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THE SCOTT LETTER: CLOSED-END FUND REPORT

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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 news-letter 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 Editor

IN THIS ISSUE:

Nuveen's Real Asset Funds: A Global Focus on Flexible Access to Contractual Income

We interviewed Jay Rosenberg, lead portfolio manager for both: Nuveen Real Asset Inc & Growth (JRI) and Diversified Real Asset Income (DRA). He was joined by Mike Taggart, VP, Head of Closed-End Fund Research at Nuveen Investments and Jim Clark, Senior Vice President, Client Portfolio Manager at Nuveen. The interview was conducted by telephone on March 6, 2015.

SL: Please give us an overview on the two real asset funds at Nuveen: JRI and DRA?

JR: You mentioned JRI and DRA. The strategy that we launched in 2012 was JRI Nuveen Real Asset, Income, and Growth strategy. DRA was formally four separate closed-end funds that focused primarily on self-originated whole loan commercial real estate mortgages. That's all been combined into a single fund that now follows a strategy very similar JRI. What that means is any investments contained within the former closed end funds that don't fit well into this new strategy will be eliminated over time and proceeds will be used to invest in those that more closely align with the stated objective of JRI. Over time, it's meant that DRA and JRI have very similar investment strategies.

Jay Rosenberg

SL: Would you merge them at some point in the future?

JR: I can't comment on that right now, but what I can say is the two strategies are meant to invest in a very similar strategic way. The difference is that DRA still holds assets from the previous strategies of the predecessor funds that we will likely be eliminated over time. Primarily that would be the self-originated commercial mortgages, but even the preferred securities that were held in the predessor funds had more of an investment grade focus. That doesn't mean that we don't invest in investment grade preferreds, but the preferred strategy was slightly different in style to what we do in JRI given that in JRI we look for value opportunities with higher yields. Over time you should expect that the two funds will look much more similar.

SL: Is there a timeline?

JR: We have a strong view on what the commercial mortgages are worth, and our goal is to extract the most value as we make that transition.

SL: Give us a sense of your background. Why are you the guy doing the real assets at Nuveen? What's your strength? What's your experience?

JR: I came over to the predecessor of Nuveen in 2005, which was FAF Advisors. FAF Advisors was acquired by Nuveen at the beginning of 2011. I came over in 2005 to co-manage the real estate securities products. I wanted to launch other listed real asset strategies that I had developed in concept; a global infrastructure strategy and a diversified real asset strategy that focused on income.

Currently I am the lead manager on all of Nuveen's listed real assets. My whole career

has been in real assets. I have a master's degree in urban planning and public policy. I spent time working for a land use planning firm writing zoning ordinances and doing urban planning consulting. Following that, I began a career in real estate development, developing industrial assets in the Midwest. Then I transitioned into the securities business in 1999.

But if you look back at my career, if you look at urban planning and land use planning consulting, what we're doing there is primarily the regulation of hard assets, exactly what we look at in infrastructure. When you combine that with my hands-on experience in real estate, I think it forms a very good background for looking at all the strategies that I manage: real estate securities, global infrastructure, and real asset income. We manage about $10 billion of listed real assets at Nuveen Asset Management.

SL: The [JRI] fund is mostly US-focused?

JR: The JRI strategy is meant to be a global real asset yield strategy. At target, we intend to be, over a longer period of time, somewhere between 50% and 60% US-exposed and somewhere between 40% and 50% exposed outside the US. At target, about two-thirds of that exposure is meant to come from global infrastructure and about one-third of that exposure is meant to come from real estate. Target weights are meant to approximate what our average exposure might be over a longer time frame. At any moment in time we may and do differ from target.

SL: How would you explain the difference between a real estate focus and a commodity focus for people looking for the harder lines between those asset classes?

JR: We use the term real asset in our strategy, and we also use the term income. If you look at the types of real assets that produce contractual income, that's what we're focused on.

We're investing in location-specific assets that garner a fee through long term contracts, concessions, or leases, thus providing predictable, reliable, and oftentimes recurring cash flow that back the dividend for JRI. That recurring cash flow supports the stock dividends and the bond coupons.

For instance, in an office building you may have a tenant on a particular floor; that tenant may go away, and that cash flow may go away for some period of time. But that cash flow is likely to be replaced, because that tenant is likely to be replaced over time. That's the beauty of investing in real assets, the recurring nature of the cash flow, and I think that's one of the things that has really comforted investors.

SL: What drove the dividend change from October of 2013?

JR: The intent of the strategy is to pay the majority of net investment income in 12 monthly dividends per year, so we try to match the net investment income that the portfolio is producing as best we can with the dividend. Any changes in the dividend are typically trying to keep that alignment.

SL: It looks like it was quarterly and then switched to monthly.

JR: The change to monthly was in line with our view of what we feel like the market prefers for higher yielding strategies like ours.

SL: Let's talk about the closed-end fund structure and what you like about it.What are the benefits, or even limitations, that you want to comment on?

JR: We run an open-end fund that has almost the identical strategy to the closed-end fund. The only real differences are we do utilize leverage and options in the closed-end fund. However, writing call options has been infrequent.

SL: Do you expect to maintain that type of leverage, or at a certain point would you look to convert to a more fixed cost of leverage?

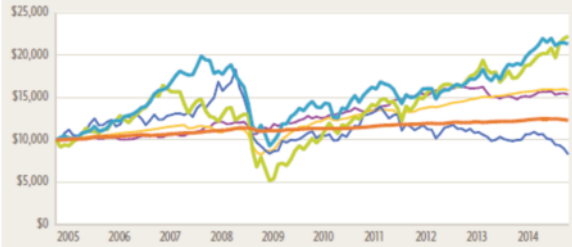
MT: At Nuveen, we actually have a separate capital markets team that's talking with our leverage providers every day and working closely with them. The team constantly assesses the potential costs and benefits to shareholders of keeping existing leverage structures or changing to some other structure. And, of course, any conclusion they reach would have to be approved by the Board of Trustees before being implemented.

SL: What about the options? When were you using options, and when would you foresee using options again in the portfolios?

JR: When we look at net investment income, we don't necessarily forecast that we're going to be adding option premium in the future. It's based on what we expect the portfolio to produce without option income or option premium. Typically, we would write options when we feel like the market is paying us to write those options. The option strategy is not a permanent strategy within the portfolio, it's a tactical strategy. We feel like the market hasn't

Real Assets Have Outpaced Inflation

Growth of $10,000 investment for five asset classes and inflation (January 1, 2005–December 31, 2014)



	ENDING VALUE	RETURN	RISK[2]
REITs	$22,230	8.32%	25.36%
Infrastructure	$21,321	8.75%	16.10%
Senior Loans	$15,835	4.70%	7.52%
TIPS	$15,341	4.38%	4.15%
Inflation	$12,313	2.12%	1.55%
Commodities	$8,289	-1.86%	18.15%

Chart does not represent the past performance of the Nuveen Real Asset Income and Growth Fund.

Past performance does not guarantee future results. Chart illustrates the hypothetical growth of a $10,000 investment for five asset classes and inflation. Returns assume reinvestment of income and no transaction costs or taxes. It is not possible to invest directly in an index.

Different types of asset investments have different types of risks, which may provide higher returns but also greater volatility. In general, equity securities tend to be more volatile than fixed income securities. Investments in REITs and infrastructure-related securities may involve greater exposure to adverse economic, regulatory, interest rate, political, and legal changes. Commodities may be highly volatile. See glossary for definitions of each representative asset class.

[1] There is no assurance that a fund's leveraging strategy will be successful.

[2] Risk is shown as standard deviation of returns. Standard deviation is a statistical measure of historical volatility; the higher the number the greater the risk.

been conducive from a risk/reward standpoint to us writing options.

SL: This is a good segue into how you manage the portfolio.What's the way you approach picking the investment, monitoring the investment, making changes between investments over a normal cycle or normal events? What in your management style is unique?

JR: We're very active managers. We essentially look at our universe of securities in real assets up and down the capital structure. We loosely have a 4½ to 4¾% distribution yield hurdle. Typically, we're including all the securities that we look at in real assets, and they really only qualify for inclusion in the portfolio if they are above that yield hurdle. Once a security is above the yield hurdle, we just focus on total return. Meaning, for example, a 5%-yielding security that has a 12% potential total return is superior in the eyes of this portfolio to an 8%-yielding security where the entire total return comes from yield.

We're picking securities for this portfolio that qualify from the yield hurdle that also have the highest total return potential.

SL: As active management in this space, where do you focus both your dollars you can invest and your time? How do you utilize the time and dollars to produce results for this portfolio?

JR: My time is spent looking at infrastructure and real estate securities. I'm constantly looking for ideas for all the portfolios. Unlike a generalist type of strategy where you're looking all over the world at all different sectors, we're focused on real estate and infrastructure for all of our strategies. That's where the group's time and resources are spent.

SL: I can see where you currently have allocated by type of investments and geographic diversity, but do you have a bias or a preference for certain regions or structures or sectors in this portfolio?

JR: In terms of sectors, it's really a go-anywhere strategy within infrastructure and real estate. Within infrastructure, we're looking across four silos of the global marketplace: transportation, energy and utilities, social infrastructure, and communications infrastructure.

Within transportation, you're talking about airports and seaports and mass transit and toll roads. In energy and utilities, you're looking at electric utilities, gas utilities, water utilities,and investing in companies that own waste water treatment plants and do desalination and drinking water purification. Within social infrastructure, we look at companies that are performing the functions that have historically been performed by government: companies that are involved in operating or owning prisons, companies that operate or own privatized post offices. Then on the communications side, it's primarily data centers and cell phone towers and satellites.

> ***"We're picking securities for this portfolio that qualify from the [4.5% to 4.75%] yield hurdle that also have the highest total return potential..."***

Some of the exposure makes sense from a common equity standpoint. Some makes sense from another part of the capital structure. For instance, our total return infrastructure portfolio invests in the common equity of a port company out of the Philippines called ICTSI (International Container Terminal Services Inc). That common equity doesn't have a dividend associated with it that would qualify for the real asset income portfolio, but that company does issue perpetual bonds that have a high yield that we put in the real asset income portfolio.

In different parts of the capital structure, we're getting exposure to the same types of assets in one portfolio versus another portfolio. The end result is different, where you might have a higher beta—higher growth focus in a total return strategy, like our global infrastructure strategy—and a lower beta—higher yielding, lower standard deviation focus in a real asset income strategy.

Within real estate on the common equity side, many opportunities tend to be in sectors that have long duration leases, such as net lease and healthcare, but we're also finding common equity ideas in other sectors of real estate. Then in some of the more cyclical areas of real estate that tend to have lower common equity yields, we're able to diversify and get exposure to those companies through a less volatile and higher yielding part of the capital structure, primarily preferred securities. In summary, this strategy has diversified exposure to both infrastructure and real estate, and that diversification is achieved by investing in different parts of the capital structure and in different areas around the world.

SL: Are there any other active funds out there with a similar focus to this that would be your peer or your competitor?

JR: When I'm out there talking to advisors or institutions, I have yet to hear of anything that they bring up that's very similar to this. The market research that we've done, there's nothing else that does it in the way that we're doing it. But I'm not an expert on my competitors. I'm an expert on what I do on the strategy.

SL: What industries would you use to try to track this portfolio?

JR: We use a blended benchmark. It's comprised of 33% S&P Global Infrastructure Index, 15% MSCI US REIT Index, 20% BofA/Merrill Lynch REIT Preferred Index, 12% BofA Fixed Rate Preferred Index, and 20% Barclays US Corporate High Yield Index. The idea there was to match the target weight in each of the asset classes that we're investing in with the best fit index. It's a custom blend that we came up with.

SL: That reminds me of a comment you made about target exposure versus current exposure.

JR: This is an actively managed asset allocation strategy. We're constantly moving exposure around from different parts of the capital structure and between real estate and infrastructure. The whole idea of the target weight was our best estimate of what this portfolio would look like over a longer period of time. If you take a specific point in time the portfolio will likely look different than those target weights.

For instance, if you look at the back half of 2013, real estate securities sold off dramatically, and we were left with a situation where REITs were trading at a significant discount-to-net-asset value. At that point, we increased our exposure to real estate and lowered our exposure to global infrastructure common equity because we were seeing more value on the real estate side. We also use different parts of the capital structure to manage both beta in the portfolio as well as interest rate sensitivity. Over time, we have reduced our exposure to fixed rate perpetual preferreds and increased our exposure to structures that will likely perform better in a rapidly rising interest rate environment such as fixed-to-floatin grate securities, hybrid securities, convertible preferreds, and convertible bonds.

We have managed the duration in our traditional fixed income bucketby selling treasure futures. We've basically used that over time to lower the duration of that 20% traditional fixed income piece by about one to two years.

SL: What are your thoughts on the increase of interest rates in the US? We have seen a bit of a tick-up in the ten year. How will it impact the portfolio? How do you plan for it? What should people expect through the probable rise of interest rates for this sector, or style of investing?

JR: Specific to rates, we want to defend against rising rates in two ways: the first is through asset allocation, which we just talked about. If rates are rising, we want to reduce our exposure to the longer duration, more rate sensitive areas within the portfolio and reallocate that capital to areas that are more insulated against rising rates. The second way is through a security selection or security type. For example, owning non-rated REIT preferreds with higher coupons relative to their investment grade peers. The higher coupon provides insulation if rates are moving up due to a stronger economy. It mitigates some of that rate risk. On the infrastructure front, owning preferred securities that have convertible features or foreign hybrid or perpetual bonds that move from a fixed-to-floating rate structure are other ways that we can position the portfolio for changes in interest rate environment.

> ***"We also use different parts of the capital structure to manage both beta in the portfolio as well as interest rate sensitivity."***

SL: How do you justify risk by asset allocation and diversification? How do you balance the needs for alpha and risk reduction?

JR: It's definitely important for us to have a lot of diversification in the portfolio. The breadth of securities is one of the things that provides us the liquidity that we need to make asset allocation changes. In the universe we look at we can find higher yield securities that are mispriced. They're sometimes mispriced because they're under the radar, so they might have less liquidity than other securities. The breadth of securities is also really important to us from a liquidity standpoint in being able to perform the timely asset allocation we want to make for the portfolio.

If you think about the risks that are inherent in infrastructure investing, they're different than the risks that you find in the broader market. The broader market risks are more associated with cyclicality, whereas infrastructure risks are more intangible—political risks, regulatory risks, natural disaster risks. Diversification and liquidity are the two main ways to mitigate these types of risks.

SL: How big is the open-end fund version of this strategy?

Jim: The open-end, as of a couple days ago, is just under $700M. The IPO raise, including leverage for JRI, was just north of $220M. The aggregate AUM for DRA is around $650M-$700M.

SL: You've been at conferences, been on the road, met with a lot of financial advisors. What's the one thing that you wish everyone you sat down with already knew about the strategy?

JR: Given that approximately 50% of the portfolio is in equities and the equity-like characteristic of the high-yield debt, we like to make the case for it as a global equity diversifier but with a lot more income than most other equity solutions are going to offer, while gaining exposure to two asset classes that are oftentimes underrepresented in client's portfolios. It doesn't tick a box like many other strategies out there, and that's the hardest thing, that you know this is not 100% real estate, it's not 100% infrastructure. It is a strategy that has the flexibility to toggle between asset classes and move up and down the capital stack to provide income. It doesn't necessarily fit neatly anywhere which has it's disadvantages as far as positioning it goes. However, that flexibility is what we consider to be the most attractive aspect in terms of finding compelling investment opportunities to best execute on the mandate.

It's a lot of things wrapped into a single bundle. Different clients don't necessarily know where to put it because the advice that they're getting oftentimes is, "You need to increase exposure to this box or that box." This strategy does move around, and it's not a single box.

SL: Do you find people put this more in qualified money? The yield isn't so high that it's painful tax-wise for a taxable account?

JR: I guess I haven't gotten that granular with individual clients or advisors that use that strategy in terms of where they're placing their clients' money. There are not a lot of global income strategies out there that have this kind of equity exposure. This is just a unique strategy where it's giving investors really solid income. It's giving investors global exposure, and it also typically has a lower beta and standard deviation than an equity income strategy might have.

SL: As people look through your documents or through companies that aggregate data, like Morningstar, or our CEF Universe data, what's the data that you think is the most useful for people to monitor to get a sense of the trends of the portfolio, separate from price and net asset value? What's the fundamental data that you think is most important?

JR: I think that if investors want to see where we're finding relative value in the portfolio, they should look at the current mix between real estate and infrastructure and how that changes over time. Also, looking at where we have our allocations in terms of common equity versus other parts of the capital structure should give investors really good insight into where we're seeing relative value at any point in time or where we might be positioning the portfolio for a future interest rate environment.

Jim: An example of that would be the preferred position in the portfolio. We've got pretty wide bands in terms of the aggregate equity exposure versus preferred exposure versus high-yield exposure. Probably two years or so ago, we were near an upper bound on our preferred weight at approximately 48%, and that weight today is closer to 29%. That's a pretty dramatic move. It was done to take advantage of the continuing decline in interest rates over that period to reposition the portfolio into areas that are going to be a little less rate sensitive.

JR: Exactly. That reduction was primarily in fixed-rate perpetual preferreds. At the same time we increased exposure to other types of securities that we would classify as preferreds such as fixed-to-floating rate structures, hybrids, and converts. We feel that these moves lowered the interest rate sensitivity of the portfolio, by moving into different types of securities that will either have equity optionality or have a structure that will allow them to be much less sensitive to interest rates as they change, like a floating rate structure.

> ***"In real estate, occupancies are up. It's definitely a landlord's market ... [they] typically have pricing power in many parts of the world."***

SL: Being a 40-Act structure, you have an independent board of directors. How have they helped shape the success of the fund? How have you utilized a board to improve the results for shareholders?

JR: I think the board, like all boards, are out there to protect shareholders and to always look at what's in the best interest of shareholders. In terms of what we're doing strategically and tactically in the portfolio, those moves are primarily made by the investment team that's managing the strategy.

SL: Talk about when an investment goes the other direction. How do you decide whether it's an equity or more debt-based investment? When do you get out? When do you double down?

JR: We're always gravitating towards the highest risk adjusted total return potential within the portfolio. For instance, the equity exposure to energy infrastructure has been reduced in the portfolio due to falling crude prices. We've kept the energy exposure focused on the fixed income portion of the portfolio. Baked into the equity valuation was not just the dividend but also growth, whereas, on the fixed income side, it's mainly, what is the current business and its ability to service the debt?

We're constantly monitoring the portfolio. The portfolio is incredibly diversified, and we're constantly adding to the names that look attractive and using as a source of cash names or sectors or part of the capital structure that might look less attractive.

SL: What is your sense of what 2015 will look like for the trends that impact your portfolio?

JR: In terms of what's going on in the marketplace right now, we still see fundamentals on both real estate and infrastructure looking very attractive. We've seen sovereign yields in Europe drop dramatically. Credit spreads have narrowed. In real estate, occupancies are up. It's mostly a landlord's market. Landlords typically have pricing power in many parts of the world.

I think the wildcard for investment in real estate and utilities and other types of sectors tends to be what could potentially happen with interest rates. A gradual increase in interest rates is fine for the types of investments we make. You could see corrections if you had large increases in interest rates that took place over very short periods of time. We've seen that in the past, but we're constantly thinking about that in how we manage the portfolio and how we manage the interest rate sensitivity of the portfolio. But from a fundamental standpoint—the types of companies, the industries, and the individual securities that we're investing in—we're bullish on the fundamentals.

SL: If sometime later this year they start raising interest rates at a quarter percent every other meeting, that's a path that you think can be very good for the portfolio?

JR: You have to look at two different things. You have to look at the fundamentals of the securities we're investing in. Typically, when the Fed's raising rates, it means the economy is improving and the fundamentals for the types of securities

we're investing in will probably continue to get even better. Where interest rates go versus market expectations can certainly affect the short term way that the markets value income securities. When markets have "knee jerk" reactions and yields move higher quickly that usually creates price weakness for any income oriented investment. Many times, however, that move is overdone and it can actually create a valuation opportunity and set the fund up to be better positioned for the long run.

SL: Is there anything else you would like to share with our readers?

JR: Unlike some fixed income strategies, we're not just focused on static coupons. Roughly half of this portfolio is targeted to equities where we would expect dividend yields to rise commensurate with or in excess of GDP. In addition to that, we invest in non-equity securities that are not just static coupons. For example we invest in fixed-to-floating rate and convertible bonds. This is a go-anywhere strategy with a focus on real assets that provide recurring cash flow.

SL: I'm looking over various periods of time and your turnover seems to be around 100%, and it was even higher than that back in 2012, (The 500% number has to have some data issues involved with the invest up of the fund or some other anomaly. Turnover in the strategy has never exceeded 200%). You've definitely changed your mind when you need to from what the data tells me.

JR: We do. The portfolio is being actively managed. The listed market place does provide mispricing opportunities but they are often times short term in nature and we have to be ready and willing to exploit them when we are able. We have a lot of conviction in what we think a company is worth and are willing to add to names or reduce names based on where we see value.

> ***"This strategy is unique in the we are not just focused on static coupons. Fifty percent of the portfolio is equities."***

SL: Do you find that there's a piece of the portfolio that's longer term? And then there are the fringes and the adjustments going from more REIT to more preferred. Is that the tactical?

JR: Yes, there are several things that create turnover in this portfolio. Relative valuation, taking advantage of having a lot of conviction, and taking advantage of market inefficiencies. But, also moving the portfolio around to different parts of the capital structure and different asset classes that we might find more or less attractive at any point in time.

MT: Turnover has a negative connotation. I think when you look at the performance, especially the relative performance against other types of real asset funds, Jay's adding value.

JR: Our global infrastructure strategy tends to have turnover between 100% and 200%. The real estate total return strategy has had turnover that is usually between 75% and 150%. This strategy is going to be invested in typically more mature, stable securities, which means that the underlying securities themselves probably don't produce as much turnover, but the asset allocation moves on top of that bring turnover to a level that's similar to our total return strategies.

SL: Thank you all for helping our readers learn more about this investment sector.

To learn more about these two tfunds managed by Nuveen, please visit: www.nuveen.com/CEF/Default.aspx or call toll-free (800) 257-8787.

Disclosure: clients of CEFA currently own shares in DRA. We will wait 72 market hours after the interview's release to buy or sell shares in DRA or in JRI.

CEFA's Quarterly CEF/BDC Research Call

Please register on our website to attend our first quarter review and second quarterly out look for CEFs and BDCs. It will be held on April 13 and will be recorded. A replay and slides will be available after the session.

www.cefadvisors.com/webinars.html or call (800) 356-3508.

Nuveen Real Asset Income and Growth Fund (NYSE: JRI)

Data as of December 31, 2014 and sourced from the Fund's most recent quarterly Fact Sheet

Asset Allocation	
Common Stocks	48.90%
$25 Par (or similar) Preferred Securities	25.40%
Corporate Bonds	17.70%
Net Other Assets	4.30%
Convertible Preferred Securities	2.80%
Closed End Fund	0.40%
Exchange-Traded Funds	0.30%
Capital Preferred Securities	0.20%
Cash and Equivalents	0.20%

Total may not add up to 100% due to rounding. Holdings may vary and are subject to change without notice.

Fund Characteristics	
Number of Holdings	256
Percent Foreign Holdings[1]	29.13%
% Large, Mid, Small Cap[2]	30.12%, 29.04%, 40.82%
Effective Duration[3]	4.75
Leverage-Adjusted Effective Duration[3]	6.75
Effective Maturity (years)[3]	10.46
Average Bond Price as a % of Par[3]	$63.80

Portfolio Managers' Review

As the new quarter opened, U.S. and European stocks climbed on April 6, giving the Dow Jones Industrial Average a positive for the year. U.S. stocks were also supported by the possibility that the Federal Reserve may delay raising interest rates because of soft U.S. economic data. Oil prices soared on rising demand in both the U.S. and Asia, helping stocks rise.

According to our April 2, 20155 CEF Universe data, there are currently 620 CEFs and BDCs that trade on US exchanges with a total market capitalization of $297.5 Billion. The pricing of CEFs to their net asset value are currently trading at attractive levels for many sectors. Due to concerns over the impact of rising rates on municipal, taxable bond and various equity sector income focused funds, we see discounts, in our opinion, at levels that build in some of the rising rate risk into the funds' pricing.

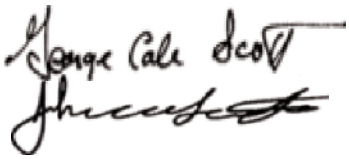
For municipal bond CEFs focused on tax-free bonds, we see a discount level of -6.1% and an indicated yield of 5.8%. Since these funds recovered from a rough 2013, they have traded between a -5% discount and -8% discount vs. a historical discount level closer to -3%. Here we think investors need to be thoughtful on their need for tax-free income and how these funds can meet their needs for investment grade bond exposure.

Taxable bond funds are trading at about a -6.7% discount and an indicated 7.7% yield vs. their recent trading range of -4% to -8% discount levels. We think that overweighting multi-sector bond funds, senior loan / floating loan, convertible bond and emerging market bond CEFs will perform well through most scenarios of a rising rate environment.

Business Development Companies (BDCs) have bounced up from a -10% discount on average in January of this year to an average discount of -4.6%. Earnings season was mostly positive as the fears on how the funds would handle the fourth quarter left many funds rallying after their quarterly update and conference call. This was after a general market overreaction in our opinion on the downside in October through January. Yields average 9.7% for the debt-focused funds. This sector is positioned to potentially out-perform in 2015 and many funds are overweight variable loans, which should do well after we see rates increase.

Non-US Equity funds have outpaced US focused funds on a market price total-return basis this year as we see better opportunities in some of the global markets. Discounts are still attractive at -9.5% for Non-US funds but slightly wider at -9.8% for US focused funds. Sector funds have underperformed their equity peers so far this year, but show an average -6.7% discount vs. a recent range of -8% to -5% and show a 7.7% indicated yield.

We suggest investors continue to stay diversified across CEF sectors, looking for opportunities to buy funds when they are oversold, and selling funds when the market gets too excited. The benefits of CEF investing: are this repeatable "CEF alpha", the fixed-capital for the fund managers to maintain conviction through various markets cycle's, when prudent, adding low cost leverage to potentially increase yield and giving investors daily liquidity at market prices. We continue to see creativity in CEF offerings and know that this 120+ year-old US fund structure will continue to adapt and develop over time.



Note: All data referenced is from CEFA's CEF Universe data dated 4/2/15 unless otherwise stated.

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