Capital Link's
CEF & ETF Monthly Newsletter

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CAPITAL LINK, INC.
New York • London • Athens • Oslo
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3rd Annual Capital Link Master Limited Partnership Investing Forum

Thursday, March 3, 2016
The Metropolitan Club, One East 60th St.,NYC


▶ REGISTER

▶ AGENDA

▶ ADD TO OUTLOOK

▶ 1x1 MEETINGS

ATTENDANCE IS COMPLIMENTARY FOR QUALIFIED DELEGATES
This Forum has been approved by the CFP Board and IMCA for 8 CFP/CIMA/CPWA CE Credits.

Capital Link's 3rd Annual MLP Investing Forum will take place at the **Metropolitan Club in New York City on Thursday, March 3, 2016**.

This Forum is the only industry event that will focus both on the institutional investor and the financial advisor community.

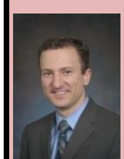
The Forum will address major topics of interest to the industry featuring sector panels, institutional investor and analyst panel, individual MLP presentations, 1x1 meetings with investors and financial media. The Forum combines an informational and marketing platform with unique visibility and networking opportunities.

INDUSTRY TOPICS & PRESENTATIONS

Developments, Trends & Sector Outlook

- **The State of the MLP Sector 2015**
- **Tax/Legislation/Regulatory**
- **Midstream** – *Gathering & Processing*
- **Midstream** – *Pipelines Transportation & Storage*
- **Real Property Infrastructure MLPs**
- **LNG & Maritime**
- **The Private Equity Perspective on Energy Infrastructure**
- **MLP Closed End Funds & ETFs** – *The Investor Perspective*
- **Raising Capital for MLPs Capital Markets & Bank Financing**
- **Analyst Panel**

KEYNOTE SPEAKERS



MORNING KEYNOTE SPEAKER
Brian Kessens, *Managing Director & Portfolio Manager –*
Tortoise Capital Advisors

LUNCHEON KEYNOTE SPEAKER
Christopher Smith, *Assistant Secretary for Fossil Energy –*
US Department of Energy

PRESENTERS & PARTICIPATING COMPANIES

- **3Bear Energy, LLC**
- **American Infrastructure MLP Funds**
- **Andrews Kurth LLP**
- **ARB Midstream**
- **Baker Botts, LLP**
- **Black Stone Mineral Partners**
- **Citigroup Inc.**
- **CNX Coal Resources LP**
- **Columbia Pipeline Partners LP**
- **CONE Midstream Partners LP**
- **CorEnergy Infastructure Trust, Inc.**
- **CrossAmerica Partners LP**
- **CSI Compressco LP**
- **Cushing Asset Management**
- **Cypress Energy Partners LP**
- **EQT Midstream Partners LP**
- **EY**
- **GasLog Partners LP**
- **Golar LNG Partners LP**
- **Goldman Sachs Asset Management**
- **Hoegh LNG Partners LP**
- **InfraCap MLP ETF**
- **Infrastructure Capital Advisors**
- **Janney Montgomery Scott**
- **Landmark Dividend LLC**
- **MLP Association**
- **Plains All American Pipeline LP**
- **RW Baird**
- **Sanchez Production Partners LP**
- **Shell Midstream Partners GP LLC**
- **Sprague Resources LP**
- **Stifel**
- **StoneMor Partners LP**
- **TransMontaigne Partners LP**
- **Tortoise Capital Advisors**
- **UBS**
- **US Department of Energy**

TARGET AUDIENCE

Institutional Investors • Registered Investment Advisors • Financial Planners • Private Bankers • Securities Analysts • Retail and Institutional Brokers • Industry Specialists & Analysts • Financial Press & Media

Please visit our website for more details. We look forward to seeing you!
For more information please contact: Eleni Bej, Director of Special Events at ebej@capitallink.com or +1(212)661-7566 in NY

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The Month in Closed-End Funds: January 2016

PERFORMANCE

For the third consecutive month equity CEFs and fixed income CEFs on average suffered downside performance on a NAV basis (-5.86% and -0.03%, respectively) for January, while for the second month in a row equity CEFs posted a negative return on a market basis (-6.69%) and fixed income CEFs (+0.15%) posted a plus-side market-based return. For the month of January most of the major broad-based indices posted negative returns, with the Dow Jones Industrial Average Price Only Index and the S&P 500 Composite Price Only Index losing 5.50% and 5.07%, respectively, while the Russell 2000 Price Only Index (-8.85%) suffered the largest decline of the U.S. broad-based indices. The Shanghai Price Only Composite was one of the worst performing indices
in the global market, declining 23.65% for January as poor local economic reports helped spark a market rout and new daily market circuit breakers (which halted trading) backfired on Chinese officials, triggering panic selling until they were summarily removed.

Equities started out the month of January with their steepest opening-day loss in over a decade; the Dow and the S&P 500 declined 1.58% and 1.53%, respectively, for the day on concerns of the major rout in China shares the night before. Also contributing were heightened tensions between Iran and Saudi Arabia and the ISM Manufacturing Index sliding to 48.2 in December (its lowest reading since the last month of the Great Recession). Despite a strong jobs report and better stability in the Chinese market, another new round of declines in oil prices rattled the market, with U.S. stocks posting at the beginning of January their worst opening week ever—the Dow and the S&P 500 lost 6.19% and 5.96% for the week. The Department of Labor reported the U.S. added a better-than-expected 292,000 jobs for December—above the consensus-expected 215,000, and the unemployment rate remained at 5%. However, wage growth was lower than expected. In the background oil continued its freefall as slowing growth in China weighed on oil prices, sending near-month crude oil prices to close at $33.16/barrel. Oil prices continued to fall, dropping below $30/barrel as Iran prepared to enter the market after sanctions were lifted and on concerns that growth in the U.S. was faltering. The January Empire State factory index declined to its lowest level since the recession, and retail sales declined 0.1% for December. In a flight to safety investors pushed Treasury yields to a three-month low, with the ten-year yield falling briefly under 2.00%, and the price of gold rose.

Hints of central bank stimulus in Europe and Japan and a rise in oil prices (after a report showed the number of active oil-drilling rigs declined slightly in North America) sent U.S. stocks to their first weekly gain of the year on Friday, January 22. Markets were helped by a better-than expected preliminary reading of January's Purchasing Managers Index and news that existing-home sales rose 14.7% for December—their largest singlemonth gain on record. A rise in oil prices; a report that November U.S. home prices rose at their fastest pace in 16 months; better-than expected earnings reports for stalwarts Sprint, 3M, and P&G; and a surprise move by the Bank of Japan to push its key lending rate into negative territory all helped push stocks resoundingly higher at month-end. However, it wasn't enough to stop the major indices from experiencing their worst January decline since 2009.

The Month in Closed-End Funds: January 2016

- For the third month in a row equity closed-end funds (CEFs) and fixed income CEFs suffered downside performance on average, declining 5.86% and 0.03%, respectively, on a net-asset-value (NAV) basis for January.
- For January only 11% of all CEFs traded at a premium to their NAV, with 8% of equity funds and 13% of fixed income funds trading in premium territory. The national municipal bond CEFs macro-group witnessed the largest narrowing of discounts for the month—99 basis points (bps) to 5.21%.
- For the seventh consecutive month all Lipper municipal bond CEF classifications posted plus-side returns, with Intermediate Municipal Debt CEFs (+1.57%) posting the strongest return in the fixed income universe for January.
- All the equity CEF macro-groups posted returns in the red for January, with domestic equity funds (-6.55%) suffering the largest decline. World equity CEFs returned minus 5.49%, and mixed-asset CEFs returned minus 4.11%.
- Energy MLP CEFs (-17.24%, November and December's laggard) remained the laggard of the equity universe for January.

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THOMSON REUTERS

During the month the yield on most Treasury instruments generally retreated on concerns of declining global growth and weakness in oil prices as investors sought the relative safety of Treasuries and gold. Yields continued to decline after the January Federal Open Market Committee meeting minutes showed a more dovish outlook along with weak economic data and news that the BOJ was implementing a negative interest rate policy. Treasury yields declined at all maturity levels along the curve, except the one- and three-month yields, which rose 8 bps and 17 bps to 0.22% and 0.33%, respectively. The largest decrease was witnessed in the five-year yield, 43 bps to 1.33%. The ten-year yield finished the month down 33 bps at 1.94%, a closing low not seen since April 27, 2015.

For January the dollar strengthened against the euro (+0.33%), the pound (+3.67%), and the yen (+0.72). Commodities prices were mixed for the month, with near-month gold prices rising 5.29% to close January at $1,116.40/ounce (their best monthly gain in a year). Front-month crude oil prices sank 9.23% to close the month at $33.62/barrel.

For the month 37% of all CEFs posted NAV-based returns in the black, with only 7% of equity CEFs and 59% of fixed income CEFs chalking up returns in the plus column. Energy- and natural resources-related stocks continued to be the pariahs for the third consecutive month, keeping Lipper's domestic equity CEFs macro-group (-6.55%) in the cellar of the equity CEFs universe for the third month in a row. World equity CEFs (-5.49%) and mixed-asset CEFs (-4.11%) remained in the red as well.

Concerns over a global glut in oil supplies, exacerbated by Iran's plan to reenter the market and Russia's continuing to pump oil to prop up its failing economy, pressured Lipper's Energy MLP CEFs classification (-17.24%, also November's and December's laggard), keeping it at the bottom of the equity universe. It was bettered by Convertible Securities CEFs (-6.86%). With the sharp declines in Treasury yields, interest rate-sensitive equities were able to mitigate losses better than other issues, with Utility Funds (-0.96%) outpacing the other CEF equity classifications for January, followed by Real Estate CEFs (-2.90%). For the remaining equity classifications losses ranged from minus 6.45% (Sector Equity CEFs) to minus 3.80% (Value CEFs).

Two of the five top-performing individual equity CEFs were housed in Lipper's Sector Equity CEFs classification. **ASA Gold & Precious Metals Limited (NYSE: ASA)** was at the top of the list, jumping 4.32% on a NAV basis and traded at a 13.35% discount on January 29, followed by **Central Fund of Canada Limited (AMEX: CEF),** posting a 3.55% return and traded at a 7.98% discount at monthend. The next three CEFs were housed in the Utility CEFs classification: **Gabelli Utility Trust (NYSE: GUT),** gaining

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	7	34	66	8	91
Bond Funds	59	48	47	13	87
ALL CEFs	**37**	**42**	**55**	**11**	**89**

TABLE 2 AVERAGE NAV RETURNS, SELECTED PERIODS (%)

	JANAURY	YTD	3-MONTH	CALENDAR-2015
Equity Funds	-5.86	-5.86	-9.86	-7.95
Bond Funds	-0.03	-0.03	-0.32	1.27
ALL CEFs	**-2.52**	**-2.52**	**-4.40**	**-2.62**

TABLE 3 NUMBER OF IPOs, SELECTED 12-MONTH PERIODS

	JANUARY 2016	CALENDAR-2015
ALL CEFs	**22**	**24**

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

3 MONTHS THROUGH 12/31/2015	286
COMPARABLE YEAR-EARLIER 3 MONTHS	215
CALENDAR 2015 AVERAGE	381

Source: Thomson Reuters Lipper

2.78% on a NAV basis and traded at a 14.94% premium on January 29; **DNP Select Income Fund, Inc. (NYSE:DNP),** rising 2.77% on a NAV basis and traded at an 11.91% premium at month-end; and **Reaves Utility Income Fund (AMEX: UTG)**, posting a 2.76% NAV-based return and traded at a 6.31% discount at month-end.

For the month the dispersion of performance in individual equity CEFs—ranging from minus 35.82% to positive 4.32%—was narrower than December's spread but more negatively skewed. The 20 top-performing equity CEFs posted returns at or above minus 0.17%, while the 20 lagging equity CEFs were at or below minus 15.67%.

Only 18 CEFs in the equity universe posted positive returns for the month. While seven of the eight worst performing funds were housed in the Energy MLP classification, the worst performing equity CEF for the second month in a row was **CLA Strategic Allocation Fund (NASDAQ: XSAFX,** an interval hybrid CEF), housed in Lipper's Income & Preferred Stock CEFs classification. XSAFX shed 35.82% of its December-closing NAV price. **ClearBridge Energy MLP Total Return Fund Inc. (NYSE: CTR**, warehoused in the Energy MLP CEFs classification) posted the next poorest return in the equity universe, declining 23.94%. CTR traded at a 4.97% discount on January 29.

The Treasury yield curve shifted downward at all maturity levels (except the one- and three-month yields) during the month, reflecting investors' flight to safety during this market rout. The ten-year yield declined 33 bps to 1.94% at month-end. For the third consecutive month two of the three fixed income CEF macro-groups posted negative returns, with municipal bond CEFs (+1.40%) posting the only plus-side return (for the seventh month in a row), followed at a distance by domestic taxable bond CEFs (-1.61%) and world income CEFs (-1.68%) as investors remained risk averse.

Despite whispers of coordinated central-bank action and the BOJ's surprise move to negative interest rates, it wasn't too surprising to see Lipper's World Income CEFs classifications posting January returns in the lower third of the fixed income universe. Global Income CEFs (-1.45%) mitigated losses better than Emerging Market Debt CEFs (-2.01%).

Investors' risk-off approach during the month kept November and December's laggards at the bottom of the pile for January. High Yield CEFs and High Yield (Leveraged) CEFs declined 2.23% and 2.15% for the month. The general decline in Treasury yields pushed investors toward Corporate BBB-Rated Debt (Leveraged) CEFs (+0.15%, the only classification in the domestic taxable fixed income macro-group posting a plus-side return for the month).

For the seventh month in a row all Lipper municipal debt CEF classifications posted plus-side returns. Intermediate Municipal Debt CEFs (+1.57%) posted the strongest return of the group, while High Yield Municipal Debt CEFs (Unleveraged) (+1.11%) posted the lowest return. National municipal debt CEFs (+1.44%) just managed to outpace their single-state municipal debt CEF counterparts (+1.36%).

Despite the municipal bond CEFs dominance during the month, only one of the five top-performing individual CEFs in the fixed income universe was housed in Lipper's General Municipal Bond CEFs macro-classification. At the top of the group was **MFS Intermediate High Income Fund (NYSE: CIF**, housed in the High Yield [Leveraged] CEFs classification), returning 5.04% and traded at a 12.75 discount on January 29. CIF was followed by DoubleLine Funds: **DoubleLine Opportunistic Credit Fund (NYSE:DBL,** warehoused in the General Bond CEFs classification), returning 3.07% and traded at a 7.94% discount at monthend; **Eaton Vance Municipal Income 2028 Term Trust (NYSE: ETX**, housed in the General & Insured Municipal Debt [Leveraged] CEFs classification), tacking 2.69% onto its December month-end value and traded at a 9.49% discount on January 29; **BlackRock Taxable Municipal Bond Trust (NYSE: BBN,** housed in Lipper's General Bond CEFs classification), posting a 2.42% return and traded at a 1.79% discount at month-end; and **Vertical Capital Income Fund (NASDAQ: VCAPX**, a hybrid interval fund housed in Lipper's U.S. Mortgage CEFs classification), returning 2.37%.

For the remaining funds in the fixed income CEFs universe monthly NAV-basis performance ranged from minus 6.99% for **NexPoint Credit Strategies Fund (NYSE: NHF**, housed in Lipper's High Yield [Leveraged] CEFs classification and traded at a 16.77% discount on January 29) to 2.36% for **Eaton Vance Municipal Income Trust (NYSE: EVN,** housed in Lipper's General & Insured Municipal Debt [Leveraged] CEFs classification), which traded at a 4.16% premium at month-end. The 20 top-performing fixed income CEFs posted returns at or above 1.93%, while the 20 lagging CEFs were at or below minus 3.63%. A total of 141 fixed income CEFs witnessed negative performance for January.

PREMIUM AND DISCOUNT BEHAVIOR

For January the median discount of all CEFs widened 41 bps to 9.49%—slightly better than the 12-month moving average discount (9.56%). Equity CEFs' median discount widened 84 bps to 12.06%, while fixed income CEFs' median discount widened 11 bps to 7.80%. The national municipal bond CEFs macro-group's median discount witnessed the largest narrowing in the CEFs universe, 99 bps to 5.21%, while the taxable bond CEFs macro-group witnessed the largest widening of discounts—139 bps to 11.19%.

For the month 42% of all funds' discounts or premiums improved, while 55% worsened. In particular, 34% of equity funds and 48% of fixed income funds saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on January 29 (61) was 8 more than on December 31.

CEF EVENTS AND CORPORATE ACTIONS

IPOs

Nuveen raised $81 million in gross proceeds from the initial public offering of **Nuveen Municipal 2021 Target Term Fund (NYSE: NHA).** The fund`s objective is to provide a high level of federal tax-exempt income, and it intends to return the original $9.85 NAV on or about March 1, 2021.

ALPS and RiverNorth Capital Management launched a new CEF, **RiverNorth Opportunities Fund (NYSE:RIV)** on December 24, 2015. The fund raised approximately $72.6 million in gross proceeds. It invests in CEFs and exchange-traded funds.

RIGHTS, REPURCHASES, TENDER OFFERS

No rights, repurchases, or tender offers were noted during the month.

MERGERS AND REORGANIZATIONS

A proposal to convert **Deutsche High Income Trust (NYSE: KHI)** from a closed-end investment company to an open-end investment company will be presented at a shareholders meeting in the first half of 2016. The fund is required to make such a proposal if the average discount to NAV exceeds 10% over a sustained period during the last quarter of each year; the requirement was met last year.

OTHER

Trustees of **Ellsworth Growth and Income Fund Ltd. (NYSE: ECF)** authorized continuation of the fund's 5% minimum distribution policy. Trustees also authorized the open market repurchase of fund shares when they trade at a discount of 10% or more to NAV.

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Market Videos

Click on image to access video

February 2, 2016
Dennis Stattman of BlackRock: *Timely advice from a veteran of the markets*

January 28, 2016
Rajeev Das of Bulldog Investors: *Bulldog is Bullish on Five Closed-End Funds*

February 1, 2016
Jane King of The Street: *How to Trade Equity ETFs Amid Volatility From Oil, Global Events*

January 23, 2016
Mario Gabelli of Gabelli Asset Management: *3 Stock Picks from Mario Gabelli*

January 28, 2016
Christine Benz of Morningstar: *ETF Investors Keep It Simple*

January 21, 2016
Jeremy Glaser of Morningstar: *Key Factors When Evaluating Funds for a Retirement Portfolio*

CEF Performance Statistics

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Lipper Classification	1Mo Nav	1 Mo Mkt	Jan P/D	Dec P/D	1 Mo P/D chg	YTD NAV Change	YTD Mkt Change	YTD P/D Change (%)
California Municipal Debt Funds	0.8%	1.4%	-1.0%	-1.5%	0.5%	0.8%	1.4%	0.5%
Convertible Securities Funds	-7.2%	-8.5%	-13.9%	-12.6%	-1.3%	-7.2%	-8.5%	-1.3%
Core Funds	-6.2%	-8.4%	-12.3%	-10.0%	-2.3%	-6.2%	-8.4%	-2.3%
Corporate BBB-Rated Debt Funds(Leveraged)	-0.1%	-0.1%	-9.0%	-9.0%	0.0%	-0.1%	-0.1%	0.0%
Corporate Debt Funds BBB-Rated	-0.6%	0.1%	-4.4%	-5.1%	0.6%	-0.6%	0.1%	0.6%
Developed Market Funds	-6.0%	-7.5%	-13.3%	-11.9%	-1.4%	-6.0%	-7.5%	-1.4%
Emerging Markets Funds	-6.0%	-6.7%	-12.9%	-12.2%	-0.8%	-6.0%	-6.7%	-0.8%
Emerging Mrkts Hard Currency Debt Funds	-2.5%	-3.9%	-14.3%	-13.1%	-1.2%	-2.5%	-3.9%	-1.2%
Energy MLP Funds	-18.0%	-14.4%	-3.0%	-7.2%	4.2%	-18.0%	-14.4%	4.2%
General & Insured Muni Debt Funds (Leveraged)	1.0%	1.6%	-5.1%	-5.6%	0.5%	1.0%	1.6%	0.5%
General & Insured Muni Fds (Unleveraged)	1.1%	0.2%	-2.6%	-1.7%	-0.9%	1.1%	0.2%	-0.9%
General Bond Funds	-2.5%	-1.5%	-7.2%	-7.5%	0.3%	-2.5%	-1.5%	0.3%
Global Funds	-5.4%	-6.6%	-14.8%	-13.5%	-1.3%	-5.4%	-6.6%	-1.3%
Global Income Funds	-2.2%	-2.9%	-9.8%	-9.1%	-0.7%	-2.2%	-2.9%	-0.7%
Growth Funds	-5.3%	-13.8%	-10.2%	-8.2%	-2.0%	-5.3%	-13.8%	-2.0%
High Yield Funds	-2.8%	-3.7%	-6.7%	-6.5%	-0.3%	-2.8%	-3.7%	-0.3%
High Yield Funds (Leveraged)	-2.8%	-3.7%	-11.2%	-10.5%	-0.7%	-2.8%	-3.7%	-0.7%
High Yield Municipal Debt Funds	0.6%	1.9%	-1.7%	-2.9%	1.3%	0.6%	1.9%	1.3%
Income & Preferred Stock Funds	-3.4%	-1.3%	-7.0%	-8.2%	1.2%	-3.4%	-1.3%	1.2%
Intermediate Municipal Debt Funds	1.2%	1.5%	-3.3%	-3.6%	0.3%	1.2%	1.5%	0.3%
Loan Participation Funds	-1.9%	-4.0%	-11.3%	-9.5%	-1.9%	-1.9%	-4.0%	-1.9%
Natural Resources Funds	-6.7%	-8.3%	-12.9%	-12.5%	-0.4%	-6.7%	-8.3%	-0.4%
New Jersey Municipal Debt Funds	1.1%	0.5%	-8.9%	-8.3%	-0.6%	1.1%	0.5%	-0.6%
New York Municipal Debt Funds	0.9%	1.1%	-3.6%	-3.8%	0.2%	0.9%	1.1%	0.2%
Options Arbitrage/Opt Strategies Funds	-5.5%	-7.2%	-6.0%	-4.3%	-1.6%	-5.5%	-7.2%	-1.6%
Other States Municipal Debt Funds	1.0%	1.5%	-5.1%	-5.3%	0.4%	1.0%	1.5%	0.4%
Pacific Ex Japan Funds	-4.4%	-3.2%	-12.3%	-13.5%	1.1%	-4.4%	-3.2%	1.1%
Pennsylvania Municipal Debt Funds	0.8%	2.1%	-9.8%	-10.9%	1.1%	0.8%	2.1%	1.1%
Real Estate Funds	-3.1%	-5.6%	-14.2%	-14.1%	-2.0%	-3.1%	-5.6%	-2.0%
Sector Equity Funds	-6.8%	-9.3%	-9.4%	-11.0%	-1.3%	-6.8%	-9.3%	-1.3%
U.S. Mortgage Funds	-0.8%	-0.6%	-7.8%	-8.1%	-0.1%	-0.8%	-0.6%	-0.1%
Utility Funds	-1.4%	-1.3%	-8.6%	-8.9%	0.2%	-1.4%	-1.3%	0.2%
Value Funds	-4.3%	-6.7%	-14.9%	-12.8%	-2.1%	-4.3%	-6.7%	-2.1%

Top 5 Performing CEFs

LIPPER

Fund Name	Category	Ticker Symbol	1-Month NAV Change	Rank
ASA Gold & Prec Met Ltd	Sector Equity Funds	ASA	4.3%	1
Central Fund of Canada	Sector Equity Funds	CEF	3.6%	2
Reaves Utility Income	Utility Funds	UTG	2.8%	3
J Hancock Tx-Adv Div Inc	Value Funds	HTD	2.5%	4
BlackRock Tax Muni Bond	General Bond Funds	BBN	2.4%	5

Fund Name	Category	Ticker Symbol	Year-to-Date NAV Change	Rank
ASA Gold & Prec Met Ltd	Sector Equity Funds	ASA	4.3%	1
Central Fund of Canada	Sector Equity Funds	CEF	3.6%	2
Reaves Utility Income	Utility Funds	UTG	2.8%	3
J Hancock Tx-Adv Div Inc	Value Funds	HTD	2.5%	4
BlackRock Tax Muni Bond	General Bond Funds	BBN	2.4%	5

Fund Name	Category	Ticker Symbol	1-Month Market Change	Rank
RENN Fund	Global Funds	RCG	16.7%	1
Central Fund of Canada	Sector Equity Funds	CEF	7.4%	2
BlackRock Tax Muni Bond	General Bond Funds	BBN	7.2%	3
BlackRock NY Muni Inc II	New York Municipal Debt Funds	BFY	6.5%	4
Nuveen CA Div Adv Muni 2	California Municipal Debt Funds	NCD	5.9%	5

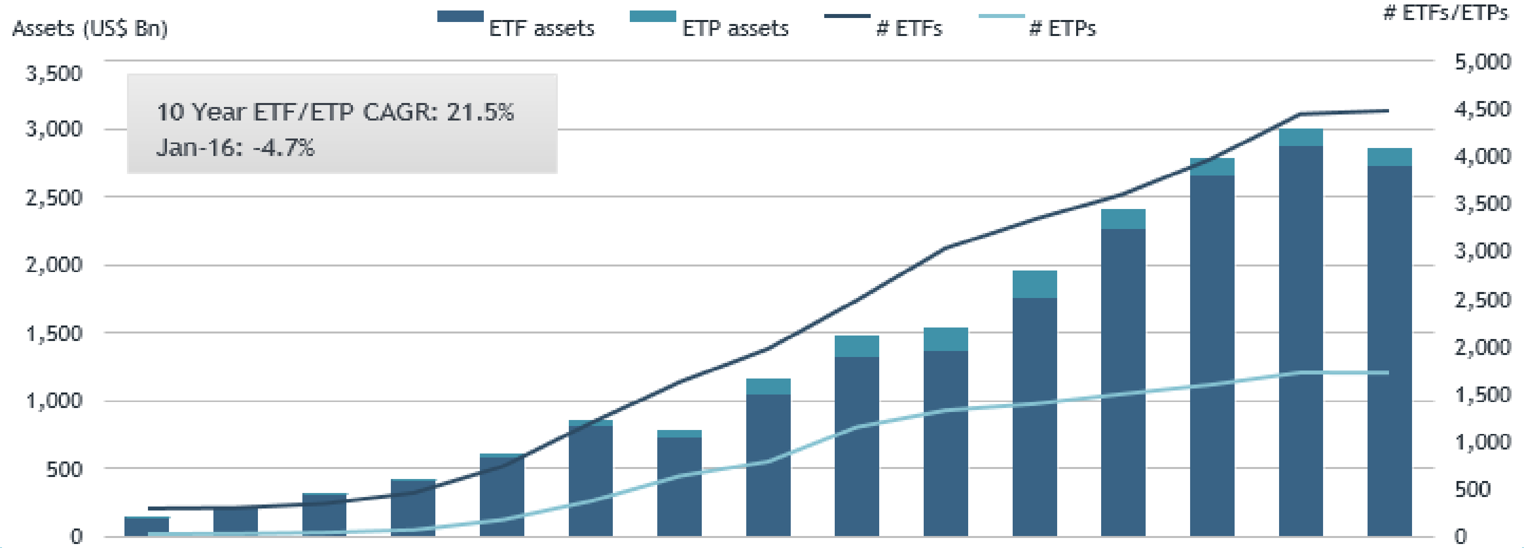
Fund Name	Category	Ticker Symbol	Year-to-Date Market Change	Rank
RENN Fund	Global Funds	RCG	16.7%	1
Central Fund of Canada	Sector Equity Funds	CEF	7.4%	2
BlackRock Tax Muni Bond	General Bond Funds	BBN	7.2%	3
BlackRock NY Muni Inc II	New York Municipal Debt Funds	BFY	6.5%	4
Nuveen CA Div Adv Muni 2	California Municipal Debt Funds	NCD	5.9%	5

Fund Name	Category	Ticker Symbol	1-Month P/D Change	Rank
PIMCO Gl StksPLUS & Inc	Options Arbitrage/Opt Strategies Funds	PGP	69.63	1
BlackRock VA Muni Bd Tr	Other States Municipal Debt Funds	BHV	23.11	2
PIMCO High Income	General Bond Funds	PHK	20.06	3
Nuveen HI 2020 Target	High Yield Funds	JHY	19.62	4
PIMCO CA Muni Income III	California Municipal Debt Funds	PZC	16.17	5

Fund Name	Category	Ticker Symbol	Year-to-Date P/D Change	Rank
PIMCO Gl StksPLUS & Inc	Options Arbitrage/Opt Strategies Funds	PGP	69.63	1
BlackRock VA Muni Bd Tr	Other States Municipal Debt Funds	BHV	23.11	2
PIMCO High Income	General Bond Funds	PHK	20.06	3
Nuveen HI 2020 Target	High Yield Funds	JHY	19.62	4
PIMCO CA Muni Income III	California Municipal Debt Funds	PZC	16.17	5

Global ETF and ETP asset growth as at end of January 2016

At the end of January 2016, the Global ETF industry had 4,465 ETFs, with 9,484 listings, assets of US$2,728 Bn, from 245 providers on 62 exchanges. At the end of January 2016, the global ETF/ETP industry had 6,180 ETFs/ETPs, with 11,895 listings, assets of US$2,853 Bn, from 277 providers on 64 exchanges.



Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Jan-16
# ETFs	284	289	335	451	725	1,184	1,614	1,962	2,474	3,020	3,322	3,587	3,960	4,429	4,465
# ETFs/ETPs	296	304	365	507	888	1,544	2,238	2,741	3,617	4,337	4,710	5,081	5,550	6,145	6,180
ETF assets	142	212	310	417	580	807	716	1,041	1,313	1,355	1,754	2,254	2,643	2,871	2,728
ETF/ETP assets	146	218	319	426	603	857	774	1,158	1,478	1,526	1,949	2,398	2,784	2,994	2,853

Summary for ETFs/ETPs: Global

Despite difficult market conditions, the global ETF/ETP industry gathered net inflows of US$13.1 billion in net new assets (NNA) in January 2016, according to preliminary data from ETFGI's January 2016 global ETF and ETP industry insights report. ETFs/ETPs listed globally have now gathered net inflows for 24 consecutive months.

"January was a difficult month for markets around the world with the S&P 50 ending down 5%, emerging markets were down 7%, and developed markets outside of the US also declined 7%. Volatility increased, in Europe the S&P Europe 350 index rose or fell by more than one percent on 12 out of 20 trading days in the month; ending down 6.26% for the month which puts the price index down 19.9% from the highs of April 15, 2015. The month ended with some positive fiscal stimulus news as the European central bank hinted their might be more stimulus and the Bank of Japan surprised move to set negative interest rates on certain deposits." according to Deborah Fuhr, Managing Partner of ETFGI.

At the end of January 2016, the global ETF/ETP industry had 6,180 ETFs/ETPs, with 11,895 listings, assets of US$2,853 Bn, from 277 providers on 64 exchanges. In January 2016, 43 new ETFs/ETPs were launched by 17 different providers.

Equity ETFs/ETPs experienced the largest net outflows in January with US$8.5 Bn being withdrawn from the asset class. ETFs/ETPs providing exposure to US/North American equities experienced the largest net outflows with US$13.8 Bn, followed by ETFs/ETPs providing exposure to emerging market equity indices with US$2.1 Bn, while developed Asia Pacific equity ETFs/ETPs gathered the largest net inflows with US$3.4 Bn.

ETFs/ETPs providing exposure to fixed income securities gathered the largest net inflows with US$12.5 Bn. Investors favoured safe haven developed market Government bond ETFs/ETPs with net inflows of US$10.6 Bn, followed by broad/aggregate bond exposure with US$1.7 Bn, while emerging market bond ETFs/ETPs experienced the largest net outflows with US$950 Mn.

Commodity ETFs/ETPs accumulated net inflows of US$3.4 Bn, with US$2.0 Bn net inflows being allocated to Gold products and US$1.7 Bn net inflows into ETFs/ETPs providing exposure to Oil.

Nomura AM gathered the largest net ETF/ETP inflows in January with US$4.2 Bn, followed by Vanguard with US$3.9 Bn and VelocityShares with US$1.3 Bn net inflows.

iShares is the largest ETF/ETP provider in terms of assets with US$1,059 Bn, reflecting 37.1% market share; Vanguard is second with US$492 Bn and 17.2% market share, followed by SPDR ETFs with US$425 Bn and 14.9% market share.

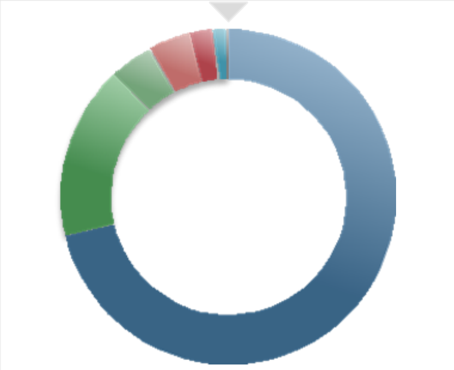
S&P Dow Jones has the largest amount of ETF/ETP assets tracking its benchmarks with US$787 Bn, reflecting 27.6% market share; MSCI is second with US$417 Bn and 14.6% market share, followed by FTSE Russell with US$356 Bn and 12.5% market share.

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

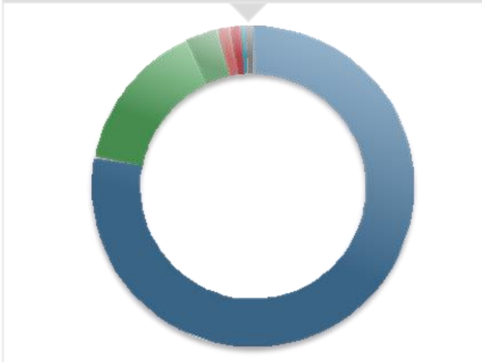
Global ETF/ETP Assets Summary

etfgi.com

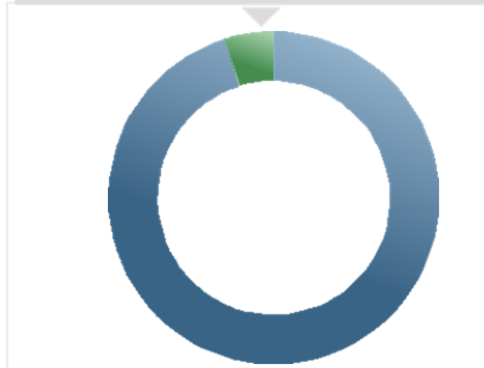
ETF/ETP assets by region listed



ETF/ETP assets by asset class



ETF/ETP assets by product structure



Region	# ETFs/ ETPs	Assets (US$ Bn)	% total
US	1,853	$2,029.9	71.2%
Europe	2,199	$482.8	16.9%
Japan	170	$131.7	4.6%
Asia Pacific (ex-Japan)	809	$106.6	3.7%
Canada	382	$62.7	2.2%
Middle East and Africa	723	$34.0	1.2%
Latin America	44	$5.2	0.2%
Total	**6,180**	**$2,852.9**	**100.0%**

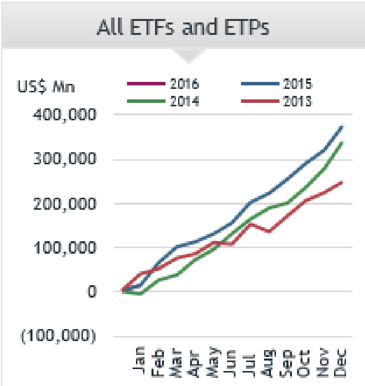
Asset class	# ETFs/ ETPs	Assets (US$ Bn)	% total
Equity	3,372	$2,152.0	75.4%
Fixed Income	878	$491.6	17.2%
Commodities	702	$97.7	3.4%
Leveraged	363	$40.3	1.4%
Active	247	$34.5	1.2%
Inverse	199	$12.6	0.4%
Others	419	$24.1	0.8%
Total	**6,180**	**$2,852.9**	**100.0%**

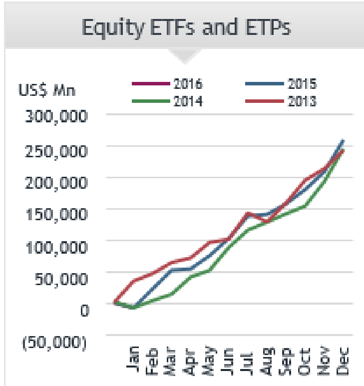
Asset class	# ETFs/ ETPs	Assets (US$ Bn)	% total
ETF	4,465	$2,728.3	95.6%
ETP	1,715	$124.6	4.4%
Total	**6,180**	**$2,852.9**	**100.0%**

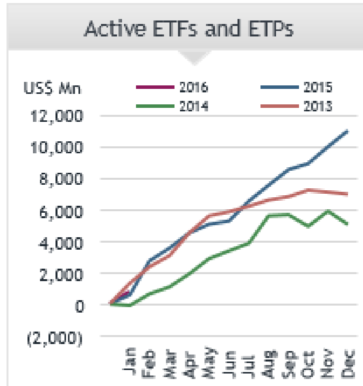
Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources, and data generated by our in-house team.

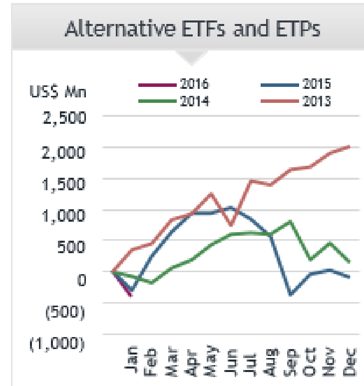
Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources, and data generated by our in-house team. Note: This report is based on the most recent data available at the time of publication. Asset and flow data may change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

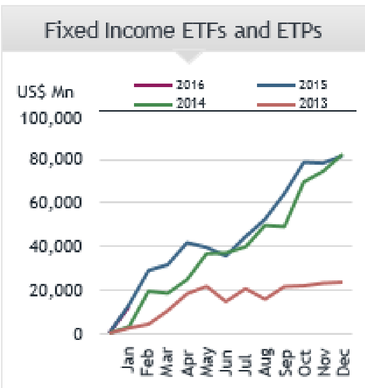
2016 vs 2015, 2014, 2013 ETF and ETP net new assets by asset class: Global

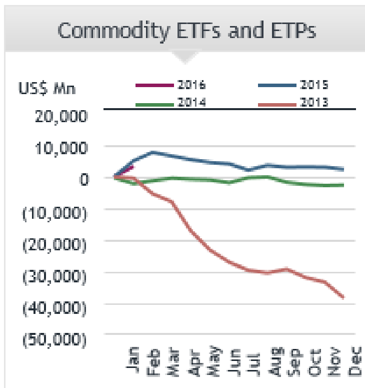


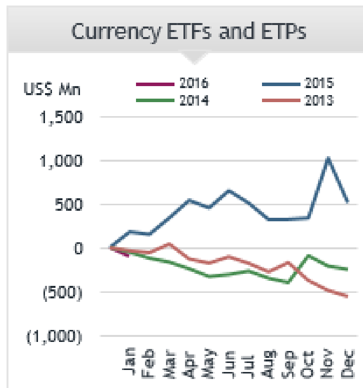


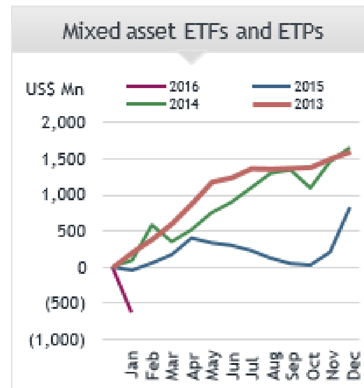












ETFs and ETPs listed globally gathered net inflows of $13,156 Mn in January. At this point last year there were net inflows of $11,240 Mn.

Equity ETFs/ETPs saw net outflows of $8,435 Mn in January, which is greater than the net outflows of $8,761 Mn over the same period last year.

Fixed income ETFs and ETPs experienced net inflows of $12,462 Mn in January, which is less than the same period last year which saw net inflows of $12,976 Mn.

Commodity ETFs/ETPs accumulated net inflows of $3,396 Mn in January, compared to net inflows of $5,171 Mn over the same period last year.

Actively managed products saw net inflows of $804 Mn in January, which is greater than the net inflows of $547 Mn over the same period last year.

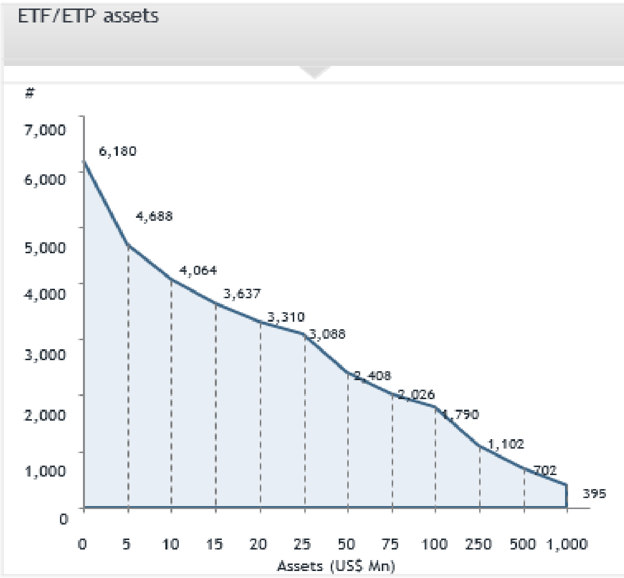
Products tracking alternative indices experienced net outflows of $416 Mn in January, which is less than the same period last year which saw net outflows of $314 Mn.

Currency products saw net outflows of $99 Mn in January, compared to net inflows of $177 Mn over the same period last year.

Products holding more than one asset class saw net outflows of $640 Mn in January, which is less than the net outflows of $45 Mn over the same period last year.

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

Distribution of ETFs/ETPs by size



Assets greater than (US$ Mn)	# ETFs/ ETPs	% total	Total assets (US$ Bn)	% total
0	6,180	100.0%	2,847	100.0%
5	4,688	75.9%	2,845	99.9%
10	4,064	65.8%	2,840	99.7%
15	3,637	58.9%	2,835	99.6%
20	3,310	53.6%	2,829	99.4%
25	3,088	50.0%	2,824	99.2%
50	2,408	39.0%	2,800	98.3%
75	2,026	32.8%	2,776	97.5%
100	1,790	29.0%	2,756	96.8%
250	1,102	17.8%	2,645	92.9%
500	702	11.4%	2,502	87.9%
1,000	395	6.4%	2,288	80.3%

395 ETFs/ETPs have greater than US$1 Bn in assets, while 1,790 have greater than US$100 Mn in assets and 2,408 have greater than US$50 Mn in assets. The 395 ETFs/ETPs with greater than US$1 Bn in assets hold a combined total of US$2,288 Bn, or 80.3%, of Global ETF/ETP assets.

ETF/ETP underlying benchmarks: developed equity

Top 20 by assets

Name	Assets (US$ Mn) Jan-16	NNA (US$ Mn) Jan-16
S&P 500 Index	332,474	2,754
MSCI EAFE Index	74,278	342
Nikkei 225 Index	60,730	2,469
CRSP US Total Market Index	53,691	(526)
TOPIX Index	50,474	1,296
NASDAQ 100 Index	42,485	(2,069)
S&P Mid Cap 400 Index	39,221	(827)
EURO STOXX 50 Index	36,686	1,449
MSCI Japan Index	34,022	164
Russell 1000 Growth Index	29,002	(1,306)
Russell 2000 Index	27,134	425
Russell 1000 Value Index	25,890	(306)
MSCI US REIT Index	25,010	(1,346)
DAX Index	20,571	566
MSCI EMU Index	19,961	513
CRSP US Large Cap Growth Index	19,610	563
MSCI World Index	19,598	(63)
S&P Financial Select Sector Index	18,772	(28)
NASDAQ Dividend Achievers Select Index	18,079	161
CRSP US Large Cap Value Index	16,829	(1,263)

Top 20 by monthly net inflows

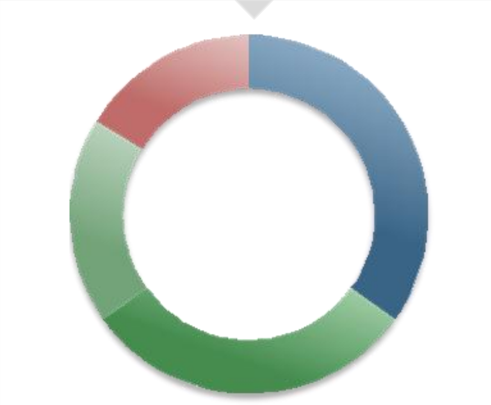
Name	Assets (US$ Mn) Jan-16	NNA (US$ Mn) Jan-16
S&P 500 Index	332,474	2,754
MSCI EAFE Index	60,730	2,469
Nikkei 225 Index	36,686	1,449
MSCI EMU Index	50,474	1,296
EURO STOXX 50 Index	6,844	811
TOPIX Index	9,010	723
MSCI EAFE IMI Index USD	7,881	691
Russell 1000 Value Index	9,526	619
S&P/TSX 60 Index	14,022	576
Russell 1000 Growth Index	20,571	566
DAX Index	11,792	565
CRSP US Total Market Index	19,610	563
S&P Financial Select Sector Index	19,961	513
MSCI EAFE Minimum Volatility Index	27,134	425
MSCI World Index	74,278	342
Dow Jones Industrial Average Index	4,764	330
MSCI Europe Index	3,581	326
S&P 500 Low Volatility Index	3,413	255
S&P Energy Select Sector Index	5,799	244
S&P 500 Growth Index	4,656	240

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

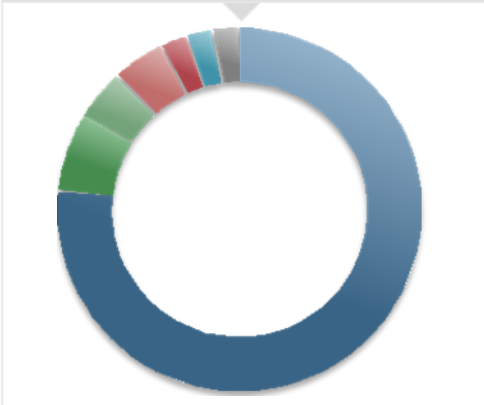
Year to Date ETF / ETP Product Launches

YTD ETF/ETP product launches

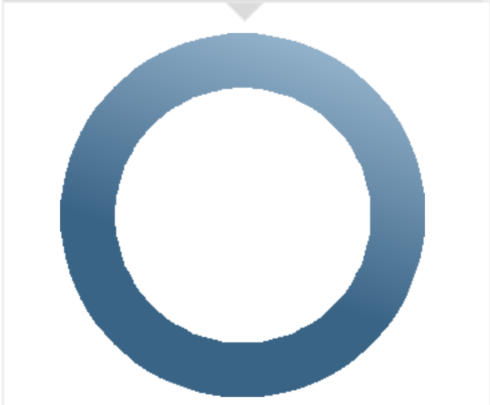
ETFs/ETPs by region listed



ETFs/ETPs by asset class



ETFs/ETPs by product structure



Region	# ETFs/ETPs	% total
Europe	15	34.9%
US	13	30.2%
Asia Pacific (ex-Japan)	8	18.6%
Canada	7	16.3%
Total	**43**	**100.0%**

Asset class	# ETFs/ETPs	% total
Equity	33	76.7%
Active	3	7.0%
Mixed	2	4.7%
Fixed Income	2	4.7%
Leveraged Inverse	1	2.3%
Leveraged	1	2.3%
Others	1	2.3%
Total	**43**	**100.0%**

Structure	# ETFs/ETPs	% total
ETF	43	100.0%
ETP	-	0.0%
Total	**43**	**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: US HY Funds Face Widely Varying Liquidity Risks

January 14, 2016

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The 10 largest US high-yield open-end funds have widely varying liquidity qualities, says Fitch Ratings. Investors redeemed several billion dollars' worth of shares in US high-yield bond funds following the Third Avenue Focused Credit Fund's redemption halt in December, highlighting the importance of assessing liquidity risks within mutual funds. Third Avenue was an outlier in the percentage of less liquid assets held in its portfolio and is not representative of other high-yield open-end bond funds.

The transparency of mutual funds' liquidity is limited and subjective. Managers are not required to disclose estimates of the percentage of illiquid securities, and the optimal determinants of liquidity remain subject to study and debate.

Fitch examined two metrics as proxies for fund liquidity: percentage of assets valued based on unobservable inputs or internal fair-value assessments (known as Level 3 valuations), and a fund's investments in low-rated or unrated securities. We found wide variations in these measures in the 10 largest US high-yield bond funds, which manage approximately $111 billion.

Click here for complete reading

Rating Actions

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

- **Fitch Rates VMTP Shares of Delaware Investments – January 22, 2016**
- **Fitch Affirms Legg Mason BW Global Income Opportunities Fund's Ratings – February 18**

Discount Shopping with Closed-End Funds

February 2016

Even investors like to go bargain hunting. Discounts had a higher rating than long-term stability and income among financial advisors and investors polled in a recent Aberdeen survey. About 54% of those polled believe that purchase discounts to net asset value (NAV) are the most attractive benefit of investing in closed-end funds (CEF).1

Closed-end funds are investment vehicles with a 120-year history but often lose out in the popularity contest to mutual funds and newer-to-the-scene exchange-traded funds (ETFs). A possible explanation for this could be the perception that the unique structure of closed-end funds are complex and difficult to understand.2

However, by understanding the basics and core concepts of what differentiates a closed-end fund, investors can make the most of available market opportunities. Closed-end funds are usually seen in client portfolios managed by financial advisers with the largest books of business. In a few simple paragraphs, you can also learn how to take advantage of these sophisticated investments.

First, let us understand what a closed-end fund is and how it is structured. Like an open-end mutual fund, closed-end funds invest in a portfolio of securities pursuant to a specific investment object and strategy. However, open-end mutual fund shares are purchased and sold from the Fund directly, which means funds can grow or shrink over time subject to investor demand.

Closed-end funds raise a fixed amount of capital from an initial public offering (IPO), and the fund's shares are then listed and traded on a stock exchange. The shares of the funds are traded on the secondary market like any other listed equity security such as Google, Apple or GE.

Portfolio managers only trade the fund's portfolio when making investment allocation decisions. There is no need to trade the portfolio to meet redemptions and sale activities. This greatly reduces transaction costs and enable portfolio managers to remain fully invested which in turn enhances the returns to investors.

Sales and purchases in open-end funds often increase during times of market volatility as investors risk appetites change. This can force investment managers to trade a fund's portfolio when valuations are less attractive and trading costs are higher.

The closed-end fund structure provides a number of benefits, such as the following:

- The fixed capital structure allows portfolio managers to take advantage of investment opportunities at times of market duress.
- As shareholder liquidity is provided via the secondary market, closed-end funds can also give investors access to less liquid or more thinly traded markets or sectors which would not be possible for professional active investment managers to deliver in an open-end fund structure.
- The fixed structure also enables closed-end funds to borrow or what is often referred to as leverage. Although leverage can result in greater share price volatility, leverage can help enhance returns. For example, it is particularly advantageous for fixed income funds which borrow at interest rates much lower than rates at which they can invest, increasing a fund's income for the same portfolio of securities.

As closed-end fund shares are traded on the secondary market, the value of the shares is determined by the market, rather than the NAV of the Fund. Shares are said to trade at a discount when the share price is lower than the NAV, and at a premium when the share price is higher than the NAV. Whereas demand for an open fund manifests itself in a fund increasing or shrinking in size, demand for closed-end fund shares is reflected in changes to the discount or premium at which the Fund's share price is relative to NAV. For instance, a closed-end fund trading at a 15% discount to NAV offers investors a chance to buy $1 worth of assets for 85 cents.

The nuance with closed-end funds is that instead of buying into one company, investors are buying into a certain asset class, sector or country. It's a way for investors to make the most out of getting into other and even illiquid markets – on the cheap if it's trading at a discount.

Why does discounting happen? Closed-end funds trade on a stock exchange, so it's much like a stock going up and down. Discounts and premiums within the broader closed-end fund market rise and fall depending on business cycles and market sentiment. Discounts and premiums on individual closed-end funds are influenced by varying factors and can change over time.

Closed-end funds typically reach their widest margins during periods of market turbulence coupled with heightened investor pessimism. Discount widening can further expand in asset classes that have experienced elevated levels of underperformance in a given year. Widening discounts are one of the latest shifts that those polled in the aforementioned survey said they have been noticing in the space.

Widening discounts are also a way for investors to purchase closed-end funds below their fair market value during tax periods. Specifically, the effects of tax loss selling have historically been most prevalent during the 45-day period between November and mid-December. (Tax loss selling is the tactic that investors use for identifying and potentially liquidating underperforming funds to reduce tax burdens.)

With the historical trend of closed-end fund discounts narrowing during the defined period of consistent tax loss selling, investors can take advantage of the "sale" opportunity to get more out of their dollars during the holiday season. Market prices have tended to outperform NAVs toward the end of the year and into the early months of the following year.

Many investors find the discount element of closed-end funds attractive, but what else can these funds offer? Closed-end funds have primarily been viewed as income engines and another tool for portfolio diversification. Over longer market cycles, closed-end funds can potentially provide higher returns than some open-end mutual funds.

These historical trends align with Aberdeen's survey results. Financial advisors and investors polled said they had a healthy view of closed-end funds over the long term, with about 70% having a positive sentiment.

This long-term mindset is useful for portfolio managers of closed-end funds, who find that the structure enables them to maintain a long-term view that minimizes the amount of cash required to meet shareholder redemptions. This is especially useful when investing in illiquid markets.

Where in the universe can closed-end funds invest? There pretty much is no limit. Aberdeen survey respondents cited a variety of asset classes when asked about which asset classes they would prefer to invest in through a closed-end fund.

When seeking to gain exposure to different markets through closed-end fund vehicles, more than one-third (about 37%) of those surveyed identified an interest in domestic markets. The second largest asset class of interest was emerging markets at 36%, followed by frontier markets at 17% and international developed markets at 10%.

Active management of closed-end funds can enhance the quality of these investments, which is why finding the right manager is crucial for investors looking to invest in closed-end funds. Today's markets are turbulent regardless of how the economy is faring. This means identifying quality long-term investments requires adequate attention and keeping boots on the ground. At Aberdeen, we sit down with management at companies and spend years studying local markets through our teams based all over the world in which we invest. We believe this benefit of exposures aids us in better understanding these markets.

The complex nature of the regions where closed-end funds can invest requires breadth and depth of experience. Not to mention, the structure of closed-end funds are complex on its own. As a result, closed-end funds tend to be offered by highly experienced asset managers, which may give newer investors some comfort in exploring a new territory.

1 The Closed-End Funds Survey was commissioned by Aberdeen and an independent party. It was conducted on October 27, 2015 at the Pristine Advisers and CEF Network's Fifth Annual Closed-End Fund Investment Strategies Conference in New York. The data is based on responses from 101 financial advisors and investors.

2 Exchange-traded funds (ETFs) and mutual funds share many similarities but also have important differences. A mutual fund is an investment vehicle made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. An ETF is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on a securities exchange. One of the biggest differences between mutual funds and ETFs are the way they are purchased and sold. ETFs trade like stocks, so that means the price per share of an ETF changes continually throughout the day while the markets are open. Conversely, mutual and index funds trade only once a day based on the closing price at the end of the trading day. The other key difference between mutual funds and ETFs is in the fee structure. In general, ETFs are less costly than mutual funds, particularly, actively managed funds. Most actively managed mutual funds are sold with a sales load (front-end or back-end) and investors will also pay other expenses and fees. In addition to the sales load, mutual funds also charge an expense ratio which is the percentage of assets paid for the management and operation of the fund. Many costs are included in the expense ratio, but typically only three are noted: fund management fee, 12b-1 distribution fee, and other expenses. In contrast, ETFs do not charge a sales load and generally have lower expense ratios than mutual funds. However ETFs are subject to brokerage commissions which can vary depending on the firm. ETFs are also considered to be somewhat more tax advantageous when compared to mutual funds. In most situations, the investor is in control as to when capital gains taxes are paid as this is determined when ETF shares are sold. For mutual funds, capital gains distributions are controlled by the fund selling shares of the underlying holdings. The capital gains distribution is taxable to the fund shareholders unless the fund is owned in a tax-deferred account (i.e., 401k, IRA, etc.)

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Robust Growth for Municipal Bond ETFs in 2015

January 2016

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Exchange Traded Fund Strategist
First Trust Advisors LP

Summary of 2015 ETF Flows and Trends1

» US-listed ETF Assets stood at over $2.1 trillion on 12/31/15, a 6.7% increase from the end of 2014. Total estimated net inflows for the year were $245 billion, narrowly exceeding the record inflows of $242 billion from 2014.

» ETF categories with the largest percentage increase in total assets in 2015 were Municipal Bond ETFs (+30%), Taxable Bond ETFs (+16.5%), and International Equity ETFs (+16.4%).

» The strongest category of ETFs for net inflows in 2015 was International equity ETFs, with net inflows totaling over $105 billion. This was followed by Taxable Bond ETFs and US Equity ETFs, with net inflows totaling $58 billion and $52 billion, respectively.

» The ETF category with the largest percentage decrease in assets was Commodity ETFs (-17.2%). Interestingly, this decline was primarily driven by poor performance, as the category actually had $772 million in net inflows for the year.

US Category Group	Total US-Listed ETF Assets (12/31/15)	Total Assets: Year-over-year % increase	2015 Estimated Net Asset Flows	Previous Quarter Estimated Net Asset Flows (Q3 2015)	Q4 2015 Estimated Net Asset Flows
Allocation	$8,130,419,033	11.9%	$1,554,490,773	($108,715,476)	$720,761,733
Alternative	$43,260,762,312	1.3%	$7,823,259,980	$4,042,821,326	($349,295,359)
Commodities	$46,145,223,569	-17.2%	$772,030,371	($516,194,621)	($233,665,653)
International Equity	$442,630,957,817	16.4%	$105,267,750,909	($1,295,950,306)	$22,239,385,054
Municipal Bond	$18,327,795,148	30.0%	$4,168,445,043	$675,402,023	$1,452,390,686
Sector Equity	$298,658,385,170	-1.9%	$15,814,912,155	($2,662,718,397)	$10,382,271,751
Taxable Bond	$335,704,105,275	16.5%	$58,190,498,058	$22,208,390,765	$14,226,000,672
US Equity	$942,518,654,921	3.7%	$51,575,094,853	$22,828,259,279	$46,841,345,150
Total	**$2,135,376,303,245**	**6.7%**	**$245,166,482,142**	**$45,171,294,593**	**$95,279,194,034**

A Snapshot of Q4 2015 ETF Flows and Trends

» Total net inflows in Q4 2015 totaled $95 billion, more than double net inflows in Q3 2015.

» US Equity ETFs had the strongest net inflows for the second quarter in a row with $46.8 billion.

» After Q3 2015's net outflows, International Equity ETFs had the second strongest net inflows in Q4 2015 with $22 billion.

» Sector equity ETFs also reversed course in Q4 2015, with net inflows totaling $10 billion, compared to net outflows totaling $2.6 billion in Q3 2015.

» Net inflows for Taxable Bond ETFs totaled $14 billion in Q4 2015, following a relatively strong Q3 2015 in which net inflows totaled $22 billion.

» The weakest categories for net flows in Q4 2015 were Alternative ETFs (-$349 million) and Commodities ETFs (-$234 million).

2015 First Trust ETFs Milestones

» First Trust remained the 6th largest sponsor of ETFs in 2015.

» The AlphaDEX family of ETFs finished 2015 with over $18 billion in AUM.

» The First Trust Dow Jones Internet Fund (FDN) became the largest First Trust ETF at $4.9 billion.

» First Trust actively-managed ETF assets finished the year at $2.9 billion, a 41% increase from the end of 2014. This group is comprised of 16 ETFs including:

- the largest actively managed equity ETF (First Trust North American Energy Infrastructure Fund (EMLP) at $890 million).
- the largest actively managed preferred securities ETF (First Trust Preferred Securities and Income ETF (FPE) at $582 million).
- the largest actively managed high yield bond ETF (First Trust Tactical High Yield ETF (HYLS) at $559 million).

The Case for an Actively Managed Municipal Bond ETF

The ETF category with the strongest percentage asset growth in 2015 was Municipal Bond ETFs, increasing by 30% year-over-year, as of 12/31/15. While nearly 99% of this growth was attributed to passively managed index ETFs, we believe there is a compelling case to be made for active management in this category. In particular, the actively managed strategy employed by the First Trust Managed Municipal ETF (FMB) seeks to add value versus passive municipal bond ETFs by addressing sector, credit, and interest rate risks, while seeking to provide a competitive level of income.

One key strategy employed by FMB to potentially enhance its yield is to overweight lower-rated investment grade bonds. As of 12/31/15, the fund allocated 26.65% to A rated bonds, and 28.28% to BBB rated bonds. We believe this segment of the municipal bond market is attractive, not only because of the potentially higher coupons that may be offered, but also because lower-rated investment grade municipal bonds have had an admirable track record of avoiding defaults. In fact, according to Moody's, from 1974-2014, the average 10-year cumulative default rate for A and Baa (equivalent to BBB rating) rated municipal bonds was 0.06% and 0.37%, respectively—both of which were actually lower than AAA rated corporate bonds (See Table 2). When combined with First Trust's active credit analysis, we believe there are many opportunities to be found among lower-rated investment grade municipal bonds.

Another facet of FMB's actively managed strategy has been to overweight revenue bonds, many of which have offered more attractive coupons than similarly rated general obligation (GO) bonds. While conventional wisdom has often been that revenue bonds are riskier than GO bonds (which helps explain their higher coupons), such generalizations have been called into question by recent high profile events, such as the 2013 bankruptcy filing by the city of Detroit. As the US population ages, and more workers approach retirement, we believe underfunded pension liabilities have the potential to cause chronic issues for certain GO municipal bonds in the future. In contrast, we believe these same demographic trends may actually be supportive for certain types of revenue bonds, such as those issued by hospitals and senior living facilities. Navigating among these risks and opportunities is a key potential benefit of active management.

Moody's Average 10-Year Cumulative Default Rates from 1970 – 2014[2] Corporate vs. Municipal

Rating	Corporate	Municipal
AAA	0.48%	0.00%
AA	0.99%	0.01%
A	2.72%	0.06%
Baa	4.41%	0.37%
Ba	18.69%	4.11%
B	39.16%	17.48%
Caa	63.77%	16.88%

Managing risk is a critical component of FMB's actively managed strategy. The fund may seek to proactively avoid certain bonds, or even certain sectors that are believed to have deteriorating credit quality, for example, unlike many passively managed municipal bond ETFs, whose underlying indices may wait to remove a bond until after a credit downgrade has occurred. Similarly, active management allows FMB to address interest rate risk. While bond maturities and duration for passively managed municipal bond ETFs are essentially a function of when and for how long municipalities borrowed funds, FMB's allocation can be altered to shorten or lengthen duration, based on expected changes in interest rates. As of 12/31/15, the fund had an effective duration3 of 6.15 years.

While Municipal Bond ETFs remain one of the smaller categories of ETFs, this segment grew faster than any other in 2015 on a percentage basis. As the population ages, and more investors seek tax-free income to help fund their retirement needs, we expect continued growth in future years. While the lion's share of municipal bond ETF assets are currently invested in passively managed funds, we believe investors seeking a competitive level of tax-free income, with a focus on risk management, may find actively managed ETFs, such as FMB, to be a compelling alternative.

1Based on Morningstar data, as of 12/31/15
2Source: Moody's Investors Service, Special Comment: U.S. Municipal Bond Defaults and Recoveries, 1970-2014; Municipal Market Advisors (MMA), YTD through 9/30/15.
3A measure of a bond's sensitivity to interest rate changes that reflects the change in a bond's price given a change in yield.

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2 Opportunities Amid Today's Market Volatility

January 22, 2016

Authored by:
Heidi Richardson
Head of US Investment Strategy for iShares
BlackRock

2016 has come in like a lion, at least with regards to market volatility. But as Heidi Richardson explains, there still are attractive investing opportunities worth considering.

2016 has come in like a lion, at least with regards to stock market volatility. Many of the same factors that sparked a rockier road in the second half of 2015, including declining oil prices and an economic slowdown in China, have been roiling markets so far this year.

Indeed, according to Bloomberg data, volatility as measured by the VIX index, is now at levels last seen early last fall, after China's "Black Monday" stock market crash rattled global markets. Looking forward, we believe the volatility is likely here to stay.

Beyond concerns about commodities and global growth, markets are also struggling with falling earnings, tighter financial conditions, tighter liquidity and accelerating credit downgrades. In addition, with geopolitics taking stage and many currencies outside of the U.S. devaluing, I see few catalysts for a change in sentiment over the shorter term.

Places to find potential growth

But while there are certainly reasons for investors to be cautious in 2016, the choppy road isn't necessarily a reason to run to the sidelines. I believe there still are attractive market opportunities offering potential growth. So, as you prepare your portfolio for the volatility ahead, here are two investing ideas to consider.

Europe. In Europe, the European Central Bank (ECB) recently reiterated its willingness to ease monetary conditions further to stimulate economic growth, possibly as early as its next policy meeting in March. Indeed, according to the central bank's recently released meeting minutes, there's a desire from some ECB members to execute even deeper cuts in their deposit rate, already in negative territory.

In other words, Europe remains squarely in a monetary easing cycle, which is jump starting the region's credit growth and overall business cycles. This environment created a tailwind for Europe's equity markets in 2015, and I expect it will continue to help the region's stocks in 2016.

Japan. The Japanese market is a similar story. Stocks in Japan benefited last year from continued easy money from the Bank of Japan (BOJ), and I see sustained monetary policy easing continuing to support the market going forward in 2016. Additionally, corporate governance reform could continue to improve shareholder returns in Japan into 2016.

To be sure, these markets aren't without risks for U.S. investors, including currency risk. While I expect the yen to continue trading in a very narrow trading range, the euro could decline further, considering that the ECB is in the early innings of its stimulus program. So I advocate U.S.-based investors consider hedging their euro exposure.

Last year, this approach seemed to work. According to Bloomberg data, the MSCI Japan and MSCI EMU 100% USD Hedged Index both outperformed the MSCI ACWI in 2015, delivering 7.6 percent and 4.9 percent respectively, both well above the ACWI index's -3.7 percent return. And I believe this approach could work in 2016 too.

Overall, I see 2016 bringing more of what we saw in 2015, namely increased volatility and the need for investors to be selective in their search for growth and stability. It's clear that news about oil prices and China's growth can quickly create a "risk-off" environment that impacts markets globally. For now, I see growth potential in Europe and Japan, and as I see additional opportunities develop, I'll be sure to write about them here.

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Why I Believe Staying in the Market Makes Good Sense

January 22, 2016

Authored by:
John P. Calamos, Sr.
Chairman, CEO and Global Co-Chief Investment Officer
Calamos Investments

Earlier this month in our Outlook, we shared our view that markets would experience elevated volatility but that there still were opportunities for investors, including in stocks. We explained why we believed an imminent recession in the U.S. was unlikely and cautioned investors against panicking out of the market.

The past few weeks have borne out our expectations of volatility, and stock markets have posted steep declines. Despite the macro fears dogging the markets, my view remains that the U.S. is positioned for slow growth in 2016—not recession.

In times like these, the best thing that investors can do is to stay level headed. This is a belief I have held more over 40 years—including through the difficult financial markets of the 1970s, the recession of 1990, the bursting of the dot.com bubble in the early 2000s, and more recently, the Great Recession.

I recognize that for many investors, it's hard to avoid the temptation to time the stock market when headlines are so negative. What's important to remember is that market conditions can also improve quickly and with little notice. As shown in Figure 1, being out of the market for even a few days can have a significant impact on results.

The sources of market volatility are always changing, which can make some investors feel like "this time is different—this time the market won't come back." After all, when markets were worried about the uncharted territory the global economy was in when oil was trading at $145 a barrel in 2008, who would have thought we would see prices in $20s? For me, when I think about the many problems that the markets have surmounted, I'm reminded of the long-term resilience of the global markets and economy.

In this environment, I believe investors can be well served by reaching out to their financial advisors. Instead of trying to time the market on your own, you and your advisor can discuss the growing array of choices that you may have to diversify and potentially stabilize your portfolio in these volatile markets. Depending on your needs, these may include a market neutral or convertible allocation or a strategy that seeks lower-volatility participation in the U.S. or global equity markets.

Figure 1. Timing the Market Could Be Costly
S&P 500 Returns and the Growth of $10,000 over 20 Years (1996-2015)

Source: Morningstar. Data ranges from 1/1/1996 through 12/31/2015. **Past performance is no guarantee of future results.**

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Municipal Quarterly Update – 4th Quarter 2015

February 2, 2016

4th Quarter 2015 Municipal Market Performance and Highlights

• The Barclays Municipal Bond Index returned 1.51% for the three months ended December 31, 2015, bringing the calendar year 2015 total return for the index to 3.30% (6.60% on a taxable-equivalent basis) (see footnote 1*). Tax-exempt municipal bonds had the highest risk-adjusted returns of any asset class. Municipal bond yields diverged from U.S. Treasuries. Even in the face of the current global economic malaise of slow growth, falling commodity prices, and volatile equity markets, the Federal Reserve ("Fed") finally raised its benchmark rate during the December meeting, the first rate hike since 2006. While the 10- and 30-year U.S. Treasury rates rose 21 basis points (bps) and 15 bps, respectively, to 2.27% and 3.02% from September 30, 2015 to December 31, 2015, 10- and 30-year AAA MMD yields decreased 11 bps and 22 bps, respectively, to 1.92% and 2.82% for the same period.

• New issue supply was down dramatically in the fourth quarter due mainly to a substantial decline in refunding activity. While total new issue supply for 2015 was over 18% higher than 2014, growing from $337 billion to $398 billion, the fourth quarter of the year saw municipal bond issuance plummet 23% versus the same period in 2014. (Source: Barclays, SIFMA)

• Mutual fund flows turned positive in the fourth quarter, totaling $8.1 billion for the quarter through December 23rd (most recent data available) with total 2015 net inflows of $12.3 billion as of December 23, 2015. (Source: Barclays, Investment Company Institute)

• Municipal credit quality continued to improve. Municipal defaults have fallen in each of the past five years. State and local municipalities continue to see improvement in their revenues and balance sheets.

Outlook and Strategy

• Despite our expectation for gradually higher rates in 2016, we believe that intermediate duration bonds will generate positive total returns for the year(see footnote 2*).

• Along with the Fed's intention to normalize rates with up to four additional hikes in 2016,we see Treasury and municipal yields moving 30 to 50 bps higher.

• Overall, we believe municipal credit quality will remain healthy and stable. However, dark clouds continue to overhang the market, particularly Puerto Rico, and to a lesser extent, Illinois and New Jersey. Another issuer, the Chicago Board of Education, has fallen on hard times and needs state aid to avoid running out of cash by mid-2016.

• We see new issue supply for 2016 being flat to slightly down, ending the year somewhere between $375 billion and $400 billion, versus total issuance of $398 billion in 2015.

• Given the relative attractiveness of risk-adjusted municipal yields versus other asset classes, we expect modestly positive mutual fund and ETF fund flows in 2016.

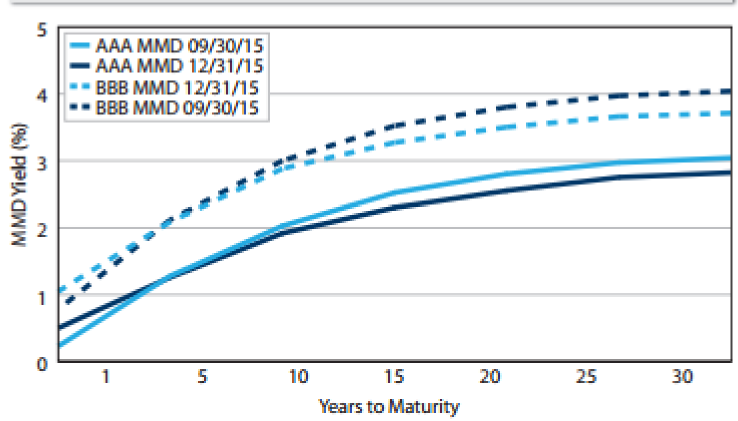
• We continue to structure our portfolios defensively choosing strategies that benefit from yield curve positioning, bond structure, and positive credit fundamentals. More specifically, we favor:

Relative Value

• According to Bloomberg, valuations as of December 31, 2015, the tax-equivalent* yield on "A" rated, 10-year municipal revenue bonds was 4.43% compared to 2.34% for 10-year U.S. Treasuries and 3.50% for "A" rated U.S. corporate bonds (see Figure 3). Relative to "A" rated corporate debt, that is a positive 93 basis point differential. When combined with declining municipal default rates versus rising corporate bond default rates, limited merger and acquisition risk, and little commodity price exposure, we believe municipals are an important part of a well-diversified investment portfolio.

• Municipal-to-Treasury yield ratios have richened. As of December 31,2015,10-year Municipal-to-Treasury yield ratios were at 84.6% while 30-year ratios were at 93.4%, versus 98.5% and 105.9%, respectively as of September 30, 2015,suggesting the municipal tax exemption is not currently as attractive as last quarter. [Municipal-to-Treasury yield ratios have moderated, with the 10-year ratio at 87.5% and the 30-year ratio at 98.6% as of 1/25/16.]

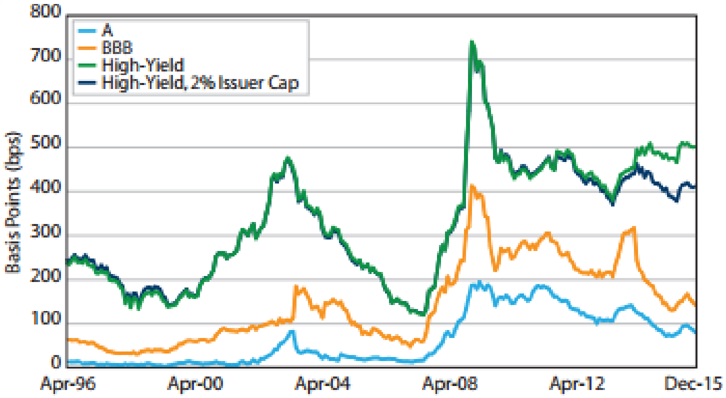
Figure 1 – MMD Yield Curves



Source: Municipal Market Data (MMD) (Thompson).

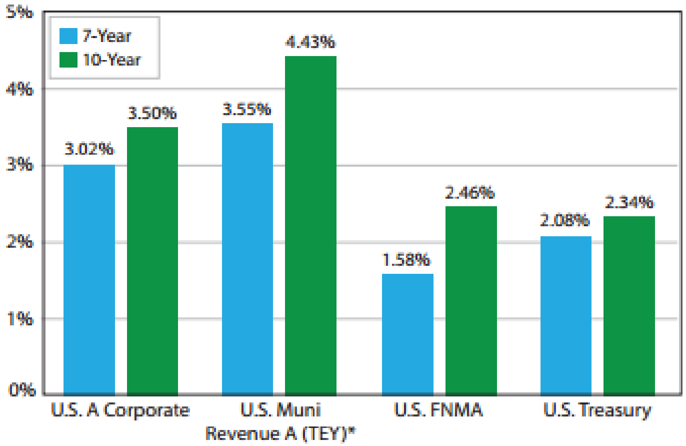
Yield Curve / Structure	Credit Overweight	Sector Overweight
• 5-10 year maturities • 13-20 year maturities priced to a 5-8 year call • 5% coupon bonds	• "A" rated bonds • Select "BBB" rated and high-yield bonds	• Revenue bonds of essential service providers • Health care, senior living, education, toll roads, airports, and utilities

Figure 2 – Municipal Credit Spreads Relative To AAA Municipals



Source: Barclays 4/30/96 through 12/31/15. For illustrative purposes only. Past performance is no guarantee of future results. See last page for index definitions.

Figure 3 – Comparative Asset Class Yields



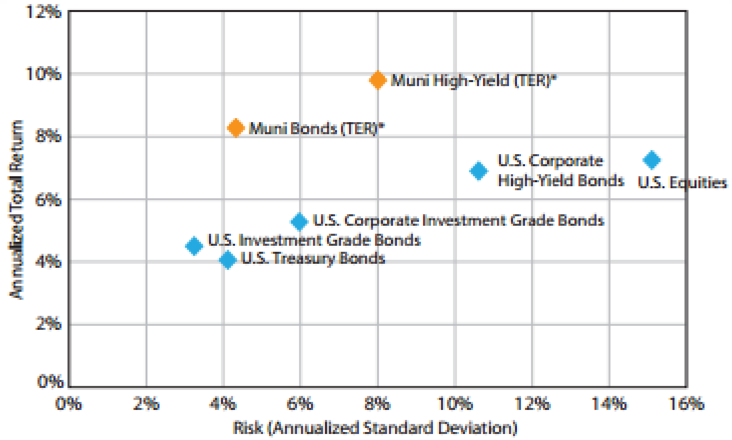
Source: Bloomberg as of 12/31/15. For illustrative purposes only. Past performance is no guarantee of future results. U.S. FNMA yields are represented by the 7- and 10-year portions of the US Revenue A Muni BVAL Yield Curve. U.S. A-rated Corporate yields are represented by the Bloomberg U.S. Composite A BVAL curve. U.S. Muni Revenue A yields are represented by the Bloomberg U.S. Revenue A Muni BVAL curve. U.S. FNMA yields are represented by the Bloomberg U.S. Fannie Mae Benchmark curve. U.S. Treasury yields are represented by the Bloomberg U.S. Treasury BVAL curve.

Figure 4 – Correlation of Municipal Bonds to Other Asset Classes

U.S. Equities	0.10
U.S. Treasury Bonds	0.28
U.S. Corporate High-Yield Bonds	0.35
Mortgage-Backed Securities (MBS)	0.38
Emerging Market Sovereign Bonds	0.39
U.S. Corporate Investment Grade Bonds	0.56

Source: Barclays 12/30/05 through 12/31/15. The historical correlation of the asset classes is for illustrative purposes only and not indicative of any actual investment. Diversification does not guarantee a profit or protect against loss. An index cannot be purchased directly by investors. See last page for index definitions.

Figure 5 – Tax-Equivalent* Returns and Volatility of Municipal Bonds vs. Other Asset Classes



Source: Barclays 12/30/05 through 12/31/15. This chart is for illustrative purposes only and is not indicative of any actual investment. The illustration excludes the effects of expenses incurred when investing. Past performance is no guarantee of future results. See last page for index definitions.

Figure 6 – Moody's Average Cumulative Default Rates from 1970-2014, Corporate vs. Municipals

	5-Year			10-Year		
Rating	Corporate	Municipal	Difference	Corporate	Municipal	Difference
AAA	0.10%	0.00%	0.10%	0.48%	0.00%	0.48%
AA	0.40%	0.01%	0.39%	0.99%	0.01%	0.98%
A	0.95%	0.03%	0.92%	2.72%	0.06%	2.66%
Baa	1.78%	0.15%	1.63%	4.41%	0.37%	4.04%
Ba	9.70%	2.39%	7.31%	18.69%	4.11%	14.58%
B	23.11%	12.38%	10.73%	39.16%	17.48%	21.68%
Caa	46.97%	14.71%	32.26%	63.77%	16.88%	46.89%

Municipal Issuers Defaulting for the First Time

	2015		2014		2013	
	Number	$ Billion	Number	$ Billion	Number	$ Billion
YTD	55	3.85	62	9.40	69	8.58
Total	55	3.85	62	9.40	69	8.58

Source: Moody's Investors Service, Special Comment: U.S. Municipal Bond Defaults and Recoveries, 1970-2014; Municipal Market Advisors as of December 31, 2015.

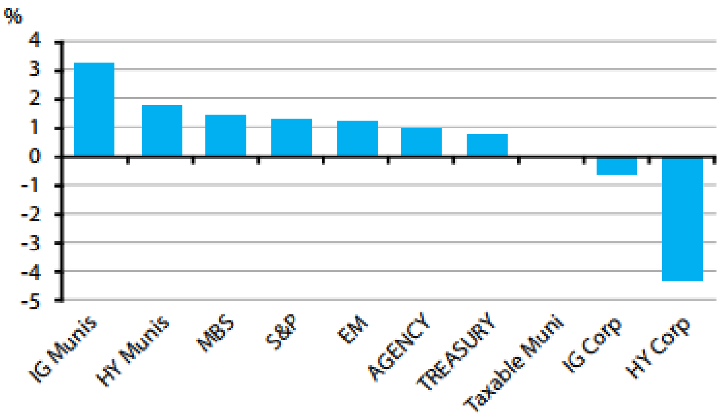
Fourth Quarter Review

The fourth quarter of 2015 did not disappoint municipal investors. The Barclays Municipal Bond Index returned 1.51% for the three months ended December 31, 2015, bringing the year-to-date total return for the index to 3.30% (6.60% on a taxable-equivalent basis) (see Footnote 1*). The Barclays Revenue Bond Index and Non-Investment-Grade Index experienced even stronger-total-returns during the fourth quarter of 1.71% and 1.78%, respectively. This advance pushed total returns-through-year-end to 3.62% and 1.81%, respectively. According to Barclay's data, tax-exempt municipal returns were superior to all other major asset classes.

For the fourth quarter, U.S. Treasury yields moved markedly higher. After months of speculation by the market, the Federal Open Market Committee (FOMC)finally raised the fed funds rate in December. The Fed's decision was driven in no small part by an improving U.S.

economy, as measured by ongoing job gains and declining unemployment. By the end of December, 10-year U.S. Treasury yields had increased 21 bps during the quarter to 2.27%, while 30-year U.S. Treasury yields increased 15 bps over the quarter to a 3.02% by year-end.

Total Returns by Asset Class in 2015



Source: Barclays Risk Analytics and Index Solutions
Barclays Municipal Strategy Monthly – January 5, 2016.

While U.S. Treasury yields moved higher, tax-exempt municipal rates decreased during the fourth quarter. The Municipal Market Data (MMD) 10-year“AAA”and “BBB” rated generic curves declined 11 bps and 12 bps during the fourth quarter, respectively, to 1.92% and 2.88%. The quarterly change in 30-year“AAA”rated municipal bonds sawa 22bpdecrease in yield to a 2.82%,and30-year“BBB”rated municipals decreased 33 bps during the fourth quarter to end the year at a 3.71%. This municipal outperformance can be attributed to a decline in fourth quarter issuance, due in large part to a drop in refinancing volume; and, a pickup in retail investor demand that continued to grow through the end of the quarter.

New issue volume for the 3-months ended December 31,2015 fellto$81.7billion from the previous quarter, bringing the year-end total to $398.4billion. While this represents a year-over-year increase of 18%,itreflects a 22.6% decrease from the fourth quarter of 2014. Refinancings represented 62.0% of all new issuance in 2015,but dropped to just 52.9% for the fourth quarter. (Source: Barclays,SIFMA) On the demand side of the equation, net mutual lund flows, after being modestly negative for five consecutive months from May through September, turned decidedly positive at the end of the third quarter. The market saw fund inflows over the fourth quarter totaling over $8.1 billion, bringing the year-end total to $12.3 billion. (Source: Barclays, Investment Company Institute). The pickup in demand in the face of a substantial dip in supply is an important factor in municipals outperformance during the fourth quarter.

In spite of some major concerns regarding structural budgetary imbalances, pension funding shortfalls and political paralysis, credit fundamentals continued to be healthy and generally improving. First time defaults declined for the fifth year in a row. State and local government tax revenues increased for 22 straight quarters through September 30, 2015. Moody’s Investors Service also upgraded the ratings on more municipal borrowers than they downgraded during the final two quarters of the year. We continue to express caution regarding well publicized credits such as the States of Illinois and New Jersey because of their budget and pension woes, and in the case of Puerto Rico, complete fiscal instability.

Outlook – The Year Ahead

As we look ahead to 2016, on one side of the coin, we’re faced with a U.S. economy that continues to grow, albeit at a sluggish pace, and on the other side, international economic malaise of slow growth and deflationary pressures. With this as a back drop, in 2016,we anticipate:

•Rising rates. The Fed’s intention is to normalize rates with up to four rate hikes over the course of 2016. The Fed’s stated base case could play out based on healthy U.S. economic growth, which could lead Treasury yields higher and in turn, be influential in pushing municipal rates higher. As such, we expect 10-year Treasury yields to rise to levels between 2.50% and 2.75% in 2016 (compared with 2.27% as of December 31, 2015). Recently, municipal yields have been tethered to Treasuries and we believe general municipal yields will increase between 30 and 50 bps in 2016 with 10-year, “AAA” general obligation bonds yielding 2.20% to 2.45% by year-end (compared with 1.92% as of December 31,2015).

• Stable municipal credit quality. The number of municipal issuers defaulting has decreased in each of the last five years, with the total number of defaults in 2015 falling to just 55 ($3.85billionpar amount)in a market that totals $3.7 trillion (Source: SIFMA). We expect credit metrics to continue to improve as state and local municipalities benefit from ongoing U.S. economic growth. We also expect the number of defaults in 2016 to be similar to that in 2015, but with Puerto Rico defaults looming, the total par amount will likely be higher. Structural budgetary imbalances and pension funding shortfalls will continue to put pressure on certain large borrowers such as the States of Illinois and New Jersey. Another issuer, the Chicago Board of Education is under deep financial stress and needs state aid in order to avoid running out of cashbymid-2016. As a consequence, we are cautious regarding borrowers with massive debt and pension liabilities.

• Modestly positive but volatile fund flows. Investors will continue to buy municipals in response to high marginal tax rates and a need for tax-exempt income, particularly given the attractiveness of tax-adjusted municipal returns versus other fixed-income asset classes. Additionally, retail investors tend to be more buy and hold oriented, focusing on the attractiveness of tax exempt income. We suspect there will be periods of outflows during the year as interest rates move higher. Given that nominal yields are very low relative to historical levels, and provide less income cushion to shield investors against rising interest rates, we believe any sustained increase in yields (decline in municipal bond prices) could cause a substantial reduction in retail demand for municipals.

• New issue supply slightly lower to flat in 2016 versus 2015. In our opinion, new issue volume will be between $375 billion and $400 billion, versus total issuance of $398 billion in 2015. Over 62% of all new issuance in 2015 were refundings. We believe that rising rates, as well as the strong refunding activity that occurred in 2015, will potentially have a negative impact on 2016 issuance. In addition, voter support or new projects has been steady, but not strong. Fiscal conservatism by government officials also continues to prevail in the face of badly needed infrastructure improvements.

Strategy and Recommendations

Despite our view of gradually higher interest rates in 2016,we believe there are attractive opportunities in municipal bonds relative to other fixed income asset classes and that municipal performance will be positive. Applying our total return analysis to our ETF and SMA strategies and assuming interest rates increase 30 basis points symmetrically along the yield curve during the course of the year, we would expect our SMA and ETF strategies to produce positive total returns of between 2.00% and 2.50% for 2016. If our outlook for 2016 is wrong, the total return analysis for our ETF and SMA strategies, assuming no change in rates, would produce positive total returns of between 3.50% and 4.00%. This analysis assumes no change in credit spreads or trading activity that adds or detracts from performance. Because of active portfolio management and the flexibility we have to tactically adjust duration, credit quality, industry/sector allocation, and yield curve positioning as market conditions change, we believe our portfolios could outperform these estimates.

Given our expectation for higher yields and the Fed's stated propensity to raise rates, we believe total return investors should consider positioning their municipal portfolios in a more defensive manner by underweighting longer duration and leveraged strategies, and moving to the intermediate portion of the municipal yield curve where bonds are typically less interest-rate sensitive and benefit from the steeper yield curve slope. We would be wary of long duration, leveraged portfolios with a heavy emphasis on high-yield and less liquid assets, as we believe these "high octane" strategies of high duration coupled with low average credit quality, are more susceptible to price declines in a sustained market sell-off. In addition, we think the very short end of the municipal yield curve could be vulnerable to the volatility associated with Fed activity related to fed fund rate hikes and continued monetary policy guidance. In light of this, we continue to position our portfolios defensively. Specifically, we favor bonds with maturities of 5-10 years and bonds maturing in 13-20 years but priced to shorter 5-8 year calls. We also favor 5% coupon bonds, versus 3% and 4% coupon structures, that when combined with our preferred yield curve position, serve to reduce portfolio duration. On the credit side, we continue to overweight "A" rated and "BBB" rated bonds, and select high-yield municipal securities given current healthy municipal credit fundamentals. We also favor essential service revenue bond sectors such as health care, senior living, education, transportation, and utilities which, in our view, have additional default-risk insulation because of the borrowers' essentiality in their local communities.

Given the low correlation of municipal bonds to other major asset classes such as U.S. equities (10-year correlation of 0.10) (see Figure 4), as well as, their favorable risk-adjusted returns(see Figure 5),we think municipal bonds are a foundational component of a diversified portfolio. We also believe the tax-exempt income stream from municipal bonds is attractive relative to many other fixed-income strategies. According to Bloomberg valuations as of December 31,2015,the tax equivalent* yield on "A" rated, 10-year U.S. municipal revenue bonds was 4.43% compared to 2.27% for 10-year U.S. Treasuries and 3.50% for "A" rated U.S. corporate bonds (see Figure 3). This represents a positive 93 basis point differential over "A" rated corporate debt. When viewing this in light of declining municipal default rates versus rising corporate bond default rates, limited merger and acquisition risk, and little commodity price exposure, we believe the value of municipals as part of a well-diversified investment portfolio is clear. As investors assess their fixed-income portfolios and corresponding total return potential over the next 12 months, it is extremely important to consider the impact of factors such as yield curve positioning, duration management, the use of leverage, and exposure to less liquid securities.

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CoCos Are a No-Go for Calamos

February 11, 2016

Authored by:
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Co-CIO, Head of Alternative Strategies and Co-Head of Convertible Strategies, Senior Co-Portfolio Manager
Calamos Investments

Contingent convertible bonds, or CoCos, have been getting more global press recently, including in this past Friday's Financial Times. As one of the world's oldest and largest managers of convertible strategies, we are asked about CoCos frequently. In many ways, a CoCo is the mirror image of a convertible bond. Instead of the equity upside participation and potential downside protection that can make a convertible bond so attractive, CoCos may have much higher potential downside.

A convertible bond is a corporate bond that allows the holder to convert into a fixed quantity of shares in that company's common stock. If things go well and the stock rises, the convertible bond holder participates in the rising stock price, capturing equity upside. If the stock falls, the convertible is still a bond and the holder receives a fixed coupon and par at maturity. Think of a convertible bond as a security that looks like a stock if things go well and like a bond if things go poorly.

CoCos are also hybrid securities, but the similarities to traditional convertibles pretty much end there. Banks issue CoCos to meet regulators' requirements for capital reserves, and to provide a cushion should they find themselves in a serious predicament. CoCos typically pay higher coupons than a bank's straight bonds. However, if the bank gets in trouble (think 2008), these bonds turn into equities. Think of them as anti-convertibles. I also like the term "Bizarro" convertibles, to borrow from Superman comics and a Seinfeld episode. If things go well, you just get your fixed coupon and par back at maturity. But if things go poorly, you quite likely will get little to nothing in return. After all, if a bank is in bad enough shape that its CoCos convert into equities, that bank stock you are getting may not be worth much. In many cases, it won't be worth anything at all. CoCos have become quite popular with banks in Europe; we believe they will probably end up being used in other markets as well.

These securities are not your father's (okay, older brother's) CoCos. Originally, "contingent convertible" described convertible bonds that were convertible into the equity only after the stock had risen to where the bond was well into the money. These contingent convertibles became popular in the U.S. around 2001 and had some accounting benefits for the bond issuers. The term wasn't applied to bank hybrids until several years later.

In our convertible portfolios, we're focused on upside equity participation with potential downside protection over full market cycles. Because the risk/reward profile of these bank CoCos is the opposite of the risk/reward profile we look for in convertible bonds, we are quite willing to pass them by.

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Preferreds May Present Buying Opportunity Amid Bank Profit Concerns

February 2016

Authored by:
William Scapell, CFA
Director of Fixed Income and Portfolio MAnager
Cohen & Steers

Growing worries over bank profitability have pressured bank stocks and credit, including preferred securities. We discuss why the pillars of the preferreds story remain intact—and why we believe market turbulence may present a compelling entry point.

What Is Driving Recent Volatility in Banks?

Despite the strong state of bank balance sheets, investors have recently taken a harsher view of their fundamentals. The year-to-date selloff in global bank equity and credit appears to stem from lower profit expectations, driven by growing concerns that slowing economic growth and falling interest rates will pressure net interest margins.(1) Declining oil prices and the potential for broader economic deterioration have also prompted concerns of higher loan losses.

European banks have been particularly affected, as Europe is facing an even flatter yield curve amid declining inflation expectations. As well, European economies are generally perceived to be more fragile than that of the U.S. and hence more susceptible to growth risks. In some European localities, the banks are still working through bad debts from the financial crisis. However, the number of bad loans is subsiding and capital held against them is generally quite adequate.

To some extent, the severity of the selling pressures in bank equity and credit also reflects fund outflows amid profit taking and a reduction of overweight positions. Bank preferreds and other bank credit instruments were among the best performing fixed income assets in 2015, generally bucking the trend of widening credit spreads in other sectors. We believe that a misperception of risks, fueled in part by media reports, could also be feeding the pressures.

What Does This Mean for Bank Preferreds?

For investors in preferred securities, we believe there are a few points to keep in mind. First, despite somewhat lowered earnings expectations, U.S. and European banks are expected to remain profitable. This means they are likely to continue to build, not deplete, already high capital reserves. Returns on equity are indeed low by historical standards, which is a negative for credit as well as equity holders. However, this is due to higher capital levels and less risk taking, which are positives for credit. Lending standards have also been much higher since the financial crisis, diminishing the potential for future loan losses even if there is a substantial economic slowdown.

Bank earnings would be negatively affected if rates remain low for an extended period. However, we believe strong capital and adequate profitability should enable banks to manage the impact of slowing economic growth. Furthermore, energy-related loans—a key source of investor concerns— represent just 3% of the loan portfolios on average for major U.S. and European banks.(2) While this may present a potential headwind to earnings, it does not rise to the level of posing a capital threat, in our view.

CoCos: Market Misunderstandings

Some of the preferred market's largest losses this year have come from contingent capital securities (CoCos), a relatively new type of preferred security issued predominantly by European banks. Created in response to new regulations enacted in the wake of the 2008 financial crisis, CoCos may automatically convert to common equity or be written down in value should a bank's capital level breach a predetermined level. This level is far below (typically more than 40% below) standard operating levels. Given the specific triggers in these securities, they have offered very high rates of income, which has supported strong performance in recent quarters.

Some of the recent selling pressure in European bank preferreds has been stoked by media reports that a major German bank may miss payments on its CoCos. In this situation, the threat to payments is most directly related to the potential for large U.S. litigation settlements, which could affect the bank's available distributable income (ADI) under German GAAP accounting. Unless it has positive ADI, the bank will not be allowed to make its CoCo payments. The media reports have failed to highlight that this bank generates several billion Euros in normal operating income and maintains strong capital in excess of regulatory requirements, which far exceed pre-crisis minimums. This is an isolated case that, in our opinion, is not reflective of broader European bank credit fundamentals.

Given that CoCos are relatively new, many investors are understandably cautious, but we believe the general fear is misplaced. Furthermore, we believe the magnitude of the selloff may be attributable to the fact that CoCos are not represented in the major bond indexes. As a result, investors facing the risk of underperforming their benchmark may look to exit these positions simultaneously when there are pricing pressures.

The Selloff in Preferreds Appears Overdone

Many preferred securities have fallen dramatically in February, with bank-issued preferreds generally leading the way down.

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What Investors Need to Know About Returns in 2016

February 2, 2016

Authored by:
Rick Rieder
BlackRock Chief Investment Officer of Global Fixed Income
BlackRock

Last year wasn't a great one for investors seeking solid returns. With 2016 off to a rocky start, will we see more of the same this year? Rick Rieder weighs in.

Last year wasn't a great one for investors seeking solid returns.

No year since 1990 has seen more asset classes finish in negative territory than 2015, even if losses were more extreme in 2008, according to a BlackRock analysis using Bloomberg data and looking at the average of annual total returns for oil prices, gold prices, ten fixed income indices and three equity indices.

In fact, according to the Bloomberg data, in 2008 there were arguably more places one could take refuge, as U.S. Treasury and Agency debt, broad aggregate fixed income indices and gold all provided a bulwark against steep equity losses. In contrast, last year, while the extent of losses was more muted than in 2008, losses were more widespread across asset classes, the data show. Given the correlation between asset classes, there were fewer opportunities to sidestep trouble and take refuge.

What can we expect from markets this year?

With 2016 off to a rocky start so far, you may be wondering whether we'll see more of the same this year. While I don't have a crystal ball, here are three things I believe all investors need to know about returns in 2016.

1. Solid returns will remain hard to come by. Unfortunately, as this year kicks off, many of the challenges that made positive return generation difficult in 2015 are likely to persist. In developed markets, these challenges include long-term interest rates that are still near multi-decade lows, as well as elevated equity valuations.

Indeed, even as the Federal Reserve (Fed) began the process of rate normalization late last year, it left interest rates unchanged at its policy meeting this month. In fact, given that the U.S. labor market likely experienced its cyclical peak at the end of 2015 and the Fed began raising rates too late in my opinion, current Fed Funds futures are pricing in essentially only one hike in 2016, according to data accessible via Bloomberg. In short, rates will remain low for the foreseeable future.

2. Returns will be far from uniform within asset classes. During the last few years, return dispersions within asset classes have been dramatic. According to an analysis using Bloomberg data, the top ten names in the market capitalization-weighted S&P 500 Index have provided an outsized contribution to the index's total return in recent years.

Similarly, return dispersion by sector has also been remarkable in recent years, in my opinion. While the consumer discretionary, technology, and healthcare sectors have held up relatively well, other sectors (like energy, utilities and material) haven't. Further, this kind of dramatic return dispersion hasn't been limited to the equity world; it has also been happening in the fixed income space, the data show. In other words, while many asset classes experienced moderate losses in 2015, those losses tended to be concentrated among certain names and in certain sectors and industries.

Looking forward, I believe this return dispersion will continue, and even accelerate, this year. This is because it's at least partly a result of important trends transforming the global economy and markets, including shifting demographics and the influence of new technologies. It's also a reflection of ongoing fears over the impact of China's growth slowdown on commodities and other emerging market economies.

3. Returns will stay volatile. Remarkably, return contributions in 2015 weren't just concentrated by name; they were also concentrated by date. Missing a few of the best days of the year would have greatly injured annual returns, while avoiding the worst would have greatly aided them (with news out of China being a key swing factor). This trend too is not going away anytime soon, not least because concerns about China will continue to weigh on markets.

So what does this all mean for your portfolio? I don't mean to imply that you should give up hope of achieving a decent return in 2016 and run for the sidelines. Rather, taking a closer look at how the return landscape is likely to shape up this year, and for years to come, shows that it's more important than ever to be selective as you take risk in search of returns. In fact, I believe there will be pockets of attractive returns; we just all need to sharpen our focus on which assets will perform, and more specifically, which geographies or sectors within these asset classes will perform.

Where to look for opportunities

Whether you have a short- or long-term investing horizon, gaining a better understanding of the transformative long-term trends behind today's return landscape can potentially provide you with an opportunity advantage as you make your investing selections. These trends include the changing global liquidity, leverage and cash flow landscape as well as the technological innovation and demographic changes I've long been writing about.

Economies and markets today are in the process of adjusting to what might be the most dramatic technological evolution in history, alongside of dramatic changes in the demographic makeup of many countries. These massive secular changes should neither be seen as theoretical future events, to be worried about at some later date, nor should they be taken as hyperbole, as they are in fact very real and they are already influencing our economic and market landscape. The changing return landscape testifies to that.

So if you can, try to tune out the daily market noise and focus instead on how these big-picture shifts could impact portfolios over the longer term. The important trends that will influence the global economy for decades to come are already upon us, and you must examine for a better understanding of how market dynamics are likely to unfold. Their impact will not be felt equally by country, sector and industry. Rather, return divergence and dispersion will be the order of the day.

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A Shopping List for Bargain Hunters

February 12, 2016

Authored by:
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BlackRock Global Chief Investment Strategist
BlackRock

While stocks overall still aren't cheap, investors looking to bargain hunt may be pleased to know there are certain segments of the market worth considering. BlackRock's Russ Koesterich explains.

The old saying that "things can always get worse" seems to be an apt description for markets so far this year. A poor start to the year has snowballed into an environment in which investors are being paid to "sell the rallies."

Year-to-date global equity markets are down roughly 10 percent in dollar terms, as measured by Bloomberg performance data for the MSCI ACWI Index (ACWI). While a few markets, notably Canada and Mexico, are flat to nominally higher, several market segments, including U.S. biotech, China and Italy are down more than 20 percent since the start of the year, according to Bloomberg data for the Nasdaq Biotechnology index and the respective MSCI country indices.

Against this backdrop, bargain-hunting investors are asking whether there may be opportunities.

My take: Given that the sell-off is occurring in the aftermath of a multi-year bull market, stocks overall still aren't cheap. That said, it's not too early to begin compiling a shopping list of potential bargains that may be worth considering.

While the selling has returned some value to equities, the best that can be said is that most markets now look reasonable. According to a BlackRock analysis using Bloomberg data, a global benchmark (ACWI) is trading at around 16.5x trailing earnings, down around 7.5 percent from last summer's peak but roughly in-line with the 10-year valuation average. Global stocks look cheaper on a price-to-book (P/B) basis, but with the exception of emerging markets equities, they are only trading at a small discount to their 10-year average.

If valuation is unlikely to put a floor under markets, there are two other scenarios that could help establish a bottom: signs of economic stabilization or a more aggressive, coordinated response from central banks. As I don't view either as imminent, markets are likely to remain volatile in the near term.

There's Value to be Found if You Know Where to Look

However, for investors looking to bargain hunt, there are certain segments of the market that are trading at a significant discount. While it may still be too early to pull the purchase trigger, these two segments in particular are worth a closer look.

1. EMERGING MARKETS

After underperforming for the better part of the past five years, emerging market stocks, as measured by the MSCI Emerging Markets Index, are one of the few, genuinely cheap asset classes. At roughly 1.25x trailing book value, emerging market equities are trading at a level last seen at their trough in early 2009. On a relative basis, using the MSCI World Index as a proxy for developed markets, EM stocks trade at nearly a 35 percent discount to developed markets, the largest such discount since the market bottom in 2003, according to an analysis of data accessible via Bloomberg.

2. ENERGY STOCKS

The other universally unloved asset class is energy. While assessing "fair value" is always an elusive exercise when discussing commodities, the recent plunge in oil prices seems to have created value in energy-related companies. With energy firms' earnings still plunging, their price-to-earnings (P/E) ratios don't look very appealing. However, based on P/B measurements, the sector, as represented by the S&P 500 GIC Energy Sector, is trading at the lowest level of the past twenty years and at about a 45 percent discount to the broader U.S. equity market. Even assuming future write-downs, the current discount looks large.

Emerging markets and energy have another argument in their favor: Over the past several months, rising volatility has begun to chip away at the momentum trade. Long positions in biotech and tech darlings have already been hit. Downside momentum plays continue to work, but being underweight, or short, energy or emerging market stocks have become very crowded trades. Similar to what has happened to long-side momentum plays, such downside momentum trades are likely to violently reverse at some point. When that occurs, these two segments appear well positioned to benefit.

Performance data quoted represents past performance which is no guarantee of future results. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

Investing involves risks, including loss of principal. Investments in emerging markets may be considered speculative and are more likely to experience hyperinflation and currency devaluations, which adversely affect returns. In addition, many emerging securities markets have lower trading volumes and less liquidity. Investments in natural resources industries can be affected by variations in commodities markets, weather, disease, embargoes, political and economic developments, taxes and other government regulations.

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Fund Updates

- Aberdeen Australia Equity Fund, Inc. Announces Performance Data And Portfolio Composition – February 12
- Brompton Funds Declare Distributions – February 17
- Calamos Closed-End Funds (NASDAQ: CHI, CHY, CSQ, CGO, CHW and CCD) Announce Monthly Distributions for February 2016 – January 29
- Cohen & Steers, Inc. (CNS) Announces Quarterly Earnings Results, Misses Estimates By $0.28 EPS – January 22
- Cushing® Energy Income Fund Announces Monthly Distribution – February 1
- Deutsche Closed-End Funds Announce Portfolio Manager Addition – February 1
- Dreyfus Closed-End Funds Declare Distributions – January 28
- Month-End Portfolio Data Now Available for Federated Investors' Closed-End Funds – February 17
- First Trust High Income Long/Short Fund Decreases its Monthly Common Share Distribution to $0.09 Per Share for February – January 20
- Gamco Investors Inc (GBL) Raises Dividend to $0.02 Per Share – February 20
- Horizons Announces January 2016 Distributions for its Covered Call ETFS – January 21
- Keefe, Bruyette & Woods Trims Calamos Asset Management, Inc (CLMS) Target Price to $8.50 – February 15
- Legg Mason Partners Fund Advisor, LLC Announces Distributions for Certain Closed End Funds Pursuant to their Managed Distribution Policy – February 18
- MFS Releases Closed-End Fund Income Distribution Sources for Certain Funds – January 25
- Oaktree Announces Fourth Quarter and Full-Year 2015 Financial Results – February 9
- Pinebridge Investment Grade Preferred Securities Fund Announces Monthly Cash Distribution and the Targeted Portfolio Duration – February 17
- Pioneer Investments Declares Monthly Distributions for Closed-End Funds – February 4
- Putnam Announces Distribution Rates for Closed-End Funds – January 29
- RiverNorth Opportunities Fund, Inc. Declares Monthly Distributions of $0.14 Per Share - Announces Conference Call Scheduled for Wednesday, February 10, 2016 at 4:15 PM EST – January 22
- Stone Harbor Emerging Markets Total Income Fund Declares Monthly Distributions of $0.1511 Per Share –January 20
- Tortoise MLP Fund, Inc. Announces Upcoming Distribution – February 9
- Tortoise Capital Advisors Announces 2015 Closed-End Fund Tax Characterization of Distributions and Release of Combined Annual Report – January 20
- U.S. Housing Recovery Fund Announces Monthly Cash Distribution – February 17
- Wells Fargo Closed-End Funds Declare Monthly and Quarterly Dividends; Wells Fargo Global Dividend Opportunity Fund Reduces Dividend – February 18

Implications of Volatility for Closed-End Fund Leverage

Tuesday, February 9, 2016 | 11:00 AM ET

Greg Fayvilevich:
Thank you Nicolas and good morning everybody. I'm Greg and with me is Brian, as Nicolas said. First I would like to express my thanks to Capital Link for hosting this event. We have had a great partnership with them over the years. We've done a number of Webinars. And I would encourage everybody to come to the main close-end fund conference that Capital Link is hosting. We'll be presenting a more general update of the state of the close-end fund leverage market at the conference.

For this Webinar we wanted to focus on the significant volatility that the markets have experienced over the last couple of months. Particularly, look at a few of the sectors that bore the largest brunt of it and see how that impacted the leverage that they hold, the leveraging, how they manage leverage ratios, and some of the responses that the managers have had to manage their leverage.

So on the next slide I would just note, Fitch publishes a significant amount of research on the close-end fund sector. If you're interested in receiving our research you can use the link in the slide to sign-up to our distribution list. And I will be happy to e-mail you the research reports as they come.

And then turning to the introduction, just again as I mentioned, the market has expressed significant volatility over the last few months. The ones we'll focus on here, the MLP Market and the (Hadith) Market. We've seen leverage ratios of close-end funds increase over this period of time as asset evaluations have come down. In some cases, more than others. And so for an overview of where we stand with leverage ratios, Brian, would you mind going over that? That's starting on slide four.

Brian Knudsen:
Yes, thank you Greg. Taking a look at leverage ratios for MLP close-end fund and senior loans and high-yield corporate close-end funds. These have been both trending higher throughout and basically for the past year as NAV's have declined. That has been definitely the most significant for MLP close-end funds which had been under the most stress, as we'll see in the following slides. But both senior loan and high-yield corporate and MLP funds have observed increases in leverage ratios. As we will get to later in this presentation, these rations have (risen) to levels where it does for managers to adjust and to take down nominal leverage.

Greg Fayvilevich:
Moving on to the next slide, we will focus on MLP close-end funds which have had the most volatility that we've seen. And Brian, can you talk about how fund managers have reacted to the volatility and how we've seen the evaluations change.

And we're at slide six now.

Brian Knudsen:
Just to begin on slide six, as we've seen in the news over the past year it has been a very tough year for commodities and oil, in particular, as directly impacted the MLP space as seen in the (Alearing) Index. That's down over 50 percent since its high in August of 2014. And just taking a look at historic performance in the top left chart, you can see the sell-off has been pretty significant and well sustained even more so than what was observed during the financial crisis, which I'm sure has come shock to many people. Performance has been a bit better on total return as it is a very yield-oriented product. But for our presentation we've - and our analysis, we do focus - tend to focus

Featured Presenters

Greg Fayvilevich
Director, Fund & Asset Manager Rating Group
Fitch Ratings

Brian Knudsen
Associate Director, Fund & Asset Manager Rating Gruop
Fitch Ratings

on the price index as it is a direct driver of (NAV's) and in turn, leverage ratios.

Moving on to slide seven, basically just a chart here explaining the MLP close-end fund average (NAV's) stock price and leverage ratios dating back to December 31st of 2014. These have basically been in-line with the performance of the (Alearing) Index. And the average NAV is down over 50 percent since the start of last year. These leverage ratios, as a result, have increased and have undergone some shocks. And these increases in leverage ratios have really forced some manager's hands in terms of managing leverage and taking down nominal leverage.

If we take a look on slide eight, this chart here is displaying nominal asset performance of the average MLP close-end fund NAV and (Alearing) MLP price index. As well as the Fitch rated leverage outstanding for MLP close-end funds. Steady NAV declines throughout the year pushed up leverage ratios on all MLP close-end funds. And although we did see some increases in leverage throughout the year, in the first half of the year, we did see steep decreases of nominal leverage outstanding in the second half of the year.

Managers were forced to take down nominal leverage end in order to bring leverage ratios back into target leverage ratios and to come into compliance with cognitive levels. Most noticeably in September and December of 2015, Fitch observed rated leverage decrease - leverage on rated funds decrease by roughly 1.9 billion since its peak in June, which was about 6.3 billion. Now that equates to roughly 30 percent reduction in nominal leverage. This initially started with bank lines of credit which had been the most flexible. But since then has moved on to preferred shares and notes.

Greg Fayvilevich:
OK. So moving on to the next slide, we are going to focus on the high-yield and the senior loan market, a large portion of which is made up of energy assets. And so we've seen quite a spill-over from the energy sector into the high-yield sector. And we're seeing that in the performance of high-yield and senior loan close-end fund. And therefore subsequently in the leverage rations, so Brian can you cover that?

And we are on slide 10 now.

Brian Knudesen:
Yes. So the high-yield senior loan space has seen decline throughout the year, and pretty steady declines at that. However, it has not been as significant and as extreme as we (ultimately) witnessed in the MLP space.

At NAV's for both high-yield and loan close-end funds are both down 13.4 percent since the start of last year. And Fitch has observed some deleveraging in these funds. But not to the same extent as MLP close-end funds. Fitch sampled a few rated funds and observed a reduction of nominal leverage of roughly 17 percent since June. At which, over that same timeframe, the MLP rated funds reduced leverage by roughly 30 percent.

Greg Fayvilevich:
So moving on. So we want to focus on the protections available to leverage investors. That's a key focus for Fitch as we rate the leverage issued by certain close-end funds. And we've really seen some of these structural protections in the documents come into play as market volatility has increased., and as Brian mentioned, some managers to bring their funds into compliance. I know as leverage ratios are increasing that should take certain actions to bring them back down. And make sure those leverage ratios are managed according to the transaction structure.

So now, page 12, Brian can you describe some of the key protections available to leverage investors. What are the asset coverage test that we generally see? And how they're structured and how they differ.

Brian Knudsen:
Absolutely. Close-end funds, as you know, are regulated by the Investment Company Act of 1940. This lays out basically a baseline of structural protections for leverage issued by close-end funds. It's 300 percent at the senior level securities for asset coverage required. And 200 percent asset coverage required for senior securities and preferred securities, both taken into account. Additionally, the fund managers are able to write additional protections for investors into fund offering documents and into leverage offering documents. One example of this is the 225 percent asset coverage for (Merks) issuance.

As we can see on slide four, where MLP close-end fund leverage ratios were charted. You can see most of them - nearly all of them fall under the 44 percent limit for leverage ratio. Which equates to that 225 percent asset coverage level.

Additionally, if Fitch rates the leverage - we have the Fitch Over Collateralization Test, in that Fitch applies stress scenarios to underlying holdings and discount factors to these holdings based on historic worst lost scenarios. And to come up with a discount value of assets that we then compare that to the full capital structure on a preferred and senior security level, if they're rated. And consider subordination within the capital structure to see if that discounted value of assets would be able to pay off the leverage holders in a time of stress. All of these encourage or force managers to deleverage in order to restore compliance. And a lot of these are driving the deleveraging that we've seen over the past year.

Greg Fayvilevich:
Brian correct me if I'm wrong but the different coverage test will come into play depending on the capital structure of the fund. So the 300 percent asset coverage for senior securities and debt comes into play if you're more heavily weighted towards senior security, more in debt, than preferred. And the other test may come into play if the fund has more preferred shares. So that's really been a differentiating factor the funds.

Brian Knudsen:
Yes, that's definitely correct..

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Closed-End Funds & Global ETFs
Webinar Series

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The New Ireland Fund, Inc.

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