Capital Link's
CEF & ETF Monthly Newsletter

MAY 2017
Volume 5 | Issue 3

Table of Contents

The Month in Closed-End Funds: April 2017

PERFORMANCE

For the sixth consecutive month equity CEFs on average witnessed a plus-side return on a NAV basis and for the fifth month in a row on a market basis (+1.03% and +2.67%, respectively). And for the fifth month in a row their fixed income CEF counterparts, rising 0.94%, chalked up a return in the black on a NAV basis; for the fourth month in five they also posted a plus-side return on a market basis, returning 1.91%. The U.S. broad-based indices managed to finish the month on a strong note, with the NASDAQ Composite posting the strongest return (+2.30%) and the S&P 500 Price Only Index chalking up the relatively weakest return (+0.91%). Equity markets struggled at the beginning of the month when investors learned of a weaker-than-expected nonfarm payrolls report for March and the airstrike against Syria. The Labor Department reported the U.S. created just 98,000 new jobs for the month, missing the 185,000 expected by analysts. Investors embraced safe-haven plays—bidding up gold, the Japanese yen, and defensive issues—and focused on the U.S.'s hardline stance on Syria and news that North Korea was threatening war if U.S. Navy ships continued their advance on the Korean Peninsula.

With heightened geopolitical concerns and ahead of the Q1-2017 earnings season, investors became more risk averse, pushing Treasury yields down. Treasury yields were pressured further as investors learned that import prices fell 0.2% for March, easing inflation concerns, and after President Donald Trump stated that he supports a "lowinterest-rate policy."

Later in the month investors appeared to be more optimistic, despite learning that first-time jobless claims rose 10,000 more than the previous week to 244,000. They welcomed a spate of better-than-expected earnings reports, news that the number of out-of-work people collecting unemployment checks fell to a 17-year low, and an announcement that the U.S. government is investigating the impact of foreign steel imports on national security. Trump's commitment on Friday, April 21, to release his tax-cut plan the following week helped calm the markets ahead of France's presidential elections and after an attack on the Champs-Elysees in France.

Toward the end of April markets rallied globally after centrist Emmanuel Macron led the field in the first round of the French presidential election, which helped ease some ongoing concerns of further isolationism among European Union members. Upbeat Q1 earnings reports from the likes of Caterpillar and DuPont helped push the NASDAQ to its twenty-fourth record close in 2017, breaching the 6,000 mark for the first time in history and extending its monthly winning streak to six consecutive months. Market participants took their collective foot off the pedal after Trump officials released a one-page outline of the tax reform plan that was light on details and as investors focused on the likelihood of a government shutdown over the last weekend of the month.

The Month in Closed-End Funds: April 2017

- For the sixth month in a row equity closed-end funds (CEFs) witnessed a plus-side return on average, rising 1.03% on a net-asset-value (NAV) basis for April, while their fixed income CEF cohorts posted a return in the black for the fifth month running, rising 0.94%.
- For April 20% of all CEFs traded at a premium to their NAV, with 19% of equity CEFs and 21% of fixed income CEFs trading in premium territory. Thomson Reuters Lipper's domestic equity CEFs macro-group witnessed the largest narrowing of discount for the month—159 basis points (bps) to 5.47%.
- Energy MLP CEFs (-2.15%) and Natural Resources CEFs (-2.13%) posted the lowest returns in the equity universe and weighed on the domestic equity CEFs macro-group (+039%).
- With investors once again focusing on growth-oriented issues during the month, Growth CEFs rose to the top of the charts (+5.28%) for the second month in a row.
- For the fifth consecutive month all Lipper municipal debt CEF classifications posted returns in the black, with New Jersey Municipal Debt CEFs (+1.03%) and Intermediate Municipal Debt CEFs (+0.98%) posting the best returns of the group.

Authored by:
TOM ROSEEN
HEAD OF RESEARCH SERVICES
LIPPER, DENVER

THOMSON REUTERS

For the month Treasury prices dropped slightly as investors became more risk seeking after the first round of the French presidential election was announced and polling suggested that Macron was favored over nationalist Marine Le Pen. At the short end of the yield curve—except for the one-month yield, which experienced a 6-bp decline for the month of April—yields of two years or less witnessed increases for the month ranging between 1 and 8 bps, while longer-dated yields declined, with the five-year yield declining the most—12 bps to 2.10%.

For April the dollar weakened against the euro (-1.81%) and the pound (-3.12%) but was unchanged against the yen. Commodities prices were mixed for the month, with near-month gold prices rising 1.51% to close April at $1,266.10/ounce and front-month crude oil prices falling 2.51% to close the month at $49.33/barrel.

For the month 91% of all CEFs posted NAV-based returns in the black, with 81% of equity CEFs and 99% of fixed income CEFs chalking up returns in the plus column. For the third month in four Lipper's world equity CEFs macro-group (+2.70%) outpaced its two equity-based brethren: mixed-asset CEFs (+1.33%) and domestic equity CEFs (+0.39%).

Once again, as a result of the strong preference for growth-oriented and international issues, the Growth CEFs classification (+5.28%) jumped to the top of the equity charts for the second month in a row. It was followed by Developed Markets CEFs (+2.88%) and Emerging Markets CEFs (+2.21%). Domestic equity CEFs (+0.39%) were pulled down by Energy MLP CEFs (-2.15%) and Natural Resources CEFs (-2.13%) as oil prices and energy stocks were hurt by data showing active U.S. rig counts had increased. For the remaining equity classifications returns ranged from 0.77% (Real Estate CEFs) to 2.01% (Global CEFs).

Four of the six top-performing individual equity CEFs were housed in Lipper's Developed Markets CEFs classification. However, at the top of the charts were **Engex, Inc. (EXGI**, housed in the Growth CEFs classification), rising 9.00% on a NAV basis (the strongest return in the CEFs universe), and **Turkish Investment Fund, Inc. (TKF**, warehoused in Lipper's Emerging Markets CEFs classification), gaining 7.59% and traded at a 3.41% discount at month-end. EXGI, which didn't trade on April 28, didn't record a premium or discount. Those two CEFs were followed by **New Ireland Fund, Inc. (IRL),** rising 5.81% and traded at a 4.94% discount at month-end; **New Germany Fund, Inc. (GF),** gaining 5.06% and traded at a 10.27% discount on April 28; **Swiss Helvetia Fund, Inc. (SWZ),** posting a 4.66% return and traded at a 9.80% discount at month-end; and **European Equity Fund Inc. (EEA),** gaining 4.24% and traded at an 11.09% discount on April 28.

CLOSED-END FUNDS LAB

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

	NAV RETURNS	PREMIUM/DISCOUNT		NOW TRADING AT	
	POSITIVE	BETTER	WORSE	PREMIUM	DISCOUNT
Equity Funds	81	85	13	19	79
Bond Funds	99	80	16	21	78
ALL CEFs	**91**	**82**	**14**	**20**	**78**

TABLE 2 AVERAGE NAV RETURNS, SELECTED PERIODS (%)

	APRIL	YTD	3-MONTH	CALENDAR-2016
Equity Funds	1.03	6.89	4.13	11.72
Bond Funds	0.94	3.57	2.45	6.66
ALL CEFs	**0.98**	**5.03**	**3.19**	**8.90**

TABLE 3 NUMBER OF IPOs, SELECTED 12-MONTH PERIODS

	APRIL 2017	CALENDAR-2016
ALL CEFs	**25**	**18**

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

3 MONTHS THROUGH 3/31/2017	404
COMPARABLE YEAR-EARLIER 3 MONTHS	197
CALENDAR 2016 AVERAGE	348

Source: Thomson Reuters Lipper

For the month the dispersion of performance in individual equity CEFs—ranging from minus 5.35% to positive 9.00%—was narrower than March's spread and slightly more skewed to the plus side. The 20 top-performing equity CEFs posted returns at or above 3.13%, while the 20 lagging equity CEFs were at or below minus 2.10%.

For the month 51 CEFs in the equity universe posted negative returns. Four of the five worst performing funds were housed in the Energy MLP CEFs classification, with **Cushing Energy Income Fund (SRF)** at the bottom of the pile, shedding 5.35% of its March-closing NAV price and traded at 13.18% discount on April 28. **Tortoise Energy Independence Fund, Inc. (NDP,** housed in the Natural Resources CEFs classification) posted the next poorest return in the equity universe, declining 4.73%. NDP traded at a 3.90% premium at month-end.

As a result of geopolitical concerns and an early flight to safety, the ten-year Treasury yield bounced from 2.40% at March month-end to an intra-month closing low of 2.18% on April 18; it then rose on increasing optimism, closing the month at 2.29% on April 28 as inflationary expectations declined. For the fifth month in a row domestic taxable bond CEFs (+0.97%) posted a plus-side return on average but were bettered by world income CEFs (+1.27%), which benefitted from strong performance from Emerging Markets Debt CEFs (+1.52%) and Global Income CEFs (+1.13%). For the fifth consecutive month municipal bond CEFs (+0.89%) also posted a return in the black on average.

Investors continued their search for yield, bidding up world income CEFs and becoming more risk seeking in April. The domestic fixed income CEFs macro-group was dragged down by Loan Participation CEFs (+0.44%) and Corporate Debt BBB-Rated CEFs (Leveraged) (+1.04%). At the top of the domestic taxable bond CEFs universe were General Bond CEFs (+1.21%), High Yield CEFs (Leveraged) (+1.18%), and High Yield CEFs (+1.08%).

For the fifth month running all Lipper municipal debt CEF classifications posted returns in the black. New Jersey Municipal Debt CEFs (+1.03%) and Intermediate Municipal Debt CEFs (+0.98%) posted the strongest returns in the group, while General & Insured Municipal Debt CEFs (Unleveraged) (+0.79%) was the relative laggard. Single-state municipal debt CEFs (+0.85%) underperformed their national municipal debt CEF counterparts (+0.92%) by just 7 bps.

The three top-performing individual CEFs in the fixed income universe were housed in Lipper's General Bond CEFs classification, with **PIMCO Corporate & Income Opportunity Fund (PTY),** returning 3.06% and traded at an 11.07% premium on April 28, jumping to the top of the charts. Following PTY were **PIMCO High Income Fund (PHK),** returning 2.41% and traded at a 27.61% premium at month-end; **PIMCO Corporate & Income Strategy Fund (PCN)**, posting a 2.28% return and traded at a 10.54% premium on April 28; **DoubleLine Income Solutions Fund (DSL,** warehoused in the High Yield CEFs [Leveraged] classification), tacking 2.17% onto its March month-end value and traded at a 4.55% discount on April 28; **PIMCO Income Strategy Fund II (PFN,** also housed in the General Bond CEFs classification), returning 2.11% and traded at a 2.47% premium at month-end; and **Stone Harbor Emerging Markets Income Fund (EDF,** housed in Lipper's U.S. Emerging Markets Debt CEFs classification), also returning 2.11 % and traded at a 9.70% premium at month-end.

For the remaining funds in the fixed income CEFs universe monthly NAV-basis performance ranged from minus 0.40% for **Western Asset Corporate Loan Fund Inc. (TLI,** housed in Lipper's Loan Participation CEFs classification), traded at an 0.09% premium on April 28, to 2.08% for **PIMCO Income Strategy Fund (PFL,** housed in Lipper's U.S. General Bond CEFs classification), traded at a 2.22% premium at month-end. The 20 top-performing fixed income CEFs posted returns at or above 1.71%, while the 20 lagging CEFs were at or below 0.30%. Only three fixed income CEFs witnessed negative NAV-based performance for April.

PREMIUM AND DISCOUNT BEHAVIOR

For April the median discount of all CEFs narrowed 110 bps to 5.43%—better than the 12-month moving average discount (6.26%). Equity CEFs' median discount narrowed 162 bps to 6.79%, while fixed income CEFs' median discount narrowed 100 bps to 4.62%. Domestic equity CEFs' median discount witnessed the largest narrowing of discounts in the CEFs universe, 159 bps to 5.47%, while the single-state municipal bond CEFs macro-group witnessed the smallest narrowing of discounts—32 bps to 5.75%.

For the month 82% of all funds' discounts or premiums improved, while 14% worsened. In particular, 85% of equity funds and 80% of fixed income funds saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on April 28 (107) was 19 more than on March 31.

CEF EVENTS AND CORPORATE ACTIONS

IPOs

Griffin Capital Credit Advisor, LLC launched three share classes of the **Griffin Institutional Access Credit Fund (A Shares [CRDTX], C Shares [CGCCX], and I Shares [CRDIX]),** continuously offered, non-diversified CEFs that are operated as interval hybrid funds. The funds' investment strategies are to invest in an actively-managed, diversified portfolio of credit instruments. The portfolio primarily includes senior direct lending, bank loans, high-yield debt, structured debt, and nonperforming loans.

RIGHTS, REPURCHASES, TENDER OFFERS

The Taiwan Fund, Inc. (TWN) announced that on April 6, 2017, the fund repurchased 1,000 shares under the fund's discount management policy.

Western Asset Middle Market Income Fund Inc. (XWMFX) announced the final results of its issuer tender offer for up to 2.5% of the outstanding common shares or 7,306 shares of the fund at a price equal to the fund's NAV per share on the day on which the tender offer expired, April 5, 2017. A total of 16,184 shares were duly tendered and not withdrawn. Because the number of shares tendered exceeded 7,306 shares, the tender offer was oversubscribed. Therefore, in accordance with the terms and conditions specified in the tender offer, the fund will purchase shares from all tendering shareholders on a pro rata basis, disregarding fractions. Accordingly, on a pro rata basis approximately 45.14% of shares for each shareholder who properly tendered shares were accepted for payment. The fund expected to transmit payment to purchase the duly tendered and accepted shares on or about April 12, 2017. The purchase price of properly tendered shares was $798.03 per share, equal to the per-share NAV as of the close of the regular trading session of the New York Stock Exchange (NYSE) on April 5, 2017. Shares tendered but not accepted for payment and shares not tendered remained outstanding.

The Korea Fund, Inc. (KF) announced that its board of directors authorized a tender offer to purchase for cash up to 10% of the fund's issued and outstanding common shares at a price per share equal to 98% of the NAV per share determined on the date the tender offer expires. As of April 17, 2017, the fund had 6,543,729 common shares outstanding and total net assets of $270,468,845. The fund expected to announce additional details, including the timing of the tender offer, as soon as practicable. The board authorized the tender offer in an attempt to provide additional support to the fund's existing discount management program as well as to demonstrate its commitment to continuously review alternative options for narrowing the fund's discount. In addition, the board believes the tender offer may help reduce what appeared to be an oversupply of shares of emerging market CEFs, such as the fund, that appears to have contributed to relatively wide and persistent trading discounts experienced by these funds. Additional terms and conditions of the tender offer will be set forth in the fund's offering materials, which were expected to be distributed to common shareholders on or about April 25, 2017. If more than 10% of the fund's outstanding common shares are tendered and not withdrawn, the fund will purchase shares from tendering shareholders on a pro rata basis. The tender offer commenced on Wednesday, April 26, 2017, and will expire unless otherwise extended at 5:00 p.m., New York City Time, on Tuesday, May 23, 2017.

NexPoint Credit Strategies Fund (NHF) announced commencement of a nontransferable rights offering to purchase additional common shares of the fund, since the fund's registration statement has been declared effective by the Securities and Exchange Commission. The fund is issuing nontransferable rights to its common shareholders of record as of May 5, 2017. Record-date shareholders will receive one right for each common share held on the record date. The rights entitle the record-date shareholders to purchase one new common share for every three rights held. The rights were to be mailed to recorddate shareholders approximately two business days after the record date. Record-date shareholders who fully exercise their rights will be entitled to subscribe for additional common shares of the fund that remain unsubscribed as a result of any unexercised rights by record-date shareholders. In addition, the fund—at its sole discretion—may elect to issue additional common shares in an amount up to 25% of the common shares issued in the primary subscription.

The subscription price per common share will be determined based upon a formula equal to the lesser of (1) 95% of the reported NAV on May 24, 2017 (the expiration date) or (2) 95% of the average of the last reported sales price of the fund's common shares on the NYSE on the expiration date and on each of the four trading days preceding the expiration date.

The Swiss Helvetia Fund, Inc. (SWZ), a non-diversified registered closed-end investment company, announced the final results of its one-time tender offer to acquire in exchange for cash up to 2,812,653 of its issued and outstanding common shares (representing approximately 10% of the fund's issued and outstanding shares as of the commencement of the offer). The offer expired at 5:00 p.m. Eastern Time on April 24, 2017. Based on information provided by American Stock Transfer & Trust Company, LLC, the depositary for the offer, approximately 17,795,965 common shares or approximately 63% of the fund's outstanding shares as of the commencement of the offer were properly tendered, and the fund accepted 2,812,653 shares for cash payment at a price equal to $12.85 per share, which represented 98% of the fund's NAV per share as of the close of the regular trading session of the NYSE on April 25, 2017. Since the total number of shares tendered exceeded the number of shares the fund offered to purchase pursuant to the offer, on a pro-rated basis approximately 15.8% of the fund's shares tendered by each tendering shareholder were accepted for payment. Following the purchase of the properly tendered shares, the fund had approximately 25,313,872 outstanding shares.

MERGERS AND REORGANIZATIONS

The merger of **Virtus Total Return Fund (DCA)** with and into **The Zweig Fund, Inc. (ZF)** was completed. DCA ceased trading as of the close of trading on the NYSE on March 31, 2017. Prior to the open of trading on the NYSE, each common share of DCA converted into an equivalent dollar amount (to the nearest $0.0001) of common shares of ZF. The conversion price was based on each fund's NAV per share calculated at the close of business on Friday, March 31, 2017: ZF $12.6634 and DCA $4.9540. Based on those conversion prices, former DCA shareholders received 0.391206 common share of ZF for every common share of DCA they held. Also, The Zweig Fund changed its name to **Virtus Total Return Fund Inc.** and its CUSIP to 92837G100. It continues to trade with the "ZF" ticker symbol.

OTHER

Eaton Vance Corp (EV) confirmed that an equity options trader and portfolio manager formerly employed by Eaton Vance agreed to plead guilty to charges brought by the U.S. attorney for the District of Massachusetts. According to the Boston Globe, Kevin J. Amell, 45, of Hingham allegedly used funds he managed in an options scheme involving his personal brokerage accounts. According to the U.S. attorney's office in Boston, from December 2014 to February 2017 Amell used Eaton Vance funds to buy and sell options to himself to take advantage of changes in prices. He employed the scheme on an Eaton Vance CEF, the name of which was not disclosed. Amell resigned from the firm, which he joined in 2009.

CEF Performance Statistics

LIPPER

Lipper Category	Average of 1Mo Nav	Average of 1 Mo Mkt	Average of Apr P/D	Average of Mar P/D	Average of 1 Mo P/D chg	Average of YTD NAV Change	Average of YTD Mkt Change	Average of YTD P/D Change (%)
California Municipal Debt Funds	0.40%	1.66%	-0.27%	-1.51%	1.24%	1.19%	2.93%	1.76%
Convertible Securities Funds	0.78%	2.15%	-5.07%	-6.35%	1.28%	3.43%	8.48%	4.48%
Core Funds	1.01%	3.59%	-6.18%	-7.98%	1.79%	4.59%	10.42%	3.52%
Corporate BBB-Rated Debt Funds(Leveraged)	0.71%	0.75%	-7.93%	-7.97%	0.04%	2.21%	2.03%	-0.14%
Corporate Debt Funds BBB-Rated	0.51%	0.80%	-4.60%	-4.84%	0.24%	1.05%	0.50%	-0.32%
Developed Market Funds	2.67%	4.14%	-9.19%	-10.47%	1.28%	11.35%	16.33%	3.88%
Emerging Markets Funds	2.10%	3.14%	-9.92%	-10.83%	0.90%	13.62%	18.20%	3.25%
Emerging Mrkts Hard Currency Debt Funds	1.07%	2.95%	-3.70%	-6.34%	1.75%	5.22%	8.71%	3.00%
Energy MLP Funds	-2.77%	-1.06%	-2.82%	-4.57%	1.74%	-0.99%	4.14%	4.80%
General & Insured Muni Debt Funds (Leveraged)	0.50%	1.25%	-2.79%	-3.51%	0.72%	1.19%	2.42%	1.15%
General & Insured Muni Fds (Unleveraged)	0.47%	1.12%	-2.32%	-2.92%	0.60%	1.04%	3.24%	2.10%
General Bond Funds	0.74%	1.51%	-1.24%	-1.81%	0.77%	3.01%	4.46%	2.24%
Global Funds	1.54%	3.03%	-6.76%	-8.08%	1.32%	6.94%	11.76%	3.87%
Global Income Funds	0.47%	1.73%	-2.39%	-3.68%	1.29%	3.59%	6.93%	3.21%
Growth Funds	4.31%	2.20%	-9.00%	-11.30%	2.30%	16.40%	11.00%	3.90%
High Yield Funds	0.57%	2.22%	-3.90%	-5.41%	1.51%	2.04%	5.21%	2.98%
High Yield Funds (Leveraged)	0.49%	1.86%	-5.18%	-6.28%	1.10%	2.30%	3.80%	1.25%
High Yield Municipal Debt Funds	0.46%	1.80%	-2.16%	-3.46%	1.30%	1.58%	3.78%	2.05%
Income & Preferred Stock Funds	0.80%	2.28%	-2.95%	-4.14%	1.19%	3.79%	6.02%	1.40%
Intermediate Municipal Debt Funds	0.67%	0.99%	-4.12%	-4.42%	0.30%	1.56%	1.13%	-0.52%
Loan Participation Funds	0.02%	1.04%	-2.15%	-3.38%	1.24%	0.39%	1.99%	0.78%
Natural Resources Funds	-2.90%	-1.00%	-4.95%	-6.73%	1.78%	-4.76%	-0.12%	4.41%
New Jersey Municipal Debt Funds	0.62%	2.30%	-5.25%	-6.80%	1.55%	0.97%	1.58%	0.40%
New York Municipal Debt Funds	0.48%	1.24%	-3.66%	-4.41%	0.74%	1.35%	2.24%	0.76%
Options Arbitrage/Opt Strategies Funds	0.87%	2.83%	-1.26%	-3.25%	1.99%	4.73%	9.56%	4.53%
Other States Municipal Debt Funds	0.47%	1.25%	-3.97%	-4.68%	0.72%	1.00%	2.55%	1.45%
Pacific Ex Japan Funds	1.61%	1.93%	-7.50%	-7.78%	0.28%	14.85%	21.69%	5.14%
Pennsylvania Municipal Debt Funds	0.47%	0.66%	-8.00%	-8.07%	0.07%	0.76%	-0.23%	-1.30%
Real Estate Funds	0.50%	2.35%	-6.05%	-7.69%	1.64%	1.33%	5.37%	3.38%
Sector Equity Funds	0.57%	2.03%	-4.43%	-5.55%	1.11%	6.44%	10.98%	3.21%
U.S. Mortgage Funds	0.55%	1.90%	-2.02%	-3.47%	1.45%	1.92%	3.35%	1.65%
Utility Funds	0.65%	2.85%	-2.12%	-4.14%	2.02%	6.35%	11.03%	4.14%
Value Funds	0.40%	3.25%	-6.54%	-9.04%	2.50%	3.01%	8.61%	3.84%

Top 5 Performing CEFs

LIPPER

Fund Name	Category	Ticker Symbol	1-Month NAV Change	Rank
Engex Inc	Growth Funds		9.0%	1
Turkish Investment Fund	Emerging Markets Funds	XTKFX	7.6%	2
New Ireland Fund	Developed Market Funds	XIRLX	5.8%	3
New Germany Fund	Developed Market Funds	XGFNX	5.1%	4
Swiss Helvetia Fund	Developed Market Funds	XSWZX	4.7%	5

Fund Name	Category	Ticker Symbol	Year-to-Date NAV Change	Rank
Engex Inc	Growth Funds		26.5%	1
Morg Stan India Inv	Emerging Markets Funds	XIIFX	24.9%	2
India Fund	Emerging Markets Funds	XIFNX	20.5%	3
Korea Equity Fund	Pacific Ex Japan Funds		18.1%	4
Korea Fund	Pacific Ex Japan Funds	XKFDX	18.1%	5

Fund Name	Category	Ticker Symbol	1-Month Market Change	Rank
Equus Total Return	Core Funds		15.3%	1
New Ireland Fund	Developed Market Funds	XIRLX	9.5%	2
Turkish Investment Fund	Emerging Markets Funds	XTKFX	8.7%	3
PIMCO Gl StksPLUS & Inc	Options Arbitrage/Opt Strategies Funds	XPGPX	7.3%	4
Reaves Utility Income	Utility Funds	XUTGX	7.1%	5

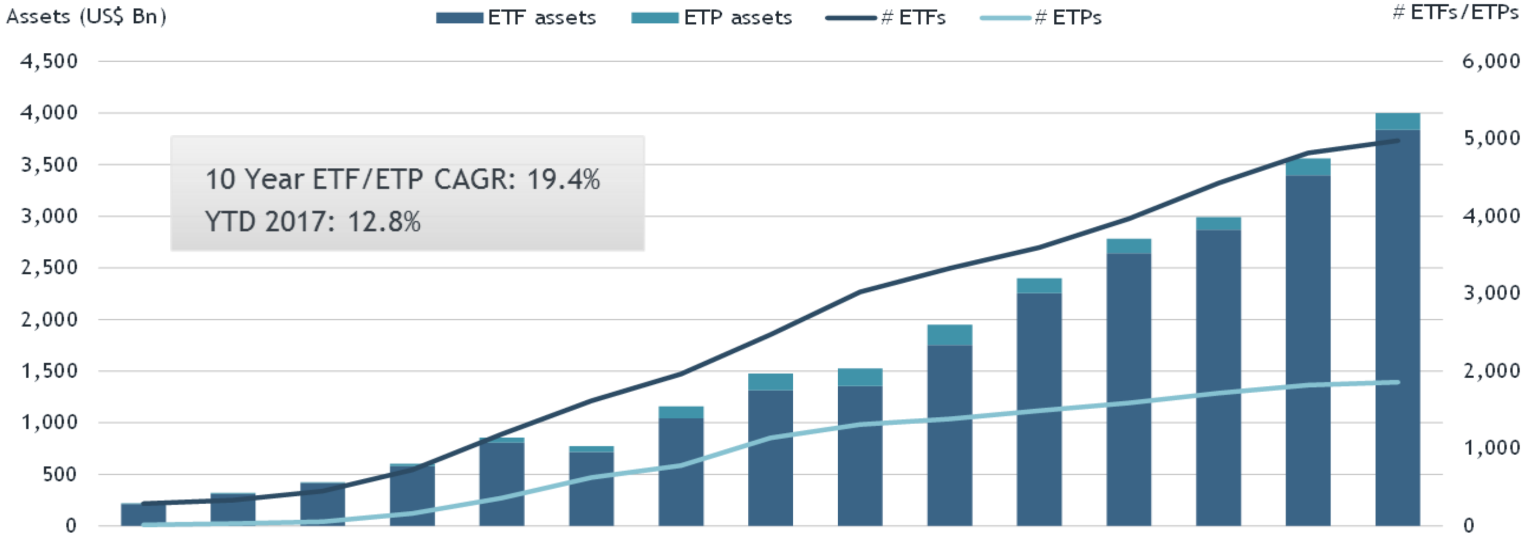
Fund Name	Category	Ticker Symbol	Year-to-Date Market Change	Rank
Equus Total Return	Core Funds		42.8%	1
Turkish Investment Fund	Emerging Markets Funds	XTKFX	33.2%	2
PIMCO Gl StksPLUS & Inc	Options Arbitrage/Opt Strategies Funds	XPGPX	32.6%	3
Morg Stan India Inv	Emerging Markets Funds	XIIFX	30.0%	4
Aberdeen Singapore Fund	Developed Market Funds	XSGFX	27.7%	5

Fund Name	Category	Ticker Symbol	1-Month P/D Change	Rank
PIMCO Gl StksPLUS & Inc	Options Arbitrage/Opt Strategies Funds	XPGPX	8.5%	1
Westn Asst Mtge Def Opp	U.S. Mortgage Funds	XDMOX	5.7%	2
J Hancock Tx-Adv Div Inc	Value Funds	XHTDX	5.6%	3
Reaves Utility Income	Utility Funds	XUTGX	5.0%	4
Cohen & Steers Qual Rlty	Real Estate Funds	XRQIX	5.0%	5

Fund Name	Category	Ticker Symbol	Year-to-Date P/D Change	Rank
PIMCO Gl StksPLUS & Inc	Options Arbitrage/Opt Strategies Funds	XPGPX	31.7%	1
PIMCO Strat Income	Global Income Funds	XRCSX	13.1%	2
Tortoise Energy Inf Corp	Energy MLP Funds	XTYGX	11.9%	3
Turkish Investment Fund	Emerging Markets Funds	XTKFX	11.7%	4
Cornerstone Total Return	Core Funds	XCRFX	11.1%	5

Global ETF and ETP asset growth as at end of April 2017

At the end of April 2017, the Global ETF industry had 4,976 ETFs, with 10,336 listings, assets of US$3,838 Bn, from 275 providers on 66 exchanges. At the end of April 2017, the Global ETF/ETP industry had 6,834 ETFs/ETPs, with 12,890 listings, assets of US$4,001 Bn, from 311 providers on 68 exchanges.



Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Apr-17
# ETFs	289	335	451	725	1,185	1,616	1,964	2,473	3,024	3,329	3,596	3,968	4,431	4,820	4,976
# ETFs/ETPs	304	365	507	888	1,546	2,241	2,743	3,613	4,336	4,711	5,084	5,557	6,148	6,641	6,834
ETF assets	212	310	417	580	807	716	1,041	1,313	1,355	1,754	2,254	2,643	2,870	3,397	3,838
ETF/ETP assets	218	319	426	603	857	774	1,158	1,478	1,526	1,949	2,398	2,784	2,993	3,548	4,001

Summary for ETFs/ETPs: Global

ETFGI, a leading independent research and consultancy firm on trends in the global ETF/ETP ecosystem, reported today that assets invested in ETFs/ETPs listed globally broke through the US$4 trillion milestone at the end of April 2017, according to preliminary data from ETFGI's April 2017 global ETF and ETP industry insights report (click here to view the ETFGI ETFs/ETPs listed globally asset growth chart).

The Global ETF/ETP industry had 6,835 ETFs/ETPs, with 12,892 listings, assets of US$4.002 trillion, from 313 providers listed on 68 exchanges in 56 countries at the end of April 2017.

"Investors continued to favour equities over fixed income and commodities as equity markets performed positively in April. The S&P 500 was up 1%, international equity markets outside the US and emerging markets were both up 2% in April. Investors were captivated by a closely-fought first round of the French elections during April," according to Deborah Fuhr, managing partner and a founder of ETFGI.

ETFs and ETPs listed globally gathered record net inflows of US$37.94 Bn in April marking the 39th consecutive month of net inflows. Year to date, a record US$235.21 Bn in net new assets have been gathered. At this point last year there were net inflows of US$81.01 Bn.

In April, equity ETFs/ETPs gathered the largest net inflows with US$27.75 Bn, followed by fixed income ETFs/ETPs with US$10.78 Bn, while commodity ETFs/ETPs experienced net outflows of US$1.28 Bn.

YTD through end of April 2017, ETFs/ETPs have seen net inflows of US$235.21 Bn. Equity ETFs/ETPs gathered the largest net inflows YTD with US$167.42 Bn, followed by fixed income ETFs/ETPs with US$49.97 Bn, and commodity ETFs/ETPs with US$7.59 Bn.

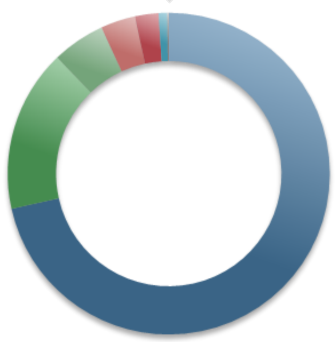
iShares gathered the largest net ETF/ETP inflows in April with US$23.94 Bn, followed by Vanguard with US$10.29 Bn and Schwab ETFs with US$2.53 Bn net inflows.

YTD, iShares gathered the largest net ETF/ETP inflows with US$89.30 Bn, followed by Vanguard with US$53.10 Bn and Nomura AM with US$10.23 Bn net inflows.

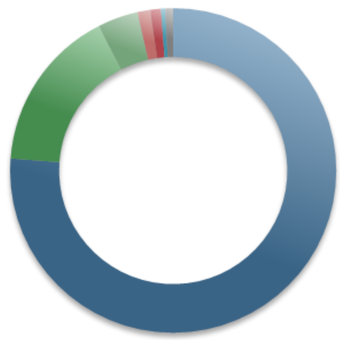
Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources, and data generated by our in-house team.
Note: "ETFs" are typically open-end index funds that provide daily portfolio transparency, are listed and traded on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

Global ETF/ETP Assets Summary

ETF/ETP assets by region listed



ETF/ETP assets by asset class



ETF/ETP assets by product structure

Region	# ETFs/ ETPs	Assets (US$ Bn)	% total
US	2,011	$2,865.2	71.6%
Europe	2,257	$657.9	16.4%
Japan	185	$209.3	5.2%
Asia Pacific (ex-Japan)	1,051	$135.9	3.4%
Canada	495	$92.4	2.3%
Middle East and Africa	789	$34.3	0.9%
Latin America	46	$5.5	0.1%
Total	**6,834**	**$4,000.5**	**100.0%**

Asset class	# ETFs/ ETPs	Assets (US$ Bn)	% total
Equity	3,720	$3,052.6	76.3%
Fixed Income	970	$653.6	16.3%
Commodities	710	$155.8	3.9%
Active	340	$50.8	1.3%
Leveraged	401	$41.2	1.0%
Inverse	189	$16.4	0.4%
Others	504	$30.2	0.8%
Total	**6,834**	**$4,000.5**	**100.0%**

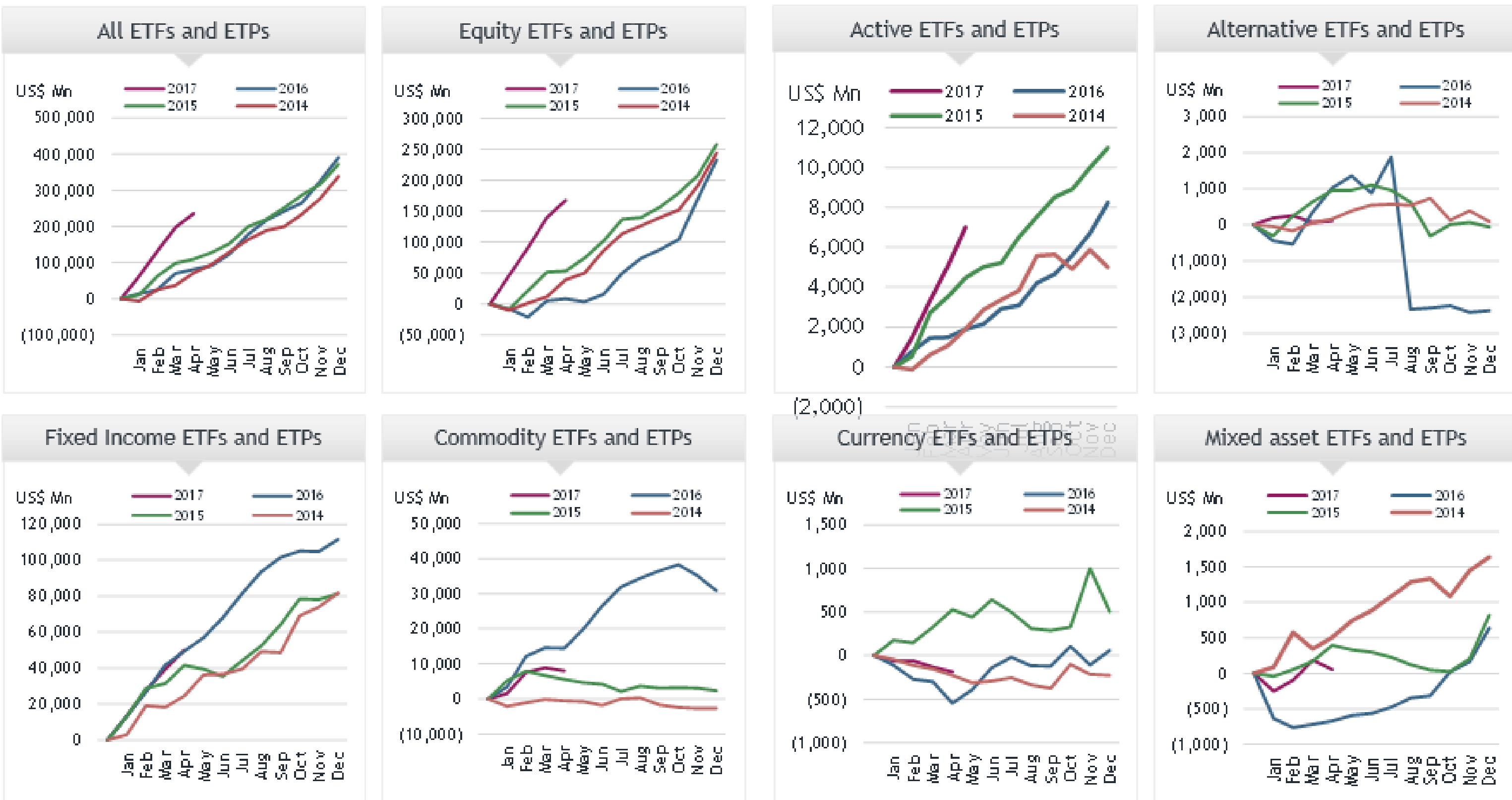
Asset class	# ETFs/ ETPs	Assets (US$ Bn)	% total
ETF	4,976	$3,838.2	95.9%
ETP	1,858	$162.3	4.1%
Total	**6,834**	**$4,000.5**	**100.0%**

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.

...your link with the Global Investment Community 10

YTD 2017 vs 2016, 2015, 2014 ETF and ETP net new assets by asset class: Global



ETFs and ETPs listed globally gathered net inflows of $38,381 Mn in April. Year to date, net inflows stand at $235,643 Mn. At this point last year there were net inflows of $81,015 Mn.

Equity ETFs/ETPs saw net inflows of $27,760 Mn in April, bringing year to date net inflows to $167,431 Mn, which is greater than the net inflows of $8,357 Mn over the same period last year.

Fixed income ETFs and ETPs experienced net inflows of $10,773 Mn in April, growing year to date net inflows to $49,970 Mn, which is greater than the same period last year which saw net inflows of $49,368 Mn.

Commodity ETFs/ETPs saw net outflows of $849 Mn in April. Year to date, net inflows are at $8,022 Mn, compared to net inflows of $14,435 Mn over the same period last year.

Actively managed products saw net inflows of $1,956 Mn in April, bringing year to date net inflows to $7,007 Mn, which is greater than the net inflows of $1,879 Mn over the same period last year.

Products tracking alternative indices experienced net inflows of $37 Mn in April, growing year to date net inflows to $108 Mn, which is less than the same period last year which saw net inflows of $1,027 Mn.

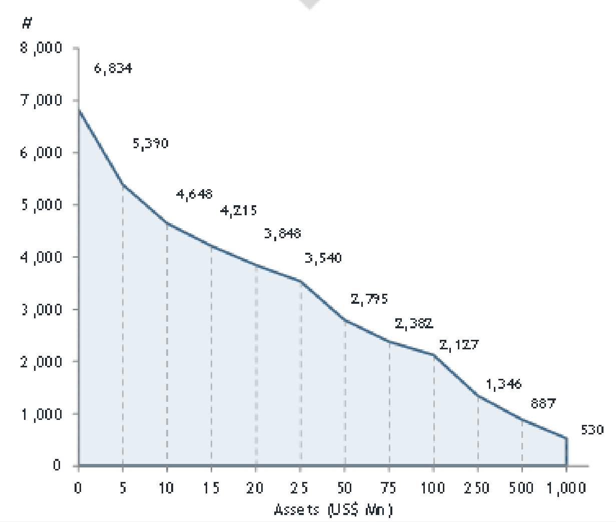
Currency products saw net outflows of $57 Mn in April. Year to date, net outflows are at $186 Mn, compared to net outflows of $546 Mn over the same period last year.

Products holding more than one asset class saw net outflows of $131 Mn in April, bringing year to date net inflows to $54 Mn, which is greater than the net outflows of $671 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

ETF/ETP assets



Assets greater than (US$ Mn)	# ETFs/ ETPs	% total	Total assets (US$ Bn)	% total
0	6,834	100.0%	3,994	100.0%
5	5,390	78.9%	3,991	99.9%
10	4,648	68.0%	3,986	99.8%
15	4,215	61.7%	3,980	99.7%
20	3,848	56.3%	3,974	99.5%
25	3,540	51.8%	3,967	99.3%
50	2,795	40.9%	3,940	98.7%
75	2,382	34.9%	3,915	98.0%
100	2,127	31.1%	3,893	97.5%
250	1,346	19.7%	3,768	94.4%
500	887	13.0%	3,605	90.3%
1,000	530	7.8%	3,349	83.9%

530 ETFs/ETPs have greater than US$1 Bn in assets, while 2,127 have greater than US$100 Mn in assets and 2,795 have greater than US$50 Mn in assets. The 530 ETFs/ETPs with greater than US$1 Bn in assets hold a combined total of US$3,349 Bn, or 83.9%, of Global ETF/ETP assets.

ETF/ETP underlying benchmarks: developed equity

Top 20 by assets

Name	Assets (US$ Mn) Apr-17	NNA (US$ Mn) Apr-17	NNA (US$ Mn) YTD 2017
FTSE Emerging Markets Index	52,780	956	3,240
MSCI Emerging Markets Index	47,906	605	1,573
MSCI Emerging Markets Investable Market Index	34,174	1,464	8,898
CSI 300 Index	12,083	(110)	(496)
KOSPI 200 Index	7,589	(521)	(2,131)
MSCI India Index	7,523	144	731
Hang Seng China Enterprises Index	7,390	(54)	(1,041)
MSCI Brazil 25-50 USD Index	5,477	(89)	759
SSE 50 Index	4,551	54	(100)
MSCI Emerging Markets Minimum Volatility Index	4,335	0	(277)
MSCI Taiwan Index	3,921	56	221
FTSE China 50 Index	3,878	(27)	(126)
FTSE All World All Emerging Index	3,203	243	659
SSE 180 Index	3,186	(0)	2
CSI 500 Index	3,170	101	134
MSCI Korea 25-50 USD Index	3,155	(149)	(157)
MSCI China Index	3,069	57	(144)
FTSE China A50 Index	2,735	(78)	(82)
MSCI Emerging Markets Asia Index	2,598	80	340
SSE Central State Owned Enterprises 50 Index	2,151	(43)	(38)

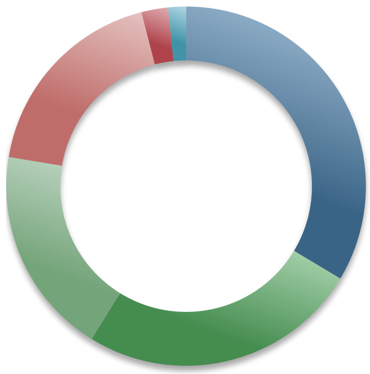
Top 20 by monthly net inflows

Name	Assets (US$ Mn) Apr-17	NNA (US$ Mn) Apr-17	NNA (US$ Mn) YTD 2017
MSCI Emerging Markets Investable Market Index	34,174	1,464	8,898
FTSE Emerging Markets Index	52,780	956	3,240
MSCI Emerging Markets Index	47,906	605	1,573
FTSE All World All Emerging Index	3,203	243	659
MSCI India Index	7,523	144	731
S&P Latin America 40 Index	1,197	127	133
CSI 500 Index	3,170	101	134
MSCI BRIC Index	304	92	129
Russell Fundamental Emerging Markets Large Company Index	1,189	89	293
MSCI Emerging Markets Asia Index	2,598	80	340
Ossiam Emerging Markets Minimum Variance Index	220	72	60
MSCI China Index	3,069	57	(144)
MSCI Taiwan Index	3,921	56	221
SSE 50 Index	4,551	54	(100)
MSCI India Small Cap Index	167	52	64
S&P Emerging Markets Under USD2 Billion Index	423	45	33
KOSPI200 IT Sector Index	124	44	70
Bovespa Index	1,308	42	179
S&P Emerging BMI Index	377	38	57
FTSE Emerging Tax Index	1,217	35	157

Reuters/Lipper, Bloomberg, publicly available sources, and data generated by our in-house team.

2017 ETF/ETP product launches

ETFs/ETPs by region listed



ETFs/ETPs by asset class

ETFs/ETPs by product structure

Region	# ETFs/ETPs	% total
Asia Pacific (ex-Japan)	84	33.6%
US	63	25.2%
Canada	47	18.8%
Europe	46	18.4%
Japan	6	2.4%
Middle East and Africa	4	1.6%
Total	**250**	**100.0%**

Asset class	# ETFs/ETPs	% total
Equity	81	32.4%
Active	49	19.6%
Fixed income	41	16.4%
Mixed	19	7.6%
Leveraged	19	7.6%
Inverse	18	7.2%
Others	23	9.2%
Total	**250**	**100.0%**

Structure	# ETFs/ETPs	% total
ETF	211	84.4%
ETP	39	15.6%
Total	**250**	**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.

Rating Actions

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

- **Fitch Rates TPS Shares Issued by Nuveen Closed-End Fund 'AA'** – March 31
- **Fitch Affirms Preferred Shares of Three Neuberger Berman Funds at 'AA'** – April 18
- **Fitch Affirms FMTP Shares Issued by MainStay DefinedTerm Municipal Opportunities Fund at 'AAA'** – April 18
- **Fitch Affirms VMTP Shares Issued by 9 Invesco Closed-End Funds at 'AAA'** – April 18
- **Fitch Affirms DTF Tax-Free Income Inc. VMTP Shares at 'AAA'** – April 18
- **Fitch Affirms Preferred Shares Issued by 46 BlackRock Closed-End Funds** – April 26
- **Fitch Affirms Preferred Shares of Two Deutsche Closed-End Funds at 'AAA'** – May 9
- **Fitch Rates MFP Shares Issued by Nuveen Closed-End Fund** – May 12
- **Fitch Rates MFP Shares of Nuveen Municipal Credit Income Fund** – May 15

Market Videos

Click on image to access video

May 16, 2017
Brian Wesbury of First Trust: *There is NO Great Stagnation*

May 8, 2017
Bob Carey of First Trust: *The 5.1% Difference*

May 15, 2017
Jeffrey Gundlach of DoubleLine Capital: *Gundlach: The dollar is not going up*

May 3, 2017
Bob Pisani of CNBC: *These risky new ETFs can quadruple your gains – or losses*

May 15, 2017
Ben Johnson of Morningstar: *$4 Trillion, 4 Basic Points, and 4 Times-Leveraged ETFs*

April 27, 2017
Eric Balchunas of Bloomberg: *Are ETFs Weapons of Mass Destruction?*

Closed-End Fund review – First Quarter 2017

April 28, 2017

Authored by:
Jeff Margolin
Senior Vice President, CEF Analyst
First Trust Advisors

First Quarter 2017 Overview

Following a calendar year when the average closed-end fund (CEF) was up 8.59%, many categories of the CEF marketplace continued their positive momentum in 2017. Indeed, the average CEF was up a solid 5.17% during the first quarter of 2017. Positive gains were broad based during the first three months of the year as equity CEFs were up on average 8.35%, taxable fixed-income CEFs up 4.64% and municipal CEFs up 2.34%. I believe rising global equity prices, solid fundamentals for credit-sensitive asset classes (i.e. defaults below historical averages), fairly steady long-term interest rates, demand for income-oriented asset classes and discount narrowing all helped contribute to the broad-based positive total returns experienced by many categories in the first quarter. (Source: Morningstar. All data is share price total return.)

Average discounts to net asset values (NAVs) narrowed slightly during the quarter. 2017 began with average discounts to NAVs at 6.34% and ended the first quarter at 5.12%. From my standpoint, some of the best values in the CEF marketplace continue to exist in equity-oriented funds. In fact, the average U.S. equity CEF ended the first quarter at a still wide and compelling 10.09% discount to NAV. Average discounts also remain attractive in global equity funds at 10.50%. (Morningstar).

No Changes to My Three Favored Categories

In my CEF commentary piece from January (http://www.ftportfolios.com/Commentary/Insights/2017/1/27/fourth-quarter-2016), I highlighted three categories of the CEF marketplace I favored for 2017. Those categories included: U.S. Equity, Senior Loan and Global Equity. The thesis for focusing on these three specific categories was that not only did these underlying asset classes and funds have compelling fundamentals and attractive valuations but also that all three were poised to benefit from the macro view our economics team was forecasting for 2017.

This macro view called for:

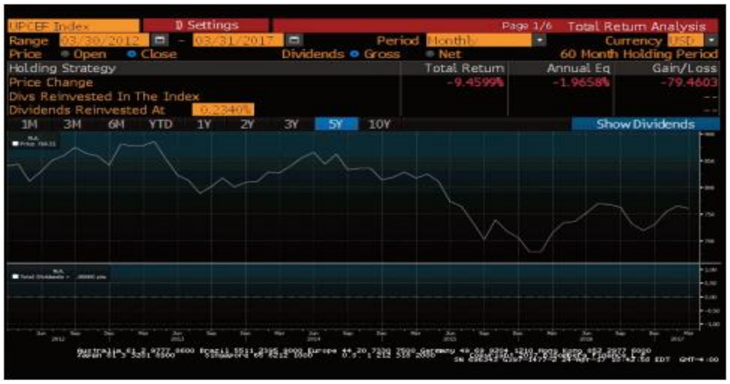
- Real gross domestic product (GDP) growth of 2.6%
- An increase in the consumer price index (CPI) to the 2.5% to 3.0% range
- Three or four rate hikes
- 10-yr Treasury to finish the year at 3.25%
- The S&P 500 Index to finish the year at 2700

The first quarter of 2017 did indeed provide fruitful positive total returns for these three categories with Global Equity CEFs up 10.92%, U.S. General Equity CEFs up 5.99% and Senior Loan CEFs up 3.27%. As the second quarter commences, I continue to favor these three categories as I firmly believe they still represent attractive value, have compelling fundamentals, and are best positioned should the macro view discussed above continue to come to fruition. I would note, however, that while I still very much favor Senior Loan CEFs, I expect more of the potential total return going forward to come from the income senior loan funds provide as opposed to significant capital appreciation (as was earned in Senior Loan CEFs the past 12-months, according to data from Morningstar. All data is share price total return).

Think Total Return

In just about every presentation I am fortunate to give on the subject of investing in CEFs, I always stress the importance of focusing on total return performance as opposed to simply capital return performance, in the CEF structure. I focus on total return performance because the majority of CEFs have the goal of distributing current income as their primary investment objective and historically the majority of a CEF's total return comes from the distributions it makes. As the two charts on the next page clearly show over the past five years (3/30/2012-3/31/2017), all of the more than 33% cumulative total return earned by the First Trust Composite Closed-End Fund Total Return Index consisted of the distributions. The First Trust Composite Closed-End Fund Total Return Index is a composite index of the municipal, taxable fixed-income and equity indexes which is intended to provide a capitalization-weighted representation of the entire U.S. closed-end fund universe.

As you can see in the second graph below, the same index (excluding distributions) had a cumulative negative return of over -9%.



From my standpoint, the stark difference between these two charts clearly illustrates the power of CEF distributions compounding over time, which is precisely why I believe it is critical to think in terms of total return when analyzing the performance of an individual CEF or a portfolio of CEFs. I am not trying to imply that an individual CEF or category of CEFs cannot earn capital appreciation in addition to the distributions; rather, as the charts indicate, it simply means that, historically, over long periods of time, most of the total return CEFs provide comes from the distributions.

All opinions expressed constitute judgments as of the date of release, and are subject to change without notice. There can be no assurance any forecasts will be achieved. The information is taken from sources that we believe to be reliable but we do not guarantee its accuracy or completeness.

Click here for complete reading

The Value of Dividend Growth

May 2017

Authored by:
Ryan O. Issakainen, CFA
Senior Vice President
First Trust Advisors LP

Summary of Q1 2017 ETF Flows and Trends

» Estimated net inflows for US-listed exchange-traded funds (ETFs) totaled $134 billion in Q1 2017, setting a new record for the second straight quarter.

» Equity ETFs received the lion's share of estimated net inflows during Q1 2017. While the overall strongest category for estimated net asset flows was US Equity ETFs, with $44.8 billion in estimated net inflows, International Equity ETFs and Sector Equity ETFs also had strong showings, with $33.5 billion and $18.0 billion of estimated net inflows, respectively.

» Taxable Bond ETFs received the second highest level of estimated net inflows in Q1 2017, with $33.9 billion. This marked a $21 billion increase from Q4 2016, which had been the weakest quarter for Taxable Bond ETFs in 2016. Estimated net inflows for Municipal Bond ETFs slowed to $0.7 billion in Q1 2017, compared to $1.3 billion in Q4 2016.

» Both Commodities ETFs and Alternatives ETFs received estimated net inflows in Q1 2017, totaling $1.1 billion and $1.6 billion, respectively, after both faced estimated net outflows in Q4 2016.

US Category Group	Total US-Listed ETF Assets (3/31/17)	Q1 2017 Estimated Net Asset Flows	Previous Quarter Estimated Net Asset Flows (Q4 2016)
Allocation	$10,377,158,075	$162,781,930	$965,690,934
Alternative	$44,650,833,757	$1,625,412,488	($2,823,777,912)
Commodities	$64,091,597,141	$1,050,371,016	($7,351,712,270)
International Equity	$529,267,979,349	$33,509,566,124	$15,106,184,470
Municipal Bond	$24,782,140,197	$718,131,483	$1,338,763,108
Sector Equity	$377,419,035,213	$17,977,494,731	$22,108,625,016
Taxable Bond	$460,454,403,171	$33,854,546,260	$12,873,147,728
US Equity	$1,296,860,452,778	$44,802,687,263	$84,638,664,582
Total	**$2,807,903,599,681**	**$133,700,991,295**	**$126,855,585,656**

Source: Morningstar, as of 3/31/17. Includes all US-listed exchange-traded funds, exchange-traded notes and other exchange-traded products.
All net inflow and outflow numbers are estimates based on information provided by Morningstar.

Dividend ETFs have grown in popularity over the past several years, accumulating over $118 billion, among 47 ETFs, as of 3/31/17.[1] Overall, these ETFs have performed quite well. Of the 28 dividend ETFs rated by Morningstar, a remarkable 24 have an overall 4- or 5-star rating as of 3/31/17.[2] Each of these funds follows a distinct, rules-based index methodology, producing a range of different portfolio characteristics. However, since the majority of these strategies are designed to seek high dividend yielding stocks, they tend to favor certain non-cyclical sectors in which those stocks are most often found. While strategies favoring steady, high dividend-yielding stocks performed well in the context of an ultra-low interest rate environment, we believe these types of stocks may underperform when rates rise, as higher bond yields compete for investor dollars. In such contexts, we believe strategies focused on stocks with rising dividend payments may prove to be an attractive alternative to high-yielding stocks with low dividend growth.

Diminishing Value in Dividends?

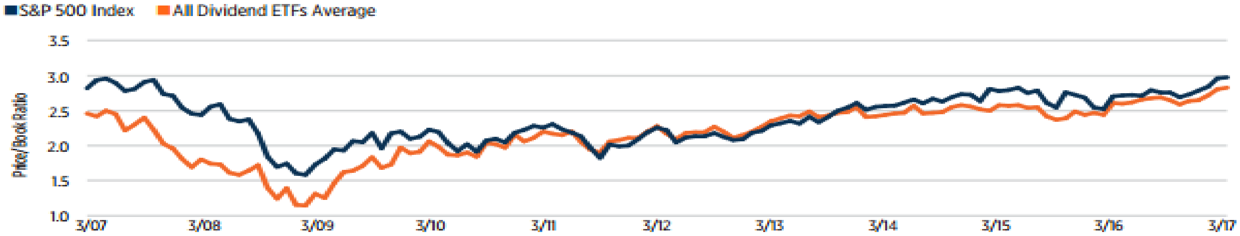
Traditionally, dividend yield has often been regarded as a useful metric for identifying relatively inexpensive stocks. More recently, however, valuations of dividend ETFs have increased relative to broad market benchmarks based on other measures of value, such as price/book (See Chart 1 below). The 10-year average price/book ratio for dividend ETFs was 11.5% lower than the S&P 500 Index over the decade ending on 3/31/17 (See Chart 2 on the following page).

However, the average discount was much greater during the first few years of the last decade, averaging 22% from 3/31/07-3/31/10. As the era of ultra-low interest rates wore on in subsequent years, many investors found high dividend yielding stocks to be an attractive alternative to bonds, and dividend ETFs grew more expensive. Only time will tell if valuation discounts will return for dividend ETFs, but if they do, this may result in a period of relative underperformance for these strategies.

Sector Biases for Dividend ETFs

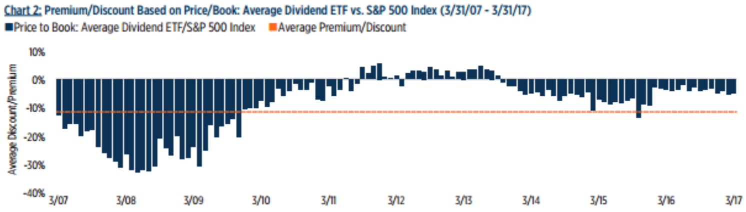
Although sector allocations do vary from one dividend ETF to another, these funds tend to share similar sector biases. On average, dividend ETFs favor relatively high dividend yielding sectors, with relatively low dividend growth, such as utilities, consumer staples, and telecom services (See Charts 3, 4, and 5 below). These overweight allocations generally come at the expense of sectors with lower dividend yields but stronger dividend growth trends, such as information technology and financials.

Chart 1: Price/Book Ratio: Average Dividend ETF vs. S&P 500 Index (3/31/07 - 3/31/17)



Source: Morningstar. Past performance is not a guarantee of future results.
Past performance is not a guarantee of future results and there is no assurance the events or improvements mentioned herein will continue.

Chart 2: Premium/Discount Based on Price/Book: Average Dividend ETF vs. S&P 500 Index (3/31/07 - 3/31/17)



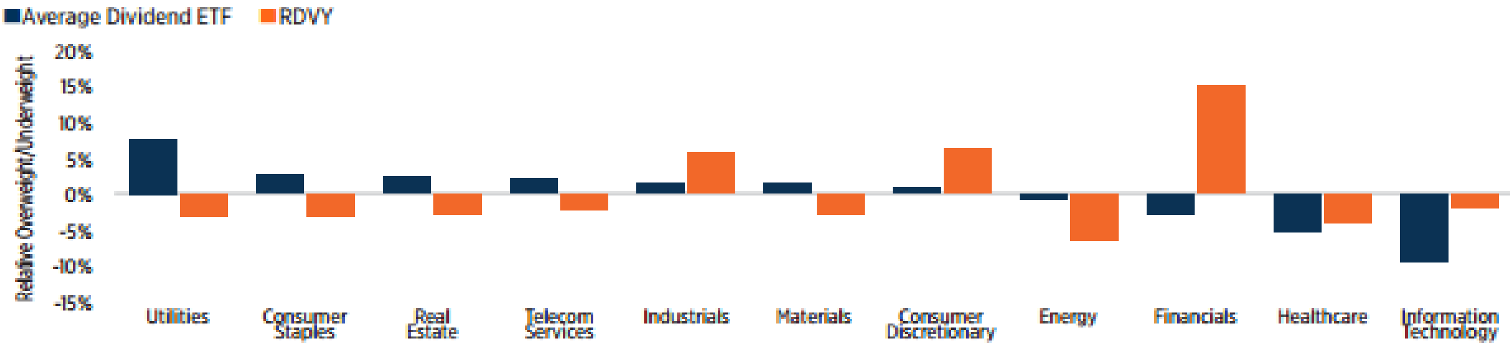
Source: Morningstar. Past performance is not a guarantee of future results.

A Strategy for Seeking Dividend Growth

We believe the First Trust Rising Dividend Achievers ETF (RDVY) may be an attractive alternative to strategies favoring high dividend yielding stocks in the current market environment. RDVY tracks an index comprised of 50 dividend-paying stocks, for which recent dividend growth has been accompanied by underlying earnings growth, as well as capacity for future dividend increases. The fund's underlying index methodology applies a series of screens to the 1000 largest stocks in the US, eliminating those for which: 1. Dividend payments over the previous 12 months are not greater than annual dividends paid three- and five-years prior. 2. Earnings in the most recent fiscal year are not positive, as well as greater than annual earnings from three fiscal years prior. 3. More than 65% of earnings over the previous 12 months have been paid out as dividends. 4. Cash-to-debt ratios are less than or equal to 50%.

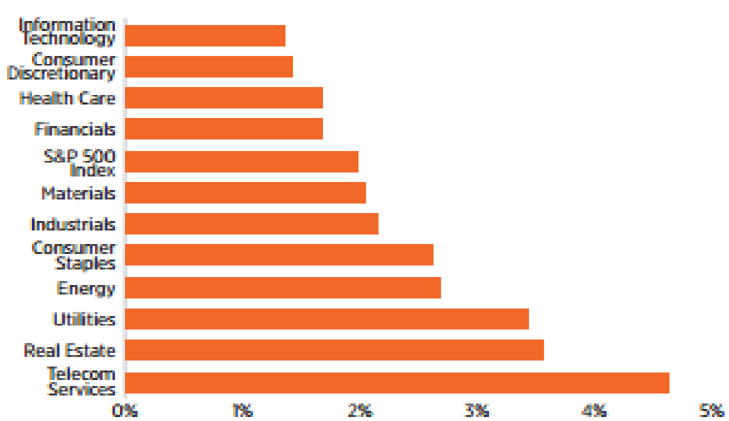
1"Dividend ETFs" are defined here to include all US-listed equity ETFs with at least 80% allocated to US stocks, with a name that incorporates the word "dividend" or "income".
2The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. ©2017 Morningstar, Inc. All Rights Reserved. The Morningstar Rating™ information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.
3Source: Morningstar.

Chart 3: Sector Allocations Relative to S&P 500 Index (As of 3/31/17)



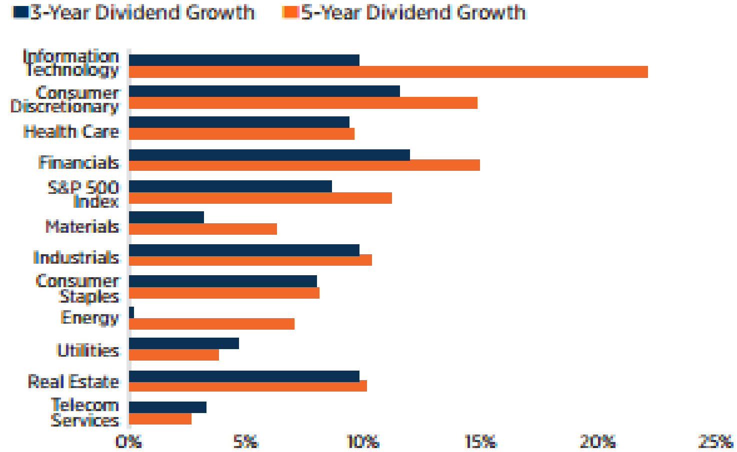
Source: Morningstar. Past performance is not a guarantee of future results.

Chart 4: GICS Sectors: Trailing 12-Month Dividend Yield (As of 3/31/17)



Source: Bloomberg. Past performance is not a guarantee of future results.

Chart 5: GICS Sectors: 3- and 5-Year Dividend Growth Rates (As of 3/31/17)



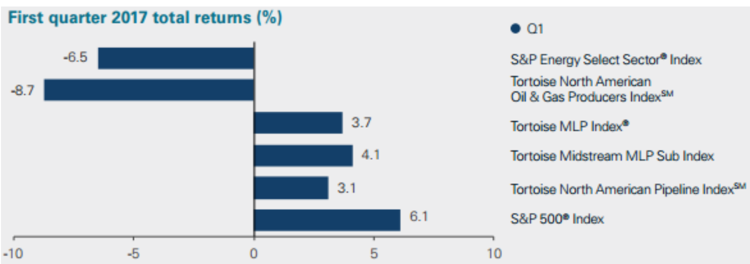
Source: Bloomberg. Past performance is not a guarantee of future results.

Click here for complete reading

Tortoise Talk - First quarter 2017

Performance within the energy sector for the first quarter was mixed, with market sentiment for broad energy souring as indicated by the -6.5% return from the S&P Energy Select Sector® Index. Upstream producers and larger integrated energy companies retreated while midstream companies, including MLPs, experienced continued strength following executive orders easing pipeline regulations and increased producer activity. The U.S. continues to move toward energy independence and according to the Energy Information Administration, will likely become a net energy exporter by 2026.

The broader equity market, represented by the S&P 500® Index, had a strong quarter returning 6.1%. Fixed income performance was fairly flat with the Bloomberg Barclays U.S. Aggregate Bond Index returning 0.8% for the quarter. MLPs continued to outpace REITs, as represented by the FTSE NAREIT Equity REIT Index, but underperformed utilities, represented by the S&P Utilities Select Sector Index. Utilities performed well despite the potential for higher interest rates, perhaps in anticipation of less federal regulatory burden, although we expect state-specific regulations to remain largely unchanged. The average MLP yield declined slightly to 7.0%.



1Q period reflects 12/31/2016 – 3/31/2017. Source: Bloomberg. It is not possible to invest directly in an index. Please see index definitions on disclaimer page. **Past performance is no guarantee of future results.**

Upstream

Crude oil

Upstream oil and gas producers, as represented by the Tortoise North American Oil and Gas Producers IndexSM, returned -8.7% in the first quarter. Even though Organization of Petroleum Exporting Countries' (OPEC's) compliance to its output agreement has been strong, the market did not respond as positively as expected. The focus now turns to the upcoming May OPEC meeting in which we expect the production cuts to be extended. We believe that high crude oil inventory levels in the U.S. and expected U.S. production growth following higher rig counts are leading to skepticism around the sustainability of higher prices. Heavy imports, coupled with lower refiner demand during maintenance season, led to sustained inventory builds in the U.S., although they appear to be decreasing globally. Change in global inventories between 4Q16 and 1Q17 indicates, in our view, a market on a path to rebalancing. U.S. crude oil production estimates continued to be revised higher, mainly due to the increase in rigs with greater efficiency, especially in the Permian and Eagle Ford Basins. As such, 2017 average production is now estimated at 9.2 million barrels per day (MMbbl/d) and 9.9 MMbbl/d for 2018, which would be the highest production level in U.S history.1 We believe that more U.S. oil production will be needed to meet future global demand. In 32 of the last 33 years global energy consumption has increased, and we believe this trend will continue.2

Throughout the first quarter, prices were more volatile as they fell below $50 on March 9. West Texas Intermediate (WTI) started the period at $53.72 per barrel, hitting a low for the quarter of $47.00 on March 23 before climbing back above $50 to end the quarter at $50.60.

Natural gas

Natural gas prices opened at the quarter's peak price of $3.68 per million British thermal units (MMBtu), steadily declined to a low of $2.44 and ended the quarter at $3.10. Warm winter weather throughout the country was a headwind for natural gas demand, though mitigated somewhat by increasing exports leading to lower inventory levels versus last year.1 We anticipate more exports to Mexico, more industrial activity, and the continuation of coal to natural gas switching in the power generation sector to drive demand for gas. On this last point, note the shift from coal to natural gas and renewables to generate electricity is having a positive effect on the environment. Energy-related carbon dioxide emissions declined by 1.7% in 2016 and are projected to decrease by another 0.5% in 20171 . Liquefied natural gas (LNG) export should also drive gas demand as two LNG facilities came on-line and three more are expected this year.

Natural gas production is expected to average 73.1 billion cubic feet per day in 2017 and rise to an average of 77.1 billion cubic feet per day in 2018.1 For natural gas liquids and particularly propane, prices improved following higher demand. The U.S. is now exporting more than a million barrels of propane per day,1 which is part of the broader story of the U.S. longer-term shift from net energy importer to net energy exporter.

As of 3/31/2017. Source: Bloomberg. Note: MMBtu = million British thermal units

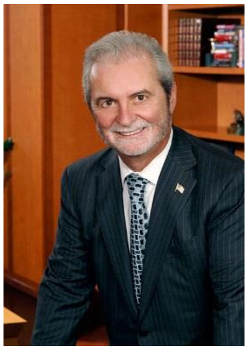
Midstream

The midstream segment performed well over the first quarter compared to upstream and downstream. Pipeline companies structured as c-corps, represented by the Tortoise North American Pipeline IndexSM returned 3.1% for the first quarter. MLPs, represented by the Tortoise MLP Index® had similar performance, returning 3.7% for the same period. The simplification theme continued through the restructuring of incentive distribution rights (IDRs), leading to simplified capital structures, lower costs of capital and improved growth profiles.

Click here for complete reading

Economic Outlook

April 2017



Authored by:
John P. Calamos, Sr.
Founder, Chairman and Global CIO
Calamos Investments

Since the election, markets have responded positively to a growing emphasis on fiscal policy over monetary policy. We share the view that an increased focus on fiscal policies is likely to be a long-term positive for the economy and markets. The stagnant economic conditions of recent years demonstrate the limits of monetary policy, while history has shown that pro-growth fiscal policies can provide tailwinds to move the economy into a stronger growth phase.

During the first quarter, investor sentiment was upbeat (see Market Review below). Markets cheered the prospect of more business-friendly fiscal policies in the U.S., while a weakening dollar provided a welcome tailwind around the world and particularly for emerging markets. We see a growing likelihood for sustained and balanced global GDP growth through 2018. The U.S. economy appears positioned for measured expansion, with growth picking up a bit of steam as the year progresses. Recovery is taking hold in Europe and a number of emerging market economies have moved from negative to positive growth.

While markets have risen briskly since the election, we do not believe the potent mix of tax reform and less regulation has been fully priced into equities. Even so, stocks may well move sideways until there is greater clarity around U.S. fiscal policy implementation and as economic data ebbs and flows. Markets will remain sensitive to political developments as the U.S. administration tries to propel its agenda and major elections approach in Europe. In this highly charged environment, we expect periods of market rotation and attention to valuations remains essential. Earnings expectations may be up overall, but in many cases this is a reflection of easy comparisons. We will be closely watching for the quality of earnings releases in the coming weeks.

Equities and convertibles posted solid gains for the quarter, with defensive and stable growth companies outperforming value and cyclicals. Many areas that performed well during the fourth quarter of 2016 gave back ground, and bond surrogates posted stronger gains than many expected. Also contrary to broad expectations, bonds themselves proved surprisingly resilient, while demand for high yield issues remained healthy. Currency was a significant determinant of returns, with a wide disparity between U.S. dollar and local-currency denominated gains.

U.S. Equities

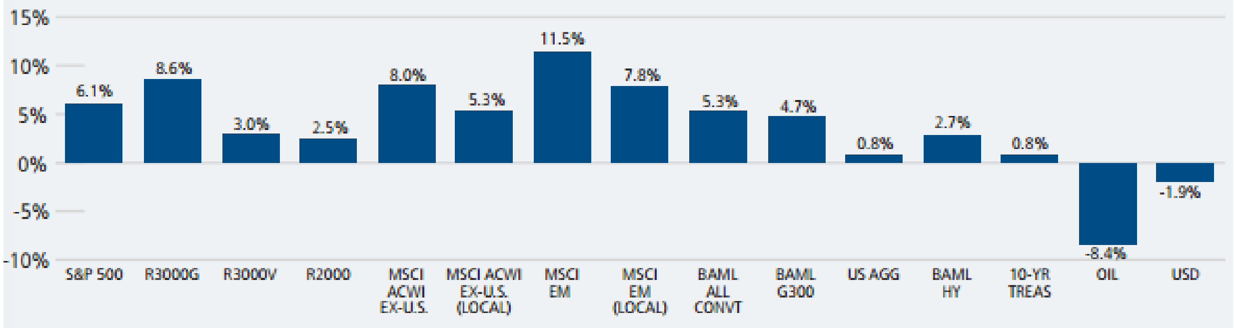
Leading indicators point to a fundamentally improving economy, modest inflationary pressures have replaced deflationary concerns, and unemployment continues to fall. We expect the Federal Reserve to raise short-term rates at least two more times this year. This return to a more normal interest rate environment is a positive, given that increased rates would be a response to a healthier economy.

Still, it is important to acknowledge that many “hard” economic measures (such as government-reported retail sales and durable goods manufacturing) have been less robust than readings for “soft” economic measures (such as surveys of business and consumer confidence). We believe fiscal policy implementation can greatly influence how the soft data carries over to hard measures. If the administration can coalesce enough support to advance some of its pro-business policies, even conditional wins could help bridge the disconnect between soft and hard data, thereby catalyzing stronger growth and the animal spirits in the economy.

As deflation fears transition to reflation confidence, we see positive and pervasive implications for active stock picking. Since 2008, the “wall of worry” has been that low interest rates signal deflation risk, which is negative for earnings. Stocks have been dominated by

MARKET REVIEW

FIGURE 1. GLOBAL ASSET CLASS PERFORMANCE, 1Q 2017



Past performance is no guarantee of future results. Source: Bloomberg.

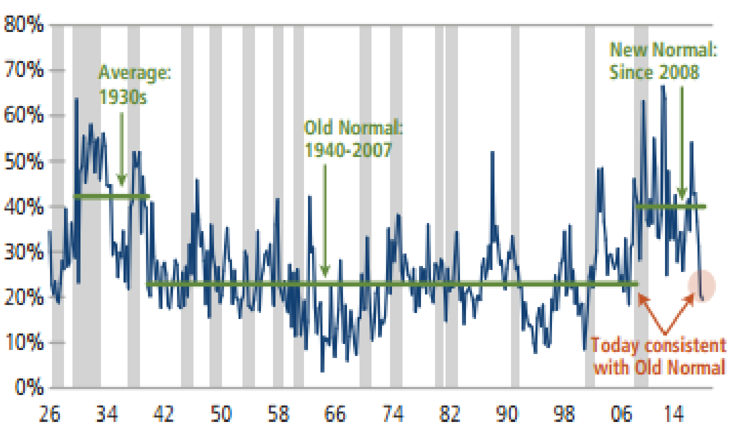
these macro (or top-down) concerns rather than company fundamentals, which is shown in Figure 2. This chart highlights the high and unusual correlation across stocks post-2008, which is in contrast with much of the post-World War II period when these fears of systemic risk did not exist. It is striking that correlations have recently fallen into the pre-2008 range. This confirms our view that deflation fears are subsiding, with positive implications for active management. We think corporate fundamentals will trump macro fears as investors gain confidence in sustained and stable global GDP growth.

In this environment, there are growth opportunities beyond defensive growth sectors, including in consumer discretionary, industrials and financials. The consumer discretionary sector is highly diverse but has generally performed well on the strength of U.S. consumption. Here, we are emphasizing higher quality areas, while maintaining a highly selective approach to struggling areas, such as retail. In industrials, we are favoring companies that can benefit from recovering U.S. GDP growth and potential tax reforms (including railroads and machinery), as well as beneficiaries of increased defensive spending. In the financials sector, we see opportunities multiplying as regulatory pressures ease, the economy improves, and interest rates rise over time. We are overweight banks and have exposure to capital markets.

Our positioning also reflects our long-standing constructive view on technology, including high-quality names in the internet and software industries. Meanwhile, within health care, a difficult political setting is offset by specific opportunities. Contrary to common perception, many health care companies are no longer growth businesses in the absence of meaningful pricing power. This is a broad risk that is unlikely to resolve quickly as the central problem in the U.S. health care system remains excessive cost. However, a large part of this risk is reflected in stock valuations and the sector is highly diverse. Managed care and medical technology are two industries where we see attractive upside.

FIGURE 2. COMPANY ANALYSIS: A RETURN TO RELEVANCE

U.S. LARGE CAP EQUITIES, DAILY RETURN CORRELATIONS, EXPRESSED AS QUARTERLY AVERAGES, 1926 THROUGH JANUARY 2017



Source: Empirical Research Partners Analysis, National Bureau of Economic Research. Recessions indicated by shaded areas.

Global and International Strategies

Fundamental economic improvements continue across Europe and the emerging markets. Although economic expansion in these markets may not be as robust as in the U.S. in absolute terms, the improvements mark more meaningful turning points. A weak dollar has been a boon to global economies, reducing deflationary forces and giving countries increased latitude to implement more accommodative monetary policy. We continue to identify many opportunities outside the U.S., supported by improving growth profiles, relative valuations, and positive earnings revisions (Figure 3).

In Europe, the ECB affirmed its intention to maintain highly accommodative monetary policy, and inflation has edged upward. PMIs have maintained a positive trajectory (Figure 4), and credit growth has improved on the back of increased credit demand, while corporate profitability and exports have strengthened. Although political risk continues—most notably, upcoming French and German election risk—populist sentiment has cooled somewhat. Absent a shock, we expect recovery will continue. Elsewhere in the developed markets, while Japan's economy remains lackluster, we see continued bottom-up opportunities for exporters to capitalize on global expansion.

We are especially constructive on emerging markets. India remains one of our favorite growth stories. Indian equities struggled in 2016 due to a variety of factors, including the government's surprise move to demonetize its currency last November. While this move roiled the markets, we viewed it as a surmountable near-term hurdle, and more importantly, as evidence of a longer-term reform agenda. As we discussed in a blog post, recent elections suggest that this agenda remains popular, and the country has lately delivered a stream of encouraging economic data, including improving consumer confidence, easing food inflation, and manufacturing survey data (Figure 5). We continue to identify opportunities in China, where recent economic data (including fixed-asset investment, housing activity, and PMIs) suggests growth resilience.

FIGURE 3. GLOBAL VALUATIONS

AS OF 3/31/17

	FWD P/Ex	EPS CAGR 2016-2018	FWD Px/ SALES	SALES CAGR 2016-2018	EPS 2017E REVISION YTD
U.S.	18.6	16.2%	2.0	5.6%	-1%
Japan	15.9	18.8%	0.8	7.7%	4%
Europe	15.5	34.9%	1.2	4.2%	2%
EM	12.6	17.7%	1.2	8.5%	7%

Source: Bloomberg.

Click here for complete reading

The Case for Strategic Convertible Allocations

An Analysis of Global Convertible Market Opportunities

Our experience with convertible securities dates to the volatile financial markets of the 1970s. During this period, convertible strategies often provided better returns than either the stock or bond markets. As a fixed-income security with equity attributes, a convertible may be viewed as offering the best of both worlds. When we consider the current environment, we believe the case for actively managed convertible allocations is as strong as ever, given that:

» We believe equity markets can continue to advance, but gains are likely to be punctuated by volatility associated with the shaping of U.S. fiscal policies, global political and central bank uncertainties, and ongoing geopolitical tensions. Against this backdrop, convertible securities may provide an attractive way to participate in equity market upside with potentially less exposure to equity downside.
» Convertibles have proven less vulnerable to rate increases than non-convertible debt, a timely consideration given expectations of further Fed tightening.
» Economic growth and rising interest rates support convertible issuance. Economic data is improving overall and a renewed focus on fiscal policy provides tailwinds for further expansion. Additionally, as rates move higher, companies seeking capital at lower borrowing costs may find convertible structures increasingly attractive versus traditional corporate debt. (In exchange for the equity upside participation they offer, convertibles often have modestly lower coupons than non-convertible debt.)

As we will discuss in this paper, the use of convertibles in a risk-managed strategy may provide benefits that stock and bond allocations alone cannot. However, due to their structural complexities, convertible securities require active management to achieve a desired outcome.

I. INTRODUCTION: CONVERTIBLES AND ASSET ALLOCATION

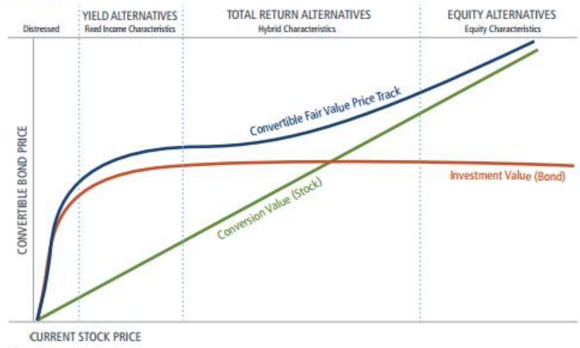
Convertible securities are equity-linked instruments that offer equity market participation with potential downside resilience when equity markets decline. In simplest terms, a convertible is a fixed-income security that includes an embedded option. Structurally, the risk/reward characteristics of convertibles allow them to support a range of asset allocation goals. However, convertible securities are complex. The attributes of convertibles may differ considerably and a specific convertible may be more equity-like at certain periods and more fixed-income-like in others.

Because of their structural complexities, convertible securities demand active management within asset allocations. Often, convertible securities are thought of as a single asset class; this ignores the variations within the convertible universe. Our approach is to use different convertibles within specific investment strategies. It is not simply the convertibles that make a strategy work but how convertibles are managed to achieve a particular investment objective.

Convertibles with higher levels of equity sensitivity may be utilized within lower-volatility equity allocations, providing an innovative solution for investors who wish to participate in equity markets but are concerned about downside equity volatility. (In volatile markets, the bond value provides a floor, and through coupon income, investors are "paid to wait" for the markets to turn.)

FIGURE 1. CONVERTIBLE BONDS: AN OVERVIEW

A convertible bond has three main parts: its value as a straight bond (investment value), its value as a stock (conversion value) and the theoretical fair value. The three factors are interdependent, and each must be considered for a proper valuation of a convertible security.

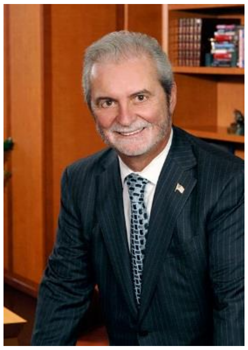


Source: Calamos Investments.

Convertibles can serve a role within enhanced fixed-income allocations. Convertibles have historically performed well during periods of rising interest rates and inflation, and therefore convertible strategies may be used to diversify a traditional fixed-income portfolio (i.e., government bonds) as a high yield corporate bond allocation might. Additionally, convertibles with a range of characteristics can be used within alternative allocations, such as hedge strategies that employ convertible arbitrage.

II. AN EVOLVING MARKET ENVIRONMENT

The dynamics of all asset classes ebb and flow due to economic and market factors, issuance trends and investor sentiment. Convertible securities are no exception. In the years following the financial crisis, many companies chose to take advantage of historically low interest rates and issued non-convertible debt. As a result, the asset class is now smaller than it was between the late 1990s and mid-2000s (Figure 2). Additionally, in 2015, BofA Merrill Lynch changed its methodology to include a narrower group of securities, which we believe accounts for substantially all of the

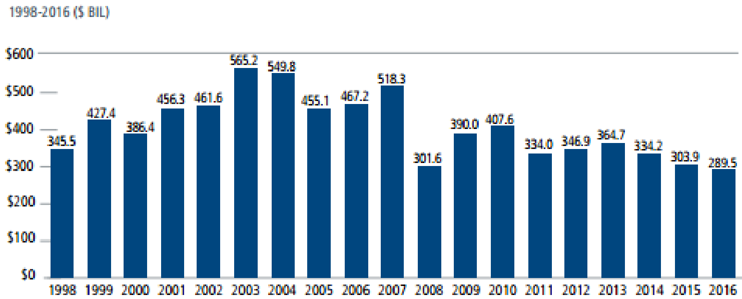


Authored by:
John P. Calamos, Sr.
Founder, Chairman and Global CIO
Calamos Investments

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

drop-off between 2014 and 2015.

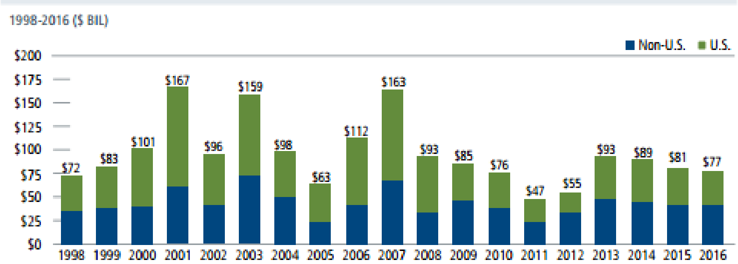
FIGURE 2. ASSET LEVELS HAVE STABILIZED IN THE GLOBAL CONVERTIBLE MARKET



Source: BofA Merrill Lynch Convertibles Research. Convertible market size is represented by the sum of the market capitalization of the BofA Merrill Lynch regional convertible indexes. In 2015, BofA Merrill Lynch Convertible Research began using pricing from third party data providers. Names that are not priced by those providers have been removed.

Global issuance in 2016 totaled $77 billion (Figure 3), less than recent years but still quite respectable. Issuers in the U.S. accounted for about half the total, bringing $36 billion to market, followed by Europe with $29 billion. Of particular note, 2016 saw one of the largest convertible deals in history, issued by a Chinese internet company. Although emerging markets issuers represent a small portion of the convertible market today, we believe this deal represents an exciting milestone in the evolution of the global convertible market.

FIGURE 3. NEW CONVERTIBLE SECURITIES ISSUANCE



Source: BofA Merrill Lynch Global Research.

Issues came to market with generally favorable terms, with strong representation from the technology, energy and health care sectors. In the U.S., 40% of new issuance came in the form of mandatory convertible structures. Mandatory issuance has been more robust in recent years, supported in part by companies that have chosen the structure to raise capital for M&A activities.

Global issuance has gotten off to a good start in the first months of 2017, with more than $12 billion coming to market through February, led by the U.S. at $7.4 billion. We expect issuance in 2017 to be in line with 2016, providing us with a sufficiently broad universe of choices. Convertible market issuance is about capital market access; capital market access is closely tied with economic growth. Looking to the remainder of 2017, we expect an increased emphasis on fiscal policies and global monetary accommodation to provide a favorable backdrop for economic expansion, and by extension, continued catalysts for issuance. If interest deductibility is eliminated as part of U.S. tax code changes, companies would likely prefer issuing convertibles versus straight debt, due to the lower coupons typically offered by convertibles. Additionally, infrastructure spending could increase demand for capital.

III. THE IMPORTANCE OF ACTIVE MANAGEMENT

As previously noted, convertibles have varying degrees of equity and fixed-income sensitivity, and these characteristics may change for a given convertible over time. Figure 4 provides a good example of how convertible characteristics change alongside market conditions. The convertible market demonstrated a much higher degree of equity sensitivity in March of 2000, against the backdrop of a peaking equity market and technology bubble. In February of 2009, the pendulum had swung to the other extreme. As the markets troughed in the liquidity crisis, more than two-thirds of convertible markets were trading as "credit-sensitive."

FIGURE 4. THE MARKET CYCLE AND U.S. CONVERTIBLE CHARACTERISTICS

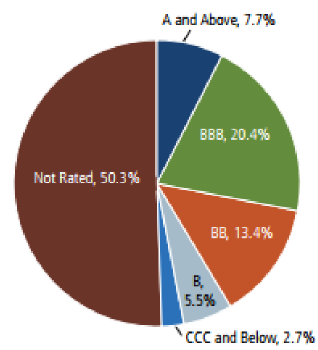
	YIELD ALTERNATIVES	TOTAL RETURN ALTERNATIVES	EQUITY ALTERNATIVES
3/1/2000	18.9%	27.8%	53.3%
2/28/2009	67.4%	20.9%	11.7%
12/31/2016	37.3%	33.6%	29.1%

These changing characteristics speak to the importance of actively managing convertible allocations. The most equity-sensitive convertibles may not provide adequate downside protection, while the most bond-like convertibles may not offer sufficient equity upside participation. Passive strategies cannot adjust to either the changes in an individual convertible's characteristics or to the characteristics of the convertible universe as a whole. Therefore, they cannot provide investors with the benefits that an actively managed convertible portfolio may offer.

In contrast, in a number of U.S. and global convertible strategies, our goal is to earn equity-like returns over a full market cycle with less volatility than the equity market. An active approach affords us this opportunity, and we continually monitor the equity- and credit-sensitivities of the issues in a portfolio, among our many risk-management considerations.

Proprietary research is a key component of our active approach. While investment-grade and mid-grade credits are well represented in the global convertible market, non-rated issues make up a significant percentage as well (Figure 5). Often, companies forego having their securities rated at the outset, avoiding a lengthy and expensive process. We often do invest in non-rated convertible securities but only after rigorous research. Among many factors, we will consider company fundamentals, balance sheet data, and debt servicing prospects.

FIGURE 5. GLOBAL CONVERTIBLE MARKET: CREDIT QUALITY COMPOSITION



Investment-grade and mid-grade credits are well represented in the global convertible market.

Source: BofA Merrill Lynch Convertible Research, G300 Index. Data as of December 31, 2016.

Click here for complete reading

Vulnerabilities exposed by rising interest rates

April 2017

Authored by:
Maxwell Gold
Director – Investment Strategy
ETF Securities

Summary

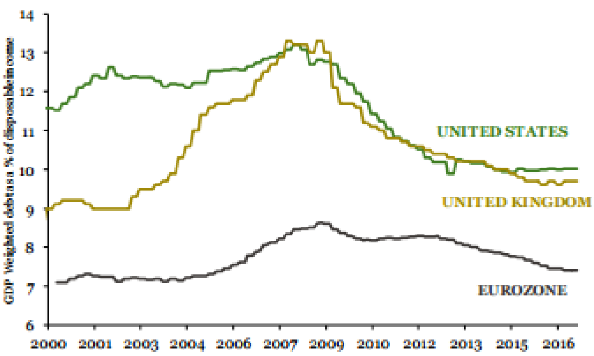
- In the United Kingdom (UK) we have found that for every 1% rise in the Bank of England interest rate we see a 0.7% rise in debt service ratios.
- The FTSE 100 Index has a much lower interest coverage ratio relative to Europe and US equities.
- Despite the potential economic gearing smaller businesses have, in the US they are particularly vulnerable to rate rises.

It is our belief that unprecedented loose central bank monetary policy over the last nine years has distorted certain areas of the economy. As we have written in the past, we believe loose monetary policy is partly responsible for the waves of political populism the developed world is experiencing. Now we want to focus on the impact loose monetary policy has had on households and corporates, if any, and what could happen if policy continues to tighten.

Households vulnerable to interest rate rises

Household debt is not overly extended at current interest rates, with the share of disposable income used to service debt (debt service ratio) having fallen from its peak of 13% in the US to 10% now. Debt service ratios in both Europe and the UK show similar trends.

Household Debt Service Ratios

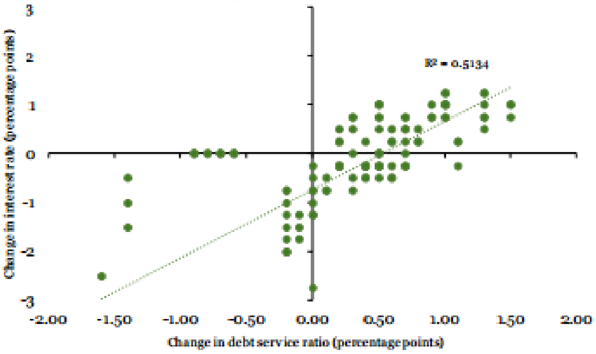


Source: Bloomberg, ETF Securities. Chart data from 03/31/99 to 02/28/17.

Contrary to our expectations, we found that debt service ratios were unresponsive to changes in interest rates in the US or Europe but are in the UK. We have found that for every 1% rise in the Bank of England interest rate we see a 0.7 percentage point rise in debt service ratios. UK households appear to be more sensitive to interest rate changes because there is a greater proportion of variable rate debt in the UK.

The UK is much more vulnerable in a rate rising environment. By our estimates, if interest rates return to their pre-credit-crisis-highs of 5.25%, debt service ratios would increase from 9.7% to 11.9%, returning close to the highs seen in 2007. Other regions where debt service ratios look alarmingly high are Netherlands, Australia and South Korea, which are 18%, 15% and 11% of disposable household income respectively.

Interest rate changes versus debt service ratios (2000 - 2010)



Source: Bloomberg, ETF Securities. Chart data from 01/01/00 to 12/31/10

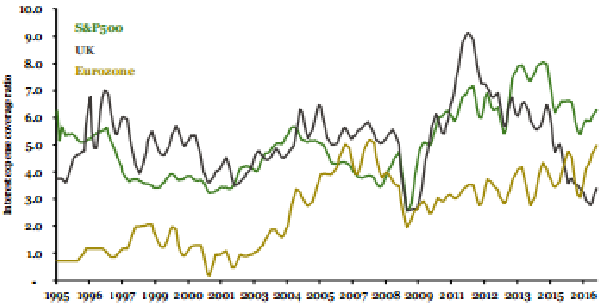
Corporates' ability to handle debt

One of the more effective ways to understand interest rate sensitivity in companies is to measure their ability to handle their outstanding debt.

We believe the interest coverage ratio, measuring EBIT (Earnings Before Interest and Taxes) over Interest Expense is the most effective method in measuring this sensitivity. An interest coverage ratio of above 3x is considered healthy while an interest coverage ratio below 1.5x is typically indicative of a company that is struggling to handle its debt.

From a regional perspective we find, like households, that Europe and the US have the healthiest interest coverage ratios, while the UK has seen a substantial deterioration in its interest cover, having fallen from 9x in 2012 to just 3.4x today.

Interest expense coverage ratio

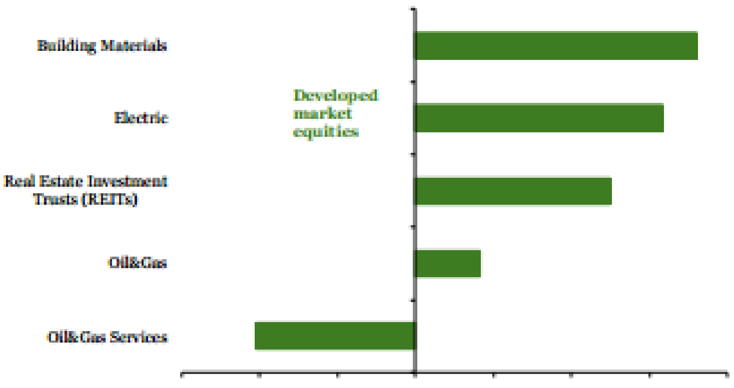


Source: Bloomberg, ETF Securities. Chart data from 01/31/95 to 03/22/17

The FTSE 100 is vulnerable

The UK is well below the 5x and 6.3x cover seen in Europe and the US respectively. Within Europe, we do find pockets of weakness though, Italy has a low cover of only 2x. And within the UK we find it is the FTSE 100 which has a much lower cover relative to the FTSE 250. Breaking down the data by industry sectors reveals that the most vulnerable are resource and property related sectors.

Interest Coverage Ratio (EBIT/Interest Expense)



Source: Bloomberg, ETF Securities. Chart data as of 03/22/17.

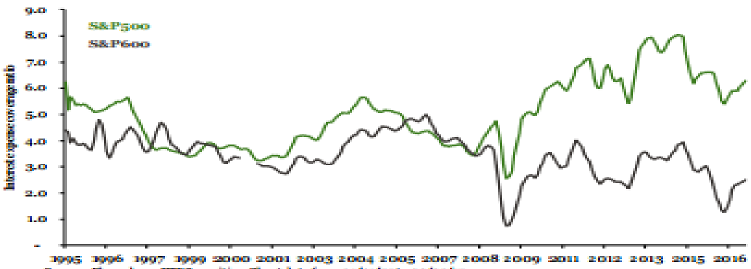
We have found that these sectors and regions also lack consistency in their EBIT, having some of the highest EBIT volatility. EBIT volatility increases these sectors' sensitivity to interest rate rises.

US small caps at risk

US small companies have diverged from US larger companies. Having historically been closely correlated, interest coverage has diverged between small and large companies. Funding costs available to larger companies have not been available to their smaller counterparts at equivalent interest rates, regardless the growth in small business loans since their trough in 2010 has been faster than larger businesses, having risen 44% while large companies have grown 39%, as shown in the chart below.

From a sector perspective, real estate investment trusts (REITs) are the obvious group of companies in the S&P 500 that are vulnerable to interest rate rises. They have a low interest coverage ratio and high valuations. As investors migrate away from bond-proxies, demand for REITs are likely to falter. The oil and gas sector looks particularly weak too, especially after a year of very low oil prices. However, recent improvements in cost efficiencies are likely to see earnings recover in this sector. The small cap pharmaceuticals sectors' acquisitions and biotech investments have led to it being particularly vulnerable to rising rates, with current interest coverage ratios at -3x.

Interest cover ratio S&P 600 vs S&P500



Source: Bloomberg, ETF Securities. Chart data from 01/31/95 to 03/22/17.

Despite the potential economic gearing smaller businesses have, in the US they are particularly vulnerable to rate rises. Valuations of these companies also look lofty and are ripe for a correction: current cyclically adjusted price/earnings valuations are in the 93rd percentile. Their ability to service their debt is poor relative to their larger cap counterparts.

The understating of implied risk

Option-implied volatility in the S&P500 is understated. An interest rate increase could cause a disorderly unwinding of the distortions that have suppressed the volatility index (VIX).

The steep term structure of the VIX is likely a result of years of loose monetary policy, which has distorted market valuations. Perversely, the steep term structure gives yield hungry investors who are short the VIX, a positive yield (representing a carry trade). This steepness is also a reflection of some investors' fears for the future, although that steepness existed many years before the VIX reached current lows. In some ways, the carry trade and fears for the future are feeding off each other.

This has created a situation where futures net positioning on the VIX is at record low levels, suggesting a greater number of investors are short and taking advantage of this carry trade. Higher interest rates could prompt a disorderly unwind of this short positioning given that it is so extended at present, causing a spike in volatility.

We have isolated areas most vulnerable to interest rises by looking at those with the biggest debt burden, namely, US smaller businesses, the FTSE 100 and UK households. We continue to believe developed market central banks will maintain a fine balancing act between inflation and recession, and therefore continue with a "dovish tightening" approach, suggesting that some of these distortions in the market could persist for a while longer, a shock rate rise is the biggest risk to companies and household with high interest expenses.

Click here for complete reading

The Case for Preferred Securities

May 2017

Authored by:
William Scapell, CFA
Executive Vice President and Portfolio Manager
Cohen & Steers

Preferred securities are fixed-income investments, but with certain equity characteristics such as deeper subordination in the capital structure. Investors are compensated with notably high rates of income. Despite preferreds' long stated lives, abundant fixed-to-floating-rate preferred instruments can significantly diminish interest-rate risk in diversified portfolios. Since many preferreds pay legal dividends, preferreds can also offer significant tax advantages.

Highlights

- **A large and liquid asset class.** Globally, the approximately $880 billion preferred securities universe is represented mainly by large, regulated companies with high, stable and transparent cash flows.
- **Attractive income opportunities.** Investment-grade preferred securities typically have offered among the highest income rates in high-grade fixed-income markets, with yields that have recently been competitive with high-yield bonds.
- **Potential tax advantages.** Since many preferred securities pay dividends, net income rates may be higher than those available in other taxable and even tax-exempt markets.
- **Improving credit fundamentals.** Banks and insurance companies, the primary issuers of preferreds, have seen stronger balance sheets and better asset quality due to changes in regulations following the financial crisis. New regulations are driving a market-altering refinancing wave globally, creating potential for alpha generation by active managers with a deep understanding of the preferreds market.
- **Tools for managing interest-rate risk.** Preferred securities can help mitigate interest-rate risk, given the large number of low-duration structures found in the asset class.)

Market Overview and Key Features

A Unique Role and Asset Class

Preferred securities play a unique role in capital markets. Preferreds are a form of equity for issuers, helping them reach capitalization goals for regulatory and credit rating-agency purposes. However, from an investment standpoint, preferreds act like bonds, not stocks, simply offering a fixed or floating rate of income. Yet investors are compensated for preferreds' equity features, like subordination, with the potential for much higher yields and wider credit spreads than they would receive on normal corporate bonds. While preferreds may look and often act much like corporate bonds, it is important to understand the ways in which they differ. Preferreds have unique investment attributes.

Key Features Overview

Investors first examining the preferred asset class may be surprised by the high income rates they pay relative to corporate bonds; investment-grade preferreds may offer income rates close to those of high-yield bonds. However, preferreds do offer additional, equity-like risks that normal bonds do not have.

Please refer to Exhibit 1 below, which shows a simplified corporate capital stack. We explain the differences between traditional and hybrid preferreds in another section, but for now, suffice it to say that all forms of preferred securities rank above common stockholders, yet below senior and even normal subordinated-debt holders. This deep subordination means that preferred holders have lower claims to company assets and therefore would be in a worse position in the event of bankruptcy.

Another important feature to consider is that preferred payments are subject to deferral or outright omission. While an extremely rare occurrence in practice, typically only taking place in cases of great corporate stress, the fact that payments can be stopped makes preferreds quite different from normal debt instruments like corporate bonds. On the other hand, as we discuss in the tax section, many preferred distributions are in the form of legal dividends, which are taxed at more attractive, lower rates for U.S. individual investors and C corporation buyers

Exhibit 1: Credit Class Rankings

Highest to Lowest	Possible Equity Treatment	Payment Format	Typical Term	Ratings Examples (Moody's/S&P) J.P. Morgan	Ratings Examples (Moody's/S&P) Bank of America
Senior Debt	No, debt only	Non-deferrable interest	Short- to long-term	A3/A	Baa1/BBB+
Subordinated Debt	No, debt only[a]	Non-deferrable interest	Medium- to long-term	Baa1/A-	Baa3/BBB
Hybrid Preferreds (Jr. Sub. Debt)	Limited[a]	Deferrable interest	Long-term	Baa2/BBB-	Ba1/BB+
Traditional Preferreds	Yes	Dividend	Perpetual	Baa3/BBB-	Ba2/BB+
Common Equity	Yes	Dividend	Perpetual	N/A	N/A

Hybrid and traditional preferred securities are deeply subordinated instruments. They are above common equity in a company's capital structure, but subordinated to normal debt instruments. Deep subordination is a key reason why they pay high rates of income.

(a) Other, more modest regulatory benefits may apply.
See page 16 for risks of investing in preferred securities.

A final important equity-like aspect of preferreds is that they are either perpetual (traditional preferred securities) or long-term (hybrid preferred instruments). Investors must be compensated for this as well. However, as we discuss on page 18, certain structures in the preferred market can greatly diminish the interest-rate-risk aspect of preferreds' long lives. Credit rating agencies place ratings on preferreds, just as they do on corporate bonds. However, recognizing preferreds' subordination and other equity-like features, the agencies normally place ratings on them that are two or more credit notches below the issuer's senior-debt rating. The extent of the credit differential will depend on the specific preferred structure and circumstances of the company in question. As an example, in Exhibit 1 we show the ratings of J.P. Morgan and Bank of America obligations.

A Diverse Regional and Global Investment Universe

As shown in Exhibit 2, the U.S. dollar preferred market accounts for roughly 65% of the market. This includes U.S. domestic issuers, as well as many large foreign companies that issue in U.S. dollars. The remaining 35% is foreign-currency-denominated securities. Issuers of preferreds are mostly domiciled in the developed markets of the United States, Canada, continental Europe, the United Kingdom, Australia, New Zealand and Japan. However, the market also includes emerging-market issuers such as companies located in Mexico and Brazil. Recently, Chinese corporations have also begun issuing preferreds.

As an institutional investor with trading desks in New York, Hong Kong and London, Cohen & Steers accesses the entire preferred securities marketplace, including the global OTC market, which offers the potential for investments in an evolving variety of new securities. The OTC preferred securities market is an important aspect of investing in preferreds, as recent market expansion has largely occurred outside domestic exchange-based markets. This growth has been driven by foreign-based issuers that issue in both U.S. dollars and foreign currencies, offshore and within the U.S.

Two Distinct Markets: Exchange-Traded and Overthe-Counter

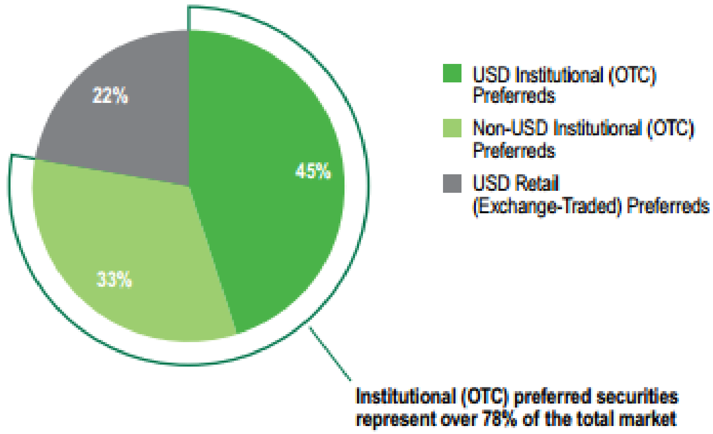
There are two distinct trading markets for preferred securities. Exchange-traded preferred securities are, for the most part, issued directly to household investors by large U.S. brokerages. They are designed for retail investors, typically with $25 par shares that pay quarterly dividends and offer the trading ease of an exchange, predominantly the New York Stock Exchange (NYSE).

While the U.S. exchange-traded market is large (around $190 billion), the institutionally traded preferred OTC market is far larger (around $690 billion across currencies). OTC preferred securities are traded just like the bonds of institutional markets, normally in $1,000 par increments and generally in $1 million blocks. Many are in 144A and Regulation-S (offshore) format, requiring institutional status and/or a local presence for purchase.(1) Like bonds, OTC preferred securities typically pay dividends semiannually, though conventions differ around the globe, with some paying quarterly and others annually.

Generally speaking, the OTC preferred market is dominated by lower-duration fixed-to-floating-rate securities. Conversely, the exchange-listed market is dominated by issues that pay fixed rates of income for their lives. We discuss the differences between these structures in greater detail on page 18, but for now it is worth noting that the OTC market tends to offer a lower level of interest-rate risk. The OTC market may also offer superior levels of call protection for investors (longer periods for which the security cannot be redeemed by the issuer), since many new-issue OTC securities have ten or more years of call protection, compared with the five-year norm in the exchangelisted market.

Exhibit 2: Preferred Securities Investment Universe

Total Preferred Securities Market Size: $879B[a]



Total Issuance YTD 12/31/2016: $92.1B[b]		Percentage	USD Amount
Institutional (OTC)	*Most of the supply is OTC and in fixed-to-float format*	70%	$64.4B
Retail (Exchange-Traded)		30%	$27.7B
Fixed-to-Float		65%	$60.1B
U.S. Issuers		37%	$34.5B
Non-U.S. Issuers	*Foreign issuance has been a driver*	63%	$57.6B

At December 31, 2016. Source: Bloomberg, Cohen & Steers, and BofA Merrill Lynch indexes.

(a) Based on par values of approximately 1,400 preferred securities, which include Tier 1, Tier 2, and subordinated-debt instruments. Indexes included: BofA Merrill Lynch Fixed Rate Preferred Securities Index, BofA Merrill Lynch Capital Securities Index, BofA Merrill Lynch Adjustable Rate Preferred Securities Index, BofA Merrill Lynch REIT Preferred Securities Index, BofA Merrill Lynch Japan Corporate Index, BofA Merrill Lynch Australia Corporate Index, BofA Merrill Lynch Canada Corporate Index and BofA Merrill Lynch High Yield Master Bond Index. (b) Total issuance of preferred securities and other capital securities in the retail (exchange-traded) market and the institutional (OTC) market. See page 16 for index definitions.

Click here for complete reading

What's Ahead for Retail Landlords?

April 2017

Despite an improving economy, retail property owners are contending with a fundamental shift in consumer behavior that could challenge the sector for years to come. We remain underweight retail REITs due to what we believe are long-term risks, focusing instead on sectors that appear to be more attractive, such as apartments, offices and data centers.

Highlights

Just a few months into 2017, U.S. retail store closures and announcements have accelerated to levels not seen since the Great Recession, putting even more pressure on landlords that are already dealing with an over-retailed consumer, rising e-commerce sales and changing consumer priorities.

• Retailer demand for physical space will remain weak in the near term, in our opinion, especially for low productivity or commodity space, but we believe high-quality retail owners stand to become more dominant and gain market share over the long term.

• We believe that better opportunities exist in other property types, where demand is strong and is outstripping supply, leaving landlords in a stronger position to raise rents and occupancy. REITs overall are attractive, in our view, but we would underscore the importance of active management in delivering absolute and relative returns.

Even as overall consumer spending in the U.S. has remained relatively healthy, brick-and-mortar retailers have had a tough time this year, particularly department and apparel stores. Changing consumer spending patterns have led to dismal sales figures for the industry, widespread store closings and numerous bankruptcies. These trends are hardly new, but recently the impact has been felt by retail landlords as well.

For regional mall and shopping center REITs, the threat of increased vacancies and rising costs for redevelopment and re-tenanting caused declines of 14.6% and 11.5%, respectively, in the 12 months ended March 31, 2017. Excluding these sectors, the FTSE NAREIT Equity REIT Index produced a healthy 8.2% total return in that period.

We expect the paradigm shift taking place to dramatically alter the retail landscape, with potentially significant implications for real estate investors. At the core are four primary issues:

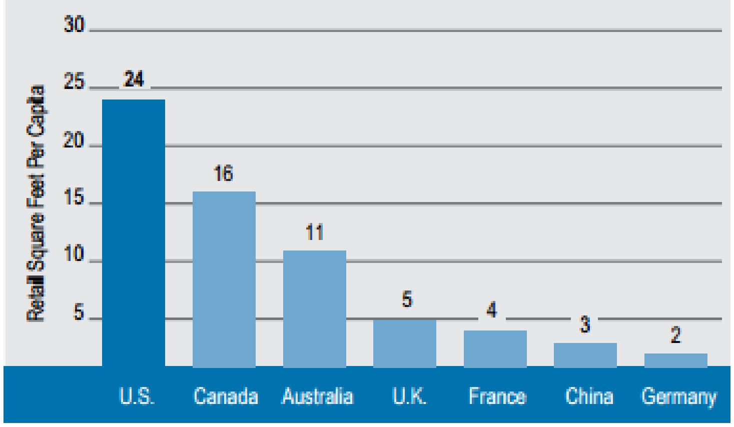
• The U.S. is "over-retailed," with 24 square feet of retail space per capita—one third more than Canada and nearly five times the square footage per person in the U.K. (Exhibit 1).

• Electronic and mobile commerce is growing at a double-digit annual rate, far outpacing the low-single-digit growth of brick-and-mortar retail, with companies increasingly transitioning to omni-channel distribution, reducing the need for physical locations.

• Consumer spending habits are changing, with more being spent on experiences, such as restaurants, travel and entertainment rather than clothes and other consumer goods.

• There is mounting evidence that the department store distribution channel has been impaired. Whether this is a secular or cyclical issue remains a subject for debate, but either way the solution is for retailers to close stores.

Exhibit 1: The U.S. is Over-Retailed



At March 31, 2017. Source: ICSC Country Fact Sheets.

In a bid to stabilize profitability, department stores such as Macy's, Sears and JCPenney have all announced significant closings, with more likely to come. Many tenants that occupy the middles of malls—including Abercrombie & Fitch, Payless Shoes, BCBG, Wet Seal and Ascena brands (Dress Barn, Loft, and Ann Taylor, among others)—are also closing stores. About half of the companies with widespread closings have either filed for bankruptcy or are expected to. We see this retail weakness, which is occurring despite a relatively healthy economy, as part of a permanent evolution in how and where Americans spend their money.

Target's Canada Expedition Could Be a Harbinger

For a sense of what may be in store for U.S. retail REITs, a case study can be made of Target's 2013 foray into Canada. The department store chain opened 133 stores at an initial cost of $4.4 billion, but with little apparent thought given to location, renovation costs, inventory planning or distribution challenges. It was the company's first international expansion, and it was a colossal flop. Within two years, the Canadian operation had filed for creditor protection, fired more than 17,000 employees and written off billions in losses. Four years later, Canadian retail property owners continue to feel the impact of Target's departure in high vacancies and rent pressures across the country. We believe the impact of U.S. store closings could similarly affect retail owners for years to come.

In This Environment, Quality Is Key

We expect that store closings in malls and retail spaces near malls will drive fierce competition to attract and retain tenants. Different property types are likely to contend with these issues in different ways:

• Class A malls—the most prestigious and profitable in the sector—are positioned to attract new tenants, in our view, and should continue to draw in shoppers, widening their lead over Class B and C malls. Vacated anchor stores may actually benefit some properties, as owners can redevelop the space and charge higher rents. But in the near term they may still face downward pressure on rents and increased vacancies due to higher competition from increasing store closings.

• Class B and C malls may have a tougher time replacing tenants. Generally speaking, their future is much cloudier and we expect to see loss of market share. We believe much of the efforts to refurbish properties may do little to create actual value.

• Shopping centers could also feel the pinch of vacancies and rent pressures due to retailers downsizing. But we believe those with grocery stores as anchor tenants should be somewhat cushioned, as everyone needs to eat.

• Outlet centers should remain more shielded from store closings. They don't have department store tenants, and their occupancy rates are typically high since they have been a highly profitable distribution channel for retailers.

The type of properties a REIT owns can have a meaningful impact on performance. As shown in Exhibit 2, owners of higher-quality (Class A) malls broadly outperformed Class B/C mall owners in the first quarter of 2017. In our view, this underscores the importance of active management in limiting exposure to riskier markets and selecting potentially well-positioned companies.

Better Opportunities in Other Property Markets

Malls and shopping centers represent 18% of the REIT market (Exhibit 3). Index-following exchange-traded funds leave investors fully exposed to the potential long-term risks in these sectors. We believe the ongoing challenges in the retail sector represent an opportunity to add value through active management.

While we expect the mall "experience" to remain relevant for Class A properties—at the expense of lower-tiered, less productive malls—we nevertheless remain somewhat cautious toward even the best names in the category. Further, we find more attractive values in other parts of the REIT market.

Overall, we anticipate that demand for commercial properties in the U.S. will outstrip new supply in 2017, and we believe many sectors offer attractive relative valuations and improving growth prospects. Some of the more compelling sectors, in our opinion, include:

• Apartments and other residential sectors, with accelerating household formation and jobs benefiting demand

• Offices, particularly those focused on central business districts in coastal cities, where demand is expected to remain high

• Data centers, with the migration of data to cloud computing and the outsourcing of IT infrastructure creating demand tailwinds.

Exhibit 3: Retail Weights in Real Estate Benchmarks

	Regional Mall	Shopping Center	Total
Dow Jones U.S. Real Estate Index	13.2%	9.2%	22.4%
FTSE NAREIT Equity REIT Index	10.2%	7.6%	17.8%
MSCI U.S. REIT Index	10.2%	7.5%	17.7%

At March 31, 2017. Source: FactSet.

Cohen & Steers has helped investors access opportunities in REITs for more than 30 years, through multiple economic and real estate cycles. This specialized expertise, along with our disciplined investment process, has produced superior returns over multiple time periods. To learn how REITs may help you achieve your investment goals, contact your financial advisor.

Exhibit 2: Cohen & Steers is Underweight Regional Malls

REITs in the Regional Mall Sector	FTSE NAREIT Equity REIT Index Weight	Cohen & Steers U.S. Realty Total Return Composite Weight	Q1 2017 Total Return	Assets
Simon Property Group	6.7%	5.5%	-2.2%	Class A malls, outlet centers
GGP	1.4%	–	-7.2%	Class A malls
The Macerich Company	1.1%	–	-8.1%	Class A malls
Taubman Centers	0.5%	–	-9.8%	Class A malls
CBL & Associates Properties	0.2%	–	-14.6%	Class B/C malls
Washington Prime Group	0.2%	–	-14.1%	Class B/C malls
Pennsylvania REIT	0.1%	–	-19.2%	Class B/C malls
Total	**10.2%**	**5.5%**		

At March 31, 2017. Source: Bloomberg and Cohen & Steers.

Data quoted represents past performance, which is no guarantee of future results. See back page for index definitions and additional disclosures.

Click here for complete reading

Fund Updates

- Aberdeen Asia-Pacific Income Investment Company Limited Announces Monthly Distribution – May 9
- Distribution Dates and Amounts Announced for Certain BlackRock Closed-End Funds – May 1
- BMO Asset Management Inc. Announces Cash Distributions for BMO Exchange Traded Funds – April 18
- Calamos Closed-End Funds (NASDAQ: CHI, CHY, CSQ, CGO, CHW and CCD) Announce Monthly Distributions for April 2017 – March 31
- Clough Global Opportunities Fund Declares a Monthly Cash Distribution of $0.0860 Per Share – May 8
- Cushing® MLP Total Return Fund Announces Monthly Distribution – April 3
- Cushing® Energy Income Fund Announces Monthly Distribution – April 3
- Delaware Investments® Dividend and Income Fund, Inc. Announces Dividends – April 3
- Desjardins Announces April 2017 Cash Distributions for Desjardins ETFs – April 18
- The European Equity Fund, Inc. Declares Distribution – May 9
- Federated Investors' Closed-End Municipal Funds Declare Monthly Dividends – April 7
- First Trust Specialty Finance and Financial Opportunities Fund Declares its Quarterly Distribution of $0.175 Per Share – May 10
- First Trust Energy Income and Growth Fund Declares its Quarterly Distribution of $0.58 Per Share – April 10
- Guggenheim Investments Exchange Traded Funds Declare Monthly Distributions – April 28
- Guggenheim Investments Exchange Traded Funds Declare Monthly Distributions – March 31
- Horizons Announces April 2017 Distributions for Certain Active ETFs – April 18
- MFS Releases Closed-End Fund Income Distribution Sources for Certain Funds – April 24
- PIMCO Closed-End Funds Declare Monthly Common Share Distributions – May 1
- Pioneer Investments Declares Monthly Distributions for Closed-End Funds – May 3
- RiverNorth Opportunities Fund, Inc. Declares Monthly Distributions of $0.14 Per Share – April 12
- Saba Closed-End Funds ETF Declares First Monthly Distribution – April 6
- Stone Harbor Emerging Markets Total Income Fund Declares Monthly Distributions of $0.1511 Per Share – April 19
- Tortoise Capital Advisors Announces Distribution Amounts and Dates for Closed-End Funds – May 8
- Virtus Investment Partners Inc (VRTS) Declares Quarterly Dividend of $0.45 – May 11

What is the Contribution of Commodities in Portfolios?

Tuesday, May 9, 2017 | 11:00 AM ET

Maxwell:
Great. Thanks, Nick. Thanks, everyone, for joining us today. We got a very exciting topic certainly to discuss here. What I want to do is just to take a step back and just give you a little bit of information by us at ETF Securities.

We're a global exchange traded fund provider with $22 billion in AUM globally. We're headquartered in London and here in the US headquartered in New York. Here we have an exhaustive suite of commodity ETFs both in the broad commodities in the energy space as well as the precious metals space.

What I want to do today is take a look at how your commodities as an asset class can really provide some benefits and see unique exposures to advisers and to investors in terms of how they're incorporating their asset allocation mix. Certainly, with the current macroeconomic environment, I think there's some unique opportunities that commodities can bridge the picture in terms of constructing portfolios as well as managing investment objectives for a lot of clients out there.

Before we get into it, I just want to cover, first and foremost, the most exciting thing about any presentation is the disclosures. Going to the slides, slide number three through four, five and six, are just some key disclosures about information I'm going to present in the following slides. Just taking a look at through Slides 3 to 6 and 7, just some key disclosure information in case you guys have any questions about definitions or any additional disclosure information.

But jumping into the heart of the deck, hopefully you guys are following either on your screens or a downloaded version of the slide deck. But I'm looking at Slide 8 here. What I want to do is pan out and just sort of take a perspective of where we see the current economic environment and why we think that may be beneficial particularly for commodities based on historical cycles and historical performance.

Overall, if you take a look at the global growth picture, the chart on the left is looking at the factor of GDP, and it's breaking down GDP by developed markets including the US, Europe and Japan as well as emerging markets and sort of the difference in the spread we've seen amongst the growth rates between emerging markets and developed markets over the past 15 years or so. You could see that really following the crisis. The key catalyst had been emerging markets. They continue to outperform developed market growth rates, whereas developed markets had been very sideways, very tepid growth, very steady as she goes.

What is important to highlight is even though we've seen emerging market growth come down in recent years, we're beginning to see a bit of a tick up again -- increase of industrial activity, increase of industrial production, of manufacturing, of trade. I think that's a good sign particularly on these both services and manufacturing side that emerging market, which had been the key catalyst for growth over the past couple of decades, is still resuming that role and it's most likely going to continue that role for the foreseeable future.

On the flip side, developed markets, they are beginning to see a pickup of economic activity of growth, not just on the manufacturing side or industrial side but, more importantly, on the services side. I think that's an important highlight, the distinction especially for commodities is that emerging market growth is certainly more intrinsically linked to the commodity cycle and the commodity sector than, say, developed market economies these days. If you look at the US economy, about two thirds of its growth is

Featured Presenters

Matt Collins, CFA
Director, Head US Product Operations, Capital Markets
ETF Securities

Maxwell Gold
Director, Investment Strategy
ETF Securities

dependent on the services industry and tech related. It's less so tied to traditional sources or industries such as manufacturing or industrial. So certainly, I think that where we're seeing a recovery, a beginning of a pickup particularly on the emerging market side is certainly an expectation for growth to continue to show signs of recovery.

On the flip side, the next chart on the right, actually is looking at the measure of inflation. This is different measures of the US inflation, and this is another key theme that we see evolving throughout 2017 and heading into next year is that we do see the return of inflation. That's sort of been a factor that investors have not had to deal with for several years really since 2014 and when we saw commodity prices, particularly energy and oil prices, begin to collapse midway through 2014. But now that we have seen a sort of recovery in the energy space and in prices of input goods primarily commodities as well as on the services side, that has helped to boost inflationary measures. You can see that whether it be on a PPI basis which is focused on producer inflation, on a CPI basis which is consumer inflation, or different measures of those which, for example, the PEC which is a measure that the Fed actively tracks in terms of where they think inflation is.

Overall the Federal's data, they have a 2% inflation target. Our expectation is that the Fed is actually more likely to be comfortable with an inflation overshoot whereby they're willing to let inflation in the US go above that 2% target. On a PCE basis, which is their measure, we're not quite there yet, and so certainly some room to run, but on a CPI basis, on other measures of inflation, we have seen certainly an acceleration of inflationary measures. That's based on also realized inflation as well inflation surprises. Certainly, the pickup of inflationary measures had been to the surprise of a lot of investors over the past six to 12 months.

That's another factor, which I'll get into deeper in a moment, of how it's tied to primarily commodities and that we do see commodities tend to track inflation closely over time, and they do tend perform well when inflation is rising such as in the environment where we are now.

The key takeaway from this slide, Slide 8, is that we are an environment where global growth continues to recover and expand. We're seeing increased manufacturing, increased industrial production which is good for commodities as they are key inputs for those industries. And then on the flip side, we're also seeing rising prices. We're seeing rising cost of inputs, rising demand from consumers. We're also seeing tightening labor cost, so a tightening labor market globally. That's another factor of inflation.

If you actually turn to the next slide, Slide 9, there's a couple of factors I want to highlight. So additionally, beyond the fact we are seeing improving growth and improving inflation, we are beginning to see a diverging monetary policy. And this sort of lends its way into what I think is another key factor overall for commodities and asset allocation. The bottom line is we have seen, the chart to the left on Slide 9, central banks continue to expand their balance sheets. We've obviously seen the Fed limits its increase of its balance sheet, and there's news potentially of it looking to beginning to reduce its balance sheet. But the Fed has also looked at tightening in increased interest rates whereas other major central banks in the developed economies such as the ECB in Europe and the Bank of Japan in Japan have actually continued to remain accommodative where they are keeping rates lower, they continue to expand their asset purchase programs and their balance sheets. You can see that in the chart to the left here where we're at certainly record levels in terms of the amount of assets where central banks are holding.

That, in conjunction with the chart on the right on Slide 9, is obviously we're seeing a rise of economic policy uncertainty driven by this monetary policy actions of the past ten years almost as well as the uncertainty on the fiscal side with geopolitical volatility, with populism rising in Europe, as well as the uncertainty around the new administration here in the US and their potential economic policies particularly around tax reform deregulation and infrastructure.

When you put all these together, this creates certainly diverging monetary policies, great volatility. We're seeing uncertainty weigh on markets in the outlook for potential economic benefits and outweighs on growth globally. These environments are certainly pushing more volatility and certainly is creating a challenge for investors to look for unique investment opportunities in this space.

Now, turning to Slide 12, I just want to skip to Slide 12. Certainly, there's other slides in this deck that you can take a look at in your own time, but sort of on that point of where we are seeing rising growth, rising inflation and continued rising volatility in diverging policies both on the monetary fiscal front globally, this creates sort of a challenging landscape for investors. This I think is perfectly depicted on Slide 12. The chart on the left is looking at equity valuations on a PE basis across different major economies, whether it be the US, Europe Japan or emerging markets. This is looking at the current PE or the current valuations for their equity industries relative to their ten-year averages.

Certainly, with the exception of Japan but again Japan I think is a bit of a value trap for other reasons, we are seeing stretched valuations compared to recent averages, whether it be in the US, Europe or even in emerging markets. Not to say that we're involved territory for equity markets, but we're certainly in an environment where stocks are expensive.

And on the flip side, if you look at the chart to the right, we see a continued reduction of interest rates over the past 30 years, and this low yield environment or lower for longer is most likely going to persist and weigh on markets. Obviously, this is bid up, fixed income or bond prices. So, in this environment, this creates essentially volatility whereby equities are expensive, fixed income is expensive and investors are sort of sitting here, well, there's not a whole lot of unique opportunities or attractive opportunities in the investment landscape. I think that's what's helped push interest more into alternative assets such as commodities, such as precious metals. We are seeing an environment where it's challenging, stocks and bonds are expensive, and we're beginning to see the return of inflation in conjunction with growth.

Click here for complete reading

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

Please click on the calendar icon to access below webinar transcript and audio.
Visit http://webinars.capitallink.com/sectors/cef-etf.html for our complete CEFs & Global ETFs Webinar Library

Upcoming 2017 Webinars

JUN. 13

June 13 – Using ETFs for Income
Featured: InfraCap

JUN. 20

June 20 – CEF Review and Outlook-Focus on REITs, Retailers and Potential New Avenues of Growth
Featured: Cohen & Steers

Past 2016-2017 Webinars

MAY 9

May 9 – What is the Contribution of Commodities in Portfolios?
Featured: ETF Securities

MAR. 8

February 28 – Finding Opportunities in Closed-End Funds: Focus on Energy Infrastructure
Featured: Gavekal Capital

OCT. 25

October 25 – Current Use of Leverage and Implications of Rising Rates for U.S. Closed-End Funds
Featured: Fitch Ratings

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

Please click on the calendar icon to access below webinar transcript and audio.
Visit http://webinars.capitallink.com/sectors/cef-etf.html for our complete CEFs & Global ETFs Webinar Library

Past 2016 Webinars

October 11 – Get More out of Your Gold Allocation
Featured: Sprott Asset Management

September 27 – Business Development Companies (BDCs) - High current income in a yield-starved world
Featured: Monroe Capital

August 16 – GICS Sector Expansion: Spotlight on Real Estate
Featured: Cohen & Steers

June 7 – Managing Retirement Income in a Low-Yield Environment
Featured: WBI Investments

May 17 – How to Play the Value Comeback Using Dividend ETFs
Featured: ALPS

March 29 – Not All Share Buybacks are Created Equal
Featured: TrimTabs Asset Management

Content Contributors

Disclaimer-Terms of Use: The information herein is not an offer to buy or sell any kind of securities nor does it constitute advice of any kind. The material featured in this Newsletter is for educational and information purposes only. Material featured in this Newsletter is taken from sources considered to be reliable but Capital Link does not represent or warrant the accuracy of the information. The opinions expressed in this Newsletter do not necessarily reflect those of Capital Link who takes no responsibility at all for them and cannot be held liable for any matter in any way.