Closed-End Fund Review

Jeff Margolin, Vice President
Closed-End Fund Analyst

FIRST QUARTER 2005

First Quarter Results

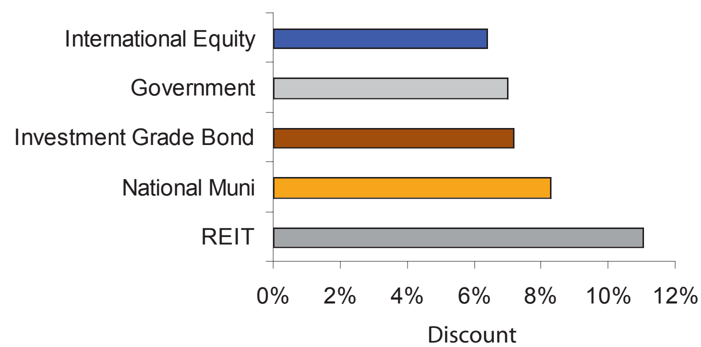
The first quarter was a difficult one for Closed-End Funds (CEFs). 16 of the 20 categories we monitor posted negative market price returns with only Senior Loan, California Muni, New York Muni and Government funds posting positive returns. The worst performing category was REITs, with a negative return of 9.15%. Several other categories also suffered a difficult quarter with Preferreds down 6.65%, Emerging Market Debt down 6.22%, High-Yield down 5.47% and Convertibles down 5.69%. The best category was California Muni, which was up 1.09%.

As usual, the market price results were more volatile than the underlying NAV results. 14 of the 20 categories posted negative NAV returns in the quarter. REITs were the worst performer with a negative return of 8.09%; however, the second worst performer was only down 2.67% (Convertibles). Senior loan funds were the best performer on an NAV basis with a positive return of 1.47%.

Why the Weakness?

The general weakness in the quarter was mostly due to a weak equity market, rising interest rates (lower bond prices), profit taking (particularly in high-yield and international income funds) and the proverbial "throwing the baby out with the bath water." For example, while it is understandable that high-yield or international income investors would have wanted to take some profits in the quarter and also understandable that domestic equity funds would be down 2.72% on a market price basis, it is a little surprising to see senior loan funds only up 0.37% on a market price basis when NAV returns were up 1.47%, dividends were increased on several funds, the Fed raised rates, and the Fed has signaled that it will continue to raise rates. Thus, senior loans were a perfect example of throwing the baby out with the bath water as investors simply sold any yield-oriented CEF regardless of the underlying asset class. The overall weakness in the quarter, coupled with the fact that market price results were worse than NAV results, has widened discounts to very attractive levels and created many good long-term investment opportunities in our opinion. One only needs to examine the discounts among the 20 categories we follow to see that it is "Sale" time in the CEF world (like when big department stores have "store wide" sales).

For example, here are the average discounts in these sectors:



These discounts are deeper than historical averages in most cases and therefore the deep discounts coupled with the higher yields should create many attractive investment opportunities, in our opinion.

Where Do We Go From Here?

While it is difficult to predict what the next quarter will bring, it is always hard to handicap how millions of investors on several different continents are going to react to various events. Historically, these sharp and rather dramatic sell-offs in CEFs have often been followed by a period of rising prices and some stability. It is encouraging to note that this is what we saw in the last 4 trading days of the quarter as investors began to take advantage of the wide discounts and high yields in many funds. The CEF market did see a rebound as the quarter ended. However, while we expect a slight rebound in CEF prices, CEF investors need to be prepared for more volatility this year as interest rates likely move higher. We also expect the continued rise in short-term rates to negatively impact the earnings rate on many leveraged funds (senior loan funds are an obvious exception) and, therefore, we continue to expect to see dividend decreases throughout the quarter and year.

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