



**Tom Roseen**  
Head of Research Services  
Lipper, Denver

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

- ▶ For the second month in a row equity and fixed income closed-end funds (CEFs) posted returns in the black, gaining 1.80% and 2.56% on a NAV basis and 2.38% and 3.15% on a market basis, respectively.
- ▶ For the second consecutive month world bond CEFs (+3.01%) outperformed their taxable domestic bond CEF (+2.22%) and municipal bond CEF (+2.72%) counterparts.
- ▶ Municipal debt CEF classifications returned to their winning ways, with General & Insured Municipal Debt Funds (Leveraged) (+2.98%) moving to the top of the muni class.
- ▶ With improving oil prices and investors' continued interest in dividend-paying issues, it wasn't surprising to see Income & Preferred Stock Funds (+3.08%), Sector Equity Funds (+2.97%), and Real Estate Funds (+2.44%) jump to the head of the class.
- ▶ World equity CEFs (+1.27%) underperformed their domestic equity CEFs (+1.91%) and mixed-equity CEFs (+2.49%) counterparts.
- ▶ The July median discount of all CEFs narrowed 79 basis points (bps) to 0.25%, remaining well below the 12-month moving average of 2.74% for the ninth consecutive month.

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

### Performance

For the second consecutive month both equity and fixed income CEFs were in the black, rising 1.80% and 2.56% on a NAV basis and 2.38% and 3.15%, respectively, on a market basis. Although nonfarm payroll numbers, China's slowing growth, mixed U.S. economic news, and—surprise—a reemergence of European debt concerns continued to disappoint, investors warmed to better-than-expected earnings reports during the month and anticipated moves from both the European Central Bank (ECB) and the U.S. Federal Reserve. The Dow Jones Industrial Average closed over the 13,000 mark for the first time since May 7.

During the month investors were a little despondent on hearing June's employment report, which showed nonfarm payroll numbers increased only 80,000—missing analysts' expectations of 100,000. June's ISM manufacturing index fell to 49.7 (below 50.0 for the first time since mid-2009), and the ISM nonmanufacturing index declined to 52.1—below the consensus-expected 53.0. However, those numbers were offset by better-than-expected June industrial production (+0.4% versus +0.3%), capacity utilization (78.9% [June] versus 78.7% [May]), and June durable goods orders (+1.6% versus +0.3%). For the month the Dow gained 1.00%, while the NASDAQ Composite just managed to keep its head above water, gaining 0.15% after an end-of-month selloff occurred on concerns that central banks would not introduce enough stimulus to spur along the global economy.

Treasuries yields sank to historical lows, before gaining back some ground toward month-end. Prices jumped after Moody's lowered the credit outlooks for Germany, Netherlands, and Luxembourg and the cost to insure Spanish debt reached record highs. The yield curve shifted down at all maturities, except for one- and three-month paper, by amounts ranging from 2 bps for six-month paper to 20 bps for thirty-year paper. The benchmark ten-year Treasury yield finished the month at 1.51%, after closing at 1.43% on July 25, and the yield on the two-year bond finished June at 0.23%.

For the month of July the dollar lost ground against the pound (-0.52%) and the yen (-1.80%) but gained against the euro (+2.23%). Commodities prices rose for the month, with near-month crude oil prices increasing 3.65% to close the month at \$88.06/barrel, and gold prices rose 0.44% to end the month at \$1,610.50/ounce.

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	88	63	36	24	76
Bond Funds	100	61	36	60	40
All CEFs	95	62	36	47	52

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

	July	YTD	3-Month	Calendar-2011
Equity Funds	1.80	8.13	-1.26	-3.39
Bond Funds	2.56	10.36	3.62	11.43
All CEFs	2.28	9.55	1.84	6.20

Table 3 Number of IPOs, Selected 12-Month Periods

	July 2012	Calendar-2011
All CEFs	19	18

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

3 Months through 6/30/2012	489
Comparable year-earlier 3 Months	373
Calendar 2011 average	329

Source: Lipper, A Thomson Reuters Company

For June 95% of all CEFs posted NAV-basis returns in the black, with 88% of equity CEFs and almost 100% of fixed income CEFs chalking up returns in the plus column. Toward month-end investors became slightly more risk seeking as they expected moves from the ECB and the Fed to shore up the global economy. For the second consecutive month the world bond CEF macro-group (+3.01% on a NAV basis) outpaced its municipal bond CEF (+2.72%) and taxable domestic bond CEF (+2.22%) counterparts. For the first month since January, all of Lipper's classifications posted a positive NAV-based return for July as investors cheered better-than-expected Q2 earnings reports (despite mixed guidance) and on-again, off-again fixes for the European debt woes.

For the second month in a row all of Lipper's 12 equity CEF classifications posted returns in the black. German and French leaders told the world they were committed to keeping the euro area together, and it was rumored the ECB was ready to purchase debt, which helped keep world equity funds in the black for July. While it appears all asset types participated in the rally during the month, world equity CEFs (+1.27%) underperformed their domestic equity CEFs (+1.91%) and mixed-equity CEFs (+2.49%) cohorts. With strengthening oil prices and investors' predilection for yield, it wasn't surprising to see Income & Preferred Stock Funds (+3.08%), Sector Equity Funds (+2.97%), and Real Estate Funds (+2.44%) claiming the three top spots for equity CEFs. For the remaining equity classifications returns ranged from positive 0.94% (Developed Markets Funds) to positive 1.56% (Global Funds).

Eight of the ten top-performing funds were housed in Lipper's Sector Equity Funds classification, with **Kayne Anderson MLP Investment Company (NYSE: KYN)**, gaining 8.36% on a NAV basis and traded at a 9.98% premium at month-end, at the top of the charts at month-end. Following KYN, **Singapore Fund, Inc. (NYSE: SGF)**, housed in Lipper's Developed Markets Funds classification), rising 8.30% and traded at a 10.90% discount on July 31, was the second best performing fund in the CEFs universe. The next top performers (warehoused in the Sector Equity Funds classification) were **Kayne Anderson Midstream/Energy Fund, Inc. (NYSE: KMF)**, posting an 8.12% return and traded at a 2.87% discount at month-end; **Tortoise Pipeline & Energy Fund, Inc. (NYSE: TTP)**, posting a 6.61% return and traded at a 4.33% discount on July 31; and **Tortoise Energy Infrastructure Corporation (NYSE: TYG)**, chalking up 6.06% and traded at a 12.85% premium at month-end.

For the month the dispersion of performance in individual equity CEFs—ranging from minus 5.40% to positive 8.36%—was narrower than June's spread and positively skewed. The 20 top-performing equity funds posted returns in excess of 4.09%, while the 20 lagging funds were at or below minus 0.29%. Some 202 equity funds posted positive returns for the month.

At the bottom of the equity CEF group and the CEF universe as a whole was **Morgan Stanley China A Share Fund, Inc. (NYSE: CAF)**, housed in Lipper's Pacific ex-Japan Funds classification. CAF shed 5.40% of its June month-end value and traded at an 11.12% discount on July 31. The next poorest

performing equity fund was warehoused in Lipper's Sector Equity Funds classification: **ASA Gold & Precious Metals Limited (NYSE: ASA)** declined 3.01% and traded at a 4.87% discount at month-end.

Returning to their winning ways, all of the municipal debt CEF classifications posted positive NAV-based returns. General & Insured Municipal Debt Funds (Leveraged) (+2.98%) rose to the top of the muni class, followed by California Municipal Debt Funds (+2.89%) and New Jersey Municipal Debt Funds (+2.83%). The municipal debt funds macro-group (+2.72%) outpaced its taxable counterpart (+2.22%). National municipal debt funds (+2.80%) outperformed their single-state municipal debt fund counterparts (+2.64%).

For the second consecutive month all nine taxable bond CEF classifications posted returns in the black for July, with Emerging Markets Debt Funds (+3.42%, June's leader), Corporate Debt BBB-Rated Funds (Leveraged [a new classification debuting in July], +2.97%), and Global Income Funds (+2.76%), leading the way. On a perceived lessening of global concerns (yields on Spanish debt edged below 7%, and ECB President Draghi said the ECB would do "whatever it would take to preserve the euro"), investors kept their focus on global fixed income instruments during the month. World bond funds (+3.01%) outperformed their domestic taxable fixed income CEF counterparts (+2.22%). Emerging Markets Debt Funds gained 3.42% and Global Income Funds tagged on 2.76% for the month. The two-/ten-year Treasury spread narrowed 6 bps from the June month-end 134 bps. The yield on the ten-year Treasury note finished the month down 16 bps at 1.51%, down from its month-long closing low of 1.43% on July 25 as some investors took risk off their portfolios.

In the domestic taxable fixed income CEFs universe (+2.22%) returns ranged from 1.42% (Loan Participation Funds) to 2.97% (Corporate Debt BBB-Rated Funds [Leveraged]). All but one individual fixed income CEF posted positive 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 6.34% and traded at a 3.24% premium at month-end. **PIMCO Corporate & Income Opportunity Fund (NYSE: PTY)** (housed in Lipper's Corporate Debt BBB-Rated Funds [Leveraged] classification), tacked 5.18% onto its June's month-end value and was in

the runner-up slot. PTY traded at a 21.60% premium on July 31.

For the remaining funds in the fixed income CEFs universe monthly NAV-basis performance ranged from minus 1.95% (**Capstone Church Capital Fund [NASDAQ: XCBFX]**, a hybrid interval fund and the only negative performer in the fixed income CEF universe, housed in Lipper's General Bond Funds classification) to 4.89% for **Legg Mason BW Global Income Opportunities Fund, Inc. (NYSE: BWG)**, housed in Lipper's Global Income Funds classification and traded at a 4.58% discount on July 31. The 20 top-performing fixed income CEFs posted returns at or above 3.92%, while the 20 lagging funds were at or below 1.27%.

### Premium and Discount Behavior

For July the median discount of all CEFs narrowed 79 bps to 0.25%, remaining well below the 12-month moving average (2.74%) for the ninth consecutive month. Equity CEFs' median discount narrowed 28 bps to 7.82%, and fixed income CEFs' discount widened 33 bps to 1.25%. Municipal bond funds' median premium widened 24 bps to 1.35%, while for the fourth consecutive month the national municipal debt funds' premium improved (widening 47 bps to 2.34%). The single-state municipal bond funds' premium narrowed 11 basis points to 0.54%. High Current Yield Funds' premium widened 55 bps during the month to 4.61% (the ninth consecutive month this group was in premium territory). World Income Funds experienced the largest widening of discounts of all the macro-classifications—77 bps to 3.91%.

For the month 62% of all funds' discounts or premiums improved, while 36% worsened. In particular, 63% of equity funds and 61% of fixed income funds saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on July 31 (288) was 16 more than June's count.



**Jeff Tjornehoj**  
Head of Lipper Americas Research  
Lipper, Denver

### IPOs

The initial public offering (IPO) of **Cohen & Steers Limited Duration Preferred and Income Fund (NYSE: LDP)** saw 26.5 million shares sold at \$25 each, raising approximately \$662.5 million in gross proceeds. If underwriters fully exercise their overallotment options, overall sales could total approximately \$752 million.

**Tortoise Energy Independence Fund (NYSE: NDP)** raised \$325 million in gross proceeds from its IPO and could raise upward of \$374 million if underwriters fully exercise their overallotment options.

**Nuveen Preferred and Income Term Fund (NYSE: JPI)**, a 12-year term trust, could raise nearly \$575 million in its recent IPO if underwriters fully exercise their overallotment options.

### Rights, Repurchases, Tender Offers

A recent tender offer from **The China Fund (NYSE: CHN)** for up to 25% (about 5.6 million) of its outstanding common shares saw approximately 12.4 million shares tendered. On a *pro rata* basis approximately 44.8% of tendered shares were accepted for payment. At the end of July CHN traded at a 9.3% discount.

The latest tender offer for up to 25% of the outstanding shares of **Liberty All-Star Growth Fund (NYSE: ASG)** was oversubscribed. The offer for about 7.5 million shares saw 9.5 million tendered; on a *pro rata* basis approximately 79% of shares were accepted for payment at 95% of NAV. The fund's discount widened to 9.9% in July.

**First Trust Energy Income and Growth Fund (NYSE: FEN)** sold 2.4 million common shares (plus up to 360,000 overallotment shares) at \$30.50 each in a secondary offering. The fund's premium dropped ten percentage points in July to 3.1%.

Shareholders have until August 22 to participate in tender offers for up to 5% of the outstanding common shares of each of **The European Equity Fund (NYSE: EEA)** and **The New Germany Fund (NYSE: GF)**. Shares will be repurchased on a *pro rata* basis if more than 5% of them are tendered; shareholders will receive 98% of NAV in exchange. The next measurement period for each fund will begin September 10. On a related note **The Central Europe and Russia Fund (NYSE: CEE)** also authorized a repurchase program and will hold its first measurement period at the same time. Final results were announced for the semiannual repurchase offer for up to 5% of the common shares of **The Asia Tigers Fund (NYSE: GRR)**. The repurchase was strongly oversubscribed (x4.7) for a *pro rata* acceptance of 16.4%. The discount on GRR stood at 9.0% at the end of July.

### Mergers and Reorganizations

Trustees approved the reorganization of **BlackRock Credit Allocation Income Trust I (NYSE: PSW)**, **BlackRock Credit Allocation Income Trust II (NYSE: PSY)**, and **BlackRock Credit Allocation Income Trust III (NYSE: BPP)** into **BlackRock Credit Allocation Income Trust IV (NYSE: BTZ)**. The reorganizations are expected to be completed in late 2012 or early 2013 and are still subject to shareholder approval. BTZ traded at a 6.8% discount at the end of July.

Shareholders approved the plan of liquidation for **The Malaysia Fund (NYSE: MAY)**. The fund will be dissolved during third quarter 2012 and cease trading on the New York Stock Exchange. The fund's discount narrowed a few points to end July at 2.3%.

Shareholders of three Maryland state municipal bond CEFs from Nuveen approved proposals to merge **Nuveen Maryland Dividend Advantage Municipal Fund (NYSE: NFM)**, **Nuveen Maryland Dividend Advantage Municipal Fund 2 (NYSE: NZR)**, and **Nuveen Maryland Dividend Advantage Municipal Fund 3 (NYSE: NWI)** into **Nuveen Maryland Premium Income (NYSE: NMY)**.

### Other

The recently concluded measurement period for **Neuberger Berman High Yield Strategies Fund (NYSE: NHS)** saw the fund trade at an average discount of 3.9%, well below the 10% required to trigger a tender offer; hence, the fund will not conduct a tender offer. The fund's premium dropped two percentage points to 4.2% at the end of July.

Underwriters of the IPO of **PIMCO Dynamic Income Fund (NYSE: PDI)**, completed in May, partially exercised their overallotment option to purchase an additional 4.5 million common shares, raising additional gross proceeds of \$111.5 million. The total amount raised in the fund's IPO was more than \$1.1 billion.

As the funds industry evolves Lipper continuously responds to and anticipates change by modifying its fund classification system. On July 23, 2012, we added or deleted classifications in response to these trends and to help ensure meaningful peer groups. In the closed-end funds space, we added a new classification entitled **Corporate Debt Funds BBB-Rated (Leveraged)**. The new classification will house funds that invest at least 65% of their assets in corporate and government debt issues rated in the top four grades. These funds can be leveraged via use of debt, preferred equity, and/or reverse repurchase agreements. Lipper removed the **Single-State Insured Municipal Debt Funds** classification, and the remaining funds were integrated with applicable single-state/other states classifications. In addition, two closed-end fund classifications experienced name changes. High Current Yield Funds were renamed High Yield Funds, and High Current Yield Funds (Leveraged) were renamed High Yield Funds (Leveraged).

*© Thomson Reuters 2012. All Rights Reserved. Lipper FundMarket Insight Reports are for informational purposes only, and do not constitute investment advice or an offer to sell or the solicitation of an offer to buy any security of any entity in any jurisdiction. No guarantee is made that the information in this report is accurate or complete and no warranties are made with regard to the results to be obtained from its use. In addition, Lipper, a Thomson Reuters company, will not be liable for any loss or damage resulting from information obtained from Lipper or any of its affiliates.*