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THE SCOTT LETTER is intended to educate global investors about closed-end funds. Closed-end funds can be a valuable and profitable investment tool. To learn about closed-end funds, visit our web site, www.CEFAdvisors.com, and in particular, read our article, What Are Closed-End Funds.

Feel free to forward this newsletter to anyone who you believe could benefit from information on closed-end funds or global portfolios.

– George Cole Scott, Editor-in-Chief

– John Cole Scott, Contributing Author

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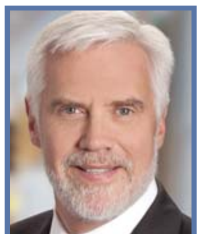
BlackRock's Muni Assets Fund: An Actively Managed, Tax-Free Bond Fund with Use of Leverage

Managing Director Theodore R. Jaeckel, Jr., CFA, is co-head of the Municipal Mutual Funds Team within BlackRock's Municipal Fixed Income Portfolio Management Group. He is also a member of BlackRock's Municipal Bond Operating Committee, which oversees all municipal bond portfolio management, research and trading activities.

Mr. Jaeckel's service with the firm dates back to 1991, including his years with Merrill Lynch Investment Managers (MLIM), which merged with BlackRock in 2006. At MLIM, he was a portfolio manager for municipal bond alternative and high yield strategies. Prior to joining MLIM, Mr. Jaeckel was a municipal bond trader with Chemical Bank. He earned a BA degree in History from Hamilton College in 1981.



Theodore R. Jaeckel, Jr.

We interviewed Ted Jaeckel on May 7, 2013 via telephone. Edward Odre and James Croghan, product strategists at BlackRock, were also on the line to answer our questions on the Fund.

SL: I didn't notice this until after this interview was set up, but the inception date of BlackRock MuniAssets Fund, Inc. (NYSE: MUA) was June 1993. I didn't know if you had planned anything for your 20 year anniversary.

Jaeckel: No, but right you are. We started this fund up just about 20 years ago. I was relatively new on the buy side at the time, having worked for about seven or eight years on the sell side as a bond trader, specializing in municipal revenue bonds. My bosses saw fit to give me a little bit of a baptism by fire and had me start out managing not just MUA but another closed-end fund that ended-up eventually merging into MUA.

SL: Please discuss what you like or dislike about managing a municipal bond portfolio inside the closed-end fund structure?

Jaeckel: I do like the stability of the assets under management ("AUM") that comes with managing a closed-end fund ("CEF") structure. This structure helps closed-end funds avoid exaggerated flows with respect to shareholder activity at inopportune times. On the other hand, I dislike the inability to translate strong track records into AUM growth.

SL: The main three areas that CEF Advisors look for when selecting a closed-end fund are: (1) whether the market price for the fund is relatively high, low or normal and as compared to the fund's peers; (2) whether we believe that the dividend is sustainable; and (3) how the net asset value ("NAV") performance compares to that of peer funds. How do you manage the second and third point, which can often compete with each other? In other words, trying to keep net investment income consistent may cause the fund to lose value in the principal of the bonds. Conversely, in order to find bonds of value, the fund may need to accept lower coupons.

Jaeckel: The closed-end fund strategies are generally focused on staying fully invested in order to maximize the portfolio's earnings power. Consequently, portfolio turnover tends to be lower, especially if the bulk of a fund's holdings were acquired in a higher rate environment. We believe that the performance of MUA's NAV has been good as compared to its peers, but MUA's peer group is comprised largely of closed-end funds that employ a higher degree of leverage than MUA. MUA is actually BlackRock's only municipal CEF that specifically has a mandate to invest primarily in a portfolio of medium to lower grade or unrated municipal bonds.

SL: Can you discuss your management process and the analysts that help with MUA's portfolio? What makes MUA different from its more than 100 total closed-end national municipal peer funds?

Jaeckel: Our portfolio management process is a combination top-down and bottom-up method in that we combine asset allocation, sector rotation and duration management with intensive credit research. In addition to MUA's portfolio management team, we also have 17 credit analysts who help the team analyze every bond that goes into one of our portfolios.

SL: Please discuss sectors or states in which you are most bullish and most fearful.

Odre: As indicated in MUA's Form N-Q as of January 31, 2013, filed on March 26, 2013, we are overweight on transportation, healthcare, state tax-backed and essential service bonds, particularly the Southwest (Texas), Plains and Southeast (Virginia) regions as well as dedicated-tax bonds and corporate-related debt. On the other side, we are underweight land secured (senior-living and pre-refunded bonds), bond insurers, student loans and local tax-backed issues, particularly in California, Nevada, Arizona, Michigan, Illinois, Rhode Island and Puerto Rico.

SL: I notice your yield of 5.4% is slightly below peer-group average of 5.6%. Is this something you monitor and track on a regular basis?

Jaeckel: We are generally aware of MUA's current yield in the secondary market, but as a portfolio manager, I'm more focused on the yield based on NAV. The fund's yield is often influenced by a number of factors outside of our control. The peer average is based on a larger category that includes funds that employ leverage to a greater degree than MUA. Therefore, MUA's yield is more fairly measured against a subset of funds that utilize leverage to a comparable degree.

[**Editor's Note:** The average national municipal bond CEF is 32% leveraged vs. 12.5% for MUA as of April 30, 2013.]

SL: You haven't had a dividend change in three years which is uncommon in your space. Can you give any perspective on that?

Jaeckel: Like any other portfolio in the current rate environment, I believe MUA has been challenged by the way some of its more seasoned holdings issued in a higher rate environment have been subjected to increased call risk. I think one element that I can point to that helped to mitigate that is the change in leverage. In 2010, we received shareholder approval to increase MUA's permissible leverage limits. Since then, we have progressed modestly. I think the Fund's increase in leverage over the last three years has played a large role in helping maintain MUA's dividend.

The Fund had effective leverage during 1Q09 of 4.8%, 1Q10 of 3.9%, 1Q11 of 4.0%, 1Q12 of 11.5% and 1Q13 of 12.5%. Our strategy around leverage is dictated by the shape of the yield curve and our outlook on credit spreads.

SL: How do you manage your leverage types, and what lessons relating to leverage did you learn from the financial crisis of 2008-2009?

Jaeckel: Tender offer bonds are the sole source of leverage for MUA. During the financial crisis of 2008-2009, the Fund only utilized relatively low levels of leverage, which were not as dramatically impacted. Risk controls and systems analytics provided the necessary means to monitor exposures and work to avoid any forced unwinds.

SL: We notice from attending events and monitoring various CEF discussion boards that undistributed net investment income ("UNII") is a hot topic for more advanced CEF investors. One of the reasons we wanted to interview your Fund is because you have an interesting phenomenon. MUA shows negative UNII, yet it is over-earning the dividend (with a positive earnings trend), has a positive UNII trend and has not cut the dividend since 2010. All of this was accomplished with no use of return of capital ("RoC"). RoC is rarely utilized in the municipal bond sector for CEFs but has been used by a few funds the past year to meet dividend demands. What are your thoughts and comments on this data point?

Jaeckel: The "negative" UNII balance that is reported on our website is net of the current month's distribution, which is still pending when the report is published. Therefore, if you backed out the current month's distribution, the UNII would be positive. I think the important take-away is that the Fund is over-earning its distribution. We review dividends monthly as part of a comprehensive analysis of each portfolio's earnings that takes into account trading activity and cash reserves as well as assesses future earnings potential based on prospective call risk in the portfolio.

SL: At what level of discount would you be mindful of activist investors?

Odre: There isn't a specific level of discount that we look towards, but we are mindful of our known shareholder base in general and pay attention to regulatory filings to inform us of large shareholders in our funds.

SL: Has the Fund ever done a tender or rights offering? If so, when and why? If not, what would drive that decision?

Odre: The Fund has never executed a tender offer or a rights offering. As to conducting a tender offer or rights offering, these are considered on a case-by-case basis. The falling yield environment we have been in for some time has presented a challenge in conducting rights offerings.

SL: MUA's expense ratio for the fiscal year ended October 31, 2012 is about 45% lower than the 100 peer group average at 0.77%, compared to the peer group average of 1.38%. Obviously, leverage accounts for part of that difference as cost of leverage is lower for your Fund, but that doesn't fully account for the difference. Is it because MUA is an older fund that it's expense ratio is lower? Or are there other factors that tend to drive that?

Jaeckel: To your point, the majority of the funds in this peer group employ a much higher degree of leverage than MUA. I suspect it's the degree of leverage that you see employed in the majority of other funds in the peer group that contributes to that disparity in expenses.

[**Editor's Note:** BlackRock has approximately 30 national municipal closed-end funds with an average expense ratio of 1.49% according to our weekly CEF Universe ("CEFU") data. If we screen for funds with ±$250 million in AUM than MUA ($511M) and for funds older than 2000, the average expense drops to only 1.44%. If we look at any fund sponsors with low leverage funds (5%-25% effective leverage), we see an average expense ratio of 0.91%. MUA looks to be a very low cost older and levered fund.]

SL: I see two ways to get MUA's peer group average: (1) a high yield leveraged municipal bond fund which our research reveals about eight peers, or (2) a moderately leveraged municipal bond fund which shows about nine peers when looking for leverage ratios of 5% and 25%.

From our CEFU data (as of April 26, 2013), MUA's leverage adjusted NAV yield is 4.6% vs. peer average 5.0% for high yield muni's and 4.8% for low-to-moderately leveraged funds. Your NAV 1-year total return performance is +12.7% vs. high yield municipals at +13.5% vs. low-to-moderate leverage peers at +10.4% The average leverage for those funds is about 16%. Is MUA a high yielding municipal bond portfolio or a low-moderate leverage bond portfolio?

Jaeckel: Well, it's interesting that based on that second subset that you described for lower leveraged funds, that you must draw upon other peer group categories, e.g., the national levered closed-end universe, as opposed to the high yield only. We use a subset of the high yield leveraged closed-end municipal fund category which, until recently, had consisted of a total of five funds, including MUA. I believe that three of these were Invesco funds.

SL: Invesco Municipal Income Opportunities Trust (NYSE:OIA) is the only fund we have in the high yield.

Jaeckel: Right, Invesco Municipal Income Opportunities Trust II (NYSE: OIB) and Invesco Municipal Income Opportunities Trust III (NYSE:OIC) both merged into OIA at some point last year. That shrunk the subset category from five to three funds, rather than incorporate other funds from a different category, which it sounds like is what you've done. One of the downsides is that the other peer group has a higher quality bias to it with perhaps less flexibility with respect to investing in non-investment grade paper.

SL: Yes, you group them based on the prospectus mandate for manager focus, and we actually do it based on average reported credit rating, which can change the groupings a little.

It's my call where our line is in our data groupings, which is the good and bad of doing your own data collection. From our data, your closest peer fund looks to be the Pioneer Municipal High Income Trust (NYSE:MHI). They are at a +9% premium currently but have similar NAV, total return performance, market price yield and credit quality to MUA.

Jaeckel: Are they leveraged as well? At what level?

SL: MHI is more highly leveraged than MUA (24%) which, in my opinion, puts them in the upper echelon of the lower leveraged funds grouping.

Jaeckel: Yes, okay. I'm interested to hear your thoughts on it. We're currently thinking hard about how best to address measuring MUA's performance and having a good peer comparison.

SL: We are happy to help and share our grouping and data for your review after the interview. I am curious. Why did you get interested in high yield municipal bond debt? How, in your opinion, is high yield municipal bond trading different than regular municipal bond trading?

Jaeckel: Well, in terms of how I got into it, it was something that more or less dropped into my lap early in my career on the buy side. I learned and developed a degree of expertise in the field not only with respect to the two dedicated closed-end high yield funds that I managed but also in terms of managing the overall municipal high yield strategy across the whole BlackRock municipal fund platform. Then, in the last five years, we started an open-end version of a high yield municipal fund that has seen modest but encouraging growth with an established track record in the last five years.

As far as how the high yield municipal markets trade differently from the broader municipal market, I'd say the bid-asked spread tends to be a bit wider and liquidity is certainly not as robust, increasingly so recently, because of the regulatory changes that are either already implemented or likely to be implemented in the near future. I believe that this has had an effect on municipal bond dealers' willingness to utilize their balance sheet for providing liquidity.

I believe that's going to be more of a challenge going forward. One of the things that helped to navigate this space in the last 10-15 years has been an increase in transparency. That can be a little bit of a double edged sword, but from the standpoint of dealing with the dealer community, it's nice to be able to see where bonds trade. I believe that knowing the dealers' costs gives me a little bit of an edge as far as negotiating with dealer positions. I find that to be quite useful. I'm sure if you were to talk to the dealer community, they would argue it from the other standpoint.

I think the fact that trades now have to be posted on MSRB's website and a variety of vendors and services making that information available has been all for the good.

SL: When our firm looks at a closed-end fund and we want to determine the sustainability of the dividend, we use earnings coverage and trend, UNII level and trend, and leverage adjusted NAV yield, negating the effects of leverage and discounts or premiums to compare the underlying earning needs of a portfolio. MUA shows a 4.6% leverage adjusted NAV yield, which is in the middle of your peer group. This tells us that as a portfolio manager for MUA, you need to yield about 4.6% after expenses in order to meet your current distribution policy. Do you think about your portfolio in that manner?

Jaeckel: Keeping in mind that we look at a different subset peer group than the one you're looking at, we measure performance on a NAV gross-of-expenses basis. In other words, from the portfolio manager's standpoint, we should be judged based on gross numbers. That's not to say we don't look at performance net of fees. That's certainly important, but when it comes to where the rubber hits the road, we focus more on the gross numbers.

SL: I wouldn't totally disagree with you. Just like people who might hire our firm to manage their CEF portfolio, they don't care what we made before they paid us, just the net after fee performance. At the end of the day, the question is whether the alpha of the manager is worth the cost of the manager. However, you have a very low expense ratio, so the point is rather moot for MUA but is worth noting for our readers when comparing other funds.

Jaeckel: There are two perspectives. However, as portfolio managers, we compare distribution yields internally by looking at MUA's NAV dividend level on a gross basis as compared to its competitors.

SL: Can you give us a better idea of the way you approach managing the portfolio, covering, as you are able, some recent trades, if not by name, then by sector?

Jaeckel: Broadly speaking, MUA's sector allocations and weighting have not shifted in dramatic fashion for some time. We've tended to consistently favor sectors like health care, transportation and corporate for the better part of the last 3-5 years.

I think those have been significant contributors to the Fund's performance results. More recently, I would point to the change in leverage which we decided to pursue for a couple of reasons. First is the shape of the yield curve. You've got a steep and positively sloped yield curve that affords a very inexpensive cost of funding mechanism for the mode of leverage that we employ.

Second is our constructive view on credit spreads. This is probably more true within the low investment grade space than it is in non-investment grade today, based on recent trends. That actually dovetails nicely with the manner in which we employ leverage.

SL: Using tender option bonds?

Jaeckel: Yes, it sounds like you're familiar with that structure. In most cases, they require relatively high underlying credit for deposit into the leverage vehicle, the trust, so you can use "A", "AA" rated paper. "A" might require a credit backing by a sponsor, but it affords the ability to capture not only the favorable financing cost but also gives the opportunity to try and capture what we perceive to be opportunities and further spread compression in that part of the market.

SL: Interesting. You have a lower duration than the larger peer group, but if you break down the comparison further, this appears very normal for the higher yield muni funds. Would you agree that lower duration and higher credit risk are part of the underlying market or your portfolio construction bias?

Jaeckel: I think there are a couple things at play here. One, the age of the funds in the group. We just mentioned MUA is about to celebrate its 20th anniversary. By its very nature, it's had the opportunity to invest in various rate cycles, most of which have been substantially higher than where we are now.

I think the Fund has benefited from not only the income yielded by those more seasoned holdings but the fact that many are trading at premiums and consequently to a relatively short call. That's going to bring the average duration of the overall portfolio down. It sounds like that's the case relative to its peers, based on what you're telling me.

SL: Yes, our duration figures are adjusted for leverage, and I just confirmed that there are seven funds in the roughly 20-year-old peer group. Their average leverage duration of 7.13 is still noticeably under the peer group 9.37 duration. You're right, the newer funds have durations closer to eight or nine. The age of the Fund is impacting this figure. It's because you're a lower leveraged and older fund.

The other factor that I see is that we show approximately 25% of bonds in the Fund's portfolio as unrated. Can you confirm that is right?

Jaeckel: Yes, that sounds about right.

SL: That's high as compared to the 100 possible peer funds. I think only six funds show a higher figure. Could you speak to your selection of unrated bonds and how it impacts the portfolio? In your opinion, is there increased risk because, as an investor, I can't know what the bonds are rated?

Jaeckel: I noticed that in CEF Advisors' calculation of blended credit quality you currently assign unrated bonds a D-rating for your average credit quality's mathematical calculation of the average weighted rating of the portfolio. Suffice it to say that we don't have a lot of D-rated holdings in this Fund. Otherwise, we wouldn't be so competitive on a yield or performance basis.

SL: Yes, when we calculate blended credit quality, we currently use that weighting. However, we show in the column next to it the percentage of unrated bonds, so you can mentally make the adjustment. Based on your answers, we will look to add two columns – one discounting unrated bonds and one just for the rated bonds. Thank you for your help in evolving our CEF Universe data project.

Odre: Some of the non-rated bonds are not rated simply because of the size of the issue. It may not be economical for the issuer to pay for the rating, especially when there's not necessarily any benefit with respect to lowering borrowing costs.

Jaeckel: One of the reasons why we do invest in the non-rated space as much as you perceive is because we have a deep desk of experienced credit analysts. We believe that we have the resources and the expertise to invest in that area and take advantage of what we feel are opportunities. Unlike the corporate high yield arena where virtually everything tends to have a rating of some sort or another, a good percentage of the high yield municipal universe comes to market as non-rated.

To some extent, it's due to the reason that Ed pointed out. There are a number of issues. Typically you see them in the healthcare space – long-term care, continuing care, retirement communities, start-up operations – that tend to come non-rated. Development districts in states like Florida, California, Nevada and Arizona also tend to come to market non-rated. You also get single site project financing that oftentimes will come to market without a rating, so it's a common phenomenon.

I'm curious. When you look at my competitors and you're looking at how their portfolios are broken down, I'm assuming you're looking at the most recent shareholder filings, correct?

SL: Yes, whatever is reported by the funds sponsors. We have built a rather elaborate system, knowing when each CEF updates their info publically through various ways. We have an analyst who goes in and collects the new data.

Jaeckel: Right.

SL: We work very hard to have the most recent information available.

Jaeckel: I would just caution you when looking at those to verify, when they assign ratings to their holdings, that those are, in fact, published ratings as opposed to internal ratings, even when it comes to whatever non-rated positions they hold.

SL: Good point. We will have the data team confirm this to make peer-to-peer comparisons as accurate as possible.

Croghan: Just to add some perspective, if you look at the Barclay's high yield municipal bond index, the non-rated segment of those markets is somewhere in the neighborhood of 35%. We are currently underweight non-rated bonds from that perspective.

SL: Very helpful, thank you. Now you're learning why we like doing these interviews; we always learn something from experienced managers. How do you utilize your 17 analysts? By seniority, sector, state?

Jaeckel: It's a seller's market for people with credit experience, ever since the insurers blew up.

Croghan: I believe there are 8-10 senior analysts with an average of 15 years experience analyzing municipal credits; they also hold some type of advanced degree, e.g., CFA Charter, MBA or a PhD. The head of credit research, Jim Schwartz, has 25 years of experience in municipal fixed income credit. He is also the lead analyst for high yield municipal credits.

Jaeckel: When we work with our analysts, each analyst has an area of responsibility which can be broken down a couple different ways. Jim alluded to the tax-backed sector which is, as you might imagine, probably the most significant in terms of number and volume of issuers. We have senior analysts who are responsible for a given region. They work closely with junior analysts who are given responsibilities along similar lines. The same logic applies to other sectors such as healthcare, transportation and utilities.

I mentioned transportation, another area of focus for MUA. Whether it's airports, toll roads, seaports or the like, I can go to the appropriate analyst when I'm interested in purchasing a credit that's either coming to market as a new issue or available in the secondary market and request a comprehensive review. In fact, it's a matter of departmental policy to do this sort of review prior to purchase.

Before we invest in any particular holding, irrespective of the rating, credit needs to be reviewed. We have a discussion with the analyst to ascertain its credit worthiness, recent trends, management and any noteworthy news issues among other matters before we can actually put it into a portfolio. Then, of course, there's ongoing surveillance that's performed, the frequency of which will vary with the nature of the credit – the lower the credit quality, the more frequent the surveillance.

SL: Very helpful, especially in showing the difference between actively managed portfolios vs. individually or indexed exposure to the municipal bond market.

> ***"... we are reluctant to give up those high income-producing securities, because a good portion of MUA's total return, ... is the carry that's generated by those holdings."***

Odre: I think one of the interesting things about BlackRock and the way we manage municipals is that Ted and his team provide a very top-down sector rotation view of the market that's backed up by a fundamental bottom-up credit analysis. It's very much a marriage of top-down and bottom-up.

SL: It sounds great. We talked about the closed-end fund structure. You commented that you can stay fully invested and that the portfolio turnover tends to be lower. Is that because of the redemption pressures on the open-end structure or are there other reasons why the closed-end fund structures have lower turnover?

Jaeckel: Well, I think it's characteristic of the closed-end structure. As you point out, you're not subject to inflows or outflows with respect to shareholder activity. I think a lot of it hinges on the historical background of the Fund. How long has it been around? What's the average structure of its holdings?

In the case of a closed-end fund that has had the benefit of investing in a higher rate environment, we are reluctant to give up those high income-producing securities, because a good portion of MUA's total return, especially on a forward basis, is the carry that's generated by those holdings. We make every effort, as long as we're comfortable with the credit, to hang on to it for as long as we possibly can. That in and of itself results in a lower rate of turnover than you might see in an open-end fund.

SL: One thing I learned about the turnover ratio is it's the lesser of the buys or the sells over a given time period. Theoretically, if you are in 100% cash and buy 100% bonds, you could show a 0% turnover ratio. This is one reason why we honestly don't even look at turnover ratios, because it appears that it can be manipulated and is less applicable in the closed-end structure vs. open-end structure where future shareholders can be taxed on past unrealized gains once realized.

Croghan: Yes.

SL: What is the best index to use to track your Fund?

Jaeckel: We use the Lipper High Yield Municipal Debt Funds for the purposes of measuring risk.

SL: Would you say your two best peer funds are MHI and OIA? OIA is less liquid and has more unrated bonds, while MHI is presently at a big premium. From a net asset value and portfolio management basis, are they good comparisons?

Jaeckel: Yes, but we don't use MHI. We use Western Asset Muni High Income (NYSE:MHF).

SL: MUA's earnings coverage as of March 31, 2013 is about 108%, pretty high vs. peers. Does that mean you're in the board meetings potentially suggesting a dividend increase?

Jaeckel: We have a dividend review process that we follow on a monthly basis whereby we review not just MUA but all of our portfolios' earnings ability based on a number of factors. Any recommendations that are made with respect to dividend changes are going to be a function of, among other factors, what the earnings have been relative to the dividend and what the UNII balance is, as well as projecting on a forward basis how that's likely to change.

When we look at that we also try to take into account an analysis of the existing portfolio and gauge what the call risk is on the portfolio. In other words, will the earnings ability be affected by projected calls over the course of the next three to six months? The long and the short of it is that the Fund is over-earning its distribution. As of April 30, 2013, MUA has a positive 3-month average UNII balance, inclusive of any pending distributions at the time.

SL: Yes, even though the trend has been positive. I was checking our CEFU data, and a year ago you were showing -4.8 cents UNII balance. Now it's -3.97 cents which doesn't sound like a lot ... but it's almost a 20% change.

For our data trend line, we look at the last three UNII balances reported and do a best fit line. MUA's line is a trend of about 2%. You said you're taking the dividend out of UNII before it's reported.

Odre: If you were to add the pending distribution to the UNII balance, you would receive a positive number.

SL: In addition, we saw a lot of funds that showed UNII balances of 2-3 months of payment that were cutting their dividends by 3%-7% last fall. That is why we decided to stop caring as much about the absolute value of UNII balances and just look at the trend, because we felt like the trend was the one that was driving the potential for a cut. It tells me you're having trouble earning the dividend if it's more than one month or quarter with a negative UNII issue.

Jaeckel: Agreed. Keep in mind we look at a host of different factors in terms of trying to project where we'll be over the next quarter or two.

SL: How do you rate your call exposure presently?

Jaeckel: I would say it's not egregious. We are obviously subject to call risk, given the seasoned nature of the portfolio. Every quarter we see some bonds being retired, and I think that's likely to continue albeit not at an unreasonable pace. It's interesting that you talk about the amount of non-rated holdings that we have. Part of the benefit of that is due to the relatively unsophisticated nature of the smaller issuers.

Many times, even though it might be in the best interest of the issuer to be more proactive with respect to exercising calls when they can, it doesn't happen. That may be due to the lack of sophistication, or it may be due to the fact that bankers out there are focused more on the larger issuers and these smaller issuers are falling below the radar. The Fund can own a bond that's currently callable that may not get called for another two, three, or five years.

SL: Just a brief comment on a topic that came up at the Capital Link CEF conference last week in NYC, that municipal bonds as a whole are less sensitive to rising rates. I want your opinion on that. Then, if we think about a world that exists where federal funds are closer to 4% than 2%, how do you think that impacts the municipal bond market?

Jaeckel: Well, let me start in reverse. I think irrespective of where funds are, a lot depends on what the shape of the curve is, and by that I mean it has implications for the amount of leverage in the market at any given time. If Fed funds are at 4% and 30-year muni's are at 4.5% – in other words, a very flat yield curve – then you're not going to get a lot of bang for your buck utilizing leverage. I believe you might then see a trend towards a lower degree of leverage in the market. As far as how municipals behave in a rising interest rate environment, historically we've observed that municipals tend to outperform the rates market under those circumstances.

It's reasonable to conclude that could again be the case. I think what adds more credence to that expectation is the relative value that persists to this day in municipals as an overall asset class. By that I mean municipal yields can remain relatively close to 100% of their treasury counterparts, in effect giving you the tax exemption benefits for free.

If you look at it from another perspective, on a tax-adjusted basis effectively grossing up the yields on tax exempts, I think that makes an even stronger case for relative value in municipals, especially in light of the tax increases that went into effect this year. I think those two factors provide a really good cushion for municipals in general in almost any rate environment, but particularly in a rising rate environment. I would argue strongly that, all other factors being equal, municipals would outperform.

Obviously that doesn't take into account other exogenous shocks to the market, whether it comes in the form of tax reform or some unexpected default that sends shudders through the overall market.

SL: When you look at the municipal bond market for the rest of 2013, what opportunities and challenges do you see? How concerning are the recent defaults and bankruptcies?

Jaeckel: Our overall view remains constructive as the reality of higher taxes highlights the benefits of tax exemption. We believe the primary market remains the place to source incremental yield and should continue to be priced at a concession to the secondary market. As we've said before, with the "easy" gains already realized, we expect structure and credit selection to be key drivers of performance in 2013. We believe that local government defaults and bankruptcies have been and should continue to be rare, due in large part to state intervention. We believe rising property taxes spurred by an emerging rebound in housing prices also bode well for local governments and U.S. territories, which have inherently weaker credit profiles than state governments. Municipalities remain under stress but will likely continue to pay full and timely general obligation debt service.

SL: What excites you most about municipal bond trading, even though the role landed in your lap and you developed it by happenstance? You're obviously still doing it 20 years later, so you must love it. What are the quirky little things you love about the muni bond market?

Jaeckel: Oh, there's always a new story out there. Something to keep your interest piqued. I will give you an example about an interesting municipal deal that we analyzed in the past. It was actually a very interesting study in municipal finance. That would be the $1.2 billion dollar Iowa fertilizer deal that was just brought to market through Citigroup.

This is single-site project financing that received a BB- rating from S&P and Fitch. It's part of the Disaster Recovery Act of 2009 that sought to provide relief to some of the flood devastated areas in the mid-west. You have an Egyptian chemical company that saw an opportunity to develop and build a fertilizer plant specializing in nitrogen products, basically fertilizers for corn close to the demand for the fertilizer would be. Additionally, the plant would have access to the main input it utilizes for the development of these nitrogen products – natural gas.

It was interesting financing, not without some potential controversy, given the foreign nature of the entity that's doing the investment and providing a significant amount of equity. It brought a lot of different elements of our firm together in reviewing the business proposal and plan. We were able to draw on the expertise of analysts across the firm, both here in the U.S. as well as overseas. I thought it was an interesting exercise in the resources of BlackRock and taking advantage of the expertise that exists throughout the firm.

I've particularly enjoyed having those discussions. It certainly broadened the exposure that we, as a group, and municipals have with other colleagues throughout the firm. It's those types of experiences where you sort of work from the ground up in terms of working on a deal and understanding the financing. Doing the necessary credit analysis, working with my colleagues both within and outside the department, seeing the deal actually price and then, of course, the trading thereafter are a rewarding experience.

SL: One last question. What is the most recent book you have read, and what was your biggest takeaway in how it relates to your work at the Fund?

Jaeckel: *Team of Rivals* by Doris Kearns Goodwin. Lincoln's cabinet consisted of men with sharply different views who would challenge his thinking on policy and strategy. Similarly, I encourage my colleagues to voice opinions, especially if different from the consensus. It is good to revisit commonly held assumptions and gain a fresh perspective on matters.

SL: Thank you. I now have a greater understanding of the Fund, the manager and what I should be doing on the analyst side for our clients. I think people are going to enjoy this. ■

For more information on the Fund, please visit www.blackrock.com.

Disclaimer: Clients and family members of Closed-End Fund Advisors currently do not hold shares MUA. The firm will wait 72 hours after the date of this interview's initial release before making any trades in the Fund.

Advisors Brace for Correction

The extended rally in stocks has led some investment advisors to take steps to prepare portfolios for a pullback, according to a recent article in *Investment News.* It is reported that advisors are also actively helping clients curb their enthusiasm – and fears – about the new peaks in the Dow Jones Industrial Average, which closed above 15,000 on May 7, 2013.

As a result, the magazine reported that some advisors are building client cash stockpiles and moving client portfolios out of equities. The mutual fund sector has had an outflow of $4.3 billion, the largest for the year. At least one advisor recommends taking profits and building up cash. Is stashing cash the best thing for investors?

Because of the weak job climate, the Federal Reserve has launched its latest round of bond buying. The upshot is stocks could head much higher than where they are now. According to The Investment Company Institute, consumer prices are up 1.1% from a year earlier, its smallest gain in two years.

Are rich valuations something that the Fed can live with? We asked a long-time investment colleague, Tom Robertson, who manages portfolios for Richmond, VA-based Redmond Asset Management, LLC.

Robertson replied: "I am very positive on the long term outlook for stocks, but I am surprised and pleased at the very strong stock market so far this year. I have been expecting a modest correction, but it is always difficult to accurately predict short-term market moves.

Many investors are either ignoring or are unaware of the low valuations of U.S. stocks and the many long-term positives facing the American economy. Massive amounts of natural gas and oil have been found in the U.S., which will dramatically reduce our need for imported energy, thus reducing our trade deficit and improving our Federal deficit. American industry and individuals will benefit from lower cost of energy. The collapse in the housing market has been a serious drag on our economy, but there are now many signs of a recovery in housing.

The Federal Reserve has kept interest rates extremely low, making bond investments unattractive at current levels relative to stock investments. Thus, I remain positive on stocks, but we may see a modest stock market correction."

Some advisors are rebalancing into bonds; others are taking a look at the emerging markets that have trailed the U.S. equity markets substantially in the last four months. Other advisors warn clients to expect a pullback, while reminding them that they have already benefitted from the run-up. Some say investors should take the emotion out of investing and tune out news stories.

A common feeling is, because the market has run-up so fast, it is destined to crash. Some experienced advisors don't think that 2008 will happen again, at least not anytime soon. They point out that company balance sheets are stronger than they have been for a decade. The U.S. economy is slowly growing, and U.S. companies are growing. Most advisors do not generally worry much about short-term swings in the markets and think that corrections are a healthy sign for the markets. ■

Portfolio Managers' Review

Though losing steam in 2013, manufacturing is still powering the U.S. economy. A 2.2% jump is likely in 2013, with overall GDP in the U.S. increasing less than 2% if public dismay at the effects of budget cuts forces Washington to moderate the Federal sequester, according to *The Kiplinger Letter*.

Come 2014, Kiplinger sees more vigor, with 3.5% or so growth with GDP increasing about 3%. Autos and auto parts are still going strong, growing about 4% in 2013 and 5% in 2014, but nothing like the 19% sprint of 2012.

The S&P 500 hasn't seen anything more than a modest pullback since last fall. Most economists see growth outside the U.S picking up when growth accelerates again in China, there is monetary easing in Japan and improvements in Europe.

We are adding to emerging market funds with this expectation and are planning to interview Dr. Mark Mobius soon.

As of May 24, 2013, the average closed-end equity fund is trading at a -4.7% discount to NAV, slightly above its 90-day and 1-year average. CEFs equity funds are up year-to-date on a total return basis, averaging 10.0%, with the best returns coming from U.S. equity funds (+14.8%) and the lowest returns coming from non-U.S. equity funds (+5.2%).

Closed-end bond funds are barely up year-to-date on a market price basis with a +0.6% total return. Taxable bond funds are doing the best with +4.7% returns on average in 2013 and municipal bond funds (both state and national) are down -2.9% and -2.4%, respectively.

For growth models, we have been scaling down global bond exposure in anticipation of higher equity returns. We sold closed-end funds which narrowed their discounts and replaced them with similar funds trading at deeper discounts. This has occurred primarily with healthcare and real estate funds, because both sectors are showing continued strength.

Housing has showed renewed signs of a sustained rebound. However, there are now confusing signals in the housing market that have raised the yields on the U.S. Treasury market in recent days.

We have swapped portions of our municipal bond, Master Limited Partnership funds and taxable bond exposure with a continued interest in selecting funds that have solid NAV performance, strong dividend coverage and the ability to purchase shares at wider than normal discounts vs. themselves or peer funds.

We have expanded the Closed-End Fund Universe data service, growing it from 26 data points in April 2012 to almost 100 by June 2013. The current data points are on www.CEFUniverse.com.

We are working on three areas in which we hope to develop a better way to select funds for client portfolios.

1. We are looking for predictive data trends in a fund's correlation, discount and trading volume in order to predict potential SEC 13 filings to anticipate what activist CEF investors might be doing. We are researching this presently and plan to write an article on this topic soon.

2. We are going to classify funds that have a share buy-back policy in place and will track the percentage of shares purchased over time to better understand how various funds use this policy.

3. We will break out the four types of leverage used by a CEF. This may help us select bond and other leveraged CEFs that should react better vs. peer funds when interest rates rise.

For readers looking for an updated version of our CEF educational session, visit our blog (www.CEF-Blog.com). ■

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