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The Month in Closed-End Funds: March 2012

- ▶ For the fourth consecutive month equity closed-end funds (CEFs) posted returns in the black for March, gaining 0.32% and 0.78%, on a NAV and market basis, respectively. However, fixed income funds were in the red—for the first time in four months—losing 0.26% and 1.49%.
- ▶ For the month all but one of Lipper's municipal debt fund classifications (High Yield Municipal Debt Funds [+0.46%]) posted negative returns.
- ▶ Breaking a three-month plus-side performance streak, three of the taxable fixed income classifications were in the red for March: Global Income Funds (-0.27%), Corporate Debt BBB-Rated Funds (-0.31%), and Emerging Markets Debt Funds (-0.55%).
- ▶ For the first month in three world equity funds (-0.22%) underperformed their domestic equity fund (+0.46%) and mixed-equity fund (+0.92%) counterparts.
- ▶ Municipal debt CEFs (-0.63% on a NAV basis) lagged their domestic taxable bond CEF (+0.42%) and world bond CEF (+0.39%) brethren for the month.
- ▶ The March median discount of all CEFs widened 103 basis points (bps) to 2.43%, remaining below the 12-month moving average of 3.51% for the fifth consecutive month.

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Performance

For the fourth consecutive month equity CEFs were in the black for March, rising 0.32% on a NAV basis and 0.78% on a market basis; however, fixed income CEFs posted a negative return on average for the first month in four, losing 0.26% and 1.49%. Equity investors took a breather toward month-end, taking some of those hard-won profits off the table heading into spring break. They cut back after hearing Standard & Poor's report that Greece may have to restructure its debt again and despite U.S. economic data strengthening, corporate earnings remaining attractive, and—perhaps best of all—job growth rising and the unemployment rate appearing on the mend.

During the month investors had reason to cheer after hearing February's employment report (showing nonfarm payroll numbers increased 227,000, beating analyst expectations and keeping the unemployment rate at 8.3%). Encouraging news on better-than-expected February retail sales (+1.1%) and February personal consumption (+0.8%) kept equity investors in the game, helping push the Dow Jones Industrial Average to its best first quarter point gain (+994 points) in its history, its strongest first quarter return (+8.14%) since 1998, and adding 2.01% to its February month-end value. Meanwhile, the broad-based S&P 500 Composite handsomely outpaced its blue-chip brother, returning 12.00% for the quarter and 3.13% for March. The NASDAQ Composite posted its strongest Q1 return since 1991, adding 18.67% to its December month-end number, while returning 4.20% for the month of March.

Even with the tug of war between better economic news and lingering global concerns, investors generally remained slightly more risk seeking during the month, leading Treasuries prices lower. Yields continued to rise on news that personal spending and consumer confidence were on the rise and after Federal Reserve Chairman Ben Bernanke indicated that an accommodative policy would be needed to keep economic growth on track. The yield curve shifted upward at all maturities above three months, ranging from 1 basis point for one-year paper to 27 bps for twenty- and thirty-year paper. The benchmark ten-year Treasury yield finished the month at 2.23%—25 bps higher than February's month-end value. The yield on the two-year bond rose 3 basis points, finishing March at 0.33%.

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	66	51	46	22	78
Bond Funds	30	28	69	43	56
All CEFs	43	37	61	36	64

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

	March	YTD	3-Month	Calendar-2011
Equity Funds	0.32	9.49	9.49	-3.39
Bond Funds	-0.26	4.97	4.97	11.43
All CEFs	-0.05	6.61	6.61	6.20

Table 3 Number of IPOs, Selected 12-Month Periods

	March 2012	Calendar-2011
All CEFs	17	18

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

3 Months through 2/29/2012	238
Comparable year-earlier 3 Months	298
Calendar 2011 average	329

Source: Lipper, A Thomson Reuters Company

For the month of March the dollar lost ground against the pound (-0.54%) but gained against the euro (+0.65%) and the yen (+2.18%). Commodities prices were on the decline for the month, with near-month crude oil prices dropping 3.78% to close the month at \$103.02/barrel and gold prices slipping 2.37% to end the month at \$1,669.30/ounce.

For March 43% of all CEFs posted NAV-basis returns in the black, with 66% of equity CEFs and 30% of fixed income CEFs chalking up returns in the plus column. Toward month-end, investors became slightly less risk seeking as they prepared for the upcoming spring break. For the second consecutive month municipal bond CEFs (-0.63% on a NAV basis) lagged their taxable bond CEF (+0.42%) and world bond CEF (-0.39%) counterparts. For the first month in ten all but one of Lipper's municipal bond fund classifications (High Yield Municipal Debt Funds, +0.46%) posted negative NAV-based returns for March. Prior to that, except in February when one fund was in the red, all had been in the black for nine months.

Three of Lipper's twelve equity CEF classifications and three of the nine taxable fixed income classifications posted returns in the red for March. Renewed fears on China's slowing growth and the Greek debt talks, along with a strengthening U.S. dollar, kept the World Equity Funds (-0.22%) and World Bond Funds (-0.39%) macro-classifications at bay for March. Some continued domestic market optimism and investors' search for dividend payers kept the other equity macro-groups in play, with mixed-equity funds (+0.92%) and domestic equity funds (+0.46%) posting plus-side returns. On the

equity side Real Estate Funds rose 3.26%, Growth Funds gained 1.87%, and Value Funds tagged on 1.83% to their previous month's ending value. For the remaining equity classifications returns ranged from minus 1.68% (Sector Equity Funds) to a positive 1.34% (Core Funds).

Six of the ten top-performing classifications were housed in the Domestic Equity Funds macro-group. At the top of the list was **John Hancock Bank & Thrift Opportunity Fund (NYSE: BTO)**, housed in Lipper's Sector Equity Funds classification), gaining 7.66% on a NAV basis and traded at an 8.63% discount at month-end. Next was **Nuveen Tax-Advantaged Floating Rate Fund (NYSE: JFP)**, warehoused in Lipper's Income & Preferred Stock Funds classification), rising 7.36% and traded at an 11.96% discount on March 30. Following JFP was **Aberdeen Israel Fund, Inc. (AMEX: ISL)**, housed in Lipper's Emerging Markets Funds classification and one of February's laggards), posting a 7.01% return and traded at an 11.90% discount at month-end. And **Cohen & Steers Quality Income Realty Fund, Inc. (NYSE: RQI)**, housed in Lipper's Real Estate Funds classification) chalked up a 6.24% return and traded at a 7.53% discount on March 30. In Lipper's Emerging Markets Funds classification **Mexico Equity & Income Fund, Inc. (NYSE: MXE)** rose 5.42% and traded at a 12.58% discount at month-end.

For the month the dispersion of performance in individual equity CEFs—ranging from minus 10.68% to positive 7.66%—was wider than February's spread but much more negatively skewed. The 20 top-performing equity funds posted returns in

excess of 3.40%, while the 20 lagging funds were at or below minus 3.34%. Seventy-nine equity funds posted negative returns for the month.

For the second month in a row, at the bottom of the equity CEF group and the CEF universe as a whole was **ASA Gold & Precious Metals Limited (NYSE: ASA)**, housed in Lipper's Sector Equity Funds classification. ASA shed 10.68% of its February month-end value and traded at a 5.76% discount on March 30. The next poorest performing equity fund was also warehoused in Lipper's Sector Equity Funds classification: **Central Fund of Canada Limited (AMEX: CEF)** declined 9.32% and traded at a 3.93% premium at month-end.

For the first month in ten all but one of the municipal debt CEF classifications posted negative NAV-based returns; High Yield Municipal Debt Funds (+0.46%) rose to the top of the muni class. The Municipal Debt Funds macro-group (-0.63%) lagged its taxable counterpart. The group was dragged down by the likes of New Jersey Municipal Debt Funds (-1.04%), Michigan Municipal Debt Funds (-0.96%), and Pennsylvania Municipal Debt Funds (-0.85%). National municipal debt funds (-0.48%) mitigated losses slightly better than their single-state municipal debt funds counterparts (-0.75%).

Breaking a three-month winning streak for taxable bond funds, three taxable fixed income classifications posted returns in the red for March: Global Income Funds (-0.27%), Corporate Debt BBB-Rated Funds (-0.31%), and Emerging Markets Debt Funds (-0.55%). Investors pulled back from global offerings during the month, pushing global issues to the bottom of the charts, with world bond funds (-0.39%) underperforming domestic taxable fixed income funds (+0.42%). The two-/ten-year Treasury spread widened 22 bps from February's month-end 168 bps. The yield on the ten-year Treasury note finished the month up 25 bps at 2.23%, short of the month high of 2.31% on March 15.

In the domestic taxable fixed income CEFs universe (+0.42%) returns ranged from minus 0.31% (Corporate Debt BBB-Rated Funds) to 1.40% (U.S. Mortgage Funds).

In all, 285 fixed income CEFs posted negative NAV-basis returns for the month. At the head of the class for the second consecutive month **Western Asset Mortgage Defined Opportunity Fund Inc. (NYSE: DMO)**, housed in Lipper's U.S. Mortgage Funds

classification, rose 4.03% and traded at a 0.46% premium at month-end. **Nuveen Mortgage Opportunity Term Fund 2 (NYSE: JMT)** (housed in Lipper's High Current Yield Funds [Leveraged] classification), tacking 2.37% onto its February month-end value, was in the runner-up slot. JMT traded at a 1.39% discount on March 30.

For the remaining funds in the fixed income CEFs universe monthly NAV-basis performance ranged from minus 3.70% (**Avenue Income Credit Strategies Fund [NYSE: ACP]**, housed in Lipper's High Current Yield Funds [Leveraged] classification) to 2.19% for **PIMCO Strategic Global Government Fund, Inc. (NYSE: RCS)**, housed in Lipper's Global Income Funds classification, which traded at an 18.80% premium on March 30. The 20 top-performing fixed income CEFs posted returns at or above 1.47%, while the 20 lagging funds were at or below minus 1.49%.

Premium and Discount Behavior

For March the median discount of all CEFs widened 103 bps to 2.43%, remaining below the 12-month moving average (3.51%) for the fifth consecutive month. Equity CEFs' median discount narrowed 32 bps to 7.69%, and fixed income CEFs' premium narrowed 93 bps, moving back to a discount of 0.65%. With their recent poor performance, it wasn't surprising to see municipal bond funds' premium narrow a whopping 195 bps during the month (to a discount of 1.19%), while national municipal debt funds' premium changed to a discount (narrowing 140 bps to 0.62%) and single-state municipal bond funds returned to discount territory (narrowing 245 basis points to 1.72%). High Current Yield Funds' premium narrowed during the month but remained in premium territory (92 bps to 2.73%). Taxable Bond Funds experienced the largest narrowing of discounts of all the macro-classifications, narrowing 112 bps to a premium of 0.12%.

For the month 37% of all funds' discounts or premiums improved, while 61% worsened. In particular, 51% of equity funds and 28% of fixed income funds saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on March 30 (221) was 28 less than February's count.



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IPOs

Legg Mason BW Global Income Opportunities Fund (NYSE: BWG) raised approximately \$459 million in its initial public offering, assuming full exercise of the underwriters' overallotment option.

Rights, Repurchases, Tender Offers

LMP Capital and Income Fund (NYSE: SCD) announced its tender offer for almost one million common shares (approximately 5%) expired March 29. Preliminary results indicate four million shares were tendered, meaning under *pro rata* conditions roughly 25% of the tendered shares were accepted. Investors will receive \$13.70 per share, which is equal to 98% of NAV. At the end of March the discount on SCD was 4.6%.

Once shareholders approve its new management plan, **The China Fund (NYSE: CHN)** will repurchase its common shares in the open market if they are trading at an average discount of 8% or more over a five-day period, subject to a limit of 10% of the outstanding shares as of the previous fiscal year-end. In March the discount on CHN narrowed four percentage points to 7.5%.

Results from the semiannual repurchase offer of up to 5% (about two million shares) of **The India Fund (NYSE: IFN)** saw nearly 8.9 million shares tendered, meaning under *pro rata* conditions 22.3% of shares tendered were accepted for payment. Shareholders will receive \$24.09 per share, or about 98% of NAV. The discount on IFN widened to 10.3% in March.

The transferable rights offering for **Avenue Income Credit Strategies Fund (NYSE: ACP)** was oversubscribed. The offer entitled the rights holders

to subscribe for up to 2.5 million common shares at \$15.31 each. The discount on ACP bounced around a bit in March to settle at 4.9%.

Singapore Fund (NYSE: SGF) announced that its tender offer for up to 25% of the fund's outstanding common shares was oversubscribed. The fund accepted 2.5 million properly tendered shares (at 99% of NAV) among the 4.8 million tendered. On a *pro-rata* basis the fund accepted approximately 51.3% of the validly tendered shares. The fund's discount widened to 8.8% by the end of March.

DNP Select Income Fund (NYSE: DNP) filed a registration statement with the SEC for a potential rights offering. Details will be announced later. The premium on DNP dropped nearly 14 percentage points to 24.4% in March.

Mergers and Reorganizations

Shareholders of three Nuveen California CEFs approved reorganizing their funds into one larger fund. Under the agreement **Nuveen Insured California Premium Income Municipal Fund (NYSE: NPC)**, **Nuveen Insured California Premium Income Municipal Fund 2 (NYSE: NCL)**, and **Nuveen Insured California Dividend Advantage Municipal Fund (NYSE: NKL)** will be reorganized into **Nuveen Insured California Tax-Free Advantage Municipal Fund (NYSE: NKX)**. In addition, all of the funds (including NKX) will drop the requirement to invest 80% or more of their assets in insured muni debt, and NKX will change its name to **Nuveen California AMT-Free Municipal Income Fund**. The discount on NKX stood at 3.1% at the end of March.

Activist shareholder City of London Investment Management Company Limited is stirring things up with Morgan Stanley. City of London is submitting a proposal for the 2012 annual meeting that seeks to terminate the investment advisory agreements between each of three funds (**The Malaysia Fund [NYSE: MAY]**, **The Thai Fund [NYSE: TTF]**, and **Morgan Stanley Eastern Europe Fund [NYSE: RNE]**) and Morgan Stanley Investment Management. The discount on MAY narrowed considerably to 3.2%, while the discounts on TTY and RNE moved a little tighter to 10.6% and 9.7%, respectively.

Morgan Stanley announced that the directors of **The Malaysia Fund (NYSE: MAY)** adopted a proposal to liquidate the fund, subject to shareholder approval. The proposal will be

submitted to shareholders to approve at the fund's annual meeting to be held in June 2012.

Cohen & Steers Closed-End Opportunity Fund (NYSE: FOF) will submit to a shareholder vote a proposal to convert from a CEF to an open-end fund after its shares traded at an average discount of 7.5% over 75 consecutive trading days. The discount subsequently narrowed to 4.9% at the end of the month.

Trustees of **Nuveen MLP & Strategic Equity Fund (NYSE: MTP)** approved a proposal to merge it with **Nuveen Energy MLP Total Return (NYSE: JMF)**. The merger is subject to shareholder approval at the funds' regular shareholder meeting later this year.

Other

Trustees of **Energy Income and Growth Fund (NYSE: FEN)** approved a name change to "First Trust Energy Income and Growth Fund," subject to regulatory approval. The fund will keep the ticker symbol "FEN" but will change its CUSIP to 33738G104 from 292697109. The fund's name change will have no effect on the investment objectives, strategies, or risks of the fund. The premium on FEN stood at 4.6% at the end of March.

Underwriters of **Cushing Royalty & Income Fund (NYSE: SRF)** have fully exercised their overallotment option to purchase an additional 1.2 million shares at \$25.00 each, raising an additional \$29.7 million.

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