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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.

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 as we improve the resource.

– George Cole Scott, Editor-in-Chief

– John Cole Scott, Contributing Editor

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Legg Mason's Master Limited Partnership (MLP) CEFs [CEM, EMO, CTR, CBA]: A Conservative Way to Participate in Oil/Energy Recovery (With a Tax-Sensitive Yield)

We interviewed Michael Clarfeld, Portfolio Manager at ClearBridge on December 4th by telephone to discuss the Master Limited Partnership (MLP) sector, their four MLP focused closed-end funds and their current outlook for prices and income.

SL: Michael, give us a more personalized background on your work at Legg Mason, as well as your work in the MLP (master limited partnership) sector.

MICHAEL: I've been in the business for 15 years and have been at Legg Mason and ClearBridge for 10 years. [I] have been managing MLPs five and a half years. [I] came to the MLP space as a generalist income investor, so in addition to managing the MLP funds with my partners, I also manage some diversified dividend portfolios with partners.

Michael Clarfeld, CFA

SL: Explain the relationship between ClearBridge and Legg Mason.

MICHAEL: Legg Mason is the parent company with several affiliates underneath it. ClearBridge is the largest equity affiliate. We have over $100 billion in AUM. We do everything from small-cap to large-cap, value to growth. We are primarily US but probably have about $10 billion dollars in international and global investments.

SL: Michael, could you please explain for our readers the relationship between ClearBridge and LeggMason?

LEGG MASON
GLOBAL ASSET MANAGEMENT

MICHAEL: There are two parts to understanding MLPs. There are the fundamental assets that the MLPs own, which are generally things like pipelines for removing oil or natural gas or refined products like gasoline, or storage terminals for storing those products. So one part of understanding the MLP investment is understanding the underlying business.

Then the second piece is that MLPs are publically traded securities, like common stocks. The difference is, most common stocks that people invest in, whether it's ExxonMobil or Proctor & Gamble, those entities are organized as corporations from a corporate tax perspective, whereas MLPs are typically partnerships. The advantage of that is there's no double taxation.

With a regular corporation, for example, Proctor & Gamble or Johnson & Johnson, the company makes money, they pay income tax on that money, and then they pay a dividend to the shareholder and the shareholder pays tax on the dividend. With MLPs, the entity itself is a pass-through vehicle, so there's no tax at the entity level. In other words, a large MLP like Enterprise Products is not a taxable entity itself. It passes on the cash to the shareholders, and then the shareholders are responsible for paying taxes on it.

Oftentimes, the cash flow that MLPs pass on, the distributions they pay out, are characterized as return of capital for tax purposes, so there is frequently no need to pay tax in the year you receive it. We call it deferred tax. What happens is your cost basis is reduced by the amount of distribution, and then you have a recapture tax when you sell it.

SL: Thinking about return of capital, sometimes closed-end fund investors, whether they're advisors or individuals that we deal with, say, "return of capital is a horrible thing. Stay away." Just wanted to get you to clarify that return of capital, it's pass-through return of capital, it's not return of investor principle, and it's actually one of the benefits of the investment.

MICHAEL: That's exactly right. I think frequently when closed-end investors see return of capital, they think that it means their fund is not "earning the distribution," so they're supplementing the income and cash flow on the funds by sending home shareholder capital as well. In the MLP space, return of capital is a different thing. It is a tax characterization, which simply implies that when an entity, a company or a partnership, pays out cash flow, the cash flow has to be characterized as either one of two things: Either that cash flow, from a tax perspective, is considered income by the IRS and there is a tax obligation associated with it, or, in the case of MLPs, they're able to offset their income with large depreciation. They're not showing earnings, even though the entities are generating significant cash flow. In the MLP space, return of capital [is] tax-efficient cash flow.

SL: I know you specialize and focus on the blue-chip midstream, which to me makes the most sense for the retired closed-end fund typical investor, but remind people how the upstream and the downstream fit into the universe of MLP investments.

MICHAEL: The upstream is what we call E&P companies, exploration and production companies. These are the companies that are actually drilling the hole in the ground for the oil or gas. We think that E&P companies don't fit as well in an MLP structure. The reason is that what MLP investors really like the most is stability of cash flow. People like to buy an MLP security that's going to pay a stable distribution each quarter and hopefully grow it over time.

Well, the upstream business, the oil and gas production business, is a very volatile business. When oil prices are high, they make a lot of money, and when oil prices are down, their earnings get crimped meaningfully. That's a challenge in an MLP space, because it means when oil prices are high, the distributions will be good, and then when oil prices go down, the distributions will get reduced, and nobody likes to get their distributions cut.

The midstream, which is where the vast majority of the market capital in the space is and where our focus is, is the pipeline and storage. The vast network of pipelines in the country. And these can be anything from the actual pipeline that runs to each individual wellhead [to] big storage tanks. That's really the focus.

Then downstream would just generally be things that are focused on refining. There are some refining MLPs, but the refining business in general is a more volatile business. It's a business that has been doing quite well the last couple of years in the United States, but in general [it's] more volatile, and therefore we think that volatile cash flow sits less well in the MLP structure.

SL: You work with four funds. Please give us an overview of their order of initial public offering, the different mandates that they started at, and any changes that have happened to the funds since their inception.

MICHAEL: We manage four funds. I'll say them in the order they came out: CEM, EMO, CTR, and CBA. All four of them focus on what we consider to be high-quality midstream MLPs. We try to be prudent in our use of leverage in all four funds, and in all four funds, the objective is to have a stable and growing distribution over time.

There is material overlap in all four funds from the holdings perspective. It's a fairly concentrated universe, so there is significant overlap, but there are also differences. The differences are tilts in terms of what the objective is. CEM, which we launched in June 2010, was our first MLP fund, very general in its focus.

Then each of the three subsequent funds had flavors that were a little different. In June 2011, we launched EMO. At the time, there was tremendous growth going on in liquid-focused MLPs, so EMO is focused most on oil and natural gas liquids (NGLs). CTR we launched in June 2012. The focus there was really on investing in those MLPs with the highest distribution growth rates. CBA we launched in June 2013, and the focus there was on the growing natural gas infrastructure.

SL: You could put these same guts in a hedge fund, in an open-end fund, in a separately managed account, or investors could pick the MLPs themselves. Let's talk about the closed-end fund wrapper, what you like about it, the advantages, and the things you have to work around that maybe aren't advantages but limitations.

MICHAEL: There are several advantages to closed-end fund structures for MLPs. The first would be having a fixed pool of capital to manage. This is helpful because liquidity on MLPs has improved dramatically over time, but the MLP space still has lower liquidity from a stock-trading perspective than general corporations. It's helpful to not have to worry about inflows and outflows because of that liquidity consideration.

The second piece that's generally helpful, although it's a double-edged sword, is the ability to employ some leverage seeking to enhance the return and the distributions to shareholders. Because it's a fixed pool of capital and we don't have to worry about being redeemed, the closed-end fund industry overall is able to employ some leverage seeking to enhance the cash flow to the shareholders.

SL: What's your style of management? What's your version of this investment?

MICHAEL: We've really tried to stay focused on the true blue-chip midstream asset and not stray much from that. A couple of years ago when oil was at 100 and the growth in the industry was gangbusters, you saw a lot of other entities trying to take advantage of the MLP structure to raise capital.

We saw more volatile types of businesses that we don't think belong in the MLP wrapper, you saw more and more of those coming to market. Oftentimes they came with higher distribution rates at the time they came to market, or higher promised growth rates. For some investors, that was enticing. We tried to stay disciplined and stick to our focus of midstream assets, and I think that has served us relatively well over the last year.

Then the last thing I'd say we're really focused on, in addition to the quality of the asset, is the cost of capital. In MLPs there are limited partners and general partners; there are also MLPs that have eliminated the general partner, and all of this is around solving for cost of capital. When there's a general partner taking 50% of the incremental cash flows, the IDRs, that can be a very attractive security for investors as long as the growth is there and the corporate parent or the general partner is a supportive general partner. But it can also be that, over time, that general partner is entitled to 50% of the IDRs, and that cost of capital can become prohibitive and challenge the company to grow.

SL: How do you feel you spend your time and your money as a manager?

MICHAEL: From a time perspective, it's just a lot of time focused on both evaluating the assets and the businesses and talking to management and understanding where their strategy and where their focus is.

From a portfolio management perspective, we believe that MLP assets are very long-lived assets. Many of the pipelines that are being built today will be used 20, 30, 40 years from now. Similarly, many of the pipelines that are operating today were built decades ago. These are businesses that, because of the underlying assets, are good candidates for truly long-term investment. These aren't stocks that we think people need to be trading in and out of. We try to manage the portfolio in a relatively low-turnover way.

SL: What indices can people look at to track how these four funds are doing?

> ***"These are businesses that, because of the underlying assets, are good candidates for truly long-term investment. These aren't stocks that we think people need to be trading in and out of."***

MICHAEL: The most commonly cited MLP index is the Alerian Index, which is a good starting point. I think the Alerian Index is the best index to look at, but it's important to understand that the closed-end fund has different tax characteristics, and it may make the comparison a little bit apples and oranges.

SL: Are there sectors or regions that your bias is for or against or that you feel people don't understand?

MICHAEL: On the oil and gas side there has been, at different points, very strong growth in each of those commodities. The flip side is that now, with oil prices being down so much, people are concerned about volumes for crude oil, whereas people who were focused on the growth component of crude oil and MLPs just eighteen months ago are now more concerned about the risks associated with crude production going forward.

In today's environment, MLPs with significant refined product components are trading very well because of their perceived stability, whereas ones with a lot of crude oil exposure may be under more pressure because there are concerns about risk. On the natural gas side, natural gas long-haul pipelines (pipelines that ship natural gas over very long distances) are very defensive businesses and cash flow streams. Again, those have held up well historically.

I think another area we're seeing is the business called gathering and processing, which is actually companies that gather the oil and gas at the wellhead and aggregate it and process it before putting it onto a long-haul pipe. Those businesses were growing very significantly up until the downturn in commodity prices. Now there are more concerns about the volumes on those pipelines and what that means for those businesses. The first way you could think about segmenting the businesses would be based on commodity; the next one would be focused on asset type.

Then the third significant way of thinking about it would be corporate structure. Are you an entity that is a general partner or a limited partner, or are you an entity that's eliminated the general partners altogether?

SL: You don't think about it by region or by which area they're in?

MICHAEL: I'm glad you asked that. We most definitely do. What we're finding in this environment with lower prices is there are some shale plays that continue to be very economic, even at very low commodity prices, and other ones that made a lot of sense to exploit in a high-priced environment are not economic at lower prices. We spend a lot of time focused on figuring out what basins and geographies our companies are working in and making sure we're comfortable with those exposures.

SL: How do you monitor and track the potential risk of every investment on a general basis?

MICHAEL: At ClearBridge, that happens at several different levels. There's the individual security by the portfolio management team as we're doing the analysis. Then we have a risk group that runs risk analytics over the

whole portfolio, on a regular basis, to look at the risk there.

From our perspective, it starts with the balance sheet. How much leverage does the company have in the business? Is it an appropriate amount? Is the balance sheet reasonably well capitalized? Then we look at the business structure. We focus on contract types. Stability, predictability, and growth of cash flow. In this very challenging environment that we're in, 2015 has actually seen strong distributable cash flow growth, which I think is very important and I think is something that's not fully appreciated by a lot of investors. In 2016, we anticipate that that growth will slow dramatically, but we believe that, broadly speaking, distributions will be maintained and will continue to grow over time. Our big focus is to make sure that we're staying in front of companies or getting out in front of distribution cuts (and where we see a high likelihood of that trying to move away from those companies, obviously, before that happens).

SL: That ties in well to my next question, which is thinking about the fund's earnings and income over time and for the data points released by Legg Mason or by ClearBridge. What's the data that you look at to anticipate that potential trend, and what is reported to investors that they should be focused on?

MICHAEL: Our philosophy on distributable cash flow is that we take all of the distributions that we receive from our underlying investments, and what's left is the cash flow that we have available to distribute to shareholders. Over time we would hope to pay out substantially all of that, assuming there's continued growth in the underlying distributions of the companies we're invested in, to grow the distributions we pay out to shareholders.

On a monthly basis, we publish unaudited balance sheets that investors can look at and get a view on leverage, and then we have audited financial statements in our annuals with more detailed financial statements. From our perspective, again, it's looking at the underlying cash flow we're receiving and then paying out substantially all of that net of the expense.

SL: We talked about return of capital earlier, but thinking about the different funds, especially older funds, how has the return of capital classification changed over time? How much weight should people put in, for example, the one-year or three-year average return of capital that's been paid versus what might get paid in the next one to three years?

> ***"One of the attractions of MLP closed-end funds is that, in addition to just the current distribution and hopefully the growth and distributon, over time the distributions that are paid out from the funds themselves have often been characterized by return of capital."***

MICHAEL: One of the attractions of MLP closed-end funds is that, in addition to just the current distribution and hopefully the growth and distributon, over time the distributions that are paid out from the funds themselves have often been characterized by return of capital. Again, you get this deferred tax benefit from investing in them.

However, there is no assurance that it'll be return of capital. There definitely could be years where some portion or even all the distributions paid out are taxable. The key driver of that is the amount of gains that are realized in the fund in that year. To the extent that they realize a lot of gain, then it puts the fund in a position of having a lot of income and then makes the distribution taxable.

We generally endeavor to manage our portfolios in a tax-efficient manner and minimize the amount of the taxability of those distributions. It gets harder to do that as the funds get older, generally speaking, because over time both the stocks generally appreciate and the distributions have reduced the cost basis, such that older funds tend to have bigger embedded gains—which means that trading generates higher tax bills. It's definitely something we keep in mind to minimize in our process.

SL: Talk about the process in place at the board for evaluating distributions aligned with earnings and income.

MICHAEL: Every quarter we do an analysis looking at the cash flow that we're receiving from our holdings and our expenses, sort of the net cash flow for shareholders. We run an analysis and we compare that to what we've been paying and what we would like to be paying in the future, and we (being the portfolio managers working with the tax and accounting group at Legg Mason) make a recommendation to the board of directors saying that, based on what our earnings are today and what we expect to happen, this is the level that we think is reasonable.

SL: We always tell investors, "We hate to have dividend cuts, we love the increases." But you've got to remember net asset value performance is the anchor point for the market price of a fund. Long term, the correlations of net asset value and market are around 90%+. Talk about managing the portfolio for that net asset value performance and at the same time trying to maximize a risk-adjusted distributions for shareholders.

MICHAEL: As equities, when we look at MLPs, we're focused on a combination of the current distribution that we're receiving plus the expected growth in distribution. Generally speaking, we're not just buying an MLP because we like today's distribution on it. We're buying it because we like today's distribution and we think there's the ability to grow the distribution over time. There's a strong correlation between the net asset value performance and the market price; there's a similarly strong correlation over long periods of time between growth in cash flow and capital appreciation. Our hope is that, by identifying those securities with attractive

current distribution rates and the ability to grow the distribution, it will also result in the portfolio that generates capital appreciation over time.

SL: This is an interesting week for income investors. It looks like by the time this interview will be published, we will have an answer to whether rates are going up or flat. Talk about how people should think about the yield curve and how it impacts MLP and MLP leverage. Talk about where you think interest rates will go and the best- and worst-case scenario for the MLP sector.

MICHAEL: There are a couple different levels at which it's important to think about interest rates. The first would be thinking about how interest rates impact the MLPs themselves—in other words, their balance sheets. Generally speaking, MLPs have done a good job of terming out their debt. They frequently have issued long-term bonds with fixed coupons. That means that their underlying risk is relatively limited, so that's positive. The second is how rising rates would impact our own leverage on the fund, because obviously closed end funds employ leverage and there's a cost to that. Then the third component would be what rising interest rates imply for how MLPs are valued in the stock market. Do rates rise so much that treasuries or other fixed-income instruments become very attractive, [so that] people want to reduce their exposure to MLPs?

Our belief is that any rise in interest rates is likely to be fairly gradual and benign, and that therefore we think rates, while moving up, will remain historically at low levels for quite some time. And we continue to believe [that in] a low-rate environment, even though it may be higher than today, MLPs will stand out as being attractive for their distribution characteristics.

SL: Talk about the balancing of conviction with your ideas and diversification for the portfolio.

MICHAEL: I think that's the fine line that investors always walk, trying to concentrate their best ideas but do so in a way that's prudent. One is sort of the universe or opportunity set. It's a large universe in terms of market cap. The MLP sector has several hundred billion dollars in market cap. Yet at the same time, it's a fairly concentrated industry in that the top five to ten players would represent a large percentage of that market cap.

> ***"For midstream MLPs, clearly bankruptcy is theoretically always a risk, but I think that most MLP investors would see that that's a pretty low risk probability."***

SL: As you model out where net asset values can go for your funds, what does it take to get back to a normal trend line for total return for the sector based on current prices?

MICHAEL: What's so interesting and challenging about 2015 is that the distributions have continued to grow, and yet the stocks have sold off. It's really as much about fundamentals as confidence. We think that what is likely going to be the catalyst for the potential rise in MLP securities is a sustained floor and subsequent recovery in the commodity prices. Unfortunately, we think you could have volatility continue till then, but that would likely ultimately be a catalyst for the recovering prices.

SL: Net asset values have been annihilated, and yet the pricing versus net asset value has not done what it's done to the other closed-end fund sectors that have been hurt in the last 12 months. In your opinion, is that more a tax thing, or do you just scratch your head and chalk it up to closed-end fund inefficiency and opportunity?

MICHAEL: Ironically, at first it was a situation where MLP market prices and discounts actually widened earlier in the year. Then during the selloff in MLP securities, the closed-end funds simply haven't gone down as quickly as the underlying securities. Maybe that's an inefficiency, but as the selloff has gained momentum in the underlying securities the discounts have actually narrowed. The closed-end funds haven't gone down as quickly.

SL: How often do MLPs go bankrupt? What's normal? If we think about this from a bond perspective (because MLP investors are similar to bond investors), what's the risk of loss of principle? What happens when an MLP gets into trouble, even a midstream MLP?

MICHAEL: For midstream MLPs, clearly bankruptcy is theoretically always a risk, but I think that most MLP investors would see that that's a pretty low risk probability. The more likely concern would be, in a meaningful down environment, seeing distribution cuts. There is significant downside when MLP securities cut their distributions. There is frequently significant downside in the equity price. Usually that downside doesn't mean going to zero, but it could be very significant reduction in capital, even permanent reduction in capital on that equity.

SL: Do people regularly put MLPs in IRAs? Do they care about their return of capital that's in an IRA?

MICHAEL: That's a really important question. We definitely think that people should be aware of putting direct investments in MLP securities into their IRAs because of potential tax complications there. One of the benefits of the ClearBridge products and many of the closed-end fund products is that they can actually insulate the shareholder from any concerns about that. The fund itself handles all the tax filings, and there are no UBTI concerns for the ClearBridge closed-end funds if you put them in an IRA. The shareholder just receives one 1099.

The MLP universe and specifically MLP closed-end universe tends to be very much retail focused. It's definitely much

more of a conversation there. There's not as much institutional participation. We're seeing that change now. Many institutions are taking a hard look at MLP selloff. So I think that's an exciting opportunity for another group of investors.

SL: Any comments on how you keep the interest of the shareholders aligned with your work as a manager? Is there any perspective on aligning interest? It's a common theme in closed-end fund land right now.

MICHAEL: The entire Legg Mason closed-end family just recently announced that the board of directors for all of our closed-end funds has approved buybacks of up to 10% of the closed-end funds over time, at the discretion of the portfolio managers, when it makes sense. To be very clear, this is not a mandate to definitively go back out and buy 10% of the shares; it is rather giving the portfolio managers the option to buy back stock opportunistically when it makes sense.

SL: Is there a discount level that's generally thought of as the level where that would be considered?

MICHAEL: The markets are dynamic, and I think we purposefully want to remain flexible in that.

SL: Deferred tax liability (DTL) has helped reduce the negative impact for some MLP funds on the way down. Deferred tax assets (DTAs) can actually be very attractive in certain environments. Just give some color on the DTA/DTL scenario.

MICHAEL: When Congress set up the MLP structure, they said that a traditional mutual fund, which is structured as a registered investment corp., could only have up to 25% of its assets in partnerships. In order to be a dedicated MLP product, if one wants to focus 100% of their net assets in MLPs, the mutual fund has to be structured as an C Corp. In other words, there's a corporation inside of the mutual fund. Because of that, the fund is a taxpayer. What that means is that, as MLP stock prices are going up, the corporation, the mutual fund, has to reserve for the taxes that will be paid when the shares are sold.

The simple example of that would be if the underlying assets of the fund went up by $10. The fund would have to create a deferred tax liability at a 35% tax rate, so a three-and-a-half dollar liability, against that increase to reserve for the eventual tax that will be paid when the shares are sold. What that means is that when the underlying portfolio goes up by, in this example, $10, the reported NAV only goes up by six and a half. What that can mean is that the reported NAV understates the amount of capital that the fund has invested and generating cash flows to pay the shareholders.

What that can mean is that on the way up, if MLP securities are moving higher, that tax can be something of a drag. But in a down market, that reserving for the future tax liability can act as a cushion. If the market is going down 10% and the fund has a deferred tax liability, you're able to

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TOP TEN HOLDINGS (%)

CB Nrg MLP Fd (CEM)	58.14%	CB Nrg MLP Opp Fd (EMO)	59.06%
Enterprise Products Partners LP	8.28	Enterprise Products Partners LP	8.59
Energy Transfer Equity LP	7.56	Kinder Morgan, Inc. Class P	6.52
Kinder Morgan, Inc. Class P	7.2	Magellan Midstream Partners LP	6.28
Magellan Midstream Partners LP	6.24	Energy Transfer Partners LP	5.92
Buckeye Partners LP	5.34	Energy Transfer Equity LP	5.89
Markwest Energy Partners W/I MLP	5.23	Markwest Energy Partners W/I MLP	5.81
Plains All Amer Pipeline LP MLP	5.11	Plains All Amer Pipeline LP MLP	5.37
Brookfield Infrastructure	4.47	Buckeye Partners LP	5.26
Energy Transfer Partners LP	4.42	Enbridge Energy Partners LP	5.00
Enbridge Energy Partners LP	4.29	Williams Partners LP	4.42
CB Nrg MLP Tot Rtn Fd (CTR)	**51.26%**	**CB Amrc Nrg MLP Fd (CBA)**	**60.49%**
Markwest Energy Partners W/I MLP	6.29	Energy Transfer Partners LP	10.51
Plains All Amer Pipeline LP MLP	5.83	Buckeye Partners LP	7.77
Enterprise Products Partners LP	5.61	Enterprise Products Partners LP	6.64
Buckeye Partners LP	5.53	Brookfield Infrastructure	6.46
Williams Partners LP	5.15	Enbridge Energy Partners LP	6.22
Enbridge Energy Partners LP	4.92	Markwest Energy Partners W/I MLP	5.87
Kinder Morgan, Inc. Class P	4.72	EnLink Midstream Partners LP	4.56
Energy Transfer Equity LP	4.71	Williams Partners LP	4.46
Energy Transfer Partners LP	4.25	Oneok Partners LP MLP NPV	4.26
Targa Resources Partners LP MLP	4.25	Targa Resources Partners LP MLP	3.74

Source: leggmason.com. Data as of Sep 30, 2015

reverse some of the tax liability and the holdings may be only going down 7%-8%. There's a cushion.

SL: Any further comments on what may happen in the next 12 months?

MICHAEL: We are hopeful that as we turn the clock into 2016, much of the tax-loss selling that we think was taking place in the back half of 2015 will be gone. We hope that sets the floor for a more stable, productive market for MLPs going forward. We think MLP fundamentals have held up relatively well so far. We think that it will continue to be a challenging market for the energy landscape overall given commodity prices.

SL: Michael, thank you for taking the time to help our readers understand the MLP sector during a challenging time and the tilts for each of your four closed-end funds.

Important Information

All investments are subject to risks, including the possible loss of principal. Investments in MLP securities are subject to unique risks. The Fund's concentration of investments in energy-related MLPs subject it to the risks of MLPs and the energy sector, including the risks of declines in energy and commodity prices, decreases in energy demand, adverse weather conditions, natural or other disasters, changes in government regulation, and changes in tax laws.

MLP cash distributions are generally tax deferred. Non-cash expenses, such as depreciation or depletion, usually offset income derived from an MLP's operations. To the extent that these expenses exceed income, cash distributions are considered return of capital under tax law. As such, they are not taxed when received. Instead, the distribution, in the form of return of capital, reduces a unit holder's cost basis. This adjusted cost basis, in turn, results in a higher capital gain or lower capital loss when the units are sold. Of course, there can be no assurances that distributions from an MLP will be tax deferred. The Fund will be treated as a regular corporation for U.S. federal income tax purposes and, as a result, unlike most investment companies, is subject to corporate income tax to the extent the Fund recognizes taxable income. Any taxes paid by the Fund will reduce the amount available to pay distributions to investors, and therefore investors in the Fund will likely receive lower distributions than if they invested directly in MLPs. Distributions and distribution growth rates are not guaranteed and are subject to change.

Leverage may result in greater volatility of NAV and the market price of the Fund's common shares, increasing a shareholder's risk of loss. Investments in small-cap or illiquid securities can increase the risk and volatility of the Fund. The Fund may make significant investments in derivative instruments. Derivative instruments can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance.

Some MLPs may be subject to conflict of interest risk between the general partner (GP), or its affiliates, and the limited partners. MLP general partners may have limited fiduciary duties to an MLP, which could allow the GP to favor its own interests over those of the MLP.

The Closed-End Funds are not sold or distributed by Legg Mason Investor Services, LLC (LMIS) or any affiliate of Legg Mason, Inc. Unlike open-end funds, shares are not continually offered. Like other public companies, closed-end funds have a one-time initial public offering, and once their shares are first issued, they are generally bought and sold through non-affiliated broker/dealers and trade on nationally recognized stock exchanges. Share prices will fluctuate with market conditions and, at the time of sale, may be worth more or less than your original investment. Shares of exchange-traded closed-end funds may trade at a discount or premium to their original offering price, and often trade at a discount to their net asset value. Net Asset Value (NAV) is total assets less total liabilities divided by the number of shares outstanding. Market Price, determined by supply and demand, is the price at which an investor purchases or sells the Fund. Investment return, market price and net asset value will fluctuate with changes in market conditions. The funds are subject to investment risks, including the possible loss of principal invested.

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The Alerian MLP Index is a composite of the 50 most prominent energy Master Limited Partnerships and is calculated using a float-adjusted, capitalization-weighted methodology. An investor cannot invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges.

Incentive distribution rights (IDR) – General Partners may holds incentive distribution rights that entitle it to a higher proportion of the Limited Partner's quarterly distribution.

Past performance is no guarantee of future results. The views expressed are those of the portfolio managers as of December 4th, 2015 and are subject to change based on markets and other conditions. These views may differ from those of other portfolio managers or the firm as a whole, and they are not intended to be a forecast of future events, a guarantee of future results, or investment advice. Discussions of individual securities are intended to inform shareholders as to the basis (in whole or in part) for previously made decisions by a portfolio manager to buy, sell or hold a security in a portfolio. References to specific securities are not intended and should not be relied upon as the basis for anyone to buy, sell or hold any security. Forecasts are inherently limited and should not be relied upon as an indication of actual or future performance.

The information provided is intended solely to describe the managers' management style, investment strategies and securities selection process, and does not have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive it.

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CEF Advisors Holdings Disclosure: As of 1/6/16, clients and/or family of CEF Advisors have positions in the following fund(s): EMO. We will not make any buy or sell trades in this fund or in CEM, CTR and CBA until 72 market hours after this interview is publically released.

Fund	Discount	3 Yr Avg Disc	Mk Yield	Lev Adj NAV Yield	3 Yr RoC %	Lev %	1Yr NAV TR	3Yr NAV TR	5Yr NAV TR
CEM	-8.5%	-1.9%	11.6%	6.6%	63.8%	40.0%	-37.9%	-6.5%	11.4%
EMO	-8.5%	-5.7%	12.5%	6.9%	81.7%	39.0%	-37.8%	-8.1%	-
CTR	-8.8%	-5.8%	11.7%	6.7%	80.7%	37.0%	-36.8%	-8.8%	-
CBA	-9.5%	-	14.9%	8.1%	100%	40.0%	-43.7%	-	-
Avg MLP CEF	-7.6%	-2.9%	13.9%	8.6%	53.5%	33.0%	-42.4%	-13.3%	6.3%

Source: CEFU Universe and cefdata.com, as of 12/31/2015
CEF data definitions are available on www.CEFUniverse.com

Portfolio Managers' Review

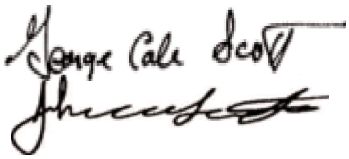
The US Economy is in relatively good shape based on recent data. While GDP has been closer to a 2% annualized rate vs. the 3% that we expected, four main areas are strong and give us promise for the future: 1. Unemployment is down to 5% while workers rejoin the labor force. 2. Consumer debt is at relative lows. 3. Housing prices and starts continue to recover. 4. Car sales are strong. The economy is far from robust, but we agree that the Fed was correct to increase interest rates. Outside of Oil/Energy, US companies and earnings have performed well.

CEF discounts are historically low for essentially all sectors, but have bounced off recent lows. As of January 8th, the average discount is -9% (vs. -10% low). Equity funds are at -10% discounts, taxable bond CEFs at -9% (up from -12% lows). Municipal bond CEFs are trading at -5% discounts and Debt-BDCs are trading at -19% (deep vs. -2.6% 10-year average). Income and energy related sectors are generally at wide levels even though many of these sectors are actually designed and expected to do well fundamentally in a slow rising interest rate environment.

We have two investment strategies helping high-income clients reduce their duration or portfolio risk. First, pairing municipal bond CEFs (30%-50% weighting) with Master Limited Partnership (MLPs) at 20%-30% and Covered Call CEFs at 20%-40% weighting. This could help take a Muni portfolio from a duration of 8-10 down to 3-4 based on the amount of portfolio capital. Municipal Bond CEFs have a 38% 10-year correlation to MLP CEFs and 71% for Covered Call CEFs. Even for clients in the highest federal tax bracket, our Muni Overweight Diversified Income model is currently showing an after-tax yield of 8% with a -8% discount to NAV.

We advise clients use Municipal CEFs in their taxable accounts asset allocation and business development companies (BDCs) for qualified accounts. BDCs and Municipal CEFs have a 10-year correlation of 15%. With this barbell approach to income investing, we think you can have a better long-term TR and income experience. We updated our 10-Year Asset Class Performance / CEF Discount History and added a 10-Year Correlation Table on our website: [www.CEFadvisors.com/investRes.html]. We hope you find these tables helpful in putting the current market environment into perspective.

Our advice for investors is to think about your portfolio as a whole. Stay diversified by sector exposure. Use the closed-end structure to your advantage, look for a dislocation of a fund's market price vs. NAV. The fixed capital and the ability for cheap leverage increases yield except during an unlikely inverted yield curve. Use limit orders and be patient with trading. Do your due diligence on the portfolio's holdings and manager(s). We suggest balancing three factors - "***CEFA's Trifecta***" - for fund selection; NAV Total Return, as it is the long-term anchor for the market prices; Current Discount vs. itself and peer funds (seeking CEFs that are more likely to narrow discounts vs. widen). Finally, Dividend Risk, the CEF's portfolio vs. the dividend policy (seeking CEFs with better chances to maintain/increase vs. decrease dividends). Most CEFs trade in relation to dividend policies. We are optimistic about 2016, even though it has been a rough start to the new year.



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

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