Closed-End Fund Review

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First Trust

SECOND QUARTER 2008

Second Quarter 2008 Overview

After a difficult second-half of 2007 and first quarter of 2008, closed-end funds performed somewhat better during the second quarter. Most of the positive performance was realized in April and May as funds benefitted from stability in the equity and credit markets. However, an extremely difficult June put a damper on what was turning out to be a nice rebound for many closed-end funds. Indeed, with the Standard and Poor's 500 Index lower by 9% in the month of June, coupled with the fact that 40-45% of all assets in closed-end funds are invested in equity-oriented funds, CEFs had a very challenging last month of the quarter. In fact, of the 20 broad categories of closed-end funds we monitor, only U.S. Government funds were positive in June. The overall results for the second quarter were better, with 10 categories posting a positive share price total return.

Many issuers of closed-end funds made significant progress during the second quarter in terms of redeeming Auction Rate Preferreds (ARPs) at par and as of this writing, just over 30% of all ARPs issued by closed-end funds have been redeemed or are scheduled to be redeemed shortly. We expect this number to steadily rise as more municipal funds redeem their ARPs and as other funds line up additional sources of financing.

For the quarter, the three best performing categories on a share price total-return basis were:

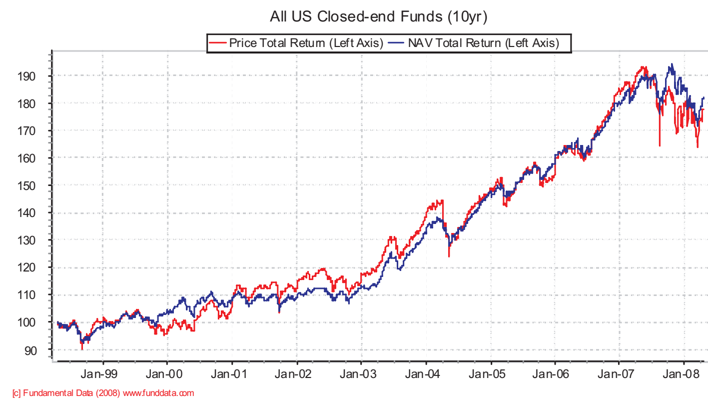
Convertible Funds:	+4.46%
Senior Loan Funds:	+3.87%
Sector Specific Equity Funds:	+3.86%

The three worst performing categories on a share price total-return basis were:

REIT Funds:	-5.53%
California Municipal Funds:	-2.05%
International Equity Funds:	-1.45%

Think Long-Term!

Regular readers of this commentary know that I am a big believer in owning a diversified portfolio of closed-end funds; buying funds when they are trading at wide discounts to their NAV (especially relative to a fund's historical average); buying during volatile & weak periods; and having a long-term time horizon. The chart below, one of my favorites, is precisely why I have this investment philosophy as it relates to closed-end funds.



This chart shows the total return performance on both a share price (red line) and NAV basis (blue line) of all closed-end funds over the past ten years. It clearly shows that **over the long-term, the total return trend is up for closed-end funds**. Similar to a ten-year chart of the Dow Jones Industrial Average or Standard and Poor's 500 Index, the line is not straight up but rather a steady, staircase up. This chart illustrates the importance of having a long-term time frame when investing in closed-end funds. It shows that closed-end funds do experience periods of volatility as we have been through since last summer, but it also clearly shows that investors who ride out the volatility and buy on the dips have ultimately been rewarded in the long-term with solid, total returns.

I would encourage closed-end fund investors to think about this chart when the markets are volatile as they have been recently and think about how over time the power of high dividends (which most closed-end funds distribute) year after year can really start to add up and lead to good returns as this chart clearly illustrates.

Going Forward

I believe there continues to be a plethora of opportunities available for patient, long-term investors right now in closed-end funds. The average discount available among all closed-end funds is approximately 7.5%, as of June 30, 2008, which is wider than the ten-year average discount of just over 4%. Therefore, I believe many funds represent an attractive value today. Furthermore, closed-end funds are now benefiting from low leverage cost (approximately 70% of all funds are leveraged) with borrowing costs for municipal funds running at about 2 ½ percent and taxable funds in the low to mid 3% range. With no closed-end fund initial public offerings (IPOs) during the second quarter and only one so far in 2008, funds should also benefit from the fact that investors who need high current income will focus more on the secondary market for opportunities as opposed to the primary market. Demographics also remain positive for the closed-end fund structure, which is ideal for investors seeking high current income and with the increasing number of baby boomers seeking exactly this kind of cash flow, closed-end funds should benefit.

As I stated in my last commentary, the wild card remains the performance of the equity markets. With 40-45% of all closed-end fund assets tied to the equity markets, a stable or rising market would go a long way to improving overall performance among many of the largest and most widely-held categories of funds, including dividend capture, covered call, equity income and convertible funds. First Trust Portfolios L.P. Chief Economist Brian Wesbury is forecasting higher equity prices by year end and if that does indeed come to fruition, many closed-end funds should perform better in the second half of the year.

As always, due to the fact that closed-end funds can exhibit periods of high volatility, investors are encouraged to maintain a long-term time horizon and exposure to different types of funds.