Closed-End Fund *Review*

FIRST QUARTER 2017

First Quarter 2017 Overview

Following a calendar year when the average closed-end fund (CEF) was up 8.59%, many categories of the CEF marketplace continued their positive momentum in 2017. Indeed, the average CEF was up a solid 5.17% during the first quarter of 2017. Positive gains were broad based during the first three months of the year as equity CEFs were up on average 8.35%, taxable fixed-income CEFs up 4.64% and municipal CEFs up 2.34%. I believe rising global equity prices, solid fundamentals for credit-sensitive asset classes (i.e. defaults below historical averages), fairly steady long-term interest rates, demand for income-oriented asset classes and discount narrowing all helped contribute to the broad-based positive total returns experienced by many categories in the first quarter. (Source: Morningstar. All data is share price total return.)

Average discounts to net asset values (NAVs) narrowed slightly during the quarter. 2017 began with average discounts to NAVs at 6.34% and ended the first quarter at 5.12%. From my standpoint, some of the best values in the CEF marketplace continue to exist in equity-oriented funds. In fact, the average U.S. equity CEF ended the first quarter at a still wide and compelling 10.09% discount to NAV. Average discounts also remain attractive in global equity funds at 10.50%. (Morningstar).

No Changes to My Three Favored Categories

In my CEF commentary piece from January (http://www.ftportfolios.com/Commentary/Insights/2017/1/27/fourth-quarter-2016), I highlighted three categories of the CEF marketplace I favored for 2017. Those categories included: U.S. Equity, Senior Loan and Global Equity. The thesis for focusing on these three specific categories was that not only did these underlying asset classes and funds have compelling fundamentals and attractive valuations but also that all three were poised to benefit from the macro view our economics team was forecasting for 2017.
This macro view called for:

- Real gross domestic product (GDP) growth of 2.6%
- An increase in the consumer price index (CPI) to the 2.5% to 3.0% range
- Three or four rate hikes
- 10-yr Treasury to finish the year at 3.25%
- The S&P 500 Index to finish the year at 2700

The first quarter of 2017 did indeed provide fruitful positive total returns for these three categories with Global Equity CEFs up 10.92%, U.S. General Equity CEFs up 5.99% and Senior Loan CEFs up 3.27%. As the second quarter commences, I continue to favor these three categories as I firmly believe they still represent attractive value, have compelling fundamentals, and are best positioned should the macro view discussed above continue to come to fruition. I would note, however, that while I still very much favor Senior Loan CEFs, I expect more of the potential total return going forward to come from the income senior loan funds provide as opposed to significant capital appreciation (as was earned in Senior Loan CEFs the past 12-months, according to data from Morningstar. All data is share price total return).

Think Total Return

In just about every presentation I am fortunate to give on the subject of investing in CEFs, I always stress the importance of focusing on total return performance as opposed to simply capital return performance, in the CEF structure. I focus on total return performance because the majority of CEFs have the goal of distributing current income as their primary investment objective and historically the majority of a CEF's total return comes from the distributions it makes. As the two charts on the next page clearly show over the past five years (3/30/2012-3/31/2017), all of the more than 33% cumulative total return earned by the First Trust Composite Closed-End Fund Total Return Index consisted of the distributions. The First Trust Composite Closed-End Fund Total Return Index is a composite index of the municipal, taxable fixed-income and equity indexes which is intended to provide a capitalization-weighted representation of the entire U.S. closed-end fund universe.

Jeff Margolin
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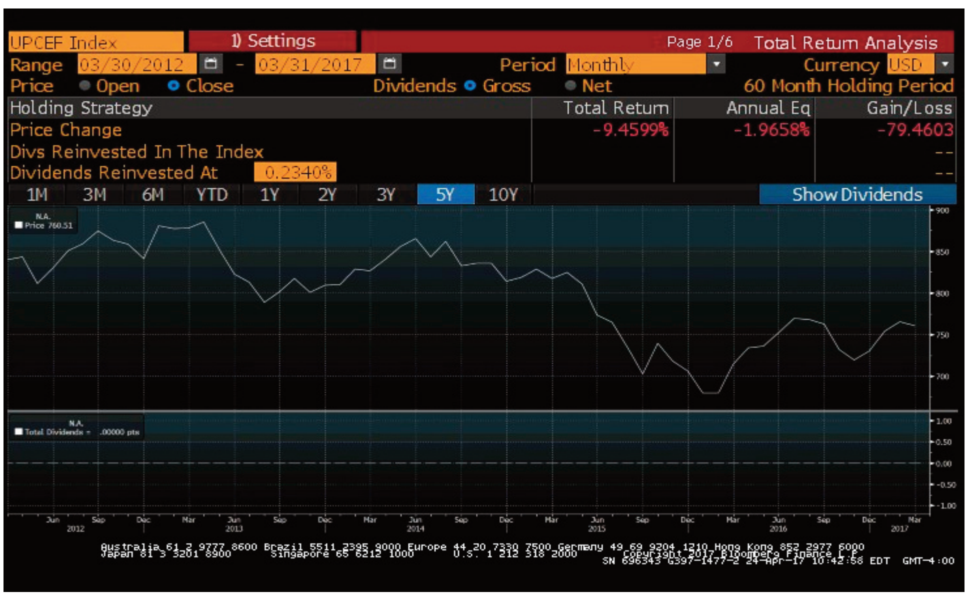
As you can see in the second graph below, the same index (excluding distributions) had a cumulative negative return of over -9%.



From my standpoint, the stark difference between these two charts clearly illustrates the power of CEF distributions compounding over time, which is precisely why I believe it is critical to think in terms of total return when analyzing the performance of an individual CEF or a portfolio of CEFs. I am not trying to imply that an individual CEF or category of CEFs cannot earn capital appreciation in addition to the distributions; rather, as the charts indicate, it simply means that, historically, over long periods of time, most of the total return CEFs provide comes from the distributions.