Published by
Closed-End Fund Advisors

THE SCOTT LETTER: CLOSED-END FUND REPORT

Vol XV, No 4 | *A Global View of the Closed-End Fund Industry* | August 2015

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.

We are pleased to announce a new free Business Development Company (BDC) data website that is the first we know to exist to cover the sector. It is powered by our CEF Universe Data Project and offered to help give a centralized place to go for information on all public BDCs. The link is http://www.BDCUniverse.net and we encourage your feedback and we improve the resource.

– George Cole Scott, Editor-in-Chief

– John Cole Scott, Contributing Editor

IN THIS ISSUE:

Advent's Convertible CEFs (AVK, AGC): An Alternative Way to Generate Income, Maintain Equity Exposure & Navigate a Rising Interest Rate Environment

We interviewed Paul Latronica, Managing Director of Advent and Tony Huang, CFA, Vice President, Portfolio Advent Claymore Convertible Securities and Income Fund (AVK) and Advent Claymore Convertible Securities and Income Fund II (AGC). They were joined by Will Korver, Director at Guggenheim Investments. The interview was conducted by telephone on July 13, 2015.

SL: We're going to talk about AGC and AVK. Why do you enjoy doing work in the convertible space? How do you organize your investment team? The stuff we wouldn't necessarily get in your bio.

Tony: My background is in technology and telecom research. I've done that continuously since I started in the investment management business in 1996, and that is very useful for investing in convertibles as technology is the largest sector issuer of convertibles. It's almost 30% of the domestic universe.

Tony Huang, CFA

Paul: I've been with Advent for over 18 years now, and I'm really a convertibles specialist. I've grown up in the convertible bonds world, understanding the ins and outs, how the securities are structured, how they can benefit investors, and how to create portfolios. I currently manage about $4 billion in separately managed accounts outside of these Funds, so convertibles are in my blood.

Tony: AGC and AVK are both split into three segments. Paul and I work with our CIO, Tracy Maitland, on one of those three segments that has a mandate to invest the Funds' leverage. We appraise the three major asset classes (convertible bonds, high yield straight corporate bonds, or equities) on a relative value basis, looking for the most attractive from an upside/downside standpoint, and invest this segment's capital based on yield, capital appreciation potential, and the fundamentals of the underlying issuers.

The other two segments are asset-class specific, one for convertibles (domestic for AVK, global for AGC), and one for high-yield corporate bonds. Each of these is run by portfolio managers who have at least 10 years (and, in some cases, over 20 years) of portfolio management experience in those specific asset classes. These strategies, which have demonstrated past success in the institutional investor markets, give a level of focus within asset classes that the Funds' shareholders would benefit from.

SL: Looking at not just your convertible fund but all the levered convertible funds in the sector, none of them are purely convertible. Why do convertible funds always seem to have other buckets from your perspective?

Tony: Closed-end funds need to offer their customers a strong yield. Convertibles offer some of that yield but part of their attraction and total return also comes from equity-related return from the embedded equity option. Desiring not to depend predominately on that equity return, many convertible funds also invest in straight high-yield bonds or dividend-paying equities. What we like about the combination is that the mix benefits well from a rising interest-rate environment as the shorter duration of corporate bonds and the positive economic environment that rising rates imply can lead to positive returns in all three asset classes.


Paul Latronica

Paul: Another positive of convertibles is the fact that you buy an instrument that has positive convexity or a positive risk/reward scenario, where the reward is better than the risk on the downside. This comes from the embedded option's increasing value in a positive scenario and the underlying bond providing a credit floor, if fundamentals and the equity do not pan out well.

SL: Okay. When we look at closed-end funds, when we try to align what the board of directors is doing with the dividend policy and with what the manager is doing at the guts level. Discuss the difference in the composition of both funds and how you balance what the Board gives you as a dividend policy versus what you've seen in the market.

Tony: It's important to note that shareholders can receive those dividends not just from interest in bonds and dividends from equities but also from capital appreciation of the underlying convertibles or equities. In terms of meeting the dividend obligation, the Funds do produce a substantial part of it from interest on high-yield corporate bonds and convertibles. However, they also intend to generate part of the total return from equity-related instruments, be it appreciation of convertible bonds, appreciation of equities, dividends on equities, and even covered call option income written against convertible or equity holdings, all in adherence to stated investment guidelines.

In terms of where in the global investing universe the two funds are achieving those returns, the main difference between AVK and AGC is foreign allocation. AVK, as of June 2015 was about 17% in foreign securities, while AGC was about 37%. The foreign universe does have lower yield, as interest rates and corporate credit spreads are lower in Europe and Japan, two geographies that are big participants in the convertibles universe globally. It goes without saying that we are positive about the effects of quantitative easing in these locales on asset price appreciation. What also helps is we have ten analysts that follow all parts of corporate capital structures around the world. They identify all manner of undervalued credit or equity investment securities in their niches, and that allows us to achieve the total return objective for the Funds' shareholders.

SL: If you were to think about how the funds were generally allocated roughly a year ago, would they have been about the same between US and non-US, or has there been any shift in the last 12 months?

Paul: Conditions from last year led our foreign allocation slightly lower, particularly in AGC. That, again, changed this year, as we saw more opportunities because of the central bank support in foreign countries, while the same support was on the wane here in the United States. With respect to asset classes, we saw better relative value in the high-yield bond markets exiting 2014 after a sell-off there made yields more attractive and, thus, allocated more there so far in 2015. We also refrained from writing as many call options on equity or convertible holdings, given low volatility and, thus, lower prices of those options.

SL: We always define closed-end funds as active portfolio management. Discuss the structure of working in the convertibles space, what you like about it, what you dislike about it.

Tony: The stability of the capital in the closed-end fund model is a definite positive. It allows us to focus our resources on research and trading. Convertibles are a niche asset class and, because of that, can attract capital from investors who usually focus on other asset classes. That means they do suffer from outflows at times, and that can lead to the asset class richening and cheapening. The stability of capital within these Funds really helps us, as we are not devoting resources to managing client flows.

SL: How would you define broad investment management with the three pieces in place? You have the high yield, the convertible, the equity; if you were to say, "We are this type of management team as a group," how would you define yourselves?

Tony: I think we seek, first and foremost, to benefit from the natural asymmetry that occurs in the convertible. By asymmetry, we mean the potential for the convertible to participate well if the equity performs well but to deviate on the downside because of the protection of the bond protecting the investor's capital to par, absent a default. This asymmetry is most common in what we will term traditional convertibles, as opposed to mandatory convertibles or convertible preferred stocks. In a nutshell, what that really means is that the convertibles participate less on the downside when the underlying equities do poorly.

What you see us doing is adding to an individual convertible bond when prices are closer to par and then becoming a little bit more nervous and more mindful of the downside when the underlying equities have done well. That scenario takes the convertible bonds prices to a higher level

and away from par. At the same time, to meet dividend objectives for our shareholders, we as portfolio managers tend to favor securities, be they convertibles, high-yield, or equities, with a higher coupon or dividend and have our in-house analyst team research the risks that come with those rewards and select the ones that pass all the tests.

We do manage these funds with a total return element to them. We certainly understand that if you pay too much attention to the dividend characteristics or the structure of the security that can be problematic. You are risking not paying attention to the fundamentals, and so we listen to the concerns and insights of our analysts closely.

Paul: The thing that differentiates our firm from a lot of our competitors is we are a credit-based shop. A lot of investors approach convertibles from the equity side of things. We approach it as a credit instrument, as a debt instrument, asking "Can the company pay back its debt over time?" and then trying to allot additional value to the equity option. We construct the portfolios based on the characteristics of those individual securities looking for the asymmetric payoff, and from there we construct all the portfolios. Everything is bottom-up, credit-driven, utilizing our internal resources, and focused on the health of the issuing company. This philosophy is what this firm was founded on and continues to have success with.

SL: Give a quick overview of the types of companies that generally do convertibles. Can you offer some more perspective on the three different types of convertibles you mentioned?

Tony: Most of the market is traditional convertible bonds. About 15% of the market is in mandatory convertibles, which is an obligation on the part of the holder to assume the stock after the maturity (they tend to be two- to three-year issuances but with a larger coupon paid during the term). A small part of the market is convertible preferred stocks, which generally don't have a set maturity but may be convertible into stock at the option of either the holder or the issuing company. Companies in all sectors issue convertibles. There are slightly higher weightings in technology and healthcare companies compared to the S&P 500, for example, but companies across the economy find convertibles a useful feature in their capital structure choices.

> ***"The largest difference compared with equities is that you have that protection from the bond that allows you to participate more on the upside than you suffer on the downside if the equity were to go down."***

On a broad basis, the global universe is about 50% North American, 25% European, and 25% Asian. Japan is a big part of the Asian market, but Asia also includes issuers in Hong Kong, China, and even some other Southeast Asian countries, like Taiwan and the Philippines. There are not many convertibles issued out of Latin America or Africa, though we look forward, in time, to having a lot of those companies understand the value of issuing convertibles.

As an asset class, the largest difference compared with equities is that you have that protection from the bond that allows you to participate more on the upside than you suffer on the downside if the equity were to go down.

SL: Another type of sector we interviewed recently was the preferred equities sector. That's another kind of hybrid structure. How do you view the convertible bond space differently than the preferred equities space?

Tony: The preferred equity class is mostly non-convertible instruments. Those securities tend to have a long duration. They can go up and down a lot based on whether Treasury rates move up and down. They do provide a very high current yield, but have the risks of duration and sector concentration as a majority of that universe is financial companies. I would say we do not emphasize the sub-universe of convertible preferreds as much as some other convertible funds because they do not tend to have the upside/downside asymmetry that traditional convertibles do. So, it is among the weapons we can choose from to create total return for shareholders, but it is not as large for these Funds.

SL: Would it be fair to say that preferred equity is more of a duration decision and convertible is more of a credit decision?

Tony: Yeah, I think that's right, particularly for traditional convertibles. The duration of traditional convertibles is very short. Investors demand puts, and issuers often have call features that can shorten the term, so the universe has an effective duration of around two years. That's much shorter than other asset classes like preferreds or municipal bonds, and that means in times of rising rates, that risk factor is somewhat neutralized if you are investing in convertibles.

SL: We know that certain parts of these portfolios are rated versus unrated. Historically, we've found that closed-end fund analyst teams can do their best work in the unrated department.

Tony: Correct. Most straight high-yield corporate bonds are rated. The market demands it, and the issuers pay for the ratings. Convertibles are a mix, and much of the market is comfortable without rating agency support, and we are definitely comfortable because we have those ten analysts who can analyze the credit very quickly. We even have a system where we put in an estimate of what we think the rating would be (we call it an internal rating), so that helps our portfolio management evaluate the overall credit quality of the portfolios.

Whether an issue is rated or not does not really affect the liquidity of the convertible or whether it's creditworthy or

investment-worthy. Our analysts look at them regardless of what the ratings are. 45-50% of the convertibles universe is unrated (domestic and foreign), and our analysts are comfortable assigning their own ratings if the issuers do not pay for one.

SL: A lot of people buy bond funds and say, "Earnings coverage must match dividend policy or there's a dividend risk." We've been looking at convertible data long enough to know that's not true. You mentioned earlier the asymmetry characteristics, that the option premium coming in can support the yield, that the dividend coverage can support the yield. Should the earnings be a certain amount? Does it help the data-focused guys understand whether they should even be looking at the ratings coverage and NII?

Tony: Convertible investors are aware that they are not simply getting a 2-3% current yield and then they are done for the day. They invest in the asset class because they believe they will receive capital appreciation from the equity participation. It is important for investors to realize these Funds, investing in hybrid instruments like convertibles, will be a combination of a closed-end bond fund where most or all of the dividend comes from interest income and a closed-end equity fund where some of the dividend obligation is satisfied with capital gains.

SL: How much of the return on capital is the option premium, roughly speaking? How much of it is tax management of the portfolio by the equity side of the management team, and how much is something else that should be clarified?

Will: Actually, the last couple of years (2013 and 2014), neither of the funds' distributions were characterized as return of capital. Obviously, there are a number of factors that go into that, including past years' income, gains and losses. It is important not just to look at the past tax characteristics but also to understand the total return objectives of the funds and to understand the market impact of closed-end fund distribution rates over time.

SL: Some funds say, "We are going to pay five cents a month, and that's repeatable, and we don't see any reason to change it." Some fund families like to tweak it based on the manager's input because they're just aligning the policy to the market. How would you bucket AVK and AGC within that kind of a spectrum of opportunities or options?

> ***"If you look through the dividend history of these two funds, the first thing you would notice is that they do aim for dividend stability."***

Tony: I think if you look through the dividend history of these two funds, the first thing you would notice is that they do aim for dividend stability. AVK's dividend has been unchanged on a per-share basis since 2008, and AGC has been unchanged since early 2012. AVK has actually had some special dividends in the past. So, yes, you are correct that there are other funds that vary their pay-outs more. We tend not to do that. We think investors appreciate a stable dividend, and these Funds have been able to meet dividend obligations most of the prior years.

Paul: Additionally, total return can be achieved through capital gains as well as interest on convertibles and dividends, but ultimately, it is the Board's decision.

SL: What's your rule for adding alpha to your analyst team while avoiding idiosyncratic risk?

Tony: It's a balance. Clearly we have that resource, and we want to capitalize on it. Great ideas come from analysts; some of them come from the portfolio managers who have insight on the structure of the bonds; some of them come from our traders who give input on market developments. Liquidity is a consideration, too. These Funds have over a billion dollars of assets, and having positions that are too large can hamper us in terms of liquidity. That's become a little bit more of an issue in recent years with regulations affecting market makers and how much capital they can devote to holding inventory of securities, and that's affected market liquidity. It is something that we are watching more closely than in prior years, and that does lead us perhaps to have more positions than in the past. We have about 100 positions, roughly 1% on average, for each of the convertible, high yield, and allocation segments. About 300 positions overall in both Funds. The current structure is something that has worked well for us, and we think it will help going forward.

SL: What do people get right? What is the thing that makes you wish you could start every phone call with a PSA?

Will: Investors may benefit from a more acute understanding of the potential asymmetry of the closed-end fund vehicle, along with the asymmetry of the underlying asset class of convertibles (which represents the majority of the Funds' portfolios).

SL: What drives you to change the amount of leverage (market or absolute levels)? How has the leverage policy changed—if it has—in the past, and what might make it change in the future?

Tony: In 2012, the Funds redeemed the auction rate preferred securities and replaced them with a combination of margin loans and reverse repurchase agreements. That leverage, which totals $262 million for AVK and $170 million for AGC, came at very favorable rates, below 2% for both Funds. Shareholders benefited in the last several years from those borrowing rates given the absolute returns of both portfolios.

Currently, rates at the short end of the curve are still very favorable, and while they may be rising somewhat after the Federal Reserve jumps into action, there is still a long way before borrowing costs would surpass even the current yield of the portfolio or the portfolio securities that we have. We still think that having that kind of leverage is beneficial to investors.

However, if you look years down the line to a situation where the short end of the curve has 4, 5, or 6% short rates, then that's a situation that we would have to consider whether we would change that leverage. That said, we are seeing forecasts that the Fed Funds rate may not even pass 2% this cycle

SL: What does it take for a position to be sold? What's the process? Is there a rough guidepost for how much relative alpha should be generated? Are the frictions in convertible bonds similar to regular bonds? What really drives portfolio holding changes, for example?

Tony: Advent is a credit-oriented firm, and that focus is on credit details at the issuer level. The background of our portfolio managers and our analysts, is to look at each individual company's bonds or convertibles and what the attractiveness of those particular securities are relative to the rest of the universe. We do that with an appraisal of company fundamentals and the cash flow production in particular. The portfolios are constructed on a bottom-up basis; this means even within the segments, the collection of securities comes together one holding at a time and individually appraised.

Now, we do take a look at—and I focus on this a lot with Tracy and Paul—how the whole portfolio looks on the add-up across segments and make some adjustments, for example if we think the high-yield market is more attractive. As we discussed, the high-yield market somewhat fell out of bed at the end of last year, constrained by market makers and hurt by energy price declines. We reacted by adding to the Funds' high-yield allocation, and we did that at an issuer level using valuation models. I leveraged the excellent valuation model our high-yield team uses to locate securities that had become particularly undervalued during the sell-off.

I think what's important to note is that the dispersion of returns, even within an asset class, even within one sector of an asset class, is very large, and that presents good opportunities for alpha, good opportunities to outperform benchmarks and create a good return for the shareholders. So that's really what drives changes in our portfolios.

SL: Recently, we chatted about how the net asset value performance in 2014 was lagging the peer group, but you're currently beating the peer group on an NAV basis. And yet your discounts are substantially wider than some of your peers. Discuss what you guys did to re-focus the portfolio and what's been benefiting the NAV in 2015 (versus what was more challenging for NAV in 2014)?

> ***"What's important to note is that the dispersion of returns, even within an asset class, even within one sector ... is very large and that presents good opportunities for alpha."***

Tony: I think the biggest change from last year to this year was the implementation of that sleeve model. We recognized that Advent's other institutional strategies historically had very good performance against benchmarks and that these Funds would benefit from that. We moved during calendar year 2014 toward that model, and that led to less volatility against benchmarks, as well as higher yields, when that market presented more opportunities for good allocations towards high-yield and foreign. It's a combination of all three of those really, but I think the move toward three different segments, allowing portfolio managers to concentrate on their own asset class, is certainly going to help reduce the volatility compared to prior years.

SL: Talk about defaults and how you anticipate when companies' financials shift away from where you like them. How should investors think about the solvency of the bond payments as an owner of the underlying overall fund?

Tony: It's obviously very important. Securities with lower duration tend to have less repayment risk. While we love the idea that we are not taking a lot of duration risk here, we are taking credit risk, and that's why we have a good analytical team that can very carefully appraise the creditworthiness of these issuers. While we do not often have a lot of time, generally about a day to look at new issues, we have a very well-oiled machine full of industry specialists that looks at the cash flows of a company and judges their competitive position and sector risks.

That all said, these Funds are not meant to invest in distressed securities. We are not going to get involved in companies that have bonds trading at prices that imply a material risk of default. We make sure that the potential risk is very miniscule and maximize our yield within that universe. Much of a successful convertible bond investment involves judging that a company's credit will remain rock solid and the bond element will prove to be a stable floor, while awaiting for fundamentals to turn positively and the option portion to deliver future upside.

SL: When high yield gets hit and energy gets hit, how much do you feel you're balancing what's good for marketing and what's good for long-term performance?

Tony: These funds are relatively stable in capital and we can focus on investments. These Funds took a hit, as did just about all high-yield vehicles, in fall 2014 with the sharp fall in oil prices. In January and February of this year, we began focusing on energy issuers whose bonds had fallen a lot, though not the companies with the worst credit and highest levels of leverage. We benefitted from very low purchase prices of some bonds, and we had a better risk/reward in these companies than some of their smaller brethren because the oil markets have fallen again in recent weeks, and that

has hurt the more dangerous issuers the most.

SL: We interviewed your firm three years ago with two different managers, so it's good to get the update. And you know, the title then was "Fixed Income Securities with Equity Upside for a Rising Interest Rate Environment," and it's hilarious to me that three years later we're still waiting for the rising interest rate environment. It feels appropriate to ask you for your perspective on when rates could rise.

Tony: It seems to me that debate has moved beyond whether the Fed raises rates. It's more, "How steep are the hikes going be? How often will they come?" There is a school of thought that says that it is only going to be one or two raises, or it is going to be very long and spaced out in-between the actual moves. That kind of environment would be very, very good for the convertibles market. It would allow the economy to continue its growth, not really being hindered by higher borrowing costs. Convertible credits depend upon cash flows of the issuers, which are dependent upon the profits of the issuers, so that would be a relatively stable environment that would be unlike the rate hike environments of the late 1990s and the middle part of the last decade.

Now, at the same time, any rate-hike environment tends to mean higher volatility for both bonds and equity markets. Higher volatility is good for convertibles. The asymmetry feature that we have outlined comes from equity volatility and is even more pronounced in a higher volatility environment, which helps the pricing to move higher. If you have a more highly volatile environment, or one that did not really result in large declines in the equity markets, that can be a net pricing advantage for convertible bonds as well.

> ***"Convertibles really give you an alternative way to have income producing securities, maintain equity exposure, and outperform most asset classes, even if you are wrong with the equity markets."***

Paul: If you talk about convertibles, you have to talk about them relative to their asset classes. I am sure most people have allocated heavily towards traditional high-yield and long-duration products, but they need to find other alternatives. Are they ready to buy equities outright with markets trading at all-time highs? Typically the answer is probably not, or, if so, in small pieces, or going towards certain sectors. Convertibles really give you an alternative way 1) to have an income-producing security, 2) to maintain equity exposure, and 3) to navigate a rising interest-rated environment. You'll still look good relative to other fixed-income asset classes, and if the equity market performs, you can have that exposure.

It's a relative discussion we always get into with our current clients or other parts of the firm, as well as closed-end funds, and it has to be framed in that way. Otherwise, it's "What is this product? What can it do for me?" There's a place in a portfolio, as an alternative, to parallel what you have that will be hurt if and when rates rise or will be hurt if stocks get out of control and take a massive correction.

I just want to add a final thing. In thinking about these Funds, we have used the sleeve model. We really took some best-in-class management styles that we've had in this firm since the beginning, and we blended them together into today's AVK and AGC structures. Remember, we are up to $9 billion of firm-wide assets, and we are contracted by many large institutions, and what we felt was we wanted to make these much simpler Funds for people to understand, where you have

CEFA's Quarterly CEF/BDC Research Call

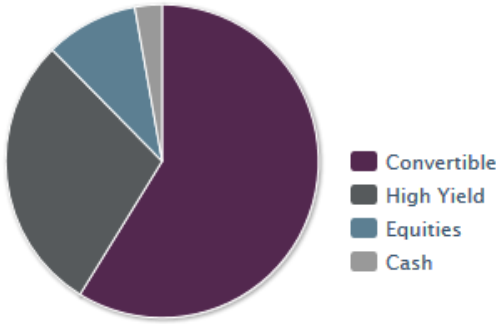
Please register on our website to attend our third quarter review and fourth quarter outlook for CEFs and BDCs. It will be held on October 6, 2015 and will be recorded. A replay and slides will be available after the session.

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

AVK Portfolio Concentration

as of 7/31/15

Asset Class	%
Convertible	58.80 %
High Yield	28.80 %
Equities	9.60 %
Cash	2.80 %



This data is subject to change on a daily basis. Sourced from the Fund's portfolio's page on http://guggenheiminvestments.com

a convertible arm, a high-yield arm, and one that we'll allocate across both of those and equities.

You understand what you get: in AVK, you're going to get a very defined, domestically-focused convertible fund, with a portion of it being high yield, and, based on what the market is doing, it may push back and forth between the two and equities, at times with covered calls. For AGC, you can have a globally-focused convertible fund, again, with that same high-yield touch and with the ability to move back and forth between them or add different allocations between them as the market demands. We're taking a proven approach that we know has worked for an extended period of time and incorporating it into these Funds to make it a little more understandable, less volatile, and more predictable.

Required Disclosures

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. All distributions are assumed to be reinvested either in accordance with the dividend reinvestment plan. Performance data reflects fees and expenses of the Fund(s) which includes management and advisory fees, as well as additional expenses. Please refer to the most recent annual or semi-annual report for additional information.

Based on current estimates, it is anticipated that the current distributions have been paid from the following sources: ordinary income and return of capital. If a distribution consists of something other than ordinary income, Shareholders of record, as of the applicable record date, will be sent a Section 19(a) notice with the anticipated source(s) of the distribution. Section 19(a) notices are provided for informational purposes only and not for tax reporting purposes. Please note the final determination of the source and tax characteristics of all distributions in 2015 will be made after the end of the year.

The opinions and forecasts expressed are those of the interviewees as of 7/13/2015, and may not actually come to pass. This information is subject to change at any time, based on market and other conditions, and should not be construed as a recommendation of any specific security or strategy.

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ADVENT CAPITAL MANAGEMENT, LLC Advent Capital Management, LLC serves as the Fund's Investment Manager. Based in New York, New York, Advent is a credit-oriented firm specializing in the management of convertible, high-yield and equity securities and the implementation of covered call and hedge fund strategies. The firm manages assets for several FORTUNE 500 companies, foundations, endowments, public pension plans and insurance companies.

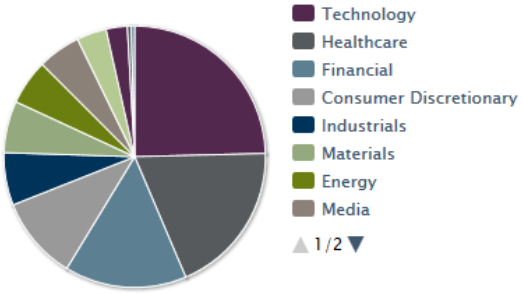
RISK CONSIDERATIONS There can be no assurance that the Fund will achieve its investment objective. The value of the Fund will fluctuate with the value of the underlying securities. Historically, closed end funds often trade at a discount to their net asset value. The Fund is subject to investment risk, including the possible loss of the entire amount that you invest. Convertible Securities. The Fund is not limited in the percentage of its assets that may be invested in convertible securities. Convertible securities generally offer lower interest or dividend yields than non-convertible securities of similar quality. The market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. However, the convertible security's market value tends to reflect the market price of the common stock of the issuing company when that stock price is greater than the convertible's "conversion price, " which is the predetermined price at which the convertible security could be exchanged for the associated stock. Synthetic Convertible Securities The value of a synthetic convertible security will respond differently to market fluctuations than a convertible security because a synthetic convertible security is composed of two or more separate securities, each with its own market value. In addition, if the value of the underlying common stock or the level of the index involved in the convertible component falls below the exercise price of the warrant or option, the warrant or option may lose all value. Lower Grade Securities. Investing in lower grade securities (commonly known as "junk bonds") involves additional risks, including credit risk. Credit risk is the risk that one or more securities in the Fund's portfolio will decline in price, or fail to pay interest or principal when due, because the issuer of the security experiences a decline in its financial status. Leverage Risk. Certain risks are associated with the leveraging of common stock. Both the net asset value and the market value of shares of common stock may be subject to higher volatility and a decline in value. In addition to the risks described above, the Fund is also subject to: Interest Rate Risk, Illiquid Investments, Foreign Securities, Management Risk, Strategic Transactions, Market Disruption Risk, and Anti-Takeover Provisions. Investors should consider the investment objectives and policies, risk considerations and expenses before investing. For this and more information visit www.guggenheiminvestments.com or contact a securities representative or Guggenheim Funds Distributors, LLC, 800.345.7999.

Clients and family members of Closed-End Fund Advisors hold shares in both AVK and AGC at the time of the interview and publication. We will not buy or sell any shares in either security for 48 market hours after the public release of this interview.

AVK Portfolio Concentration

as of 7/31/15

Industry	%
Technology	24.60 %
Healthcare	19.00 %
Financial	15.10 %
Consumer Discretionary	10.30 %
Industrials	6.50 %
Materials	6.40 %
Energy	5.60 %
Media	5.30 %
Telecommunications	3.70 %
Consumer Staples	2.60 %
Utilities	0.50 %
Transportation	0.40 %



This data is subject to change on a daily basis. Sourced from the Fund's portfolio's page on http://guggenheiminvestments.com

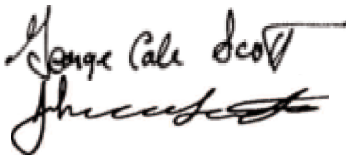
Portfolio Managers' Review

Summer 2015 has been anything but quiet for stocks and bonds. We were surprised with the increased volatility in August. Despite what we have read and seen in the financial news outlets, the US is having one of its best periods of employment growth, housing prices are trending higher, households and companies generally have less debt. The S&P 500 is up about +200% total return since the March 9, 2009 market lows. However, some investors seem concerned with a Fed Funds rate of 0.50%, which is pretty short-sighted in our opinion. We would need to see rates above 3% to have them potentially drag on the economy (based on current GDP and inflation figures) Getting the rate to 1.25%-1.5% in 2016 is important and a slow rise in rates can be positive for the economy and markets.

The week of August 24 the US markets lost about -11% from the recent highs. Why? There were concerns on China and how it will impact the global economies. We noticed China imports/exports account for less than 1% of US GDP. While China stocks had a really rough few months, they are still up over 30% in the past year. In the 1980's Japan imploded (the 2nd biggest economy) and the US found a way to keep growing. China is not in a recession, many economists surveyed expect China to produce 4%-6% GDP growth over the next few years.

We think it is important to note we have not made any investment changes dues to recent news or the market pullback. Instead, we seek to build diversified portfolios with sustainable distributions which many of our clients live on. We do this by blending NAV performance for funds and sectors with discount trends and historical levels. The distribution sustainability review for CEFs is typically harder, but we blend our data resources with the history of each fund sponsor and look at a fund's holdings and its sector and NAV yield vs. NAV total return. We also monitor what the manager will have to hit to meet the board's current policy (Lev Adj NAV Yield). We have been reminding CEF investors that the Fund's policy is not a promise like with a regular bond purchase. However, we are pleased with our track record of experiencing far more dividend increases than decreases for clients. From September 2014 to September 2015 there were 521 CEFs that paid monthly or quarterly distributions. 258 (49.5%) changed their amount to shareholders; 103 were increases and 153 were decreases. Part of beings a successful CEF investor, in our experience, is being on the right side of those changes. It often impacts discounts and is part of your account's total return.

CEFs and BDCs are still historically cheap across most measures. We have recently created a two-page PDF file with 10 years of CEF/BDC performance and discount levels. You can find it on the "Investor Resources" page of our website. We will keep it updated quarterly. In the past 20 years CEF discounts have average about -4%. Currently the -10% discount seems like a great time to add exposure to CEFs and a good time to be building or adding to your CEF/BDC portfolio. We recommend you stay diversified and generally overweight beat up sectors and underweight sectors when they feel expensive after strong gains. The two sectors we think have the best upside in the near-term are debt-BDCs and MLP CEFs.



Note: All data referenced is from CEFA's CEF Universe data dated 8/28/15 unless otherwise stated.

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