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The Month in Closed-End Funds: February 2012

- ▶ For the third consecutive month equity and fixed income closed-end funds (CEFs) posted returns in the black for February, gaining 3.64% and 1.03%, respectively, on a NAV basis. On a market basis equity funds rose 4.16% and fixed income funds gained 1.15%.
- ▶ For the first month in four one of Lipper's municipal debt funds classifications posted a negative return. Meanwhile, for the third consecutive month all of the taxable fixed income classifications were in the plus column. Continuing the trend, all equity CEF classifications were also in the black. In all, only 38 CEFs posted negative returns for February.
- ▶ For the second month in a row world equity funds (+4.89%) outpaced their domestic equity fund (+3.03%) and mixed-equity fund (+3.30%) counterparts.
- ▶ Municipal debt CEFs (+0.33% on a NAV basis) lagged their domestic taxable bond CEF (+2.05%) and world bond CEF (+2.55%) brethren for the month.
- ▶ The January median discount of all CEFs narrowed 31 basis points (bps) to 1.40%, falling below the 12-month moving average of 3.69% for the fourth consecutive month. Five of the fixed income macro-groups remained in premium territory.

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Performance

For the third consecutive month equity and fixed income CEFs were in the black for February, rising 3.64% and 1.03%, respectively, on a NAV basis. On a market basis equity funds added 4.16% to the prior month's ending value, while fixed income funds rose 1.15%. Equity CEFs rose fairly steadily during the month as investors shrugged off continued uncertainty surrounding Greece and a new round of saber rattling over Iran's nuclear intentions, with the subsequent rise in oil prices. Investors focused instead on better-than-expected earnings reports, with 63% of the 489 S&P 500 constituents that have reported Q4 earnings beating analyst expectations (according to the Thomson Reuters Proprietary Research team) and on improving unemployment reports and economic data.

Despite market participants' learning that durable goods orders declined 4.0% for January, that new single-family homes sales dropped 0.9%, and that both the CPI and PPI increased, they embraced the news that Q4 2011 GDP growth was revised up to a 3.0% annual growth rate—beating expectations. Also, existing home sales increased 4.3%, and new jobless claims remained on the decline in February. Many of the major indices broke through multi-year highs during the month. The Dow Jones Industrial Average closed above 13,000 for the first time since May 2008 and posted its fifth month of plus-side returns in February, rising 2.53% for the month. Meanwhile, the broad-based S&P 500 was at its highest level since June 2008, rising to 1,372.18 on February 28. Given the rally in tech stocks during the month, it wasn't surprising to see the tech-laden NASDAQ Composite tag on 5.44% for the month.

Despite the tug of war between better economic news and rising oil prices and global concerns, investors generally became slightly more risk seeking during the month, leading Treasuries prices lower. Yields continued to rise on news that consumer confidence hit a 12-month high, that weekly jobless claims touched four-year lows, and on some on-again off-again Greek bailout optimism. The yield curve shifted upward at all maturity levels, ranging from 2 basis points for three-month paper to 16 bps for five-year paper. The benchmark ten-year Treasury yield finished the month at 1.98%—15 bps higher than January's month-end value. The yield on the two-year bond rose 8 basis points, finishing January at 0.30%.

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	97	58	40	19	81
Bond Funds	92	54	43	52	48
All CEFs	94	56	42	40	59

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

	February	YTD	3-Month	Calendar-2011
Equity Funds	3.64	9.20	9.29	-3.39
Bond Funds	1.03	5.23	7.86	11.43
All CEFs	1.96	6.64	8.37	6.20

Table 3 Number of IPOs, Selected 12-Month Periods

	February 2012	Calendar-2011
All CEFs	16	18

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

3 Months through 1/31/2012	210
Comparable year-earlier 3 Months	276
Calendar 2011 average	329

Source: Lipper, A Thomson Reuters Company

For the month of January the dollar lost ground against the euro (-1.99%) and the pound (-0.95%) but gained against the yen (+5.11%). Commodities prices were mixed for the month, with near-month crude oil prices rising 8.72% to close the month at \$107.07/barrel, while gold prices declined 1.61% to end the month at \$1,709.90/ounce.

For February 94% of all CEFs posted NAV-basis returns in the black, with 97% of equity CEFs and 92% of fixed income CEFs chalking up returns in the plus column. Investors continued to put risk back in their portfolios during the month. For the first month in four municipal bond CEFs (+0.33% on a NAV basis) lagged their taxable bond CEF (+2.05%) and world bond CEF (+2.55%) counterparts. For the first month in nine one of Lipper's municipal bond fund classifications posted a negative NAV-based return for February: Single-State Insured Municipal Debt Funds (-0.04%). Prior to that, all had been in the black for nine months.

None of Lipper's 12 equity CEF classifications or the 9 taxable fixed income classifications posted a return in the red. Cautious optimism over the Greek debt talks and a weakening U.S. dollar kept the World Equity Funds (+4.89%) and Fixed Income Funds (+2.55%) macro-classifications at the head of the class for February. Some continued domestic market optimism and investors' search for dividend payers kept the other equity macro-groups in great shape, with mixed-equity funds (+3.30%) and domestic equity funds (+3.03%) posting strong plus-side returns. On the equity side Pacific ex-Japan Funds rose 6.22%, Developed Markets Funds gained 5.05%, and Emerging Markets Funds

tagged on 4.90% to their previous month's ending value. For the remaining equity classifications returns ranged from 1.22% (Real Estate Funds) to 4.16% (Global Funds).

Nine of the ten top-performing classifications were World Equity Fund groups. The Pacific ex-Japan Funds classification housed the two top-performing funds. At the top of the list was **Thai Fund, Inc. (NYSE: TTF)**, gaining 11.00% on a NAV basis and traded at a 14.17% discount at month-end. Next was **Thai Capital Fund, Inc. (AMEX: TF)**, rising 10.29% and traded at a 12.06% discount on February 29. Following TF was **Morgan Stanley Eastern Europe Fund, Inc. (NYSE: RNE)**, housed in Lipper's Emerging Markets Funds classification, posting a 9.67% return and traded at an 11.74% discount at month-end. And **New Ireland Fund, Inc. (NYSE: IRL)**, housed in Lipper's Developed Markets Funds classification, chalked up a 9.14% return and traded at a 13.28% discount on February 29. In Lipper's Emerging Markets Funds classification **Templeton Russia & East European Fund, Inc. (NYSE: TRF)** rose 8.72% and traded at a 7.01% discount at month-end.

For the month the dispersion of performance in individual equity CEFs—ranging from minus 2.14% to positive 11.00%—was narrower than January's spread but more positively skewed. The 20 top-performing equity funds posted returns in excess of 6.09%, while the 20 lagging funds were at or below 1.48%. Only four equity funds posted negative returns for the month.

At the bottom of the equity group was **ASA Gold & Precious Metals Limited (NYSE: ASA**, the worst performing fund in the closed-end funds universe for February), housed in Lipper's Sector Equity Funds classification. ASA shed just 2.14% of its January month-end value and traded at a 7.58% discount on February 29. The next poorest performing equity fund was warehoused in Lipper's Emerging Markets Funds classification: **Aberdeen Israel Fund, Inc. (AMEX: ISL)** declined 1.98% and traded at an 11.93% discount at month-end.

For the first month in nine one of the municipal debt CEF classifications posted a negative NAV-based return; Single-State Insured Municipal Debt Funds (-0.04%) fell to the bottom of the heap. The Municipal Debt Funds macro-group (+0.33%) lagged its taxable counterpart. High Yield Municipal Debt Funds managed to post a respectable 1.15% return for the month, followed by California Municipal Debt Funds (+0.48%) and General & Insured Municipal Debt Funds (+0.41%). National municipal debt funds (+0.47%) fared slightly better than their single-state municipal debt funds (+0.21%) counterparts.

For the third consecutive month, on the taxable fixed income side all of the classifications posted positive returns for February. Investors' renewed interest in global offerings during the month pushed global issues to the top of the charts, with world bond funds (+2.55%) outpacing domestic taxable fixed income funds (+2.05%). The two-/ten-year Treasury spread widened 7 bps from January's month-end 161 bps. The yield on the ten-year Treasury note finished the month up 15 bps at 1.98%, short of the month high of 2.05% on February 21.

In the domestic taxable fixed income CEFs universe (+2.05%) returns ranged from 1.31% (Corporate Debt BBB-Rated Funds) to 3.03% (High Current Yield Funds [Leveraged])—the leader for the second consecutive month). World income funds (+2.55%) outperformed their domestic cousins, with Emerging Markets Debt Funds and Global Income Funds returning 3.12% and 2.15%, respectively. In all, only 33 fixed income CEFs posted negative NAV-basis returns for the month. At the head of the class **Western Asset Mortgage Defined Opportunity Fund Inc. (NYSE: DMO)**, housed in Lipper's U.S. Mortgage Funds classification, rose 5.67% and traded at a 2.58% premium at month-end. **PIMCO High Income Fund (NYSE: PHK)** (housed in Lipper's High Current Yield Funds [Leveraged] classification), tacking 5.35% onto its

January month-end value, was in the runner-up slot. PHK traded at a 64.84% premium on February 29.

For the remaining funds in the fixed income CEFs universe monthly NAV-basis performance ranged from minus 0.76% (**Eaton Vance Tax-Advantaged Bond and Option Strategies Fund [NYSE: EXD]**, housed in Lipper's General & Insured Municipal Debt Funds [Leveraged] classification) to 5.11% for **PIMCO Corporate & Income Strategy Fund (NYSE: PCN)**, housed in Lipper's General Bond Funds classification, which traded at a 20.50% premium on February 29. The 20 top-performing fixed income CEFs posted returns at or above 3.41%, while the 20 lagging funds were at or below minus 0.10%.

Premium and Discount Behavior

For February the median discount of all CEFs narrowed 31 bps to 1.40%, remaining below the 12-month moving average (3.69%) for the fourth consecutive month. Equity CEFs' median discount narrowed 19 bps to 8.02%, and fixed income CEFs' discount narrowed 28 bps to become a premium of 0.28%. Once again municipal bond funds' premium widened during the month (40 basis points to 0.77%), while national municipal debt funds' premium narrowed (95 bps to 0.77%) and single-state municipal bond funds moved to premium territory (92 basis points to 0.73%). High Current Yield Funds' premium widened during the month as well (62 bps to 3.64%). World Income Funds experienced the largest narrowing of discounts of all the macro-classifications, narrowing 113 bps to 4.78%.

For the month 56% of all funds' discounts or premiums improved, while 42% worsened. In particular, 58% of equity funds and 54% of fixed income funds saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on February 29 (249) was 9 more than January's count.



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IPOs

Cushing Royalty & Income Fund (NYSE: SRF) raised \$207.5 million in gross proceeds in its initial public offering of 8.3 million common shares at \$25 each. Underwriters may exercise their option to purchase up to 1.245 million additional common shares at the public offering price, which could raise total gross proceeds to \$238.6 million.

Rights, Repurchases, Tender Offers

The semiannual repurchase offer for up to 5% of the outstanding common shares of **The India Fund (NYSE: IFN)** will end March 16, 2012; a 2% repurchase fee will apply. The fund's discount stood at 9.6% at the end of February.

LMP Capital and Income Fund (NYSE: SCD) will offer to purchase up to 5% (nearly 1 million) of its outstanding common shares at 98% of NAV; the offer will expire March 29, 2012. At the end of February the fund's discount was 5.0%.

The subscription period for a one-for-three transferable rights offering on **Avenue Income Credit Strategies Fund (NYSE: ACP)** will expire March 23. The fund's small premium disappeared, and it traded at a discount of 5.7% at the end of February.

Singapore Fund (NYSE AMEX: SGF) is offering to purchase up to 25% of its common shares at 99% of NAV. The fund will pay cash for small-lot exchanges in order not to burden shareholders with the minimum trading requirements of the Singapore exchange for the in-kind redemptions of portfolio securities. The offer will expire March 14, 2012. The fund's discount was 7.0% at the end of February.

Trustees of **Alpine Global Premier Properties Fund (NYSE: AWP)** authorized a new share-repurchase plan, whereby the fund may buy back up to 10% of its outstanding common shares. The plan is effective immediately and will expire October 31, 2012. Measurement dates for a potential repurchase have not been announced. At the end of February the fund's discount was 11.3%.

Mergers and Reorganizations

BlackRock Equity Dividend Trust (NYSE: BDV) and **BlackRock Strategic Equity Dividend Trust (NYSE: BDT)** were merged into **BlackRock Enhanced Equity Dividend Trust (NYSE: BDJ)**.

Directors and trustees of **BlackRock Investment Quality Municipal Income Trust (NYSE: RFA)**, **BlackRock New Jersey Investment Quality Municipal Trust (NYSE: RNJ)**, and **BlackRock New York Investment Quality Municipal Trust (NYSE: RNY)** have approved submitting a liquidation plan to each fund's shareholders for their consideration and approval. A date for the shareholders' meeting has not been set.

Other

Advent/Claymore Global Convertible Securities & Income Fund (NYSE: AGC) changed its name to **Advent Claymore Convertible Securities and Income Fund II**. The fund's trading symbol will not change.

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