Capital Link's
CEF & ETF Monthly Newsletter

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ORGANIZED BY

Capital Link

CAPITAL LINK, INC.
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15th Annual Capital Link Closed-End Funds and Global ETFs Forum

Thursday, April 21, 2016
The Metropolitan Club, One East 60th St.,New York City

IN COOPERATION WITH

NYSE

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Financial Advisors and Qualified Investors Attend at No Cost

This Forum will qualify for CFP/CIMA/CPWA CE Credits

Please join Capital Link's 15th Annual Closed-End Funds and Global ETFs Forum, which will take place on Thursday, April 21, 2016 at the Metropolitan Club in NYC.

This Forum is organized in cooperation with the New York Stock Exchange.

The Forum updates the broader investment community on the latest trends and developments and investment strategies using Closed-End Funds & Exchange Traded Funds. CEFs & ETFs are different but complementary investment vehicles followed to a large extent by the same investor and analyst base and funds sponsors. This conference consistently draws over 1,000 professionals every year who utilize this forum not only as a resource for sharing and evaluating the latest CEF and ETF products and trends, but also as an interactive platform for enhancing visibility and establishing the right connections.

MORNING KEYNOTE SPEAKER

JIM ROSS
EVP **- State Street Global Advisors**
Global Head of SPDR ETFs. He also serves as Head of US Intermediary Distribution, and is Chairman of **SSGA Funds Management, Inc.**

LUNCHEON KEYNOTE SPEAKER

HENRY H. MCVEY
CIO OF KKR'S BALANCE SHEET AND HEAD OF GLOBAL MACRO & ASSET ALLOCATION
KKR

PRESENTATIONS & PANEL TOPICS

- The State of the CEF Sector
- Where is the Value Today in CEFs
- Maximizing Returns in the CEF Space
- Revitalizing IPOs & Secondary Market Support for CEFs
- The Use of Leverage in CEFs & The Rising Interest Rate Environment
- MLPs: Navigating the New Energy Landscape & Beyond
- BDCs: Financing America's Growth
- The State of the ETF Sector
- How Smart is SmartBeta?
- Product Innovation in the ETF Space
- Advisor Panel – Using CEFs & ETFs in Client Portfolios
- Yield Investing & BDCs
- Fixed Income Investing
- International Investing
- Risk Mitigation Strategies

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The Month in Closed-End Funds: February 2016

PERFORMANCE

For the fourth consecutive month equity CEFs and fixed income CEFs on average suffered downside performance on a NAV basis (-0.34% and -0.14%, respectively) for February, while for the first month in four equity CEFs posted a positive return on a market basis (+0.42%) and fixed income CEFs (+1.02%) posted a plus-side market-based return for the third month running. For the month of February most of the major broad-based indices posted negative returns. The Dow Jones Industrial Average Price Only Index posted the only return in the black (+0.30%), while the S&P 500 Composite Price Only Index lost 0.41% and the NASDAQ Composite Price Only Index (-1.21%) suffered the largest decline of the U.S. broad-based indices. The German Xetra DAX Total Return Index was one of the worst performing indices in the global market, declining 2.69% for February.

Markets started out the month of February on a rough note. Equities sagged and tech stocks took it on the chin after oil prices dropped below $31/barrel and a weaker-than-expected nonfarm payrolls report came in below analyst expectations despite the unemployment rate dropping to its lowest level (4.9%) in eight years. The Department of Labor reported the U.S. added only 151,000 jobs for January—below the consensus-expected 180,000. However, there was a silver lining in the report: wage growth was stronger than expected, with the average wage paid to workers jumping 0.5%. Despite bank shares and other financial shares gaining support mid-month on news of share repurchases, a jump in retail sales, speculation of a production cut by OPEC, and data showing a decline in North American rig count—which led to the strongest one-day rise in oil prices in seven years, investors fretted about weakening consumer sentiment and the sharp decline witnessed in the Nikkei 225. Strengthening oil prices helped propel equities to the plus side later in the month, with the Dow posting its strongest weekly gain for the year during the trading week ended February 19. Swings in oil prices, however, kept investors on edge. Late news that U.S. oil inventories had risen and that Saudi Arabia had ruled out a production cut weighed heavily on energy issues. Equities perked up in the last week of the month after investors learned that durable goods orders jumped 4.9%, that Q4 preliminary GDP growth was revised upward to 1%, that personal income and consumption each rose a better-than-expected 0.5%, that China had cut its reserve requirements, and on hopes that major oil producers would cut output. Nonetheless, markets closed the month of February with a whimper, and investors propped up safe-haven plays, pushing up the price of gold, utilities, and Treasuries as volatility remained ever present.

During the month the yield on many Treasury instruments generally retreated on concerns of declining global growth and continued volatility in oil prices as investors sought the relative safety of Treasuries and gold. The ten-year yield declined to a closing low of 1.63% on February 11 after the ten-year Japanese note dropped below zero for the first time on record and with Janet Yellen indicating that the Fed could consider a negative interest rate, given the volatility in oil prices and impacts of the strengthening dollar. Treasury yields declined at all maturity levels greater than two years, while the six-month and one-year yields witnessed the largest increases in yields, 15 bps and 6 bps to 0.62% and 0.49%, respectively. The largest decrease was witnessed in the ten-year yield, 20 bps to 1.74%.

The Month in Closed-End Funds: February 2016

- For the fourth month in a row equity closed-end funds (CEFs) and fixed income CEFs suffered downside performance on average, declining 0.34% and 0.14%, respectively, on a net-asset-value (NAV) basis for February.
- For February only 14% of all CEFs traded at a premium to their NAV, with 12% of equity funds and 16% of fixed income funds trading in premium territory. Thomson Reuters Lipper's Single-State Municipal Bond CEFs macro-classification witnessed the largest narrowing of discounts for the month—241 basis points (bps) to 3.32%.
- For the first month in four the Emerging Markets Debt CEFs classification (+1.99%) posted the strongest return in the fixed income CEF universe.
- A rally in gold and other commodities pushed domestic equity funds (+0.03%) into the black, with the Sector Equity CEFs classification (+2.74%) posting the strongest return in the CEF universe for February. World equity CEFs lost 0.91% and mixed-equity CEFs declined 0.75% for the month.
- Once again Energy MLP CEFs (-1.97%) remained the laggard of the equity universe for February.

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THOMSON REUTERS

For February the dollar weakened against the euro (-0.32%) and the yen (-6.79%), but it strengthened again the pound (+2.29%). Commodities prices rose for the month, with near-month gold prices rising 10.52% to close February at $1,233.90/ounce (the best start to a year since 1980). Front-month crude oil prices rose 0.39% to close the month at $33.75/barrel.

For the month 46% of all CEFs posted NAV-based returns in the black, with 42% of equity CEFs and 49% of fixed income CEFs chalking up returns in the plus column. Energy-related and developed-market stocks were the pariahs for the month, pushing Lipper's world equity CEFs macro-group (-0.91%) to the cellar of the equity CEFs universe for the first month in four. Mixed-equity CEFs (-0.75%) remained in the red as well, but domestic equity CEFs (+0.03%) posted their first plus-side return since November.

Continued concerns over a global glut in oil supplies pressured Lipper's Energy MLP CEFs classification (-1.97%, the CEF laggard over the preceding three months), keeping it at the bottom of the equity universe. It was bettered slightly by Global CEFs (-1.95%) and Pacific ex-Japan CEFs (-1.84%). With the relative sharp rise in gold prices and strengthening in other commodities, Sector Equity CEFs (+2.74%) rose to the top of the equity CEFs universe for February, followed by Core CEFs (+0.95%) and Utility CEFs (+0.65%). For the remaining equity classifications returns ranged from minus 1.29% (Growth CEFs) to 0.50% (Emerging Markets CEFs).

Four of the five top-performing individual equity CEFs were housed in Lipper's Sector Equity CEFs classification. Once again **ASA Gold & Precious Metals Limited (NYSE:ASA)** was at the top of the list, jumping 31.99% on a NAV basis and traded at a 16.65% discount on February 29, followed by **GAMCO Global Gold, Natural Resources & Income Trust (AMEX: GGN)**, posting an 11.37% return and traded at a 10.09% discount at month-end; **GAMCO Natural Resources, Gold & Income Trust (NYSE:GNT),** gaining 11.07% and traded at a 14.51% discount on February 29; and **Central Fund of Canada Limited (AMEX:CEF),** rising 8.75% and traded at a 6.55% discount at month-end. The next CEF was housed in the Natural Resources CEFs classification: **BlackRock Resources & Commodities Strategy Trust (NYSE:BCX),** gaining 6.52% on a NAV basis and traded at a 17.02% discount on February 29.

For the month the dispersion of performance in individual equity CEFs—ranging from minus 16.11% to positive 31.99%—was wider than January's spread but more positively skewed. The 20 top-performing equity CEFs posted returns at or above 2.82%, while the 20 lagging equity CEFs were at or below minus 3.63%.

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	42	63	37	12	88
Bond Funds	49	76	22	16	84
ALL CEFs	**46**	**71**	**28**	**14**	**86**

TABLE 2 AVERAGE NAV RETURNS, SELECTED PERIODS (%)

	FEBRUARY	YTD	3-MONTH	CALENDAR-2015
Equity Funds	-0.34	-6.02	-8.40	-7.95
Bond Funds	-0.14	-0.16	-0.16	1.27
ALL CEFs	**-0.23**	**-2.65**	**-3.78**	**-2.62**

TABLE 3 NUMBER OF IPOs, SELECTED 12-MONTH PERIODS

	FEBRUARY 2016	CALENDAR-2015
ALL CEFs	**18**	**24**

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

3 MONTHS THROUGH 1/31/2016	227
COMPARABLE YEAR-EARLIER 3 MONTHS	164
CALENDAR 2015 AVERAGE	381

Source: Thomson Reuters Lipper

A total of 142 CEFs in the equity universe posted negative returns for the month. While four of the eight worst performing funds were housed in the Energy MLP CEFs classification, the worst performing equity CEF was **RENN Fund, Inc. (AMEX:RCG),** housed in Lipper's Global CEFs classification. RCG shed 16.11% of its January-closingmNAV price and traded at a 24.01% discount at month-end. **Salient Midstream & MLP Fund (NYSE:SMM**, warehoused in the Energy MLP CEFs classification) posted the next poorest return in the equity universe, declining 12.30%. SMM traded at a 3.81% discount on February 29.

The Treasury yield curve began to flatten during the month, shifting upward for maturities of two years or less and shifting downward at maturities greater than three years, reflecting investors' preference for safe-haven plays during this time of increasing volatility. The ten-year Treasury yield declined 20 bps to 1.74% at month-end. For pthe fourth consecutive month domestic taxable bond CEFs (-0.62%) witnessed a negative return on average, while municipal bond CEFs (+0.12%) posted a plus-side return for the eighth month in a row; for the first month in four world income CEFs (+0.60%) chalked up a win—helped by a strong return from Emerging Markets Debt CEFs (+1.99%).

With a strengthening dollar, a rise in oil prices, and the Peoples Bank of China's cutting its reserve requirement, Emerging Markets Debt CEFs' relatively strong performance helped catapult the World Income CEFs macro-classification (+0.60%) to the top of the fixed income universe for the first month in five. Global Income CEFs (-0.39%) continued to struggle.

Investors' continued risk-off approach during the month kept a few of the preceding month's laggards at the bottom of the pile for February; however, Loan Participation CEFs and U.S. Mortgage CEFs ended up at the bottom of the pile, declining 1.02% and 0.91% for the month, respectively. The general decline in Treasury yields pushed investors toward Corporate BBB-Rated Debt CEFs (+0.17%, the only classification in the domestic taxable fixed income macro-group that posted a plus-side return for the month).

Breaking a seven-month trend when all Lipper municipal debt CEF classifications posted plus-side returns, for February all but one municipal debt CEF classification was in the black. New Jersey Municipal Debt CEFs (-0.01%) posted the only loss of the group, while Other States Municipal Debt CEFs (+0.22%) posted the strongest return. Single-state municipal debt CEFs (+0.16%) just managed to outpace their national municipal debt CEFs counterparts (+0.09%).

Three of the five top-performing individual CEFs in the fixed income universe were housed in Lipper's Emerging Market Debt CEFs classification. At the top of the group was **Stone Harbor Emerging Markets Income Fund (NYSE: EDF),** returning 4.78% and traded at a 9.94% discount on February 29. EDF was followed by **Stone Harbor Emerging Markets Total Income Fund (NYSE:EDI)**, returning 4.00% and traded at a 15.26% discount atmonth-end; **Eaton Vance Michigan Municipal Income Trust (AMEX: EMI**, housed in the Other States Municipal Debt CEFs classification), tacking 2.67% onto its January month-end value and traded at an 11.73% discount on February 29; **Legg Mason BW Global Income Opportunities Fund, Inc. (NYSE:BWG,** housed in Lipper's Global Income CEFs classification), posting a 2.20% return and traded at a 16.27% discount at month-end; and **Western Asset Emerging Markets Debt Fund Inc. (NYSE:ESD,** housed in Lipper's Emerging Market Debt CEFs classification), returning 2.10% and traded at a 16.08% discount on February 29.

For the remaining funds in the fixed income CEFs universe monthly NAV-basis performance ranged from minus 7.65% for **Palmer Square Opportunistic Income Fund (NASDAQ:PSOIX**, an interval hybrid CEF housed in Lipper's General Bond CEFs classification) to slightly less than 2.10% for **Western Asset Worldwide Income Fund Inc. (NYSE:SBW,** housed in Lipper's Emerging Market Debt CEFs classification), which traded at a 16.09% discount at month-end. The 20 top-performing fixed income CEFs posted returns at or above 1.33%, while the 20 lagging CEFs were at or below minus 1.90%. A total of 173 fixed income CEFs witnessed negative performance for February.

PREMIUM AND DISCOUNT BEHAVIOR

For February the median discount of all CEFs narrowed 112 bps to 8.37%—better than the 12-month moving average discount (9.55%). Equity CEFs' median discount widened 12 bps to 12.18%, while fixed income CEFs' median discount narrowed 103 bps to 6.76%. The Single-State Municipal Bond CEFs macro-classification's median discount witnessed the largest narrowing in the CEFs universe, 241 bps to 3.32%, while the World Equity CEFs macro-classification witnessed the largest widening of discounts—35 bps to 13.88%.

For the month 71% of all funds' discounts or premiums improved, while 28% worsened. In particular, 63% of equity funds and 76% of fixed income funds saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on February 29 (78) was 17 more than on January 29.

CEF EVENTS AND CORPORATE ACTIONS

IPOs

There were no new CEFs in February.

RIGHTS, REPURCHASES, TENDER OFFERS

Directors of **Western Asset Middle Market Income Fund (NASDAQ: XWMFX)** approved a cash tender offer for up to 2.5% of the fund`s outstanding common shares until March 30, 2016.

Trustees of **Deutsche Multi-Market Income Trust (NYSE: KMM)** and **Deutsche Strategic Income Trust (NYSE: KST)** approved increasing each fund's share repurchase authorization from 5% of outstanding shares to 10% until November 30, 2016. Repurchases will be made when they are believed to be in the best interest of the fund.

MERGERS AND REORGANIZATIONS

Directors of **Western Asset Emerging Markets Income Fund (NYSE: EMD), Western Asset Worldwide Income Fund (NYSE: SBW), and Western Asset Emerging Markets Debt Fund (NYSE: ESD)** approved proposals to merge EMD and SBW into ESD, subject to approval by shareholders of each fund. If approved, the mergers are expected to occur during Q3 2016.

Shareholders of several Nuveen CEFs approved the mergers of **Nuveen Premium Income Municipal Fund 4 (NYSE: NPT), Nuveen Dividend Advantage Municipal Fund 2 (NYSE: NXZ), and Nuveen Municipal Advantage Fund (NYSE: NMA) into Nuveen Dividend Advantage Municipal Fund 3 (NYSE: NZF),** which will be renamed **Nuveen Enhanced Municipal Credit Opportunities Fund (NYSE: NZF).** Also approved were the mergers of **Nuveen Municipal Opportunity Fund (NYSE: NIO), Nuveen Quality Municipal Fund (NYSE: NQI), and Nuveen Quality Income Municipal Fund (NYSE:NQU)** into **Nuveen Dividend Advantage Municipal Fund (NYSE:NVG),** which will be renamed **Nuveen Enhanced AMT-Free Municipal Credit Opportunities Fund (NYSE: NVG).**

OTHER

Trustees have approved the termination of **Deutsche High Income Trust (NYSE: KHI);** KHI will make a liquidating distribution to shareholders no later than November 30, 2016. In addition, a special shareholders' meeting will be held June 30, 2016, where shareholders will consider a proposal to convert the fund from a CEF to an open-end investment company. Common shareholders of record as of April 26 will be entitled to vote at the meeting.

Trustees of **BlackRock Municipal Target Term Trust (NYSE: BTT)** approved a name change for the fund. Effective March 1, 2016, BTT's name will be **BlackRock Municipal 2030 Target Term Trust** (the ticker symbol will remain the same).

At the recent annual shareholders meeting for **Global High Income Fund (NYSE: GHI)** 56% of shares were voted in favor of liquidating the fund while just 4% voted against the proposal. As a result the fund is now in the process of converting portfolio securities to cash and equivalents.

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Lipper Classification	1Mo Nav	1 Mo Mkt	Feb P/D	Jan P/D	1 Mo P/D chg	YTD NAV Change	YTD Mkt Change	YTD P/D Change (%)
California Municipal Debt Funds	-0.24%	1.17%	0.37%	-1.03%	1.40%	0.59%	2.54%	1.91%
Convertible Securities Funds	-1.21%	0.03%	-12.81%	-13.88%	1.07%	-8.31%	-8.48%	-0.20%
Core Funds	0.34%	0.02%	-11.73%	-12.26%	0.53%	-5.92%	-8.39%	-1.77%
Corporate BBB-Rated Debt Funds(Leveraged)	-0.44%	-0.55%	-9.12%	-9.02%	-0.10%	-0.53%	-0.65%	-0.12%
Corporate Debt Funds BBB-Rated	-0.19%	0.02%	-4.24%	-4.43%	0.19%	-0.77%	0.09%	0.84%
Developed Market Funds	-0.88%	-1.97%	-14.28%	-13.31%	-0.98%	-6.82%	-9.33%	-2.39%
Emerging Markets Funds	0.50%	0.88%	-12.49%	-12.92%	0.43%	-5.50%	-5.92%	-0.33%
Emerging Mrkts Hard Currency Debt Funds	1.45%	2.51%	-13.37%	-14.26%	0.89%	-1.12%	-1.51%	-0.31%
Energy MLP Funds	-3.95%	-1.78%	-0.89%	-2.99%	2.10%	-21.13%	-15.82%	6.31%
General & Insured Muni Debt Funds (Leveraged)	-0.38%	0.78%	-4.02%	-5.12%	1.10%	0.64%	2.36%	1.62%
General & Insured Muni Fds (Unleveraged)	-0.23%	1.18%	-1.23%	-2.58%	1.35%	0.82%	1.34%	0.47%
General Bond Funds	-1.35%	-0.13%	-5.97%	-7.21%	1.24%	-3.75%	-1.60%	1.49%
Global Funds	-2.38%	-1.33%	-13.89%	-14.82%	0.93%	-7.66%	-7.85%	-0.40%
Global Income Funds	-1.09%	-0.85%	-9.66%	-9.80%	0.14%	-3.25%	-3.77%	-0.60%
Growth Funds	-1.91%	-3.80%	-11.33%	-10.23%	-1.10%	-6.79%	-17.03%	-3.11%
High Yield Funds	-0.85%	0.31%	-5.52%	-6.73%	1.21%	-3.66%	-3.37%	0.95%
High Yield Funds (Leveraged)	-0.98%	0.18%	-10.16%	-11.15%	1.00%	-3.79%	-3.50%	0.30%
High Yield Municipal Debt Funds	-0.28%	0.41%	-1.04%	-1.66%	0.62%	0.35%	2.35%	1.90%
Income & Preferred Stock Funds	-1.43%	-0.50%	-5.97%	-7.04%	1.07%	-3.80%	-1.76%	2.23%
Intermediate Municipal Debt Funds	-0.20%	0.43%	-2.21%	-2.79%	0.58%	0.97%	1.95%	0.91%
Loan Participation Funds	-1.61%	-2.55%	-12.14%	-11.35%	-0.80%	-3.39%	-6.42%	-2.68%
Natural Resources Funds	-0.86%	-0.15%	-12.29%	-12.91%	0.62%	-7.46%	-8.43%	0.18%
New Jersey Municipal Debt Funds	-0.43%	2.39%	-6.30%	-8.91%	2.61%	0.66%	2.87%	2.03%
New York Municipal Debt Funds	-0.31%	1.39%	-1.99%	-3.63%	1.64%	0.60%	2.46%	1.82%
Options Arbitrage/Opt Strategies Funds	-1.19%	-0.33%	-4.91%	-6.00%	1.14%	-6.59%	-7.60%	-0.61%
Other States Municipal Debt Funds	-0.16%	1.86%	-3.21%	-5.10%	1.89%	0.89%	3.36%	2.27%
Pacific Ex Japan Funds	-1.84%	-2.34%	-12.78%	-12.34%	-0.44%	-6.19%	-5.42%	0.67%
Pennsylvania Municipal Debt Funds	-0.21%	1.13%	-8.60%	-9.82%	1.22%	0.59%	3.22%	2.33%
Real Estate Funds	-0.25%	-0.43%	-13.56%	-14.20%	0.64%	-3.33%	-5.99%	-1.32%
Sector Equity Funds	1.90%	3.14%	-9.23%	-9.41%	0.18%	-4.51%	-6.14%	-1.17%
U.S. Mortgage Funds	-1.51%	0.45%	-5.39%	-7.54%	2.16%	-2.38%	-0.14%	2.70%
Utility Funds	-0.03%	1.03%	-7.70%	-8.65%	0.94%	-1.36%	-0.18%	1.16%
Value Funds	-0.41%	0.92%	-13.72%	-14.90%	1.18%	-4.67%	-5.77%	-0.92%

Top 5 Performing CEFs

LIPPER

Fund Name	Category	Ticker Symbol	1-Month NAV Change	Rank
ASA Gold & Prec Met Ltd	Sector Equity Funds	ASA	32.0%	1
GAMCO Gl Gld NR & Inc	Sector Equity Funds	GGN	9.9%	2
GAMCO NR Gld & Inc Tr	Sector Equity Funds	GNT	9.9%	3
Central Fund of Canada	Sector Equity Funds	CEF	8.7%	4
Aberdeen Indonesia	Emerging Markets Funds	IF	6.3%	5

Fund Name	Category	Ticker Symbol	Year-to-Date NAV Change	Rank
ASA Gold & Prec Met Ltd	Sector Equity Funds	ASA	37.7%	1
Central Fund of Canada	Sector Equity Funds	CEF	12.6%	2
GAMCO NR Gld & Inc Tr	Sector Equity Funds	GNT	6.5%	3
GAMCO Gl Gld NR & Inc	Sector Equity Funds	GGN	5.8%	4
DNP Select Income Fund	Utility Funds	DNP	4.3%	5

Fund Name	Category	Ticker Symbol	1-Month Market Change	Rank
ASA Gold & Prec Met Ltd	Sector Equity Funds	ASA	27.0%	1
Herzfeld Caribbean Basin	Emerging Markets Funds	CUBA	20.4%	2
GAMCO Gl Gld NR & Inc	Sector Equity Funds	GGN	17.9%	3
First Trust MLP Ener&Inc	Energy MLP Funds	FEI	11.8%	4
GAMCO NR Gld & Inc Tr	Sector Equity Funds	GNT	11.3%	5

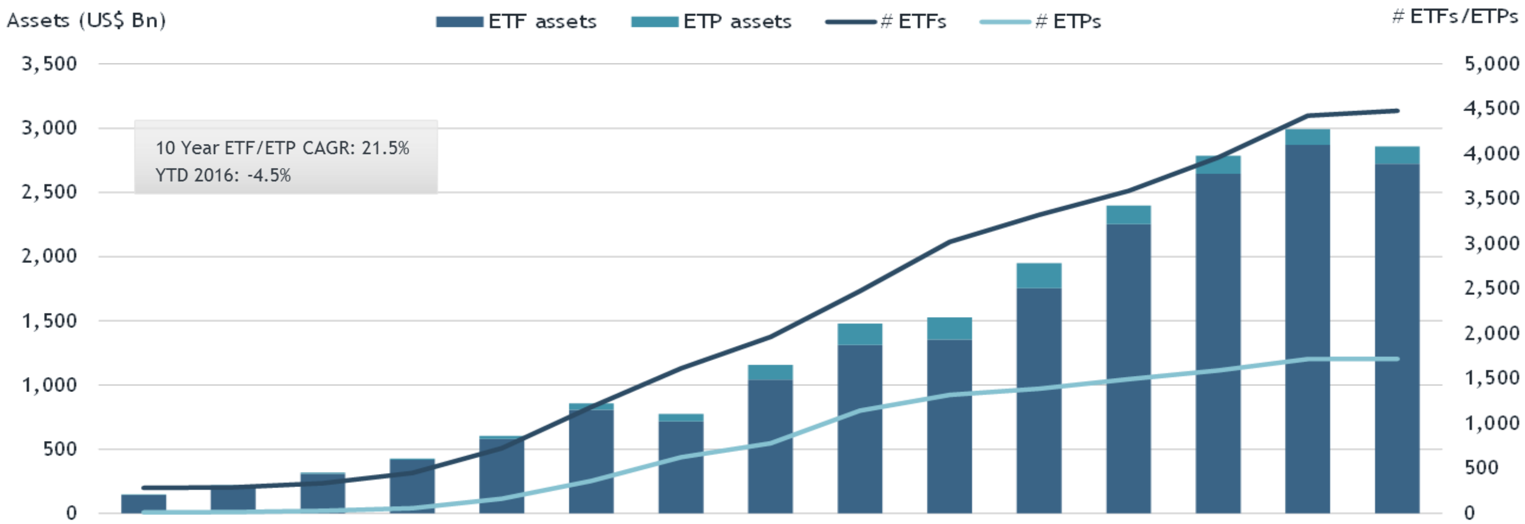
Fund Name	Category	Ticker Symbol	Year-to-Date Market Change	Rank
ASA Gold & Prec Met Ltd	Sector Equity Funds	ASA	33.3%	1
Central Fund of Canada	Sector Equity Funds	CEF	18.6%	2
Nuveen Minnesota Mun Inc	Other States Municipal Debt Funds	MNS	9.6%	3
Wells Fargo Ut & Hi Inc	Utility Funds	ERH	9.2%	4
DNP Select Income Fund	Utility Funds	DNP	9.0%	5

Fund Name	Category	Ticker Symbol	1-Month P/D Change	Rank
PIMCO Gl StksPLUS & Inc	Options Arbitrage/Opt Strategies Funds	PGP	15.2%	1
Herzfeld Caribbean Basin	Emerging Markets Funds	CUBA	14.2%	2
ClearBridge Energy MLP	Energy MLP Funds	CEM	11.4%	3
PIMCO High Income	General Bond Funds	PHK	10.8%	4
First Trust MLP Ener&Inc	Energy MLP Funds	FEI	9.3%	5

Fund Name	Category	Ticker Symbol	Year-to-Date P/D Change	Rank
PIMCO Gl StksPLUS & Inc	Options Arbitrage/Opt Strategies Funds	PGP	18.3%	1
RENN Fund	Global Funds	RCG	17.6%	2
Nuveen Engy MLP Tot Rtn	Energy MLP Funds	JMF	12.7%	3
Center Coast MLP & Infra	Energy MLP Funds	CEN	12.3%	4
Goldman Sachs MLP&En Ren	Energy MLP Funds	GER	12.1%	5

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

At the end of February 2016, the Global ETF industry had 4,479 ETFs, with 9,546 listings, assets of US$2,722 Bn, from 246 providers on 62 exchanges. At the end of February 2016, the Global ETF/ETP industry had 6,200 ETFs/ETPs, with 11,963 listings, assets of US$2,858 Bn, from 279 providers on 64 exchanges.



Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Feb-16
# ETFs	284	289	335	451	725	1,184	1,614	1,962	2,474	3,020	3,322	3,587	3,960	4,426	4,479
# ETFs/ETPs	296	304	365	507	888	1,544	2,238	2,741	3,617	4,337	4,710	5,081	5,550	6,142	6,200
ETF assets	142	212	310	417	580	807	716	1,041	1,313	1,355	1,754	2,254	2,643	2,871	2,722
ETF/ETP assets	146	218	319	426	603	857	774	1,158	1,478	1,526	1,949	2,398	2,784	2,994	2,858

Summary for ETFs/ETPs: Global

ETFs/ETPs listed globally have gathered US$10.80 in net new assets in February 2016, according to preliminary data from ETFGI's February 2016 global ETF and ETP industry insights report. ETFs/ETPs listed globally have now gathered net inflows for 25 consecutive months.

In the first two months of 2016 record levels of net new assets have been gathered by ETFs/ETPs listed in Asia Pacific ex Japan with net inflows of US$6.41and in ETFs/ETPs listed in Japan where US$9.24 Bn has been gathered year to date. Year to date a record level of net new assets have been gathered by commodity ETFs/ETPs with US$12.28 Bn, leveraged ETFs/ETPs with US$5.61 and Inverse ETFs/ETPs with US$1.41 Bn.

The global ETF/ETP industry had 6,200 ETFs/ETPs, with 11,963 listings, assets of US$2.85 trillion, from 279 providers listed on 64 exchanges in 51 countries.

"February was another volatile month for equity markets which drove investors to invest net flows into government bonds and gold. The S&P 500 closed the month down 0.13%. Despite recent uncertainty, emerging markets gain 0.31% in February, while developed markets outside of the U.S. declined 1%." according to Deborah Fuhr, managing partner at ETFGI.

In February 2016, ETFs/ETPs saw net inflows of US$10.81 Bn. Fixed income ETFs/ETPs gathered the largest net inflows with US$13.64 Bn, followed by commodity ETFs/ETPs with US$8.89 Bn, while equity ETFs/ETPs experienced net outflows of US$12.95 Bn

The net inflows of US$ 8.91 Bn into Commodity ETFs/ETPs in February 2016 of is a record high. The previous high was U$6.72 Bn gathered in Sep 2012.

Vanguard gathered the largest net ETF/ETP inflows in February with US$4.18 Bn, followed by iShares with US$3.10 Bn and Nomura AM with US$1.49 Bn net inflows.

YTD, Vanguard gathered the largest net ETF/ETP inflows with US$8.08 Bn, followed by Nomura AM with US$5.71 Bn and iShares with US$3.56 Bn net inflows.

S&P Dow Jones has the largest amount of ETF/ETP assets tracking its benchmarks reflecting 27.3% market share; MSCI is second with 14.3% market share, followed by FTSE Russell with a 12.3% market share.

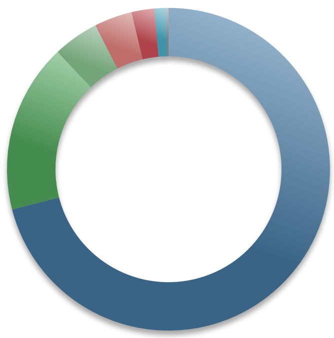
The 398 ETFs/ETPs with greater than US$1 Bn in assets hold a combined total of US$2,289 Bn, or 80.2%, of Global ETF/ETP assets.

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

Global ETF/ETP Assets Summary

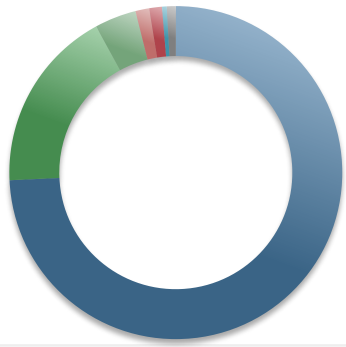
etfgi.com

ETF/ETP assets by region listed



Region	# ETFs/ ETPs	Assets (US$ Bn)	% total
US	1,863	$2,029.0	71.0%
Europe	2,199	$484.9	17.0%
Japan	170	$130.9	4.6%
Asia Pacific (ex-Japan)	817	$108.5	3.8%
Canada	384	$65.4	2.3%
Middle East and Africa	723	$34.2	1.2%
Latin America	44	$5.5	0.2%
Total	**6,200**	**$2,858.3**	**100.0%**

ETF/ETP assets by asset class



Asset class	# ETFs/ ETPs	Assets (US$ Bn)	% total
Equity	3,371	$2,122.9	74.3%
Fixed Income	897	$508.5	17.8%
Commodities	704	$115.5	4.0%
Leveraged	365	$38.1	1.3%
Active	248	$35.3	1.2%
Inverse	197	$13.2	0.5%
Others	418	$24.7	0.9%
Total	**6,200**	**$2,858.3**	**100.0%**

ETF/ETP assets by product structure

Asset class	# ETFs/ ETPs	Assets (US$ Bn)	% total
ETF	4,479	$2,721.8	95.2%
ETP	1,721	$136.5	4.8%
Total	**6,200**	**$2,858.3**	**100.0%**

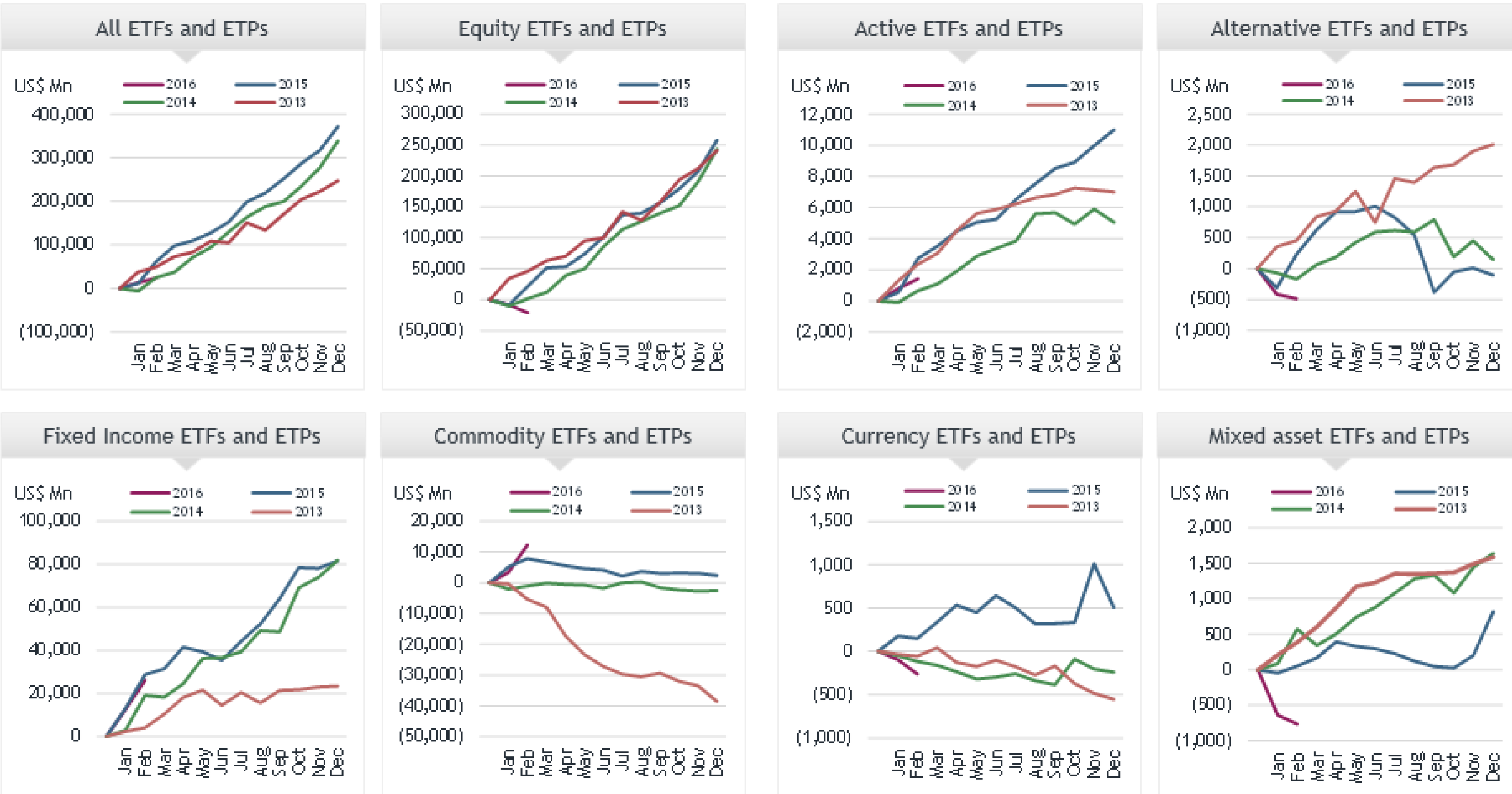
Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources, and data generated by our in-house team.

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

Global Year to Date Net New Assets

etfgi.com

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



ETFs and ETPs listed globally gathered net inflows of $10,720 Mn in February. Year to date, net inflows stand at $23,927 Mn. At this point last year there were net inflows of $61,798 Mn.

Equity ETFs/ETPs saw net outflows of $12,957 Mn in February, bringing year to date net outflows to $21,350 Mn, which is less than the net inflows of $21,493 Mn over the same period last year.

Fixed income ETFs and ETPs experienced net inflows of $13,638 Mn in February, growing year to date net inflows to $26,100 Mn, which is less than the same period last year which saw net inflows of $28,724 Mn.

Commodity ETFs/ETPs accumulated net inflows of $8,812 Mn in February. Year to date, net inflows are at $12,209 Mn, compared to net inflows of $7,873 Mn over the same period last year.

Actively managed products saw net inflows of $677 Mn in February, bringing year to date net inflows to $1,490 Mn, which is less than the net inflows of $2,730 Mn over the same period last year.

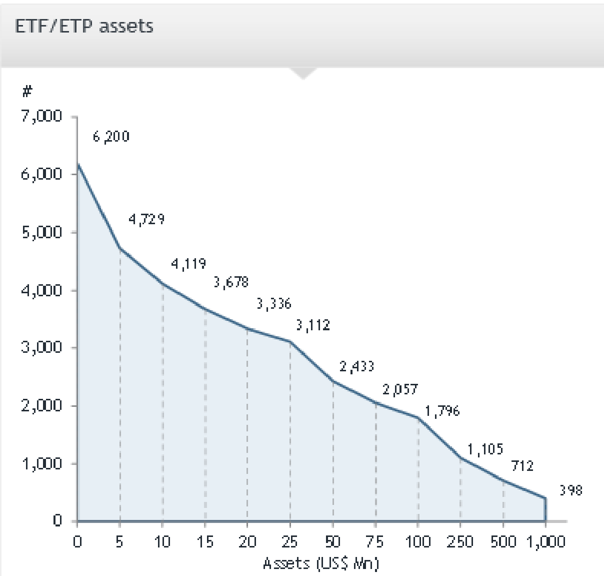
Products tracking alternative indices experienced net outflows of $74 Mn in February, increasing year to date net outflows to $490 Mn, which is less than the same period last year which saw net inflows of $233 Mn.

Currency products saw net outflows of $163 Mn in February. Year to date, net outflows are at $262 Mn, compared to net inflows of $150 Mn over the same period last year.

Products holding more than one asset class saw net outflows of $124 Mn in February, bringing year to date net outflows to $763 Mn, which is less than the net inflows of $53 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	6,200	100.0%	2,853	100.0%
5	4,729	76.3%	2,850	99.9%
10	4,119	66.4%	2,846	99.7%
15	3,678	59.3%	2,840	99.6%
20	3,336	53.8%	2,834	99.3%
25	3,112	50.2%	2,829	99.2%
50	2,433	39.2%	2,805	98.3%
75	2,057	33.2%	2,782	97.5%
100	1,796	29.0%	2,759	96.7%
250	1,105	17.8%	2,647	92.8%
500	712	11.5%	2,506	87.8%
1,000	398	6.4%	2,289	80.2%

398 ETFs/ETPs have greater than US$1 Bn in assets, while 1,796 have greater than US$100 Mn in assets and 2,433 have greater than US$50 Mn in assets. The 398 ETFs/ETPs with greater than US$1 Bn in assets hold a combined total of US$2,289 Bn, or 80.2%, of Global ETF/ETP assets.

ETF/ETP underlying benchmarks: developed equity

Top 20 by assets

Name	Assets (US$ Mn) Feb-16	NNA (US$ Mn) Feb-16
S&P 500 Index	327,083	(5,101)
MSCI EAFE Index	72,851	285
Nikkei 225 Index	60,919	1,395
CRSP US Total Market Index	54,378	748
TOPIX Index	49,933	855
NASDAQ 100 Index	40,617	(1,171)
S&P Mid Cap 400 Index	38,950	(809)
EURO STOXX 50 Index	35,882	(148)
MSCI Japan Index	30,752	(1,457)
Russell 1000 Growth Index	28,710	(266)
MSCI US REIT Index	26,999	60
Russell 1000 Value Index	24,854	(131)
Russell 2000 Index	24,014	(1,866)
MSCI World Index	19,786	327
DAX Index	19,566	(609)
CRSP US Large Cap Growth Index	19,365	30
NASDAQ Dividend Achievers Select Index	19,243	234
CRSP US Large Cap Value Index	18,601	617
MSCI EMU Index	17,961	(1,534)
S&P US 600 Small Cap Index	16,096	(37)

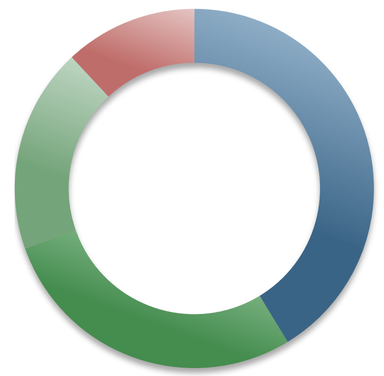
Top 20 by monthly net inflows

Name	Assets (US$ Mn) Feb-16	NNA (US$ Mn) Feb-16
MSCI USA Minimum Volatility Index	9,849	1,859
Nikkei 225 Index	60,919	1,395
StrataQuant Utilities Index	1,320	1,146
TOPIX Index	49,933	855
CRSP US Total Market Index	54,378	748
MSCI EAFE Minimum Volatility Index	5,513	714
FTSE High Dividend Yield Index	12,030	646
S&P Utilities Select Sector Index	7,621	638
CRSP US Large Cap Value Index	18,601	617
MSCI Canada Index	2,933	481
S&P Consumer Staples Select Sector Index	9,499	462
S&P 500 Low Volatility Index	6,219	378
S&P 500 Minimum Volatility Index	1,310	366
Alerian MLP Infrastructure Index	8,385	362
S&P Industrial Select Sector Index	6,237	335
Dow Jones US Select Dividend Index	13,925	332
MSCI World Index	19,786	327
S&P Energy Select Sector Index	11,794	314
MSCI EAFE Index	72,851	285
S&P 500 Value Index	9,396	259

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.

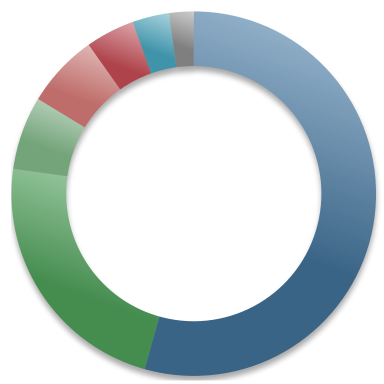
YTD ETF/ETP product launches

ETFs/ETPs by region listed



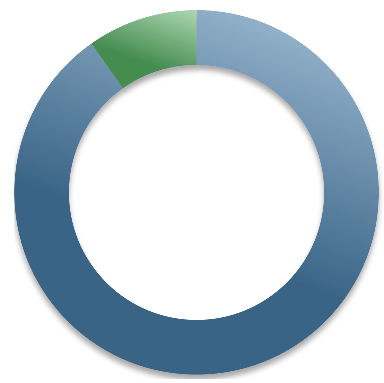
Region	# ETFs/ETPs	% total
Europe	38	41.3%
US	26	28.3%
Asia Pacific (ex-Japan)	17	18.5%
Canada	11	12.0%
Total	**92**	**100.0%**

ETFs/ETPs by asset class



Asset class	# ETFs/ETPs	% total
Equity	50	54.3%
Active	21	22.8%
Mixed	6	6.5%
Fixed Income	6	6.5%
Leveraged Inverse	4	4.3%
Leveraged	3	3.3%
Others	2	2.2%
Total	**92**	**100.0%**

ETFs/ETPs by product structure



Structure	# ETFs/ETPs	% total
ETF	83	90.2%
ETP	9	9.8%
Total	**92**	**100.0%**

Source: ETFGI, Bloomberg, ETF/ETP providers.

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

Aberdeen Asia Pacific Equities

March 2016

Authored by:
Hugh Young
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Aberdeen Asset Management

Should China's stockmarket crash be a concern?

We believe Chinese equity markets are divorced from reality. In our view, when share prices are driven by the interaction between state-sponsored market manipulation and the speculative instincts of millions of retail investors, they cease to serve as a gauge of a company's quality. Nor can they offer a glimpse into the health of an economy. That's why the Shanghai and Shenzhen stock exchanges won't tell you that, while China needs to work through the effects of a massive misallocation of capital following the global financial crisis, we believe the economy is nowhere near crashing. The economy is slowing – that's not in dispute. The government wants to achieve more modest growth of 6.5 percent this year, although this could still be ambitious. However, a slowdown is as much by design as it is by accident. Last month's stock market shakeout was necessary. We believe share prices were too high. Stock markets that operate like casinos simply aren't good enough if China wants to create capital markets that will channel money towards the most deserving companies, while funding the pension needs of an aging population.

Does the Fed still matter?

The U.S. Federal Reserve (Fed) raised interest rates at the end of last year. That decision removed one source of uncertainty for investors in Asia. Many people think U.S. policymakers will be more cautious over further rate increases because of the market turmoil that has marred the start of 2016 and the weak outlook for global growth. This may provide short-term support for equity markets that have become addicted to central bank stimulus, provided there are no other shocks to investor confidence. Any decision to slow the pace of U.S. monetary policy tightening may also hamper the pace of dollar appreciation, perhaps providing a temporary respite from the capital flight out of emerging markets. To be honest, it's hard to say with any certainty because the situation changes so quickly. The Bank of Japan's (BOJ) decision to adopt negative interest rates adds to the perception that policymakers in developed markets have run out of options. Fortunately, we believe Asia is on fairly solid ground. Reserves are ample, trade balances are in surplus and deficits are manageable.

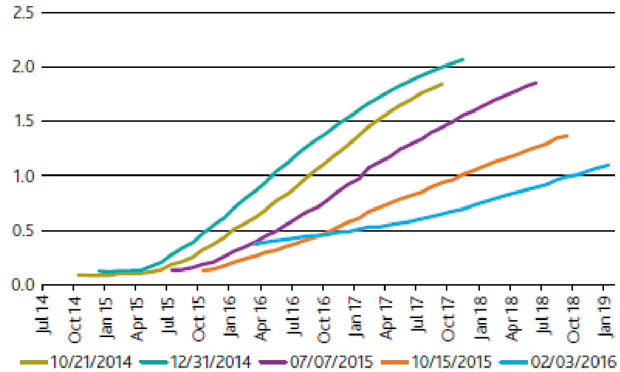
Indian stocks are also getting battered, what's the outlook for the economy?

Stocks have had a bad run since hitting a record high early last year. The MSCI India has fallen nearly 20 percent since March 2015, and there may be further to go. However, stock market activity seems at odds with the economy, which is one of the fastest growing among the emerging markets. The oil importer is also one of Asia's main beneficiaries as prices hover around $30 a barrel. While Prime Minister Narendra Modi's reform agenda has been hindered by political opposition at the national level, some progress is being made at the state level. That said, the country is not immune from a global economy that is struggling to find engines of growth. There are significant headwinds to earnings growth in India and companies' reluctance to invest suggests confidence remains fragile. The government has prioritized growth over fiscal consolidation for now, and we expect growth this year to be helped by higher consumption and public infrastructure spending. We believe our investments are well positioned to benefit from this.

So why are you still optimistic about the region?

We believe that Asian economies are reasonably robust, and that well-run companies will continue to flourish. Aside from that, firms are improving capital management and returning more money to shareholders via dividends and share buybacks. We also see pockets of growth despite the slowdown. In the likes of India and China, the private sector is being let into areas such as banking. Previously, the authorities shielded state firms from competition. India's private sector lenders boast stronger balance sheets and faster loan and deposit growth than their state-run counterparts. China offers interesting potential opportunities, particularly in hospitality, healthcare and transport.

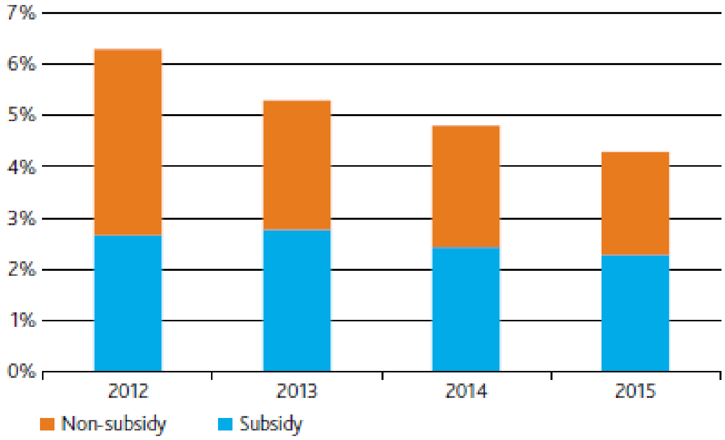
Chart 1: Fed finally raises rates, more to follow?
Implied Fed Funds rate (%)



Source: Bloomberg, February 3, 2016. For illustrative purposes only.

Chart 2: India – the reforms that never went away

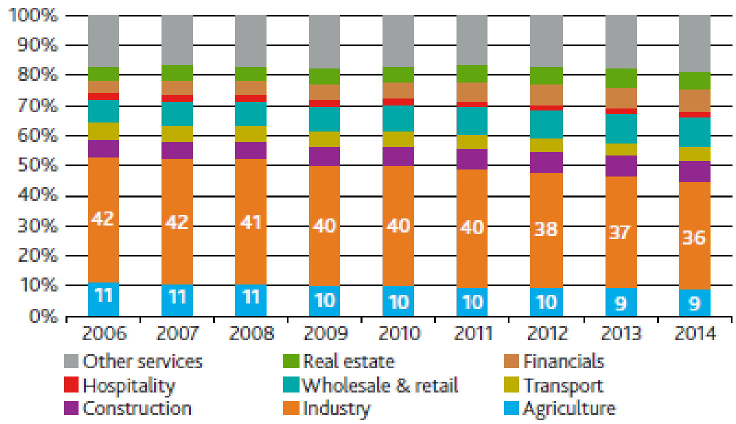
Fiscal Deficit [% Gross Domestic Product (GDP)]



Source: CEIC, December 2015. For illustrative purposes only.

Chart 3: Pockets of growth – China's service sector

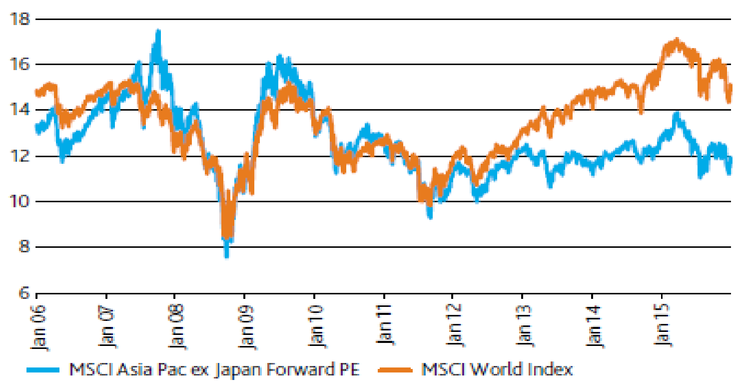
Service-sector contribution to GDP (%)



Source: CLSA, CITIC Securities, September 2015. For illustrative purposes only.

Chart 4: Asian shares are cheap

Forward price-to-earning (PE)[1] ratio for MSCI World versus MSCI Asia ex-Japan



Sources: Bloomberg, MSCI, January 29, 2015. For illustrative purposes only.
PAST PERFORMANCE IS NOT AN INDICATION OF FUTURE RESULTS. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

What sort of relative valuations are we talking about?

Big stock market declines since the start of this year mean Asian shares are trading around their cheapest levels since late 2011. At some 10.5 times price-to-earnings, the MSCI Asia ex-Japan index is trading at a 42 percent discount to the MSCI World Index. Some markets in the region are more expensive than others, and it's fair to say that India is still a relatively expensive one, even after the recent correction, although Indian companies have traditionally offered some of the best returns-on-equity in Asia. The Philippines would be another relatively expensive market. In contrast, Singapore, China and Hong Kong are markets where valuations are cheaper.

Click here for complete reading

Fitch: Absolute Return Funds Post Worst Returns Since 2008; Long Bias Exposed

March 16, 2016

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Fitch Ratings says absolute return (AR) funds have shown their weakest performance since 2008, with average 12-month rolling returns to end-February 2016 sinking to -5.2%, principally due to poorly managed drawdowns. Only 11% of funds showed positive performance over the same period, the agency says in its Absolute Return Funds Dashboard March 2016.

AR funds' bias towards long risk assets, particularly credit, has made them vulnerable to the change in the market regime globally in 2015, before which it had been a strong performance driver. The past 12 months of lower systematic returns and higher risk of capital loss were more supportive of strategies generating returns regardless of market direction and, as in 2008, revealed exposure to systematic market exposure (beta) in many AR funds.

Click here for complete reading

Rating Actions

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

- **Fitch Affirms Preferred Shares of Western Municipal Closed End Funds – February 23**
- **Fitch Affirms Pioneer Closed-End-Fund Preferred Shares at 'AAA' – February 23**
- **Fitch Affirms Preferred Stock of 4 PIMCO Corporate Closed End Funds at 'AAA' – February 23**
- **Fitch Affirms Ratings of Preferred Shares Issued by 4 Eaton Vance CEFs – February 23**
- **Fitch Affirms 'AAA' Preferred Ratings of AllianzGI Convertible & Income Fund II – February 23**
- **Fitch Rates iMTP Shares Issued by 8 Eaton Vance Closed-End Municipal Bond Funds 'AAA' – February 26**
- **Fitch Affirms Ratings of 2 Franklin Closed-End Funds at 'AAA' – March 7**
- **Fitch Rates VMTP Shares Issued by Nuveen Closed-End Fund – March 8**

2016 ETF & Investment Outlook

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Key Points

- In 2016, we expect continued low growth, subdued inflation and generally accommodative monetary policy.
- Risks are skewed to the downside as fragile markets could quickly turn volatile on a single bad data point or negative news event.
- In equities, we favor areas of growth with macro-economic tailwinds such as the Eurozone, Japan, and financial and consumer related sectors in the US.
- In fixed income, we favor taking a balanced approach with a mix of interest rate and credit sensitive sectors such as high yield and senior loans.

Key Takeaways

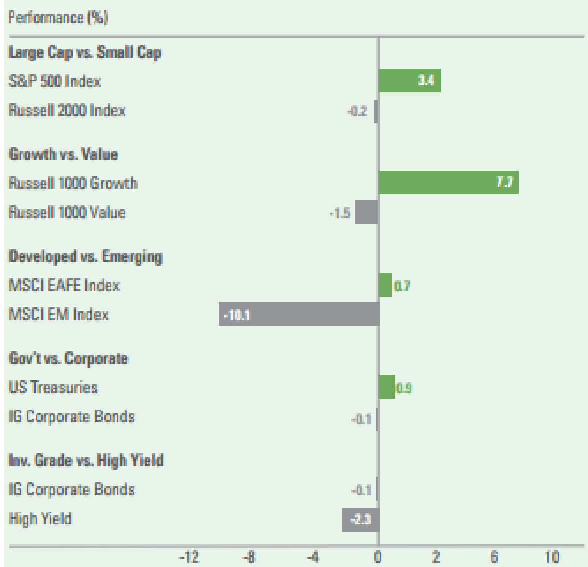
- Our base case for 2016 is that investors should be prepared for more of the "low and slow" growth that has characterized the global economy since the financial crisis. That means in equities, we believe investors should look for pockets of opportunities and growth.
- Outside the US, tilting to the Eurozone and Japan where the accommodative and pro-growth macro currents provide the strongest tailwinds is ideal.
- For the US, a resilient consumer and a potential Federal Reserve rate hike should continue to support
- and fuel top and bottom line growth in consumer related and financial sectors.
- In fixed income, still-low government bond yields and the desire for protection from potentially rising rates mean investors may have to explore more credit- sensitive sectors including high yield, senior loans and convertibles.

What worked in 2015?

Looking at the relative performance of major asset classes (see Figure 1), some clear trends emerge:

- In US equities, investors favored large-cap stocks over small-cap names.
- In the style spectrum, investors paid up for growth as consumer cyclicals, technology and health care led the way, while some traditional value sectors such as energy had a tough year.
- In international stocks, investors clearly preferred developed markets as emerging economies continued to struggle on China worries, weak commodity prices and a strong US dollar.
- In fixed income, investors favored government bonds over corporate credit, and within corporates they favored investment grade over high yield, as concerns over the impact of falling oil prices weighed on the high yield market.

Figure 1: Comparison of Major Asset Classes' 2015 Performance



Source: State Street Global Advisors, Bloomberg, as of November 24, 2015.

Indices representing each respective asset class are as follows – US Treasuries: Barclays U.S. Treasury Index, IG Corporate Bonds: Barclays U.S. Corporate Investment Grade Bond Index, High Yield: Barclays U.S. Corporate High Yield Bond Index.

Past performance is not a guarantee of future results.

The index returns are unmanaged and do not reflect the deduction of any fees or expenses. The index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income.

US Economy

There are many unknowns as we head into 2016, such as the pace of potential Federal Reserve rate hikes, whether other central banks will unleash more quantitative easing (QE) and who will reside in the White House. However, there seems to be broad consensus on two issues: global growth is slowing and inflation remains subdued. US economic growth slowed to 2.1 percent in the third quarter after rising 3.9 percent in the second quarter.1

Yet, there are still some reasons to be optimistic. The US consumer has been incredibly resilient, while job growth and the housing market are both trending in the right direction (see Figure 2). The unemployment rate has fallen to 5 percent, its lowest level since the financial crisis, with nonfarm payrolls rising at an average of more than 200,000 a month in 2015.2 With these favorable conditions in place, it's hard to argue the US will slip into recession.

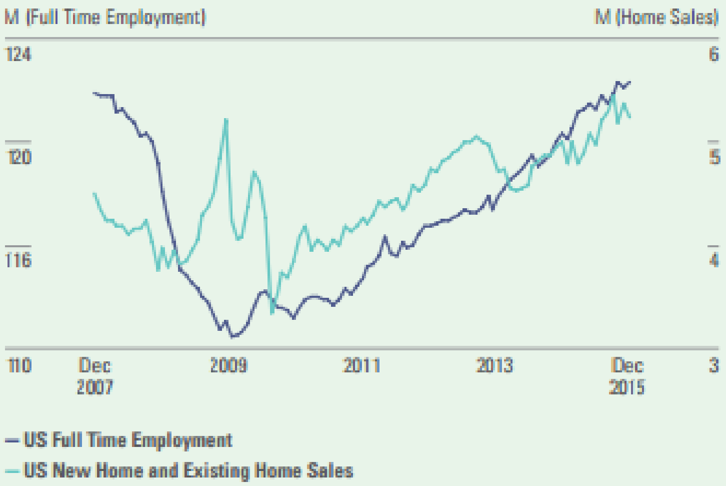
Fed Outlook

Our view is that the Fed most likely raises rates by 25 basis points at the December 2015 meeting, which would be the first hike in nearly a decade. After a likely lift-off in December, we expect a series of four quarter-point rate hikes in 2016. Rising rates may result in capital losses for investors in US government bonds such as Treasuries, particularly in longer duration debt. At the same time, the low level of absolute rates makes credit-sensitive sectors more attractive.

After a likely lift-off in December, we expect a series of four quarter-point rate hikes in 2016.

Therefore, in fixed income, we favor sectors beyond traditional bond benchmarks such as the Barclays U.S. Aggregate Bond Index. We think investors should consider fixed income areas that are more sensitive to credit conditions than to rising rates, such as senior loans, convertible securities and high yield.

Figure 2: Labor and Housing Markets are Improving



Source: State Street Global Advisors, Bloomberg, as of November 9, 2015.

What could increase market volatility in 2016?

- Further economic slowing and market dislocations in China
- A major slowdown in US earnings growth at a time when investors are questioning equity valuations
- US Presidential and Congressional elections
- Another debt flare-up in the Eurozone
- Escalating geopolitical tensions in the Middle East

Eurozone: Gaining Momentum

We think some of the best opportunities for developed markets might be outside the US, and we like the Eurozone in particular. We base our case for the Eurozone on continued accommodative monetary policy, encouraging fundamental growth trends and emerging stability in southern Europe. Following a double-dip recession in 2012, the Eurozone has gained traction and posted economic growth every quarter since the third quarter of 2013 (see Figure 3).

We think some of the best opportunities for developed markets might be outside the US, and we like the Eurozone in particular.

Also, Europe is a large net importer of commodities—which have fallen 21 percent in 2015[3] —and these lower input costs should improve European corporate profits. Additionally, the region's exporters have benefitted from the euro's weakness, while other positives include a pick-up in household consumption and retail sales. We project Eurozone GDP full-year growth of 1.4 percent in 2015. Looking ahead, we forecast 1.6 percent growth in 2016.

Emerging Markets: Focus on Quality

It was yet another disappointing year for developing markets with the MSCI Emerging Markets Index down about 8.0 percent so far in 2015 and on track to underperform the US for the third straight year.[4] Yet, we don't think investors should give up on this notoriously volatile asset class. Instead, they need to be selective and focus on quality, as decades of debt-fueled growth have left many corporate balance sheets in poor condition. Furthermore, emerging markets' return on equity—a key metric for assessing shareholder value—is now lower than that of developed markets for the first time in 13 years.[5]

However, many emerging market countries have unveiled new fiscal and economic reforms aimed at fostering sustainable growth and boosting competitiveness. Therefore, a larger emphasis on companies with strong corporate governance, quality balance sheets and a high return on equity could provide tailwinds for an emerging market allocation.

Emerging markets' return on equity is now lower than that of developed markets for the first time in 13 years.

Key Takeaways

Standing at $2.1 trillion with more than 1,800 funds,[6] the US ETF industry is on track for another record-setting year with about $196 billion of net inflows through the end of November 2015.[7] Big picture, investors favored equity funds.

In particular, currency hedged ETFs posted strong inflows in 2015 as investors in international developed equities looked for protection against a rising US dollar (see Figure 4). We also saw investors trying to time a bottom in the beleaguered energy sector and herding behavior in high yield ETFs with investors moving in and out of this category based on market and credit conditions.

As for more nuanced flow trends, in US sectors, while there was bargain hunting in the beaten-down energy sector, investors paid up for growth and performance in health care (see Figure 5). Also, investors avoided rate-sensitive sectors, including utilities and financials, although we did see the financial sector attract a significant $4 billion over the last six months of the year due to increased expectations for a Fed rate hike.

Finally, in fixed income, investors favored core aggregate funds and government debt, followed by investment-grade and high yield corporate bonds (see Figure 6). For the most part, investors didn't venture too far outside their comfort zone in fixed income ETFs, sticking to sectors in the Barclays U.S. Aggregate Bond Index rather than more non-traditional sectors such as senior loans and convertibles.

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Staying the Course with FVD

February 22, 2016

Authored by:
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First Trust

Emotional decision-making ranks high on the list of obstacles that often prevent investors from achieving their financial goals and objectives. The fear of incurring losses evokes a desire to sell after prices have dropped, while the fear of missing out on gains evokes a desire to buy after prices have risen. Volatility acts as a catalyst to evoke emotional decision-making by creating a sense of urgency; investors may feel that decisions must be made in the heat of the moment, because prices are moving quickly!

In our opinion, emotional decision-making has been a root cause of many investor decisions to sell equity exchange-traded funds (ETFs) in 2016, as volatility has returned to the equity markets, accompanied by negative returns. During the month of January, net outflows for US equity and sector ETFs totaled $14.1 billion1, as the average level of the CBOE Volatility Index surged to 23.7 (compared to an average of 16.7 in 2015)2, and the S&P 500 Index declined by 5%.

Such environments present a fresh opportunity to highlight the virtue of strategies designed to provide less volatile exposure to stocks, such as the First Trust Value Line® Dividend Index Fund (FVD). In the context of a diversified3 investment portfolio, we believe this strategy may help investors "stay the course" and avoid making counterproductive emotional decisions.

FVD is an ETF that seeks to track the Value Line® Dividend Index. This strategy builds upon the Value Line® Safety™ Ranking System to select a portfolio of stocks traded on US exchanges with low volatility, strong balance sheets, and above average dividend yields. The portfolio is equally weighted and rebalanced monthly.

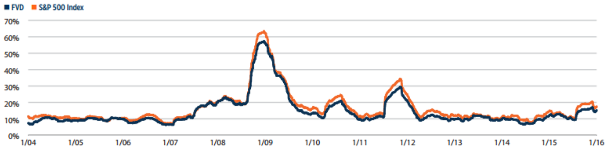
A Less Volatile Strategy

Historically, FVD has consistently exhibited lower volatility than the S&P 500 Index. Since inception (8/19/03), the fund's rolling 90-day net asset value (NAV) volatility been lower than that of the S&P 500 Index 95% of the time (See Chart 1).

Navigating Sector Exposure

Monthly reapplication of FVD's underlying strategy has historically led the fund to more quickly adapt to changing market conditions than many other indices. For example, as volatility increased in the financials sector during the months leading up to the 2008-2009 financial crisis (See Chart 2), FVD's allocation to financial stocks declined steadily, from 34.9% on 12/31/06 to 24.1% on 9/30/08 (See Chart 3). This shift turned out to be quite timely as the S&P 500 Financials sector proceeded to decline by over 69% from 9/30/08 through 3/6/09. In contrast, the benchmark Dow Jones U.S. Select Dividend IndexSM increased its allocation to financial stocks from 44.1% on 12/31/2006 to 52.6% on 9/30/08, as declining prices of financial stocks made dividend yields appear more attractive.

Chart 1: Rolling 90-Day Volatility (1/04-1/16)[2]



Past performance is no guarantee of future results. Rolling volatility is a measure of standard deviation.

Chart 2: Rolling 90-Day Volatility (1/04-1/16)[2]

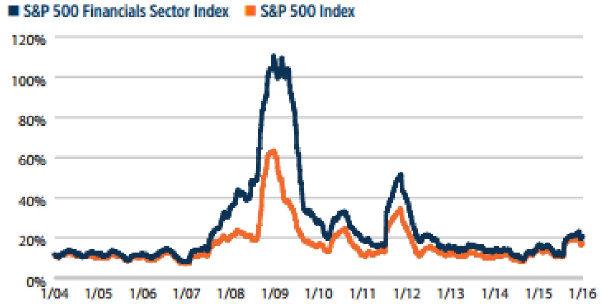
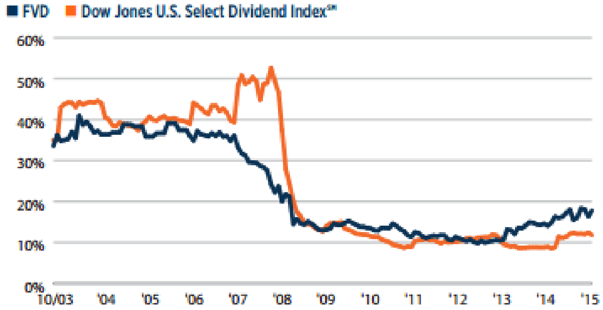


Chart 3: Financial Sector Allocation (10/03-12/15)[1]



Reducing Extreme Returns

Since inception, FVD has had far fewer months of extreme negative returns than the S&P 500 Index. In fact, FVD produced monthly total returns worse than -6% in just one of every 30 months (or 3.4% of the time), compared to one of every 15 months (or 6.7% of the time) for the S&P 500 Index (See Chart 4). Of course, FVD has also produced fewer extreme positive monthly returns than the S&P 500 Index, exceeding 6% total returns in one of every 21 months (or 4.7% of the time), compared to one of every 17 months (or 6% of the time) for the S&P 500 Index.

Chart 4: Histogram of Monthly Returns (8/03-1/16)[1]

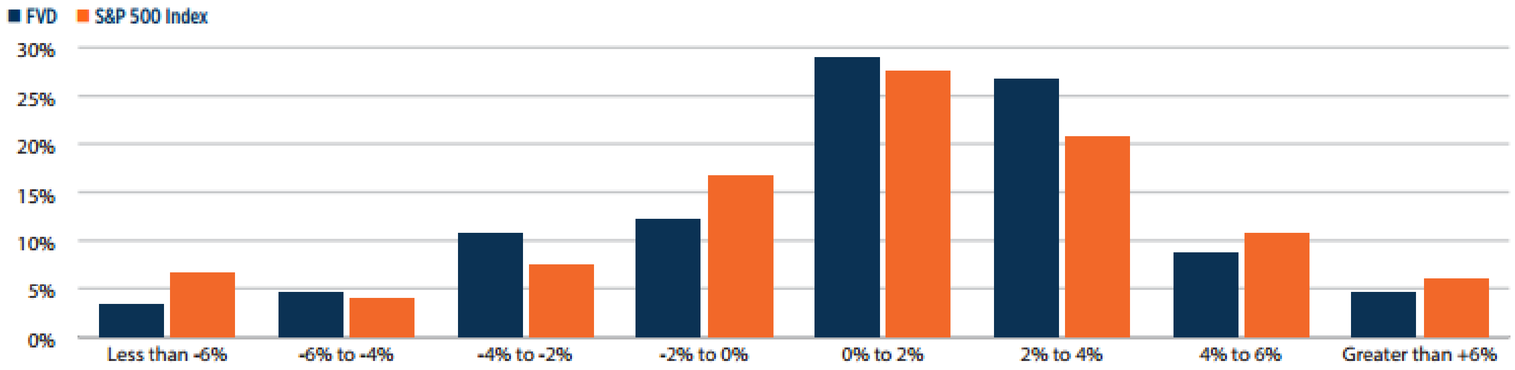
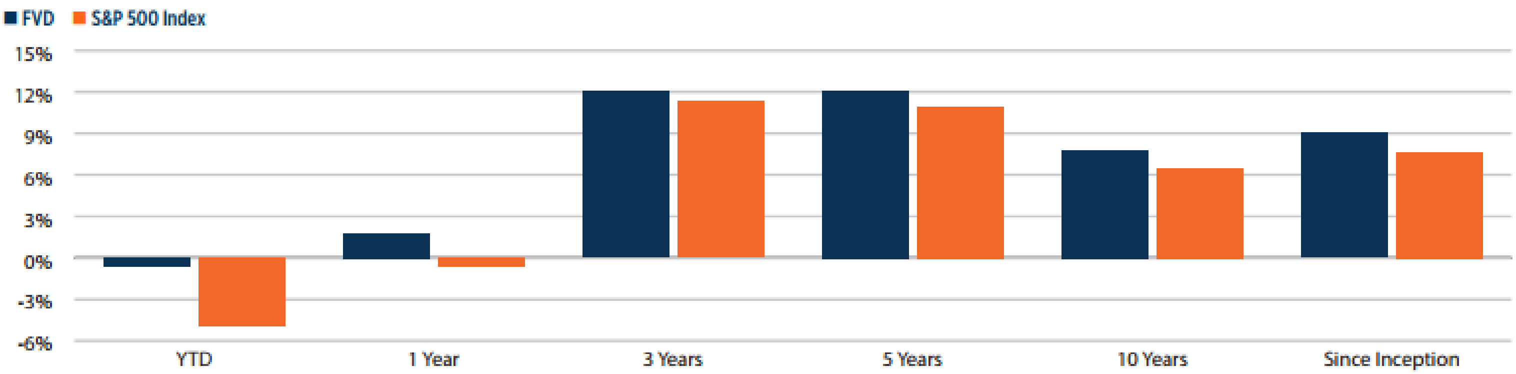


Chart 5: Month End NAV Performance (As of 1/29/16)



	Inception Date	Gross Expense Ratio^	Net Expense Ratio	30-Day SEC Yield†	Unsubsidized 30-Day SEC Yield#	NAV Performance (%) (As of 1/29/16) YTD	1 Year	3 Years	5 Years	10 Years	Since Inception
FVD*	8/19/03	0.75%	0.70%	2.73%	2.71%	-0.71	1.76	12.01	12.08	7.82	9.03
S&P 500 Index[4]						-4.96	-0.67	11.30	10.91	6.48	7.63

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

Returns are average annualized total returns, except those for periods of less than one year, which are cumulative.

Performance Summary (As of 12/31/15)				NAV Performance (%)				Market Price Performance (%)			
	Inception Date	Gross Expense Ratio^	Net Expense Ratio	1 Year	5 Years	10 Years	Since Inception	1 Year	5 Years	10 Years	Since Inception
FVD*	8/19/03	0.75%	0.70%	1.26	12.49	8.20	9.16	1.26	12.47	9.68	9.16
S&P 500 Index[4]				1.38	12.57	7.31	8.13	1.38	12.57	7.31	8.13

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

Historical Returns

While implementing a less volatile strategy than the S&P 500 Index, FVD has managed to deliver superior returns over multiple time periods, including year-to-date, 1-year, 3-years, 5-years, 10-years, and since inception (See Chart 5). As of 1/29/16, FVD had a 2.73% 30-Day SEC Yield†

We acknowledge that eliminating emotion from decision-making is generally easier said than done for many investors. For this reason, we believe that it may be beneficial to consult a trusted financial advisor in order to formulate a disciplined game plan. We believe that the First Trust Value Line® Dividend Index Fund (FVD) may be a useful tool in such a plan, particularly for those seeking less volatile exposure to stocks.

Click here for complete reading

The State Of MLPs In 2016

March 7, 2016

Authored by:
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Tortoise Capital's Managing Director and Portfolio Manager Brian Kessens was the keynote speaker at Capital Link's recent MLP Investing Forum Conference in New York City. Here are excerpts from Brian's presentation. Today we will publish Part 1 in this two-part series.

As I think about the current state of the MLP sector, and particularly where we've been recently, I'm reminded of what an executive who has been through multiple energy cycles recently said, "People call this a cycle, I call it pure hell." I think that about sums it up.

For those who have been in the industry since the 1970s, this downturn is arguably the worst, with only the trough seen in 1986 remotely comparable. Yet, I think market participants will look back on the existing period of capitulation and recognize the opportunity that was at hand.

It doesn't seem like too long ago when we were touting energy independence, high energy employment, and an energy transformation on par with how Michelangelo and da Vinci transformed renaissance Italy. So how did we get here exactly?

Game-Changing Technology

It is clear that technology, in the form of horizontal drilling and hydraulic fracturing, a vision of the late Aubrey McClendon, has been a game changer for US energy production. Some say Silicon Valley is at the heart of new technology – I'd argue the advancements made in the energy industry have been even more dramatic. We can now geo-steer well bore-heads, through 10,000 feet of hard, unseen rock, to within several feet of an identified target. We are using one ton of sand for each lateral foot that is fractured, and we are now drilling up to six shale rock layers from a single drill site. That's simply amazing, in my mind.

Because of these technologies, producers are touching more shale surface area, enabling them to access more hydrocarbon reserves than ever before. Consider that producing 500,000 barrels of recoverable reserves per well used to be "outstanding". Now, producing one million barrels is the norm.

Furthermore, producers are now able to drill and complete wells with service costs that are lower by 30%. Production that was economic at $90 per barrel two years ago, is now economic at $45 per barrel.

Significant Increases in Energy Production

U.S. energy production has arguably been too successful. Just since 2008:

- Natural gas production is higher by 34%. Specific to the Northeast, the Marcellus and Utica shales represented virtually zero production in 2008. These shale regions now produce over 20 Bcf/d alone, or over one quarter of all U.S production.
- Crude oil production is higher by 84%. This production has been led by the Permian basin in West Texas, an area that has been producing oil since early in the last century and thought to be in perpetual decline 10 years ago. Today, production tops 2 million bpd.
- Natural gas liquids production, that of ethane, propane, butane, is up even more at 89%
- And finally, pipeline companies have built significant infrastructure to support all of this increased production. For example, over the last five years, 50 crude oil projects representing $30 billion of capital were constructed to get the increased production to market. And an even greater amount has been invested in the Northeast to transport increased production of natural gas to the New England states, the Southeast, and even to our northern neighbor, Canada.

Sector Headwinds

That's where we've been. Where are we now?

Demand has not kept up with this 'all too successful' supply. It takes 5-10 years for an end user to change its fixed capital investments to utilize these lower cost, abundant energies. That's why industry veterans measure energy progress by the decade and not the news cycle.

The supply overhang has now resulted in ultra low commodity prices that if continued will likely result in an infinitely distressed producer industry. This unhealthy producer environment gives pipeline investors significant pause for a couple of reasons.

First, the pipeline industry built a network for increasing hydrocarbon production. If producers are unable to grow production due to strapped balance sheets, we'll have over capacity in pipeline infrastructure. Long term contacts currently offer substantial protection, yet we expect contracts will not be renewed upon expiration if the current environment persists. Consequently, we expect to see some project deferrals or rationalization to better align midstream capital commitments with production.

Second, there is greater uncertainty about committed cash flows from a potentially bankrupt producer. Yet even in a bankruptcy scenario, we think it likely a midstream operator continues to receive payment because it remains economical to continue production (with cash costs at $20 per barrel), and the majority of pipeline contracts offer a fair and justifiable return.

In a bankrupt scenario, we think a pipeline is better positioned if it is a gathering pipeline – being closer to the wellhead without direct competition. In our view, a bankruptcy judge is likely to deem these companies critical vendors.

Bigger picture though, realize the vast majority of production derives from investment grade companies. We estimate that about one million bpd of oil production come from non-investment grade companies versus total production of about nine million bpd.

And if the recent $8 billion of successful producer equity offerings indicates anything, it is that balance sheets are only getting healthier – bankruptcies are largely the exception.

Furthermore, many pipelines are demand pull pipelines with high quality utility and refining customers. Nonetheless an infinitely distressed producer sector is the current backdrop for the unit prices of MLP stocks. This is resulting in more challenging capital access and a higher cost of capital for MLPs

Distribution growth is lower as projects that do get financed are less accretive and other projects are deferred or cancelled. This is a negative feedback loop that has been acute through the down-cycle.

Reasons for Optimism

In our view, two themes worth highlighting include the significant demand investment by end-users and the U.S. is now able to export all hydrocarbons.

First, we have significant visibility to increased natural gas demand over the next several years.

Last week, Cheniere exported LNG to Brazil, the first US LNG export ever. They indicated they expect U.S. LNG, priced off of domestic natural gas, to be the lowest cost provider to the world.

Other exporting nations like Russia are taking note. Given that, and looking forward, in the U.S., a new LNG train is projected to come on-line, on average, every quarter through 2019.

By the end of the decade, we expect the U.S. will be able to export between 8-10 Bcf/d of LNG or around 10% of expected US natural gas production. Yet exports are not just through LNG. The U.S. will also be able to export natural gas via pipeline to Mexico.

Last week I attended the energy industry's CERA conference in Houston where Mexican President Nieto spoke. He went to great lengths to emphasize Mexico's growing demand for natural gas. Mexico is building nine natural gas fired power generation facilities and 25 natural gas pipelines. It is expected to double U.S. natural gas imports from 3 Bcf/d to 6 Bcf/d by decade's end.

Also notable, significant coal fired power plant retirements coupled with replacement by natural gas generation is likely to result in 5 Bcf/d of increased demand. The Clean Power Plan potentially adds even more. Increased Gulf Coast industrial activity can add another 5 Bcf/d.

In total, that amounts to over 20 Bcf/d of incremental natural gas demand by 2020 or about the amount of current production in the Marcellus shale.

Regarding natural gas liquids, seven new petrochemical facilities in the U.S. are in construction and three others are being expanded by 2019. This is expected to result in over 500,000 bpd of increased ethane demand.

Exports may add 300,000 bpd more. This 800,000 bpd is relative to the current demand of 1.1 million bpd. And exports continue for propane and butane as well, where the U.S. is currently exporting 700,000 bpd and there is visibility to one million bpd of export capacity.

Finally, crude oil. We expect continued growth of one million bpd globally as populations increase and driving gains further traction in emerging markets.

The U.S. also has the ability to export crude oil now and we expect some to be exported as the world favors the light sweet nature of U.S. crude. In fact, we believe there are nominations for six million barrels of crude oil export in March.

All of this demand growth is impressive by any measure.

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China, US Dollar and Oil Create Volatile Brew for 2016 Markets

February 10, 2016

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Market Overview

Concerns about growth in China, the impact of a strong dollar and ongoing pressure on the prices of oil and other commodities continued to weigh heavily on global markets as we enter 2016. Furthermore, all eyes continue to be on the Fed as market participants look for signs of the next rate move – whether, when, and how many.

- Our core call for slow growth, low inflation and tepid 2016 investment returns remains intact. If anything, the outlook is even more challenged than we believed it to be at the end of 2015.
- Against this backdrop, we believe the Fed will be even more cautious than it has signaled. We believe a March rate hike is highly unlikely and would not be surprised if the Fed does not raise rates at all in 2016.
- The data suggest that the US dollar will continue its 16-month rise vs. world currencies, but at a slower pace. Given accommodative monetary policies abroad, dollar strength will likely continue even if the Fed does nothing.
- The commodity supply glut is showing no immediate signs of abating, with real pain in high yield and signs of spillover impact on the real economy.
- While all eyes are on the Fed, Chinese policymakers may matter the most. The RMB's fate will have a major impact on the global economy in 2016.
- On balance we favor investors remain defensively positioned, with higher than normal allocations to cash. Within equities we continue to favor low volatility strategies.

Is the Dollar King, Wild Card or Joker?

- Since its nadir in July 2011, the US dollar has appreciated by 25% (based on the Fed's broad trade-weighted index) to 33% (on an equity market capitalization basis), versus a typical move of 40% to 50% over a typical cycle. On a cap-weighted basis, the dollar is 10% overvalued, the highest since 2002. But we believe that it is likely to appreciate still further given the weak global economy and the relatively easy money policies of our key trading partners.
- We expect the strong dollar to push out Fed rate hikes. A strong dollar translates into tighter effective monetary conditions and dampens inflation. Nonetheless, even a more dovish Fed policy will likely fuel modest dollar gains, given global monetary divergence. The rate of appreciation will most likely slow from the 1% monthly gain we've seen since late 2014 and the trajectory will likely be more choppy as markets hang on every data release and policymaker speech.
- In sunnier times, a strong dollar would be a boon to consumers, tamping inflation and enhancing purchasing power, but we are in a more fragile state today. Dollar appreciation has depressed corporate earnings, and is beginning to impact the real US economy. Since the S&P 500 derives 35% of its earnings abroad, the translation of those earnings into dollar terms is a significant headwind.
- We continue to counsel US-based clients to consider hedging non-dollar exposure, especially in the Eurozone where asset owners have sizeable positions and policymakers continue to be very aggressive.
- Regarding opportunities, we believe undervalued currencies include the yen, Australian dollar, and Canadian dollar. Emerging markets appear undervalued, in some cases justifiably so due to political risk. The South African rand, Russian ruble and Mexican peso all look extremely undervalued in spite of the weakness in commodities.

Will the RMB Succumb to a Dramatic Devaluation?

- We think the RMB will be a key determinant of global economic performance in 2016. China faces a policy trilemma, under which it can't simultaneously have an open capital account, a fixed exchange rate and monetary independence.
- A large RMB devaluation would likely devastate Chinese industry, so we expect the PBOC to fight back by 1) attempting to control capital outflows, although this will be difficult; and 2) defending the currency with its FX reserves. A key political question is the level of reserves that China deems the minimum necessary before they'd let the currency fall.
- China doesn't have an external disequilibrium: Current account and foreign direct investments add roughly $400 billion a year to China's $3.3 trillion reserves. While these reserves are down significantly from the $4 trillion in June 2014, even at the current pace, China has ample reserves to manage through the current crisis.
- China is concerned that a large currency slide will accelerate bankruptcies. Debt to GDP has soared from 160% to 250% in 9 years. We believe China needs to reflate by reducing the Required Reserve Ratio, but doing this encourages currency outflows. Devaluation is expansionary for trade but contractionary from the debt burden. Defending the RMB is contractioary, because it reduces money supply, absent offsets.
- The RMB showdown comes amid a painful

- economic transition away from investment toward services. The pace at which the government closes zombie companies will be critical.
- Recently a number of high-profile hedge fund investors have publicly announced that they are aggressively shorting the RMB. Our own Global Macro team sees considerable stress in China and is betting on an RMB depreciation, with portfolio manager Lisa O'Connor noting "we think this is a huge development." Notably the Global Macro team sees 2016 China GDP growth at 4.5% to 5%.
- SSGA's Economist Team expects 6% GDP growth with downside risks, versus a consensus of 6.5%. But they too see the risks as being skewed to the downside.

The Commodity Glut Threatens the Real Economy

- Demand for oil and industrial commodities has largely been flat. The real shift in the market clearing price has come from increased supply as producers boost production to offset overhead and/or benefit from lower marginal production costs. With prices sinking to an unsustainable level, we expect attrition to bring back balance, but that will take time.
- The US produced an extra 500,000 barrels of oil per day in 2015. Assuming $30 oil, we see US output dropping by 1m bpd in 2016. Larger capacity declines will likely occur in H2 2016 and in 2017, as capital constraints begin to bite and price hedging wears off.
- For oil, capex has come down by about 25%, which is not enough to balance the market, so we're expecting more of that in 2016.
- The supply-demand balance outlook would improve if OPEC changes strategy and/or the Russians agree to a sustained cut. This accommodation does not appear likely. Even a wildcard—war in the Middle East, depending on the seriousness—would probably only have a short-term impact unless significant supply was permanently or semi-permanently taken off line.
- For long-term investors, SSGA's Fundamental Equity team sees value in: large well-capitalized integrated oil companies; low-cost, well-capitalized US shale gas plays; and downstream materials firms that benefit from lower costs.
- Low commodity prices do not appear to be yielding a growth dividend. We attribute this to weakness leading into the commodity price decline. Consumers in Europe still have a lot of debt, so they haven't been keen to spend the dividend. Debt in general has depressed confidence and prompted consumers to clean up their balance sheets rather than spend the dividend on goods and services.

High Yield Pain Spills Over to the Real Economy

- The obvious casualty of low commodity prices is US high yield. Many maturities will come due in H2 of 2016. We are watching for potential for second-order effects.
- Demand for high yield assets has become anemic, with investors tightening standards. With commodity and energy bonds yielding 17%, the only buyers are distressed players.
- For relatively healthy companies, spreads have widened to about 600 bps over treasuries, making it difficult for companies to refinance or finance growth, potentially marking a tipping point toward impact on the real economy.
- We're expecting downgrades soon on tens of billions of dollars in debt, particularly among the approximately $400 billion in energy and commodity debt. So there's an overhang from a technical standpoint, there are fundamental issues and a lot of uncertainty.
- European banks have higher exposure to commodity-driven economies and emerging markets than US banks, but it's unclear whether the magnitude is high enough to upset the system in a material way.

Seeking Fundamental Value in a Lower-for-Longer World

- The MSCI World trades near historic valuation averages, but we see major disparities. US markets trade at a large premium relative to global markets and historic averages. Europe might be undervalued, and Japan might be undervalued if the balance sheet initiatives and corporate governance reforms yield results.
- From a sector perspective, IT, consumer staples and healthcare are at all-time highs on relative and absolute valuation, because in a no-growth environment investors are often willing to pay very high prices to get access to earnings growth. On the opposite end of the scale, energy, financials and materials are at all-time lows.
- We think there are values to be had in energy, financials and materials, but in the short term, sentiment remains negative and the market may continue to punish these sectors. Capitalizing on the opportunity will require patience. There are plenty of bargains, and well-managed companies will continue to look for opportunities to take market share, but rarely have we seen a more uncertain J-curve from a payback perspective.

Click here for complete reading

Field Notes: Japan

March 9, 2016

Authored by:
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The Calamos Global Equity team regularly visits the countries in which we invest. We meet with company management teams, local analysts, industry professionals and government officials and visit facilities. We also seek out ways to understand a country hands-on, including through conversations with people from all walks of life.

We recently returned from a two-week trip to Japan, and while evidence of change is visible, the process is slow. Here are some field notes from our recent meetings, including how our travels are shaping our view of opportunities in Japan.

Military and Defense

Military and defense were central themes in several meetings, including in two meetings we had with Prime Minister Shinzo Abe and members of his political party. The mindset about military and defense is changing in Japan, and there's great concern about the ambitions of neighbors like China and Russia as well as the instability of regimes like North Korea. Defense and military spending is becoming a larger part of the Japanese budget, which could provide some good opportunities for investors. While it's difficult today to gain direct exposure to Japanese defense companies, we have invested in global defense companies that are indirectly benefiting from increased defense spending, worldwide.

Construction and Real Estate

Construction and real estate are areas where we see more compelling near-term opportunities. The Bank of Japan's recent decision to enact a negative interest rate policy (NIRP) was a hot topic and came up in most meetings with government and central bank officials. The initial market reaction was negative, especially within the banking sector, and the people we spoke with made great efforts to justify the policy shift and emphasized how a three-tier system should minimize the financial impact on banks while promoting lending and improving asset quality.

We are not yet convinced a NIRP will benefit Japanese banks. However, we did see evidence that an ultra-low interest rate environment is making an impact on the real estate and construction sectors. During our travels, we spoke to consumers who had recently purchased real estate or were in the process of doing so. Many indicated that the "newness" of the units was very important. While several new mega-projects are now underway, the larger opportunity near-term may be tied to the renovation of existing aging buildings. We spoke to several real estate developers who are re-developing existing buildings and they told us they are now able to lock in extremely low interest rates for longer periods (for example, moving from less than 3 years to more than 10 years). We also heard stories about labor shortages in construction, which could be a constraint to growth given Japan's strict immigration laws and low unemployment (~3%). We expect further wage growth pressures as well as policies that allow for additional foreign labor.

Chinese Tourism

Chinese tourism remains a strong theme in Japan and many companies are focused on attracting the Chinese consumer. We spoke to a property developer who purchased existing hotels that typically had one bed per room and a maximum capacity of three people per room. By making simple renovations and adding a second bed to rooms, he was able to increase maximum capacity to five, catering to the Chinese consumer preference for four-to-five person occupancy rates. This change required minimal capex but increased his average nightly room revenue from $80 to more than $120, and his occupancy rate has improved due to strong demand from Chinese visitors.

We also had the opportunity to tour a new duty free store in the high-end shopping district of Ginza, in Tokyo. We visited an eight-story mall where the top floor was converted to duty free shopping. Chinese consumers can shop duty free any time during their vacations and have packages delivered to the airport to await their departures. This business model has done very well in Korea and expectations are high that Japan may see similar success.

Corporate Governance and Culture

As we have written in past blogs, Japanese corporate culture is slowly changing, with a growing emphasis on increasing shareholder returns via better corporate governance and capital allocation. Compared to past trips, we had more meetings this year where companies discussed dividend payout ratios, share buybacks, and improvements in return on equity.

While this was encouraging, we were reminded that Japanese companies have a long way to go. Many have just begun to reach for the low-hanging fruit, while others have not gone that far. We still aren't hearing about restructuring—rationalizing underperforming businesses, selling off units, etc. Although Japanese businesses frequently discuss cutting costs and improving efficiencies, we didn't hear any discussion about consolidation, which would help capital efficiency.

Click here for complete reading

Identifying Global Growth Opportunities Through A Thematic Lens

January 2016

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Calamos Investments

At Calamos, our investment process pairs comprehensive bottom-up fundamental research with an understanding of the top-down forces that are likely to shape the investment landscape going forward. The bottom-up process includes rigorous fundamental industry and company analysis performed by our team of dedicated sector research specialists. The top-down process includes understanding short- and longer-term macroeconomic, geopolitical, regulatory, and other forces that will shape the business and investment climates.

Another critical component of our top-down process is identifying and investing along secular growth themes around the world. Secular themes are long-term trends that can drive growth for years, even decades, within or across industries or sectors. One of the most far-reaching secular themes we see today is the worldwide appetite for information, entertainment, and connectivity, which continues to drive consumers and businesses to spend on smart devices and related products and services.

There are of course winners and losers in terms of exposure to a secular theme, and it's important to understand each. Companies with secular forces at their backs are better positioned and have a greater capacity to grow in both favorable and unfavorable economic climates. Meanwhile, businesses less favorably exposed to a secular theme are likely to see more limited growth opportunities and a deceleration or decline in returns on capital. From an investment standpoint, we believe finding the winners and avoiding the losers from a given theme can contribute to an improvement in the risk/reward of a portfolio.

Clients and long-time readers are familiar with our disciplined economic profit-based approach to analyzing and valuing businesses. Within this framework, we look to identify companies exhibiting the best combination of strong and accelerating returns on invested capital and a high and increasing capacity for additional capital investment into the business—a virtuous combination that yields significant value creation. Competitive forces generally pressure both returns on capital and growth opportunities, but durable secular themes can allow businesses to earn above-average returns on capital and provide increasing opportunities for investing capital into the business for longer periods. This also allows these businesses to sustain higher valuations through time. The opposite is generally the case for businesses on the wrong side of a secular theme, and price risk is generally more elevated as a result.

Returning to our earlier example, the winners we seek within the connectivity theme include mobile and internet companies benefiting from the adoption of next generation networks globally. Less-favorably exposed businesses we generally avoid include companies leveraged to older technologies that, to paraphrase the economist Joseph Schumpeter, are being creatively destroyed by newer innovations.

It's optimal to identify a theme before it becomes obvious to the market. But many themes can last decades, and our experience has shown that investing alongside an established theme can still be highly advantageous. At the same time, history provides many examples of strong, sometimes multi-decade themes where the investment opportunity was limited to only the first few years of the trend. Here, our valuation discipline is critical to avoiding themes already fully discounted in security valuations or where the benefit of the thematic exposure can be more than offset by a less attractive risk/reward. Identifying the strongest themes is necessary but not sufficient by itself—performing rigorous bottom-up analysis on each business exposed to the theme is critical.

Looking out over the next several years, we believe secular tailwinds will play an even more important role in constructing portfolios. Although we expect some expansion in 2016, global growth is clearly slowing. In evaluating the global economic landscape, it's impossible to ignore the massive amount of debt that exists in the world today, both in developed and developing economies. Several studies published in recent years provide evidence of the limitations that these debt levels are likely to put on future growth. And while deleveraging would probably ultimately be a healthy long-term development by clearing the way for more sustainable growth into the future, it would accelerate deflationary forces in the near term. Indeed, the tradeoffs associated with reducing debt burdens, stabilizing financial systems, and restarting economic growth are complex. We believe recently elevated financial market volatility is indicative of this struggle, and we expect volatility to remain elevated and economic growth to be more challenging for some time. Secular tailwinds can support select companies through this macro environment.

The emphasis our team places on secular themes is integral to our global growth investing approach. We spend significant time identifying secular themes, forming a thoughtful opinion as to the strength and persistence of the themes, finding businesses highly leveraged to themes, and making sure we aren't overpaying to get exposure.

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The Convertible Trifecta

March 2, 2016

Authored by:
R. Scott Henderson, CFA
Senior Vice President, Portfolio Specialist
Calamos Investments

Convertible securities have not been immune from the volatility that has roiled risk assets in 2016. However, we believe the volatile start to the year has set the stage for longer-term opportunities. A convertible bond can be thought of as a corporate bond (credit) with an embedded call option (equity). (For a primer on convertible valuation, please see our guide.) Because of its stock and bond characteristics, a convertible's valuation can be influenced by forces in both the credit and equity markets, as well as by dynamics that are specific to the convertible market.

In this post, we'll take a look at some factors that we believe can support convertibles going forward. More specifically, credit spreads have widened dramatically, equities have declined significantly, and convertible valuations have cheapened. A reversal in any one of these factors could provide a tailwind to convertibles, and if all three reverse, convertibles may be poised for a potentially powerful "trifecta."

1. Convertibles can benefit from an eventual narrowing of spreads. Since the Federal Reserve began quantitative easing in 2008, the vast majority of convertibles have been issued by companies with below investment grade credit ratings. Only about 20% of the convertible market carries an investment grade rating and as a result, we'd expect performance in the convertible market to reflect what's happening in the high yield market.

   This most recent round of risk-off sentiment has taken a toll on the high yield asset class, with spreads topping 800 basis points over comparable U.S. Treasury bonds in February. As we noted in a recent high yield review, spreads have reached the 800 basis-point threshold just three times over the past 20 years: in the months following 9/11, in the midst of the financial crisis, and during the telecom meltdown. After reaching the 800 basis-point level, the one-year forward return from the initial month of crossing over was positive each time (4%, 8%, and 19% respectively).

   Spreads have since narrowed to 782 basis points, and we expect continued narrowing as investors become more confident that a U.S. recession is not imminent. Inflation is low, unemployment is down, wages are rising, and the Fed has given every indication that it will remain patient in raising short-term interest rates. Alongside high-yield nonconvertible debt, we believe convertibles are poised to receive a boost as spreads tighten.

2. The underlying equities of convertibles could be positioned for a comeback, making the embedded option of convertibles more valuable. At its lowest point year-to-date (February 11), the BofA Merrill Lynch All U.S. Convertibles Index (VXA0) had fallen -10.56%. However, the underlying stocks in the VXA0 fell far more steeply, declining -19.89%. This difference is significant for a number of reasons. First, it indicates that the convertible structure is continuing to provide considerable relative downside resilience.

   Second, this level of decline in the underlying stocks of the VXA0 has also been a precursor to healthy rebounds during the following six-month and 12-month periods. In its February 2016 global convertible research report, BofA Merrill Lynch noted that 71% of the VXA0's underlying stocks have fallen more than 20% below their trailing 1-year highs. Since 1999, this has only happened three times (the 2002 tech bubble, the 2008 global financial crisis, and the 2011 European sovereign crisis/U.S. credit downgrade). In each of these periods, returns were positive for the subsequent six-month and 12-month periods (up an average of 13.23% and 26.95%, respectively).

AFTER STEEP DECLINES, THE UNDERLYING EQUITIES OF CONVERTIBLES HAVE TENDED TO POST SOLID RETURNS*

Period	% of stocks down		Subsequent Returns	
	-10%	-20%	6 Mo	12 Mo
Jul 31, 2002	87.31%	74.88%	7.95%	21.50%
Oct 31, 2008	88.82%	82.93%	11.50%	37.27%
Sep 30, 2011	84.86%	74.94%	14.95%	16.36%
Jan 31, 2016	84.21%	71.35%		
		Avg	13.23%	26.95%

Past performance is no guarantee of future results. * Stock declines based on fall from trailing 1-year highs. Sources: BofA ML Global Research, Bloomberg.

3. Convertible valuations are attractive. We can look at the theoretical fair value of a convertible bond as the sum of its bond and call option (the right to convert into the underlying stocks) components. In 2016's risk-off environment of higher volatility, falling stocks and widening spreads, convertibles have been cheapening, according to BofA Merrill Lynch's "% cheap" statistic, a measure of the relative valuation of the convertible universe. At the February 11 low, the convertible index was trading at 3.55 "% cheap," a level reached only three times since 1995. And in each case, healthy returns followed. Of course, past performance can't predict future results, but we believe this historical data is certainly worth noting—especially given our view that a U.S. recession is not imminent and that stocks may be able to stabilize near recent lows.

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Real Estate in a Class of Its Own

March 2016

Authored by:
Thomas Bohjalian, CFA
Executive Vice President and Portfolio Manager
Cohen & Steers

How the New Real Estate GICS Sector Classification Could Bring a $100 Billion Influx of Demand and Lower Volatility

In September 2016, real estate will be separated from financials and given its own GICS sector category—significantly raising the profile of an often misunderstood and under-represented asset class. We believe this will drive greater interest in REIT allocations while potentially reducing volatility.

Real Estate to Become GICS Sector 11

For the first time since the Global Industry Classification Standard (GICS) was created in 1999, a new sector classification will be added, elevating real estate to become the 11th GICS sector. Beginning September 2016, equity real estate investment trusts (REITs) and real estate management and development companies will be reassigned to the new real estate sector from their current place within financials. This change will have a far-reaching impact, as nearly everyone in the investment community uses GICS as a framework for portfolio planning and analysis. As active investors in real estate securities for the past 30 years, we are particularly excited about what this development means for investors and the future of the industry.

The change represents an acknowledgement by index providers that real estate has distinct characteristics from other businesses, including financials. While property investment companies may share certain similarities with other capital-intensive businesses, their cash-flow-oriented business models and ties to real estate markets have produced a distinctive risk-return profile. In fact, our research shows that REITs have been less tied to broad-market movements than most other sectors of the economy (Exhibit 1). Separating real estate from financials can allow for better performance attribution and analysis.

Index Impact

The decision to elevate real estate in equity indexes is a testament to the increasing role of real estate in global equity markets. There are presently 323 companies in FTSE EPRA/ NAREIT Developed Real Estate Index, representing a market capitalization of $1.5 trillion. Real estate makes up 3.3% of the MSCI World Index and 2.7% of the S&P 500 Index.(1)

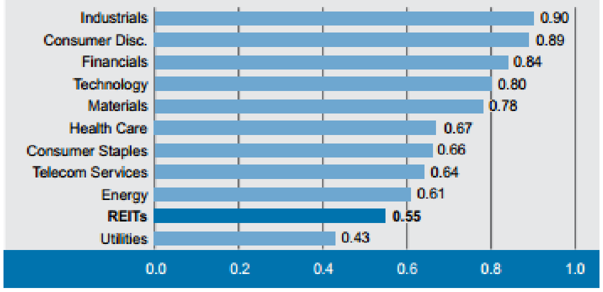
In the U.S., real estate makes up about a fifth of the financials sector, which accounts for 15% of the S&P 500. If the new real estate sector were split out today, it would consist of 27 stocks, with a market cap of $524 billion (Exhibit 2). This is about the same size as the utilities, materials and telecom services sectors. In addition to core REIT sectors, the S&P real estate sector will include several timber and infrastructure REITs and one non-REIT property company, which are not part of the FTSE NAREIT Equity REIT Index.

While REITs will be removed from the financials sector, they will not be removed from the S&P Financial Select Sector Index, avoiding the need for related financial exchange-traded funds (ETFs) to sell their REIT holdings. Instead, two new sector indexes will be created: the S&P Financial Services Select Sector Index, which will not include real estate, and the S&P Real Estate Select Sector Index.

As it stands today, the S&P real estate sector would consist of 26 REITs and one non-REIT that are currently classified as financials, representing 2.7% of the S&P 500.

We see three areas in which REITs are likely to benefit from the change of address, both in the short and long term: increased demand, reduced volatility and potential effects on investor allocations.

Exhibit 1: Correlations of S&P Sectors to the S&P 500 Index
1990–2015



At December 31, 2015. Source: Morningstar and Cohen & Steers.
Performance data quoted represents past performance. Past performance is no guarantee of future results. Based on monthly returns. REITs represented by the FTSE NAREIT Equity REIT Index; all others based on S&P sector indexes. See page 8 for index definitions and additional disclosures.

Exhibit 2: If the S&P Real Estate Sector Were Split Out Today

Companies: **27** Market Cap: **$524B** % of S&P 500: **2.7%**

S&P real estate sector constituents, in descending order of market capitalization

Simon Property Group	Realty Income
Public Storage	Essex Property Trust
American Tower[a]	Weyerhaeuser[a]
Crown Castle International[a]	Host Hotels & Resorts
Equity Residential	Macerich
General Growth Properties	Kimco Realty
AvalonBay Communities	Extra Space Storage
Welltower	Federal Realty Investment Trust
Prologis	SL Green Realty
Ventas	CBRE Group[a]
Boston Properties	UDR
Equinix	Iron Mountain
Vornado Realty Trust	Apartment Investment and Management Co.
HCP	

At March 4, 2016. Source: FactSet and Cohen & Steers. All companies listed above are REITs except CBRE Group.
(a) Included in the S&P 500 Index, but not represented in the FTSE NAREIT Equity REIT Index, as the FTSE index does not include timber or infrastructure REITs or non-REIT property companies. See page 8 for index definitions and additional disclosures.

Increased Demand

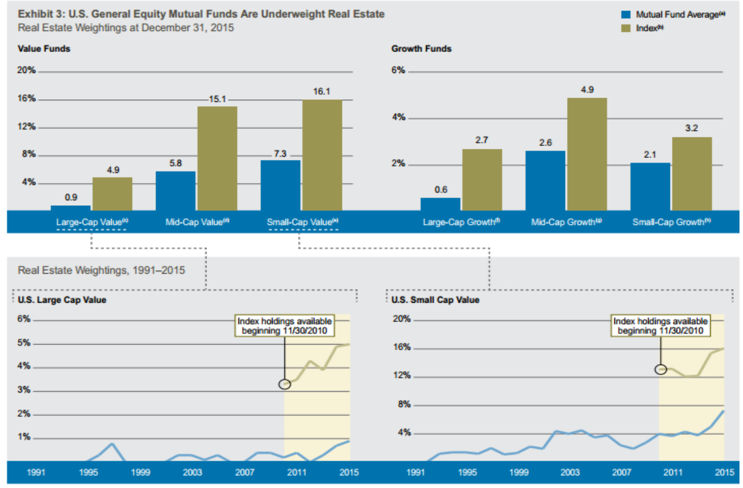
Despite the importance of real estate to the economy, investors have generally shied away from REITs and other real estate stocks. With the new classification, real estate will likely see a significant lift in its profile, leading to increased media coverage and greater awareness of its performance. We believe the attention will drive a higher level of demand, attracting more capital to the sector from both professional and individual investors.

The appeal of real estate stocks is based on their record of strong total returns, low correlations with broad equities and bonds, and high dividend yields. As of year-end 2015, real estate companies in the S&P 500 had an average dividend yield of 3.2%. On a standalone basis, this would make real estate the fourth-highest-yielding sector in the S&P 500 after telecom services, utilities and energy.(1)

The creation of a new real estate sector will shed light on the fact that generalist equity investors are significantly underweight real estate, especially in value-oriented strategies. In Exhibit 3, we show the average real estate weighting in U.S. open-end mutual funds for different Morningstar categories compared with the weight of each category's most common benchmark. Across all styles and market capitalizations, equity funds are deeply underweight real estate on average—a pattern that has persisted throughout history. The trends are similar for global equity funds.

According to JPMorgan Research, long-only 1940-Act equity funds have an average real estate weight of 2.3%, compared with 4.4% for their benchmarks, representing a 2.1% underweight.(2) Based on $5 trillion in assets under management, it would take over $100 billion to move to a market-neutral position. To put that into context, this represents more than 12% of the total value of the U.S. REIT market.

We do not expect generalists to suddenly change decades of learned behavior. However, with the added transparency in sector performance, managers may want to consider the potential consequences of being underweight an asset class that has outperformed the S&P 500 over the trailing 10-, 20- and 30-year periods, as well as in 7 of the past 10 calendar years.(3) We expect managers and individual investors will gradually seek to increase their allocations to real estate, which could be a significant tailwind for the asset class.



At December 31, 2015. Source: Morningstar and Cohen & Steers.

Performance data quoted represents past performance. Past performance is no guarantee of future results. The information presented above does not reflect the performance of any fund or account managed or serviced by Cohen & Steers, and there is no guarantee that investors will experience the type of performance reflected above.

(a) Mutual fund weights based on the median real estate weighting of all funds in their respective Morningstar category that reported holdings data on the date of analysis, based on oldest share class. (b) Index weight as represented by the most common benchmark for funds in each category. (c) 276 funds/Russell 1000 Value Index. (d) 304 funds/Russell 1000 Growth Index. (e) 100 funds/Russell Mid Cap Value Index. (f) 165 funds/Russell Mid Cap Growth Index. (g) 95 funds/Russell 2000 Value Index. (h) 171 funds/Russell 2000 Growth Index. See page 8 for index definitions and additional disclosures.

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The Growing Market Liquidity Trap

March, 2016

Authored by:
Don Schreiber, Jr.
CEO & Co-Portfolio Manager
WBI

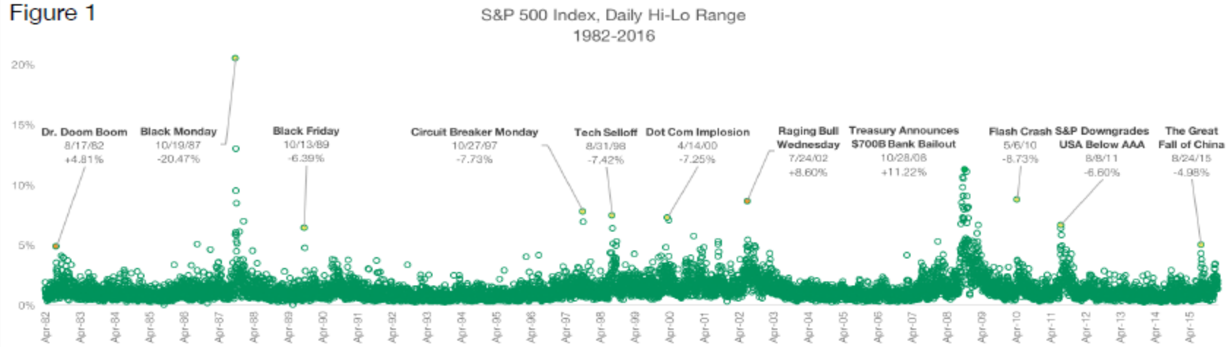
Flash crashes, excessively wild price movements over just a few days or even minutes, have been on the rise over the past few years. These dangerous market dislocations are causing increased downside volatility over short periods. The consequence for investors who seek liquidity during a flash crash is poor execution quality, driven by a cascade of sell orders that severely dislocate market price. Mini-crashes can be disconnected from market and economic fundamentals, and they can feature unusually high trading volumes and reduced liquidity. As documented by the New York Federal Reserve Bank,1 these flash crashes resulted in market dislocations and caused less liquidity due to reduced order book depth, higher volatility, and significant disruptions to price continuity. Some of the recent major flash crashes include:

- Flash Crash - U.S. Equities Market, May 6, 2010 - Market dropped 5% and recovered within minutes around 2:45 p.m.
- The “Taper Tantrum” - May 22, 2013 - Global government bonds sold off and yields surged following Federal Reserve Chairman Bernanke’s testimony to Congress.
- Treasury Jump - The U.S. Treasury Bond Market, October 15, 2014 - The Price of the 10-year Treasury note rose 1.1% and then settled back around 9:40 a.m.
- The “De-peg” - The Swiss National Bank, January 15, 2015 - The abandonment of the Swiss Franc exchange rate floor vs. the Euro on January 15, 2015, when the Swiss Franc soared 30% vs. the Euro and 25% vs. the U.S. Dollar within minutes around 8:10 a.m.
- The “Euro-pop” - Foreign Exchange Market, March 18, 2015 - The Euro jumped 1.5% vs. the U.S. Dollar and then partially fell back by 1% around 4:05 p.m.
- The “Great Fall of China” - Shanghai Stock Market & Global Equity Markets, August 24, 2015 – Declines of 5% or more in synchronized reaction to the implosion of the Shanghai Stock market (on that day, U.S. equities fell 10% in the first half hour of trading before staging a partial recovery later in the day).

While some have blamed the rise of high frequency trading for these disruptive market events,2 we believe that there is a long history of such dangers lurking in the markets, and perhaps they are the norm rather than anomalies. Figure 1 shows that flash crash events have occurred more frequently during bear markets and corrections such as 1987, 1988, 2000, and 2008. However we believe this is not a new trend, in fact, we think that market declines happen at overvalued inflection points, and they occur when investors collectively change their sentiment from optimistic to pessimistic. We feel, investors tend to move as a herd and this behavior may have been amplified since the Internet democratized access to financial information. Increased herd behavioral bias also seems to have coincided with decimalization of securities pricing in 2001 – which, ironically, was intended to increase market transparency and liquidity.3

WBI’s risk-managed investment process is designed to lower portfolio risk as global risks increase. Figure 2 shows, for example, the weekly allocations to cash in the Tactical Balanced Enhanced SMA Strategy throughout 2015. Notice how the strategy raised cash and Treasury bond holdings during the market correction in August last year. This shows the Equity Market, represented by the MSCI World Index, declined from 6,638 on August 17 to 6,014 by August 25 – a nearly 10% decline in just a week during “The Great Fall of China”. During this period, the WBI Tactical Balanced Enhanced SMA increased cash from 11% to

Figure 1

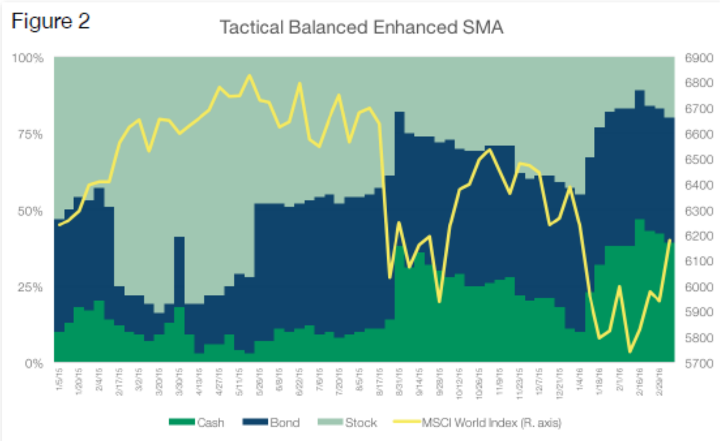


Data Provided by WBI, 2016.

[1] Schaumburg, Ernst and Ron Yang, “Liquidity during Flash Events”, Federal Reserve Bank of New York. 8/18/2015.

[2] Lewis, Michael, “Flash Boys: A Wall Street Revolt”, New York: W.W. Norton & Co. 3/31/2014.

38%, while decreasing stock exposure from 43% to just 18% of the strategy. As client wealth faces higher market risks, the WBI process looks to add higher levels of safety to the portfolio. While there can be no assurances how our strategies will fare during market corrections, we believe this risk-managed process is critical to investment success over the long term, because protecting capital during bear markets and periods of severe market stress is more important than chasing market return.



Data Provided by WBI, 2016.

There are times when market fundamentals and index price moves can become so disconnected that risk increases dramatically. “QE Insanity” continues to have a firm grip on market expectations. The late February and early March rally driven by negative interest rates in the Eurozone and Japan, combined with the massive stimulus in China has erased most of the price declines that U.S. markets experienced earlier in the year. Yet conditions in Europe continue to deteriorate prompting the European Central Bank (ECB) to consider even lower negative interest rates and increased Quantitative Easing “QE” bond buying programs. It’s shocking to think that investors still buy into the idea that zero interest rates and more Quantitative Easing will provide an economic fix or that stocks should rally based on more of the same. We believe central banks globally have tested the limits of “growth” through monetary policy and the evidence of low inflation (deflation) combined with anemic and weakening economic growth should be tripping alarms that something is not right with market price dynamics.

At WBI, we believe that investors should focus on capital rather than chasing returns. We have found that protecting capital from the large losses that can be delivered by the markets, can be much more important to growing client wealth over time. The WBI risk-managed investment process aims to limit capital losses during corrections and bear market cycles. Risk management at WBI includes both a a proprietary Dynamic Trailing Stop (DTS) process designed to limit each individual portfolio holding from experiencing unacceptable levels of loss, and a flexible asset allocation approach that is intended to buffer the portfolios during market shocks and periods of economic stress. This math-driven process eliminates the behavioral biases that can cause investors to chase returns, buying “hot” stocks only to abandon them after they fall lower. The WBI process of raising cash in times of market stress aims to maintain a higher level of capital during bear market dislocations, which can be quickly deployed when risk decreases and the opportunity for return increases.

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The Case for Commercial Mortgage Backed Securities

Tuesday, February 23, 2016 | 11:00 AM ET

Dennis:
Thank you, Paul. Good morning, everyone. My name is Dennis Emanuel, a head of the Closed-End Fund Product Area at ALPS. ALPS is the advisor to the Principal Real Estate Income Fund which creates under the ticker PGZ. For those of you that don't know about PGZ, to Closed-End Fund that seeks to provide high current income in return. Came to market midway through 2013 with the idea of benefiting from a recovering commercial real estate and it does this when investing in commercial mortgage back securities in Global Reeds.

As the advisor, ALPS is responsible to fund over site but the actual day to day management of the fund is done by principal real estate investors and we're fortunate to have with us today from principal, Mark Peterson and Tony Kenkel. Mark is responsible for the CMBS portion of the portfolio while Tony manages the Global Reed portion.

Now, with this webinar today, we hope it's highly educational. Yes, Mark and Tony will be discussing the fund but more importantly, we'd like you to get a better understanding of the CMBS market. After all the title of this, webinar is the case for commercial mortgage back securities. So hopefully you can get a better sense of the after class. Clear if somebody misunderstands and learn how effective it can be at one's portfolio. With that, first, I want to thank you guys for joining us and let's just hand to Mark and let's get started.

Mark:
Thanks, Denise. Good morning to everyone. My name is Mark Peterson. I'm a manager director at Principal Real Estate Investors and have been responsible for CMBS investment activities for principal since 1998 and Denise mentioned I think the real goal of this presentation is one that help provide enough data on the CMBS market and how CMBS, what it -- how it is involved in the fund but really, I think the bigger goal is to put into perspective, a better perspective how PDDs exposure to both commercial real estate debt and equity does make the fund unique compared to either Reed only Closed-End Funds or Corporate High Yield Closed-End Funds and hopefully to the discussion that will come out and in fact that this fund, being exposed solely to commercial real estate through both equity is a definite positive for the fund.

So we are [0:04:59] [Indiscernible] the slide back and locking through. Just a quick update on the current state of the commercial real estate market and to start to put this in the better perspective looking at this economic recovery that the US is in and we are the tail end of what would be an average recovery post recession but a couple of --

If you look at the stats, you just look at where certain variables are compared to historical expansion, this is a different, this has been a different recovery and I think what this allows is the potential that this expansion could be longer than what the normal historical averages would indicate which helps to support the outlook for continued growth, improving in real estate in that if this expansion just turned out to be longer than the circles that allows for continued job growth, it allows for continued GDP growth as this recovery maybe go to a little bit longer than the seven years that would typically be expected.

Moving to page five, just a quick snapshot on the recovery and real estate values and you can see from peak to top going from 07 down to the top in 2010 and then this recovery really has been driven by the recovery in jobs in job growth coming back to the US and the job growth remains very robust in 2015 on the average with the economy

Featured Presenters

Marc Peterson, CFA
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Principal Real Estate Investors

Anthony Kenkel, CFA, FRM
Managing Director, Real Estate Securities Portfolio Mangaement
Principal Real Estate Investors

creating roughly 200,000 jobs a month that helped to support the recovery in the economy but also has helped to support through recovery and in commercial real estate values.

We expect in our base case is slow growth scenario where jobs continued to be added, will be continued to be accredited for commercial real estate. Looking at page five at the back of the recovery, one thing is then, the strong recovery and real estate fundamentals and that helped to support the values. But on the fundamental side, we should rent and occupancy in the major property types. A lot of that has been driven by return of demand but is also been driven by the fact that there has been very little new construction on historical basis of commercial real estate since the recession and that would be new construction of office, retail, industrial, multi-family and hotels.

Again, this is on average. I'm sure if you have been in New York or Seattle or any of the major gateway cities, there are plenty of cranes in the air building new residential space or new office space but in general on average across the US that construction has been relatively constrained and there are two drivers. One has been rent, are just now starting to get to the point where red levels can support new construction. I think the second maybe more important thing to consider is bank lending, just look at the state of investment banks today in commercial banks with new regulations restricting what they can -- where their capital can go, you just don't see as much constructional lending especially on spec and I think that change in capital flows in availability for banks will help to continue to constraint construction just the lack of financing available in the market.

With the page six, this just helps to support the recovery in net operating income and this would be year over year at the property level and really seeing that recovery starting in 2010 and growing to this average 4% to 6% in a wide growth range. First of all, our base here is outlook that income growth will continue for the next two or three years. Again, that's really driven by the fact that we're not expecting new construction to pick up materially with multi-family being the exception at potentially hotels in some markets. But as far as office and retail, not expecting to see construction pick up materially which again with demand continuing to come back to markets for space that will help to support this outlook income growth at the property level.

With this back up of strong fundamentals and the recovery in fundamentals, on page seven, there is an interesting comparison to commercial real estate debt and corporate debt. If you think about commercial estate say within a broad or within a broader fixed income universe and we look at risk, there is an interesting comparison to corporate debt which has really taken off since the recession. If you look at corporate balance sheet, there is considerately more leverage on corporate balance sheets today than there were back in '07, ''08 leading up to the recession in '09.

To the opposite, the reaction of the course real estate market to the recession has been to de-lever. As we look at the risk in the market and if you look at with the de-risking myth occurred in commercial real estate versus corporate debt, in this scenario where the US does go into a recession at least looking at this metric, commercial real estate is in a much better position to withstand the slowdown in the economy just from an overall evaluation perspective than potentially corporate data. That helps us support commercial real estate and the outlook in a number of different scenarios and how that might react n those scenarios.

Looking on page eight, this is a very interesting and I think it is intuitive to consider that job. If you see jobs coming to the market, you would expect commercial real estate to be in a better position fundamentally and this would again help to support that. So it does show the fact that CMBS falls have improved dramatically since peaking 2010 and again that has been driven, a strong correlation to change in payroll. With the 16 month lag, you can see CMBS, the pace of new CMBS to fall or directly tied to change in payrolls.

Again based on our baseline outlook for job growth to continue in the US, that does help to support our outlook for the fundamental performance of commercial real estate as we look out for the next two or three years. With that, as a real base to stepping into CMBS and again just a quick reminder, CMBS is an after class that is secured by first mortgages on commercial real estate. These are loans on real property. These should be loans on office retail, industrial, hotels and multi-family. These are typically ten-year loans and this [0:12:43] [Indiscernible] advertising so there is typically a balloon that will come do at maturity. These are fixed rate loans and these are static pools.

In any given deal, the pool of loans that initially secure the bonds won't change. It's the loans that provide the coupon and principles to pay the interest and pour on the CMBS bond. So that is the backdrop. We look at if the spread performance of CMBS and kind of where we are and looking at where we are as of January 2016. You can see the dramatic dislocation in spread that has occurred just in looking at the staffs on January but the spread widening actually started back in the summer of 2015 and it's really accelerated over the last two or three months along with the pick-up and volatility in the broader market.

To put this in the perspective, it really goes back to -- If you go back to 2011, 2012, the volatility market, we have not seen these types of spread levels now going back to 2011 which I know is not included on the scrap. But as we look at it, there really been three main drivers of the spread widening that we have seen over six to nine months. Initially, this started in the summer of 2015 when you saw technical imbalance in the CMBS market of just too much supply versus demand. So as that supply over well and demand spread, started to widen and this is really prior to August when you start to see the global market start to turn down.

The second driver being starting in the fall was really the contagion from the sell-off and high yield. As we saw the slowdown in China and then we have seen the resulting impact on the price of oil, what's that's in the high yield market, CMBS is really traded more in line with high yield in going back to the fall. And then the real acceleration of the spread widening has really started at the end of 15 and into January has been selling pressure coming from both high yield bonds and hedge bonds. So its capital has been flowing out of those types of funds and managers have been forced to sell assets. They have been selling high yield bonds. But they have also been selling CMBS.

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