percent pay requirement, dividend yields look much higher for BDCs compared to other stocks in the U.S. market which is attracted to many investors and you say, I'd like to get that, a cash back in my pocket and then I can reinvest, maybe drip the dividend, maybe do something else with that cash. And, you know, the average dividend yield is about 10 percent. That's one of the highest dividend yield entry points I can remember on average for the industry.

And BDCs are trading at a significant discount to book value. As I was remarking to someone yesterday, we've been doing, we're on our second decade of doing this, going through multiple cycles. These are the first time I can remember that business development companies can be picked up at a rather sustained discount excluding the flash of hand, occasional European flash crashes and the like that might emerge.

The first time I've seen this discount in a growing - at a growing economic backdrop separated distinct from what we saw in 2008 and 2009 and went, of course, many types of asset classes, not just BDCs or under - or under stress.

So, again, that creates a quite attractive entry point. Again, where else can you get paid a double digit current dividend yield, you know, on a current basis, a very nice attractive rate, paid the weight. And then if you get a snapback to book value another 10-15 or so points available for many BDCs to add to that total return.

And you see in the current yield-starved markets and, yes, the Fed is talking about tightening but when you're paying a dividend rate that's 800 or 1,000 basis points above 10-year treasuries, a little bit of increase in treasuries is not going to make that change to risk a forward equation that demonstrably towards U.S. government securities in our opinion.

When you look at returns for BDCs, there's been a rough patch in the last year again, of course, talks about the future and not the past and I would point towards the long term here as you look at the long term and this chart only goes through five years but going back over 10 years, 20 years, the BDCs have actually tended to outperform the S&P and there's a lot of folks concerned right now about stocks, you know, NASDAQ hitting its highest recently, you know, the S&P and other broad scale U.S. indices.

Stocks look a little expensive now, broadly speaking, and that this - by the same took in BDCs have been - have been left behind and look inexpensive by comparison and arguably a good place to took park capital if folks are worried about a market correction.

You also see that there's diversification benefits from adding BDCs stocks to a portfolio because of the correlative factors that you see at the bottom of this page. On BDC market overview page and you see again a substantial growth and there's lot of diversity of names to choose from.

With liquidity tilted towards some of the larger players in the space, you know, one of the two largest players in the industry and trade $30 million for the stock per day on average, many of the BDCs are quite small and, you know, liquid. That doesn't mean that they can't be interesting investment opportunities but be aware of significant liquidity risks for some of the smaller players.

And we see here from a dividend standpoint that dividend payments have yields have tended to range in the 8 percent to 10 percent range higher more recently showing an attractive entry point. And from a price-to-book standpoint, you see for many times in the past, BDCs have tended to trade out of premium to book value and it's really just in the last year, in 2014 and early '15 that you've seen this discount opportunities emerge, arguably, days much more on (chemical) factors than fundamental factors.

High yield bonds continue to be a worry spot for folks as rates start to go up. Bond should suffer, that's a conventional wisdom and BDCs look quite different. I think there's oftentimes a market confusion between BDCs and high yield bonds and you saw that for example with energy.

At the end of 2014, oil and gas bonds are something like 17 percent of the high yield index. So high yield justifiably suffered when crude oil collapsed and created significant credit issues with oil and gas companies and then BDC sold off at the end of '14 as if they're high yields bonds. Well, they're not.

First of all, the energy - oil and gas mix of BDCs is in the or in mid single digit as opposed to three times that with high yield bonds. Secondly, BDCs are - have senior secured loans with a much higher payment priority and recovery than unsecured high yield bonds including amortizing and cash sweeping structures.

And third, BDCs have floating rate assets and I find it curious and folks look at the asset class of BDCs today and they argue both credit risk and interest rate concerns, and I think, well, you can't really have it both ways and from an interest rate standpoint, if you're concerned about credit overall, you think rates are going to stay low with the Fed, what's the interest rate concern.

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