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The Month in Closed-End Funds: August 2012

- ▶ For the third consecutive month equity and fixed income closed-end funds (CEFs) posted returns in the black, gaining 1.67% and 0.79% on average on a NAV basis and 1.97% and 0.42% on a market basis, respectively.
- ▶ For the first month in three world bond CEFs (+1.23%) underperformed their taxable domestic bond CEF (+1.37%) counterpart, while both outpaced their municipal bond CEF (+0.38%) cousin.
- ▶ For the second month in a row, municipal debt CEF classifications continued on their winning way, with High Yield Municipal Debt Funds (+0.67%) moving to the top of the muni class.
- ▶ Despite continued interest in world equity funds, investors appeared to favor domestic issues, bidding up Growth Funds (+2.53%) and Core Funds (+2.47%).
- ▶ World equity CEFs (+1.48%) underperformed their domestic equity CEF (+1.78%) and mixed-equity CEF (+1.62%) counterparts.
- ▶ The August median discount of all CEFs widened 38 basis points (bps) to 0.64%, remaining well below the 12-month moving average of 2.32% for the tenth consecutive month.

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Performance

For the third consecutive month both equity and fixed income CEFs were in the black, rising 1.67% and 0.79% on average on a NAV basis and 1.97% and 0.42%, respectively, on a market basis. In August investors started the month on the bright side with a better-than-expected nonfarm payrolls report, optimism that policymakers will take action to ease the ongoing European debt crisis, and an increase in nonfarm productivity, which rose 1.6%—outpacing analyst expectations. Generally shrugging off weak economic reports from both Japan and China and the Knight Capital computer-trading glitch, investors cautiously bid up riskier assets as U.S. economic data showed continued improvement. Dovish comments by Fed Chairman Bernanke also inspired some market confidence.

During the month investors cheered July's employment report, which showed nonfarm payroll numbers increased 163,000—beating analysts' expectations of 100,000—despite the rounding-up tick in the unemployment rate to 8.3%. Some investors even put a positive spin on China's disappointing trade data, hoping the Chinese government will provide more stimulus to its slowing economy. With the VIX posting its lowest close since 2007, July industrial production rising 0.6%, existing home sales up 2.3%, new home sales up 3.6%, and durable goods orders rising 4.2%, investors were willing to put a little more risk back on their portfolios during the month. The Dow Jones Industrial Average gained 0.6% for August, while the NASDAQ Composite tagged 4.33% onto its July closing value.

Given the upbeat tone during the month, investors pressured Treasury prices, pushing yields up. However, because of the lack of details from ECB authorities and Bernanke's comment that the central bank stands ready to act, yields declined toward month-end. The yield curve remained relatively unchanged from July's month-end values at maturities less than seven years but experienced subtle increases ranging from 6 bps for ten-year paper to 12 bps for thirty-year paper. The benchmark ten-year Treasury yield finished the month at 1.57% after closing at 1.83% on August 16.

For August the dollar lost ground against the euro (-2.13%) and the pound (-1.13%) but gained against the yen (+0.27%). Commodities prices rose for the month, with near-month crude oil prices increasing 9.55% to close the month at \$96.47/barrel, and gold prices rose 4.60% to end the month at \$1,684.60/ounce.

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	86	49	48	26	74
Bond Funds	95	41	57	58	41
All CEFs	92	44	53	46	53

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

	August	YTD	3-Month	Calendar-2011
Equity Funds	1.67	9.97	7.62	-3.39
Bond Funds	0.79	11.24	4.07	11.43
All CEFs	1.12	10.77	5.39	6.20

Table 3 Number of IPOs, Selected 12-Month Periods

	August 2012	Calendar-2011
All CEFs	22	18

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

3 Months through 7/31/2012	528
Comparable year-earlier 3 Months	422
Calendar 2011 average	329

Source: Lipper, A Thomson Reuters Company

For August 92% of all CEFs posted NAV-basis returns in the black, with 86% of equity CEFs and 95% of fixed income CEFs chalking up returns in the plus column. Toward month-end investors became slightly more risk averse as they learned that U.S. economic data had softened and the ECB had failed to produce an economic plan. As a result, for the first month in three the world bond CEF macro-group (+1.23% on a NAV basis) lagged its taxable domestic bond (+1.37%) CEF counterpart, while both outpaced their municipal bond CEF (+0.38%) cousin. For the second month in a row all of Lipper's classifications posted a positive NAV-based return for August as investors cheered generally improving U.S. economic data.

For the third consecutive month all of Lipper's 12 equity CEF classifications posted returns in the black as the market factored in another round of Fed easing and further action by European authorities. Once again, all asset types participated in the rally during the month, with world equity CEFs (+1.48%) underperforming their domestic equity CEF (+1.78%) and mixed-equity CEF (+1.62%) cohorts. Growth Funds (+2.53%), Core Funds (+2.47%), and Global Funds (+2.20%) jumped to the head of the pack, claiming the three top spots for equity CEFs. For the remaining equity classifications returns ranged from positive 0.33% (Pacific ex-Japan Funds) to positive 2.06% (Convertible Securities Funds).

Three of the five top-performing funds were housed in Lipper's world equity CEF macro-classification, but **ASA Gold & Precious Metals Limited (NYSE: ASA)**, housed in Lipper's Sector Equity Funds

classification and one of July's equity laggards) gained 7.42% on a NAV basis and traded at an 8.63% discount at month-end to end at the top of the charts for August. Following ASA were **New Ireland Fund, Inc. (NYSE: IRL)**, housed in Lipper's Developed Markets Funds classification), rising 5.65% and traded at a 14.70% discount on August 31; **PIMCO Global StocksPLUS & Income Fund (NYSE: PGP)**, warehoused in Lipper's Options Arbitrage/Options Strategies Funds classification), posting a 5.62% return and traded at a 78.61% premium at month-end; **European Equity Fund Inc. (NYSE: EEA)**, housed in Lipper's Developed Markets Funds classification), posting a 5.53% return and traded at a 10.62% discount on August 31; and **RENN Global Entrepreneurs Fund, Inc. (AMEX: RCG)**, housed in Lipper's Global Funds classification), chalking up a 5.24% return and traded at a 34.49% discount at month-end.

For the month the dispersion of performance in individual equity CEFs—ranging from minus 4.68% to positive 7.42%—was narrower than July's spread and positively skewed. The 20 top-performing equity funds posted returns in excess of 3.78%, while the 20 lagging funds were at or below minus 0.87%. Some 203 equity funds posted positive NAV-based returns for the month.

At the bottom of the equity CEF group for the second consecutive month was **Morgan Stanley China A Share Fund, Inc. (NYSE: CAF)**, housed in Lipper's Pacific ex-Japan Funds classification. CAF shed 4.68% of its July month-end value and traded at an 8.55% discount on August 31. The next poorest performing equity fund was warehoused in

Lipper's Core Funds classification: **Equus Total Return, Inc. (NYSE: EQS)** declined 4.28% and traded at a 25.24% discount at month-end.

For the second month in a row all of the municipal debt CEF classifications posted positive NAV-based returns. High Yield Municipal Debt Funds (+0.67%) rose to the top of the muni class, followed by New Jersey Municipal Debt Funds (+0.49%) and General & Insured Municipal Debt Funds (Unleveraged) (+0.47%). The municipal debt funds macro-group (+0.38%) lagged its taxable counterpart (+1.35%). National municipal debt funds (+0.47%) outperformed their single-state municipal debt fund counterparts (+0.30%).

For the third consecutive month all ten taxable bond CEF classifications posted returns in the black for August, with High Yield Funds (Leveraged) (+1.78%), U.S. Mortgage Funds (+1.76%), and High Yield Funds (+1.68%) leading the way. On hopes that policymakers would take action to ease the ongoing debt crisis and stoke the China growth engine, investors kept their focus on global fixed income instruments during the month. World bond CEFs (+1.23%) slightly underperformed their domestic taxable fixed income CEF counterparts (+1.37%). Emerging Markets Debt Funds gained 1.17% and Global Income Funds tagged on 1.27% for the month. The two-/ten-year Treasury spread widened 7 bps from the July month-end 128 bps. The yield on the ten-year Treasury note finished the month up 6 bps at 1.57%, down from its month-long closing high of 1.83% on August 16 as some investors took risk off their portfolios ahead of the ECB and FOMC meetings in September.

In the domestic taxable fixed income CEFs universe (+1.37%) returns ranged from 0.42% (Corporate Debt BBB-Rated Funds) to 1.78% (High Yield Funds [Leveraged]). All but 19 individual fixed income CEFs posted positive NAV-basis returns for the month. At the head of the class for the second consecutive month was **Western Asset Mortgage Defined Opportunity Fund Inc. (NYSE, DMO)**, housed in Lipper's U.S. Mortgage Funds classification, rising 4.75% and traded at a 5.37% premium at month-end. In the runner-up slot **Nuveen Mortgage Opportunity Term Fund 2 (NYSE: JMT)** (also housed in Lipper's U.S. Mortgage Funds classification), tacked 4.67% onto its July's month-end value. JMT traded at a 5.96% premium on August 31.

For the remaining funds in the fixed income CEFs universe monthly NAV-basis performance ranged

from minus 7.44% (at the bottom for the second month in a row **Capstone Church Capital Fund [NASDAQ: XCBFX]**, a hybrid interval fund housed in Lipper's General Bond Funds classification, was the worst performer in the CEF universe) to 4.43% for **PIMCO Dynamic Income Fund (NYSE: PDI)**, housed in Lipper's Global Income Funds classification and traded at a 2.49% premium on August 31. The 20 top-performing fixed income CEFs posted returns at or above 2.24%, while the 20 lagging funds were at or below 0.01%.

Premium and Discount Behavior

For August the median discount of all CEFs widened 38 bps to 0.64%, remaining well below the 12-month moving average (2.32%) for the tenth consecutive month. Equity CEFs' median discount widened 11 bps to 7.93%, and fixed income CEFs' premium narrowed 8 bps to 1.17%. Municipal bond funds' median premium narrowed 50 bps to 0.85%, while for the first month in five national municipal debt funds' premium worsened (narrowing 75 bps to 1.59%). Single-state municipal bond funds' premium narrowed 57 basis points to a discount of 0.03%. High Yield Funds' premium witnessed the only improvement of the group, widening 122 bps during the month to 5.73% (the tenth consecutive month this group was in premium territory). World Income Funds experienced the largest widening of discounts of all the macro-classifications—146 bps to 2.45%.

For the month 44% of all funds' discounts or premiums improved, while 53% worsened. In particular, 49% of equity funds and 41% of fixed income funds saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on August 31 (276) was 12 less than July's count.



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IPOs

There were no new CEFs in August.

Rights, Repurchases, Tender Offers

The recently closed repurchase offers from **The European Equity Fund (NYSE: EEA)** and **The New Germany Fund (NYSE: GF)** were strongly oversubscribed. Under *pro rata* conditions EEA accepted 529,000 (about 10%) and GF accepted 864,000 (about 8%) properly tendered shares for payment. At the end of August EEA had a discount of 10.6% and GF's discount was 11.1%.

Investors have until September 24 to participate in the semiannual repurchase offer for up to 5% of the outstanding common shares of **The India Fund (NYSE: IFN)**. Repurchases are subject to a repurchase fee of 2% of NAV. The fund's discount was 10.5% at the end of the month.

A recent common-share rights offering for **Reaves Utility Income Fund (NYSE: UTG)** saw 5.9 million new common shares issued for \$24.41 each, which was 95% of the market price formula. The fund's discount narrowed two percentage points to end August at 2.1%.

Investors have until September 21, 2012, to participate in a one-for-eight transferable rights offering for **DNP Select Income Fund (NYSE: DNP)**. The rights will be listed on the NYSE under the trading symbol **DNP RT**.

Trustees of **Eaton Vance Enhanced Equity Income Fund (NYSE: EOI)**, **Eaton Vance Enhanced Equity Income II Fund (NYSE: EOS)**, **Eaton Vance Tax-Managed Buy-Write Income Fund (NYSE: ETB)**, **Eaton Vance Tax-Managed Buy-Write**

Opportunities Fund (NYSE: ETV), **Eaton Vance Tax-Managed Global Buy-Write Opportunities Fund (NYSE: ETW)**, **Eaton Vance Tax-Managed Diversified Equity Income Fund (NYSE: ETY)**, **Eaton Vance Tax-Managed Global Diversified Equity Income Fund (NYSE: EXG)**, and **Eaton Vance Risk-Managed Diversified Equity Income Fund (NYSE: ETJ)** authorized a repurchase by each fund of up to 10% of its outstanding common shares.

A secondary offering of common shares for **Kayne Anderson MLP Investment Company (NYSE: KYN)** sold five million shares at \$29.75 each to raise \$142.8 million in gross proceeds. Another 750,000 shares may be sold to cover overallotments. The premium on KYN widened from 4.7% to 7.2% as of the end of August.

Mergers and Reorganizations

A merger may be brewing between **JF China Region Fund (NYSE: JFC)** and **Greater China Fund (NYSE: GCH)**. Directors of JFC put a merger proposal to the chairman of GCH in July after GCH shareholders approved a proposal to terminate their fund's advisory agreement. Under the proposal GCH will merge into JFC, after which JFC will make a post-merger tender offer. The discount on JFC held steady at around 12.0% and that of GCH narrowed slightly to 8.8% in August.

Shareholders of the **Nuveen Energy MLP Total Return Fund (NYSE: JMF)** approved a merger to acquire **MLP & Strategic Equity Fund (MTP)**; the reorganization closed August 27, 2012. In addition, trustees of **Global Currency and Income Fund (NYSE: GCF)** and **Nuveen Multi-Currency Short-Term Government Income Fund (NYSE: JGT)** approved a plan to merge GCF into JGT and to change JGT's name to **Nuveen Diversified Currency Opportunities Fund**. (The merger does not require approval from JGT shareholders, although GCF will hold a special shareholder meeting later this year on the proposed merger.)

Other

Effective September 10, 2012, **NexPoint Credit Strategies Fund (NYSE: HCF)** will change its ticker symbol from "HCF" to "NHF". Neither the fund's name nor its CUSIP number will change. (The fund was originally named Highland Credit Strategies.) At the end of August the fund had a discount of 7.0%.

Invesco redomesticated **Invesco Van Kampen Pennsylvania Value Municipal Trust (NYSE: VPV)**, **Invesco Van Kampen Senior Income Trust (NYSE:**

VVR), Invesco Van Kampen Trust for Investment Grade Municipals (NYSE: VGM), and Invesco Van Kampen Advantage Municipal Income Trust II (NYSE: VKI) into Delaware statutory trusts.

Following the mergers of **Invesco California Municipal Income Trust (NYSE: IIC), Invesco California Municipal Securities (NYSE: ICS), and Invesco California Quality Municipal Securities (NYSE: IQC)** into **Invesco Van Kampen California Value Municipal Income Trust (NYSE: VCV); Invesco High Yield Investments Fund (NYSE: MSY)** into **Invesco Van Kampen High Income Trust II (NYSE: VLT); Invesco Municipal Income Opportunities Trust II (NYSE: OIB)** and **Invesco Municipal Income Opportunities Trust III (NYSE: OIC)** into **Invesco Van Kampen Income Opportunities Trust (NYSE: OIA); and Invesco New York Quality Municipal Securities (NYSE: IQN)** into **Invesco Van Kampen Trust for Investment Grade New York Municipals (NYSE: VTN)**, the surviving funds were also redomesticated into Delaware statutory trusts from Massachusetts business trusts.

Nuveen Enhanced Municipal Value Fund (NYSE: NEV) and **Nuveen Municipal Value Fund 2 (NYSE: NUW)** filed initial registration statements to establish equity shelf programs.

A settlement was reached in the matter of *Ryskamp v. Looney*, which involved alleged inappropriate actions by the advisor to **Boulder Growth & Income Fund (NYSE: BIF)**. BIF will receive \$3 million from the advisor's insurer, and the advisor will pay \$1 million less certain payments such as attorney fees. The defendants in this case have enacted or have agreed to enact the corporate governance reforms described in the settlement. The fund's discount held steady around 22.5% in August.

Directors of **The Singapore Fund (NYSE: SGF)** changed the fund's managed distribution policy to pay quarterly distributions (previously, one annual distribution was made) at a 6% annual rate, a rate subject to change up to once a year. The fund's discount inched wider in August to end at 11.6%.

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