Closed-End Fund *Review*

SECOND QUARTER 2018

Second Quarter 2018 Overview

Following a quarter in which the average closed-end fund (CEF) was lower by 3.80%, many categories posted slight gains during the second quarter of 2018. Indeed, the average CEF was up 0.98% for the second quarter but is lower by 2.91% year-to-date (YTD) as of the end of the second quarter. Equity CEFs were positive on average by 1.14% for the quarter but are still lower 3.87% YTD. Fixed-income CEFs were up on average 0.82%, but are still down 2.40% YTD. Within fixed-income CEFs, taxable fixed-income funds gained an average of 0.55% for the second quarter but remain lower by 0.98% YTD. Municipal CEFs were positive by 1.35% during the second quarter and are down 3.59% YTD. (Source: Morningstar. All data is share price total return.)

Average discounts to net asset value (NAV) narrowed slightly during the second quarter to 5.93% versus 6.40% at the end of the first quarter of 2018. They remain wider than the 4.84% discount the average fund had as of the end of 2017. Equity CEFs ended the second quarter of 2018 with an average discount to NAV of 5.60% while the average fixed-income CEF ended the quarter at a discount to NAV of 6.42%. Likely reflecting concerns about the potential for more distribution cuts and concerns about duration risk, the average municipal CEF ended the second quarter at a still wide 8.40% discount to NAV (Morningstar).

Mid-way Through 2018 Some Frustration Sets In

During any given quarter, I am fortunate enough to talk to dozens, if not hundreds, of investors who invest in CEFs. Toward the end of the second quarter and the mid-point of 2018, during my conversations I sensed frustration among many of the CEF investors I spoke with given the slight negative total returns several categories and funds have posted so far YTD. I think it is important for CEF investors to remember that we are coming off two very solid years of returns for CEFs. The average CEF was up 8.59% during 2016 and up on average 11.37% in 2017.

Furthermore, it is crucial to note that a CEF is an investment structure; a structure that provides investors with a way to gain exposure to different asset classes. The S&P 500 Index has posted a slight 2.65% gain for the first half of the year, while many broad equity and fixed-income indices and asset classes have posted slight losses for the year. For example, YTD the MSCI All-Country World Ex U.S. Index is lower by 5.28%; BofAML Investment Grade Corporates Index is lower by 3.12%; BofAML Global Corporate Index is down by 3.13% and BofAML 7-12 Yr. Municipal Index is down by 0.81% (Source: Bloomberg. Total returns as of June 29, 2018). The slight negative total returns many asset classes have posted YTD, coupled with the slight discount widening we have seen so far in 2018, has contributed to the losses many CEFs and categories have posted so far in 2018. Furthermore, the leverage many CEFs employ magnifies the losses in the underlying NAVs.

Outlook for Remainder of 2018

While the slight negative share price total returns and slight discount widening many CEFs have posted so far YTD might be discouraging to short-term CEF investors, I continue to believe that given the macro environment our Economics Team continues to forecast for the next 12 months (3%+ U.S. GDP growth, higher short- and long-term interest rates and higher U.S. equity prices) there remain several categories of the CEF marketplace poised to deliver attractive total returns, in my opinion. I believe a diversified portfolio of U.S. Equity, Senior Loan and Limited Duration Multi-Sector funds is best positioned to provide investors with attractive total returns.

Jeff Margolin
Senior Vice President, Closed-End Fund Analyst

Furthermore, valuations among these three categories remain attractive as the average discount for U.S. General Equity CEFs was 7.06%, Senior Loan CEFs was 6.20% and Limited Duration CEFs was 10.04% as of the end of the second quarter (Morningstar). I also believe, given the likelihood the Federal Reserve continues to raise short-term rates coupled with the flattening of the yield curve, it will serve CEF investors well to increase exposure to non-levered funds which are less impacted by the increase in short-term rates. This is particularly the case with fixed-income funds that are invested in fixed-coupon bonds.

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