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### The Month in Closed-End Funds: May 2012

- ▶ For the second month in a row equity closed-end funds (CEFs) posted returns in the red for May, losing an eye-popping 6.62% and 6.25% on NAV and market bases, respectively. Fixed income funds were in the black—for the second consecutive month—gaining 0.43% and 0.45%.
- ▶ For the second month in a row municipal bond CEFs (+1.58%) outperformed their taxable domestic bond CEF (-0.88%) and world bond CEF (-3.85%) counterparts.
- ▶ For the eleventh month in twelve all of the municipal debt CEF classifications posted positive NAV-based returns. High Yield Municipal Debt Funds (+1.79%) rose to the top of the muni class.
- ▶ Dividend payers remained at the top of the equity leader board during the month, with mixed-equity funds (-2.82%) mitigating losses better than their domestic equity funds (-6.35%) and world equity funds (-8.94%) counterparts.
- ▶ The May median discount of all CEFs widened 9 basis points (bps) to 1.93%, remaining below the 12-month moving average of 3.14% for the seventh consecutive month.

## The Month in Closed-End Funds: May 2012

### Performance

For the second consecutive month equity CEFs were in the red for May, declining a whopping 6.62% on a NAV basis and 6.25% on a market basis. The old adage “sell in May and go away” was fairly apt for this year. Fixed income CEFs, on the other hand, posted a positive return on average for the second month in a row as investors sought the perceived safety of fixed income issues; they gained 0.43% and 0.45%, respectively. Despite relatively strong Q2 earnings reports, equity investors continued to be cautious throughout May after the Labor Department reported weaker-than-expected job growth for April and because of a rekindling of the European debt crisis on poor bond auctions in Italy and Spain. The disappointing early news set the stage for the month.

During the month investors ran for cover after hearing April’s employment report, which showed nonfarm payroll numbers increased only 115,000—short of analyst expectations of 160,000. In addition, investors were disappointed by the vacillation of Greek politicians in accepting the austerity measures needed to remain in the Eurozone. Also, debt contagion fears impacted the global markets as Spain and Italy had a difficult time selling debt and experienced widening yields. The equity markets took it on the chin in May, posting positive returns only one week in four. The Dow Jones Industrial Average (-6.21%) posted one of its worst monthly returns in two years, stopping a seven-month winning streak, while the NASDAQ Composite lost 7.19% of its April month-end value (for its worst monthly decline since May 2010).

For just about the entire month investors remained risk averse, sending Treasuries prices higher. Yields dropped fairly steadily during the month on increased global concerns and some domestic economic weakness. The yield curve shifted downward at all maturities except the two-year by amounts ranging from 1 bp for six-month paper to 46 bps for twenty-year paper. The benchmark ten-year Treasury yield finished the month at 1.59%, and the yield on the two-year bond finished May at 0.27% (no change from April’s month-end value).

For the month of May the dollar lost ground against the yen (-1.70%) but gained big against the euro (+6.54%) and the pound (+4.83%). Commodities prices declined for the month, with near-month crude oil prices dropping 17.49% to close the month at \$86.53/barrel and gold prices slipping 6.06% to end the month at \$1,562.60/ounce.

## Closed-End Funds Lab

Table 1 Current-Month Performance, P&amp;D, P&amp;D Shifts (% of Universe)

	NAV Returns	Premium/Discount		Now Trading At	
	Positive	Better	Worse	Premium	Discount
Equity Funds	1	54	42	22	78
Bond Funds	67	48	51	50	50
All CEFs	33	50	47	40	60

Table 2 Average NAV Returns, Selected Periods, Percent (%)

	May	YTD	3-Month	Calendar-2011
Equity Funds	-6.62	2.29	-6.25	-3.39
Bond Funds	0.43	6.91	1.62	11.43
All CEFs	-2.08	5.28	-1.19	6.20

Table 3 Number of IPOs, Selected 12-Month Periods

	May 2012	Calendar-2011
All CEFs	16	18

Table 4 Average Size of IPOs, Selected Periods, \$Millions

3 Months through 4/30/2012	309
Comparable year-earlier 3 Months	382
Calendar 2011 average	329

Source: Lipper, A Thomson Reuters Company

For May 33% of all CEFs posted NAV-basis returns in the black, with only 1% of equity CEFs and 67% of fixed income CEFs chalking up returns in the plus column. Toward month-end, investors became more resolute in their risk-averse behavior as concerns flared over contagion of the European debt crisis. Bond yields in Italy and Spain increased, and the Greeks continued to clamor about leaving the Eurozone. For the second month in a row municipal bond CEFs (+1.58% on a NAV basis) outpaced their taxable domestic bond CE (-0.88%) and world bond CEF (-3.85%) counterparts. Remaining on their winning streak, all of Lipper's municipal bond fund classifications posted positive NAV-based returns for May, with High Yield Municipal Debt Funds (+1.79%) leading the way. However, only three taxable bond CEF classifications' returns were positive.

All of Lipper's 12 equity CEF classifications posted returns in the red for May. Early in the month the Labor Department reported lower-than-expected nonfarm payrolls for April, placing a pall over the remainder of the month. Additionally, both Spain and Italy saw significant jumps in borrowing costs, and new polls from Greece showed the Syriza party taking the lead against the pro-bailout conservative party, which kept the World Equity Funds (-8.94%) and World Bond Funds (-3.86%) macro-classifications at the bottom for May. While high-yield and leverage products worked on the municipal debt side, the mantra during the month was "safety." Riskier asset classes and investments were pushed to the cellar during the month, with mixed-equity funds (-2.82%) mitigating losses better than their domestic equity funds (-6.35%)

and world equity funds (-8.94%) cohorts. Yield plays stayed at the top of the list for May, with Income & Preferred Stock Funds (-2.08%) and Real Estate Funds (-4.30%) limiting the carnage somewhat. Emerging Markets Funds (-10.89%) suffered the largest decline for equity CEFs. For the remaining equity classifications returns ranged from minus 10.19% (Developed Markets Funds) to minus 4.31% (Convertible Securities Funds).

Nine of the ten top-performing funds were housed in Lipper's Income & Preferred Stock Funds classification, with **Flaherty & Crumrine/Claymore Total Return Fund Incorporated (NYSE: FLC)**, gaining 0.27% on a NAV basis and traded at a 2.81% premium at month-end; **TCW Strategic Income Fund, Inc. (NYSE: TSI)**, rising 0.19% and traded at a 3.95% discount on May 31; and **Flaherty & Crumrine/Claymore Preferred Securities Income Fund, Inc. (NYSE: FFC)**, posting a 0.03% return and traded at a 5.95% premium at month-end, posting the only positive returns in the equity universe. Following FFC was **Flaherty & Crumrine Preferred Income Opportunity Fund, Inc. (NYSE: PFO)**, posting a minus 0.04% return and traded at a 9.67% premium at month-end. The lone non-Income & Preferred Stock fund in the top ten was **Versus Capital Multi-Manager Real Estate Income Fund LLC (NASDAQ: VCMRX)**, an interval hybrid CEF housed in Lipper's Real Estate Funds classification), chalking up a minus 0.04% return.

For the month the dispersion of performance in individual equity CEFs—ranging from minus 18.43% to positive 0.27%—was wider than April's spread and much more negatively skewed. The 20 top-

performing equity funds posted returns in excess of minus 1.87%, while the 20 lagging funds were at or below minus 10.81%. Some 225 equity funds posted negative returns for the month.

At the bottom of the equity CEF group and the CEF universe as a whole was **Templeton Russia & East European Fund, Inc. (NYSE: TRF)**, housed in Lipper's Emerging Markets Funds classification. TRF shed 18.43% of its April month-end value and traded at a 7.76% discount on May 31. The next poorest performing equity fund was also warehoused in Lipper's Emerging Markets Funds classification: **Central Europe & Russia Fund, Inc. (NYSE: CEE)** declined 18.11% and traded at a 7.38% discount at month-end.

For the second consecutive month all of the municipal debt CEF classifications posted positive NAV-based returns. High Yield Municipal Debt Funds (+1.79%) rose to the top of the muni class, followed closely by General & Insured Municipal Debt Funds (Leveraged) (+1.77%) and California Municipal Debt Funds (+1.61%). The Municipal Debt Funds macro-group (+1.58%) outpaced its taxable counterpart (-0.88%). National municipal debt funds (+1.69%) outperformed their single-state municipal debt fund counterparts (+1.48%).

Only three of the nine taxable bond fund classifications posted returns in the black for May, with Corporate Debt BBB-Rated Funds (+0.22%), General Bond Funds (+0.19%), and U.S. Mortgage Funds (+0.03%) leading the way. As a result of continued global concerns and a significant jump in yields, investors still fled global fixed income instruments during the month. World bond funds (-3.86%) underperformed their domestic taxable fixed income fund counterparts (-0.88%); Emerging Markets Debt Funds lost 5.14% and Global Income Funds declined 3.03% for the month. The two-/ten-year Treasury spread narrowed 36 bps from April's month-end 168 bps. The yield on the ten-year Treasury note finished the month down 36 bps at 1.59%, posting its month-long closing low as investors sought safety in government bonds.

In the domestic taxable fixed income CEFs universe (-0.88%) returns ranged from minus 1.88% (High Current Yield Funds [Leveraged]) to 0.22% (Corporate Debt BBB-Rated Funds).

In all, 135 individual fixed income CEFs posted negative NAV-basis returns for the month. At the head of the class **Nuveen New Jersey Dividend Advantage Municipal Fund (AMEX: NXJ)**, housed

in Lipper's New Jersey Municipal Debt Funds classification, rose 3.73% and traded at a 4.17% discount at month-end. **BlackRock Build America Bond Trust (NYSE: BBN, April's leader)** (housed in Lipper's General Bond Funds classification), tacked on 3.66% to its April month-end value and was in the runner-up slot. BBN traded at a 3.91% discount on May 31.

For the remaining funds in the fixed income CEFs universe monthly NAV-basis performance ranged from minus 10.93% (**Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. [NYSE: EDD]**, housed in Lipper's Emerging Markets Debt Funds classification) to 3.17% for **Nuveen Build America Bond Opportunity Fund (NYSE: NBD)**, housed in Lipper's General Bond Funds classification and traded at a 6.66% discount on May 31. The 20 top-performing fixed income CEFs posted returns at or above 2.15%, while the 20 lagging funds were at or below minus 2.97%.

### Premium and Discount Behavior

For May the median discount of all CEFs widened 9 bps to 1.93%, remaining below the 12-month moving average (3.14%) for the seventh consecutive month. Equity CEFs' median discount narrowed 24 bps to 7.66%, and fixed income CEFs' discount narrowed 32 bps to 0.00%. Given their strong showing in May, municipal bond funds' average discount narrowed 61 bps to 0.00%, while the national municipal debt funds' premium improved (widening 3 bps to 0.49%) and the single-state municipal bond funds' discount narrowed 62 basis points to 0.61%. High Current Yield Funds' premium widened 18 basis points during the month to 3.23%. Domestic Equity Funds experienced the largest narrowing of discounts of all the macro-classifications — 112 bps to 5.69%.

For the month 50% of all funds' discounts or premiums improved, while 47% worsened. In particular, 54% of equity funds and 48% of fixed income funds saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on May 31 (233) was 12 more than April's count.



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### IPOs

**PIMCO Dynamic Income Fund (NYSE: PDI)** raised \$1.02 billion in its initial public offering of 40.6 million common shares, less overallotment options for underwriters.

**Salient Midstream & MLP Fund (NYSE: SMM)** raised \$180 million in gross proceeds in its initial public offering. The fund sold nine million common shares at \$20.00 each, not including 1.2 million common shares in underwriters' overallotment options.

### Rights, Repurchases, Tender Offers

At the conclusion of the measurement periods for **The European Equity Fund (NYSE: EEA)** and **The New Germany Fund (NYSE: GF)** it was announced that their average discounts exceeded the 10% threshold necessary to trigger tender offers. Therefore, EEA and GF will conduct tender offers for up to 5% of their outstanding shares at 98% of NAV. At the end of May the discount on EEA was 9.6% and that of GF was 9.1%.

Directors of **Morgan Stanley India Investment Fund (NYSE: IIF)** approved a tender offer for up to 15% of the fund's common shares at 98.5% of NAV; tender offer dates will be announced later. Directors also approved a change in the fund's benchmark from the Bombay Stock Exchange 100 Index to the MSCI India (ND) Index. The fund's discount was 9.7% at the end of May.

Shareholders of **Alpine Global Premier Properties Fund (NYSE: AWP)** have until June 15 to participate in a tender offer for up to 21.5 million (approximately 20%) of the fund's outstanding

common shares at 95% of NAV. At the end of the month the fund's discount was 9.2%.

Shareholders of **Turkish Investment Fund (NYSE: TKF)** will have an opportunity to tender up to 15% of the fund's outstanding shares at 98.5% of NAV at an upcoming tender offer, the date of which has yet to be announced. The fund's discount was 8.3% at the end of May.

Shareholders of **The Taiwan Fund (NYSE: TWN)** have until June 13 to participate in a tender offer for up to 50% (about 9.3 million shares) of the fund's common shares at 99% of NAV. At the end of May the fund's discount was 5.5%.

### Mergers and Reorganizations

Trustees of **BlackRock Diversified Income Strategies Fund (NYSE: DVF)**, **BlackRock Floating Rate Income Strategies Fund II (NYSE: FRB)**, and **BlackRock Floating Rate Income Strategies Fund (NYSE: FRA)** approved the reorganization of DVF and FRB into FRA, with FRA continuing as the surviving fund. The reorganizations are expected to be completed in late 2012; they still require shareholder approval. The discount on FRA was 3.1% at the end of May.

Shareholders of **BlackRock Investment Quality Municipal Income Trust (NYSE: RFA)** approved a plan to liquidate the fund effective June 4, 2012. Special meetings for **BlackRock New Jersey Investment Quality Municipal Trust (NYSE: RNJ)** and **BlackRock New York Investment Quality Municipal Trust (NYSE: RNY)** were adjourned to allow additional time to solicit votes of RNJ and RNY shareholders in connection with a plan to liquidate their funds as well. At the end of May RFA traded at a 2% discount.

Shareholders of certain Nuveen Connecticut, Georgia, and North Carolina state municipal bond CEFs approved a series of mergers intended to create larger single funds. Under the plans **Nuveen Connecticut Dividend Advantage Municipal Fund (NYSE: NFC)**, **Nuveen Connecticut Dividend Advantage Municipal Fund 2 (NYSE: NGK)**, and **Nuveen Connecticut Dividend Advantage Municipal Fund 3 (NYSE: NGO)** will be merged into **Nuveen Connecticut Premium Income Municipal Fund (NYSE: NTC)**; **Nuveen Georgia Premium Income Municipal Fund (NYSE: NPG)** and **Nuveen Georgia Dividend Advantage Municipal Fund (NYSE: NZX)** will be merged into **Nuveen Georgia Dividend Advantage Municipal**

**2 Fund (NYSE: NKG); and Nuveen North Carolina Dividend Advantage Municipal Fund (NYSE: NRB), Nuveen North Carolina Dividend Advantage Municipal 2 Fund (NYSE: NNO), and Nuveen North Carolina Dividend Advantage Municipal 3 Fund (NYSE: NII) will be merged into Nuveen North Carolina Premium Income Municipal Fund (NYSE: NNC).**

Directors of **Morgan Stanley Frontier Emerging Markets Fund (NYSE: FFD)** determined that it would be in the best interests of shareholders if the fund were converted to an open-end fund. The proposal still requires shareholder approval; it will be submitted to them at a shareholder meeting scheduled for August 22, 2012. The fund's discount was steady in May and finished at 4.6%.

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