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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 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 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.

CEF Advisors now offers free public BDC/CEF Fund profiles at www.CEFData.com.

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Four Wood Capital: New CEF Sponsor with an Introduction to their Funds: TSLF and EGIF.

Welcome to the most recent issue of The ScottLetter. We decided to break from tradition and have a three-part interview. First you will hear from the Fund Sponsor, Four Wood Capital and then we will have a solid introduction and overview on their two closed-end funds; THL Credit Senior Loan Fund (TSLF) and Eagle Growth & Income Opportortunity Fund (EGIF). If you would like more information on either fund, please visit www.CEFData.com and enter their respective ticker symbols for access to our free public CEF/BDC fund profile pages, powered by our internal data team.

We interviewed Steven A. Baffico, Managing Partner and Chief Executive Officer of Four Wood Capital Partners, LLC on September 23rd via telephone.

Steven A. Baffico

SL: As a newer closed-end fund sponsor in this sector, why did you come into the sector, and why the closed-end fund structure?

Baffico: We believe that the continued consolidation in the financial services industry post-Great Recession has left many investors unsatisfied with their experience with large and inherently conflicted institutions. At the same time, the majority of smaller firms that provide high-touch service often lack the diversity of products or experience needed to navigate difficult markets.

What Four Wood Capital Partners has sought to deliver are the benefits of a large firm from a content and delivery perspective through a boutique platform that focuses on best-in-class independent asset managers with un-conflicted advisory and risk management resources.

With secular changes to financial markets, we believe that there has also been a corresponding generational shift in investment portfolio construction - you're really forced to think more critically about an "outcome-oriented, yield-based" approach to liability management versus more traditional "style box" allocation. Clients need to make consistent returns, whether a current or a future liability, of 8, 9, 10% a year. It's very difficult to achieve those returns through reliance on traditional asset constructs and traditional asset classes.

This search for innovative investment solutions that deliver consistent, predictable outcomes against the backdrop of historically low fixed-income yields has set the stage for what we do as a premiere independent investment management platform. We look at constructing diversified, income-oriented portfolios consisting of traditional assets like stocks and bonds, as well as incorporating a much greater use of non-traditional yield assets like alternatives and capital assets.

What we are really trying to do is meet our clients' goals of both preservation of wealth and attractive current income, driven by a focused approach to cash flow and principal protection products. At a high level, what we are doing is sourcing, creating, delivering, and managing yield-oriented investments across traditional and non-traditional assets and directing those at institutions and individual investors.

SL: Why closed-end funds?

Baffico: We think that type of structural delivery for yield-oriented investments, in particular for alternative or less traditional assets or less liquid assets, tends to be the best structural delivery for investors to benefit from those types of asset classes. We pride ourselves on finding the best content managers in a particular strategy

and then being able to deliver those to a variety of constituencies.

SL: As a fund sponsor using outside managers versus bringing managers in-house, what has your experience been working with those managers?

Baffico: It really starts for us thinking about yield-oriented investments that deliver superior risk-adjusted returns. Given what we believe the world looks like today and will continue to look like tomorrow, we are in the middle of a 15-year deleveraging super-cycle. Since 2008, everybody is very conscious of the involvement of central banks and the corresponding regulations in the financial services industry. What has happened is that we have essentially created a set of artificial guard rails which allow central banks to manage very efficiently the de-levering process of developed economies. As an unintended consequence, of reducing systemic risk significantly, what we've created is an overregulated environment producing anemic low growth in a very low-interest-rate environment which we believe will perpetuate itself for another decade.

Without significant rollback of regulations in the financial services industry, what you are essentially ensuring is that you have a cumbersome operating environment with an inflexible regulatory ceiling which constrains growth. Now, that's not necessarily a bad thing; but one just needs to understand what underpins the "new normal" as we continue to look at very low GDP and historically low labor force participation rates and wonder why the economy is not growing faster. The reality is, we've enacted a regulatory scheme and structural change in our industry and across financial markets globally that causes this glide path.

SL: How do we deliver better risk-adjusted returns in this type of environment?

Baffico: Clearly, we are going to have to start at the core of portfolio allocation, and that's traditional assets. We will continue to look at areas of that market where there is good relative value and ways we can deliver those with superior risk-adjusted returns. Having said that, if you believe that this is mid-way through a long cycle, you are going to be much more dependent on things like alternative credit, direct lending, energy, infrastructure, real estate, aviation, shipping—non-traditional assets and capital assets that can create intelligent, risk-adjusted yield returns. Pretty quickly, you say, "We need to be delivering a diversified, yield-oriented platform which has a growing emphasis on non-traditional yield assets, in addition to delivering the core of the portfolio with best-in-class managers."

How do you develop strategies from that? Three pillars: traditional assets, alternatives, and real assets. Then you start to find best-in-class managers who will construct capabilities which allow you to express some of these things in a variety of different product structures.

"We believe that active management matters a lot, especially in alternative income and difficult to replicate strategies."

SL: Talk about how you manage your involvement in the risk for shareholders and your perspective on the board of directors. Also, what do you look for in a manager, and what do you avoid?

Baffico: For a manager or strategy selection, we look at a number of important metrics. Absolute performance and relative performance are the first screen. Investment strategy; who they are as managers. What makes their investment process unique, superior and reliable as it relates to producing consistent returns? Are they philosophically aligned with Four Wood Capital? Do they have the same set of core values that we have? The truth is that most of the active managers are below-average and not that unique. There are few that are consistently elite and the major shift in fund flows from active to passive supports this. But we believe active management matters A LOT, especially in alternative income and difficult to replicate strategies.

We work hard to find the elite managers in certain asset classes and strategies which, again, fit our construct. Those are typically managers who have an excellent track record in serving a certain investor constituency but need our help to reach a broader part of the investor market. One of the things we are looking for is complementary skills, resources and access points with the managers we partner up with, because it allows us to leverage our platform to its fullest

Driving that discussion or those product concepts through the retail intermediary channel is the second piece of it - which is often labor-intensive, particularly as you are trying to be innovative structurally or content-wise and deliver best-in-class managers that may be slightly outside of the traditional, down-the-fairway strategy.

The short answer is, there are multiple checks and balances: manager screening, product construction, point of distribution at the major firms, and then how the firms choose to deliver those strategies.

SL: Where do you see future opportunity to carve out more tickers in your space? Why be a closed-end fund sponsor or have more closed-end funds be part of your asset product mix?

Baffico: As far as high-conviction areas of the market, for us that would be alternative yields. Four Wood Capital has expressed this in direct lending in the transportation space. We have built through our institutional investor relations one of the most active direct lending businesses in the world as it pertains to shipping finance. We are aggressively stepping into places where we think an alternative capital provider like us can deliver a superior product and where we can compete and grow quickly; normally where traditional capital has vacated the space

I would see things like direct lending in the transportation space, where we've established a platform and a reputation and actually have a registered fund template. We can offer those types of senior-secured, direct-lending opportunities at very attractive yield levels (9% plus) and in an intelligent, risk-adjusted way to deliver returns in the transportation space.

The other area of the market where we've got very high conviction - and it's a bit of a contrarian view - is in the energy infrastructure space. We think that there is a highly valuable toll-road story that hasn't been told in certain parts of the energy market, and we are working actively as a consolidator of operating companies in the energy infrastructure space to offer MLP type of product.

SL: You've obviously been involved in the closed-end fund neighborhood for a while. How can this universal structure improve its position in the eyes of investors and financial advisors?

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Baffico: Revisiting the structural economics of the way the products are priced and delivered at the broker-dealer level certainly warrants some further discussion, and you are seeing some aspects of that translated today. The pricing and delivery of this type of investment are evolving; maybe they need to continue to evolve in a direction that's more friendly to investors.

If there is anything that can help the industry, it is NAV-based trading in the secondary market. Things that are being introduced through new superior market delivery structures, things like NextShares. If you think intuitively about it, NextShare's product wrapper actually is a superior way to deliver an actively-managed product because it's predicated on a NAV-based trading system, which should theoretically eliminate or tighten market discounts. Part of the anxiety when dealing with these small-cap, thinly traded products is that they are not efficiently priced in the secondary market.

As a product developer and as a sponsor, you also have to be delivering best-in-class, superior ideas, because the closed-end fund, structurally, offers great integrity and benefit to doing things in the alternatives space. You've got to be delivering relevant products and then reacting to or proactively addressing the evolving landscape in economics and market structural delivery.

SL: There is an issue facing all fund sponsors with wrappers, especially those with a retirement focus, which is the Department of Labor's new rules going into effect next April. Have you started thinking about that in regards to the secondary market for your current funds, future ideas, or your role in the sector?

Baffico: As an industry, and certainly as a closed-end fund sponsor, we are relying heavily on our industry trade groups, things like the ICI, etc., to help understand and adequately position our industry and our products in a way that puts them at a fair point in the market which does not disadvantage our investors but which creates a fair playing field for the product. A lot of that is to be determined.

Brian Good

We certainly believe in the delivery vehicle [of closed-end funds], the market structure, as an excellent means to deliver high-value add, active management, and yield-oriented strategy. In this whole pricing fee in the Department of Labor, active management at large has had a very difficult argument over the last several years, where you have relatively low returns and you're being out-priced - and, in some cases, outperformed - by cheap beta products.

I think it's important to keep in view that yield equities are designed as high-value add, active-managed products which should deliver superior yield targets and are difficult to be replicated in the cheap beta. As long as you are using that as a guidepost to deliver best-in-class products, active management matters, and it's demonstrable in the results that you get in this type of product. The product structure is relevant and important to investors provided we as an industry focus on delivering superior risk-adjusted returns and yield-oriented outcomes that the investor is actively seeking.

SL: Steve, thank you for your time and sharing your perspective on what it is like to be a closed-end fund sponsor.

We interviewed Brian Good, Managing Director, Co-Head of Tradable Credit at THL Credit Senior Loan Fund on September 23rd via telephone. Steve Baffico joined us on the manager call.

SL: Tell us a little bit about your background and how it helps you with the fund.

Good: I started working in the loan market in the late 1980s. I worked for the first mutual fund to invest in loans back at the Pilgrim Group. I've been involved with the asset class since its inception. The group has a long history of managing these assets, and in many ways, we have had a front row seat for the loan markets' evolution and maturation into a capital market based format.

THL Credit Senior Loan Fund (TSLF)
Loan Participation Funds

Discount	-10.46%
3-year Average Discount	-8.13%
Market Yield	7.63%
Leverage Amount	28.41%
Average Liquidity	$483 Thousand USD
Loan Participation Funds	$137 Million USD
YTD NAV Total Return	+12.97%
YTD Mkt Pr Total Return	+10.84%

CEFData.com Data as of October 28, 2016

We are a long-standing member of the loan community. Our 25-plus years spent managing the asset class is differentiated within the market. This is important because of the unique structure of loans - they are not bonds, and they are not stocks. Their unique structure requires a discrete credit skill set, specialized systems, and a dedicated approach to their management. I believe that 25-plus years of experience does bring quite a bit to the management table, and it's not just myself, it's the entire team.

SL: What is a senior loan? How is it different than the other bond or debt investments in the market?

Good: They are debt obligations. They are senior in a company's capital structure. In most cases, they are the most senior obligations in the capital structure. We are, in most cases, senior to the bonds, preferred stock, etc. - other obligations lower in the capital structure. We are senior, we are secured, we are collateralized by the hard assets. This collateral can be made up of property, plant and equipment, inventory, as well as by trademarks, patents, franchise rights-anything of any real value embedded within the company, we will strive to perfect a lien against those assets.

It's a different relationship with the ultimate borrower than you would have as a bondholder, in that you are senior. In most cases, we are privy to private information, so you have a very direct dialogue with the company and an abundance of performance data. Additionally, as a senior lender to a

company, we receive far better access to that company's senior management, the CFO, etc.

As such, you have a different risk/return relationship with the investment. As well as being in a senior secured position, loan investors also benefit from the floating rate nature of the asset class. As lenders, we require the company's assets as collateral which is a defensive position. However, we allow the borrowers to prepay their loans with limited penalties and pay interest on a floating rate basis which provides more flexibility than the companies receive from their bond obligations. This allows for effective cash management among other things. The fact that loans are both senior-secured and floating rate is reason that loans offer investors a uniquely defensive income opportunity as compared to other debt obligations.

SL: According to our analyst's work with the CEF data site, your fund is about 89% loans. Talk about why you add the non-senior loans to the portfolio and how the sleeve of non-senior loans changes during different market environments or outlooks.

Good: There is a non-senior secured component to the portfolio, and, we look at that in two different buckets, both in second-lien loans and high yield bonds. Second-lien loans are secured, but they have a second position behind the first-lien obligations and the high yield bond allocation can be either secured or unsecured. We look at those non-first-lien positions in a similar light, and there are parts of the second-lien loan markets that we like from both a credit perspective and a technical perspective.

We are less constructive regarding the high-yield bond market currently and, in most cases, we'll use that allocation, that non-first-lien allocation, for very credit-specific investments, very idiosyncratic or discrete levels of credit risk and return. So typically, what you won't find are beta oriented high-yield bonds. In most cases, those are more unique credit situations overall, and maybe situations that we can't construct in the loan market.

In many ways, we think of it as a strategy resulting in slightly higher current income from those non-first-lien assets. But they usually incorporate a little more risk, and so we very judiciously use that allocation and we'll fine-tune it, both up and down relative to our views on credit risk overall.

SL: What would you say a typical first-lien loan spread over LIBOR is versus a second-lien loan? What is the typical size of a loan in dollar terms, and what's the typical size of the companies you are loaning to?

Good: First lien loans are currently yielding LIBOR plus 4%–4.5%. A second-lien obligation would be, in many cases, LIBOR plus 6.5%–8%, and that compares to high-yield bonds anywhere from 5%–7%.

> ***"The closed-end format allows us to dive a little deeper into the marketplace, seek out the best risk-adjusted returns, and find the best fundamental credit stories"***

SL: Talk about how the loan leaves your balance sheet or comes to your balance sheet as a fund.

Good: The loan market is relatively liquid. We purchase assets both from the primary new-issue market and the secondary market. We are somewhat agnostic as to where we find those assets. We have great access to both parts of the market given our experience and our longevity in the marketplace overall. In the same way, we were one of the first shops to really trade loans from a buy-side perspective, dating back to the late '80s/early '90s.

That experience and that history affords us quite a bit of flexibility in acquiring and selling assets. In most cases, these assets are larger-cap loans, typically EBITDA of $150 million or more. In many cases, the loans themselves are in excess of $1 billion, and it's not uncommon to see top line revenue in the $1 billion range and EBITDA in the $300 million–$400 million range. So, these are much larger-cap loans than the Business Development Companies (BDCs) are focusing on which tend to be much smaller. This portion of the loan market can be more liquid and more transparent than smaller cap loans. These loans are typically priced by independent third parties and, in most cases, are rated by Moody's and Standard & Poor's – generally BB and B, hence below investment grade.

SL: Let's talk about the closed-end fund's structural wrapper, why you like it, and where you'd like it to improve.

Good: We are hugely fond of the closed-end fund format. One of the nuances associated with loans is that, although they trade very readily, the closing and settlement process can be slightly delayed and/or a bit more nuanced. Actually converting the loans from an asset into cash can sometimes take an excess of three business days; it can often take up to a week.

The closed-end format allows us to stay fully invested and helps to reduce any cash drag. The daily redemptive funds typically carry a healthy amount of cash, high-yield bonds, and in some cases ETFs, which can create a cash drag. We tend to avoid that cash drag with the closed-end format. We are also able to utilize the breadth of the loan market, not the most liquid 50 names. This allows for a focus on the best risk-adjusted returns, the best fundamental credit stories and often a more opportunistic approach to the fund's positioning.

We can be somewhat less concerned about turning loans into cash on a daily basis. We are a proactive manager; we take a dynamic approach to our portfolios both from a sector and an asset perspective. We want to invest in the more liquid portion of the loan market, but in the top 50–100 names you get a lot of pricing vagaries. There is a portion of the loan market that is invested in via broad, universal players, high-yield

THL Cr Sr Ln Fd (TSLF)
Loan Participation Funds

Total Return (%)
Periods greater than 1 Year are annualized.

	1 Week	1 Month	3 Month	6 Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Price	1.40	1.97	4.26	8.79	1.91	11.98	16.00	1.36		
Rank	5/27	4/27	16/27	21/27	5/27	24/27	6/27	23/27	/	/
Peer Group	*0.62*	*0.77*	*4.23*	*10.82*	*0.53*	*16.20*	*13.95*	*3.03*	*6.14*	*2.54*
NAV	0.16	1.73	4.36	9.39	1.56	13.09	10.89	5.39		
Rank	9/27	7/27	10/27	8/27	6/27	13/27	2/27	3/27	/	/
Peer Group	*0.08*	*1.44*	*3.91*	*8.13*	*1.24*	*12.62*	*8.19*	*3.89*	*6.33*	*2.57*

CEFData.com Data as of October 28, 2016

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funds, loan funds, CLOs, etc. - but once you get away from that top 50 - 100 names you can often see better returns, as well as less liquidity. The closed-end fund format allows us to dive a little deeper into the marketplace, seek out the best risk-adjusted returns, and find the best fundamental credit stories. We can be somewhat less concerned about the secondary market liquidity of the assets.

SL: I notice you have about 28% leverage. It looks like it is all structural leverage. Sometimes people get nervous about leverage and closed-end funds, but we've found it allows you to do more in the right environment. Talk about the use of leverage at the fund, what type of leverage you are using (and why), and your outlook if interest rates go up on the leverage side.

Good: We use the leverage component in a similar way to how we use the high-yield bond and second-lien component: as a way to manage risk overall in the portfolio. When the fund originally launched , we were using less leverage, approximately 25%. We have been incorporated a bit more recently - approximately 30%. As such, we are saying we currently like the market. We like the return profile and the income profile of the market overall; loans have been very stable since mid-February and we like the overall supply/ demand dynamics as well.

The key to the fund's leverage is that it is floating rate. This is an effective compliment to the fund's floating rate loan investments. As a result, the fund does not have any mismatch on the leverage side. I think that's why many closed-end fund investors get concerned about leverage, because in many cases those funds are borrowing on a floating-rate basis and buying fixed-rate obligations, which can create a bit of a mismatch.

We don't have that in our case, so we are able to dial up leverage and dial it back down relative to our view of risk in the marketplace overall and how we want to position the portfolio. Today, we've expanded leverage to the upper end of the range, and, anticipate leverage will remain at that higher level for the foreseeable future.

SL: Are there any sectors you are excited about? Any areas that you are trying to avoid like the black plague?

Good: Right now, we currently like the high-tech sector. It also happens to be the largest allocation in this particular fund. There has been a lot of issuance in high-tech/software sector overall, and it is a growing sector. The things we like most about the sector are the high recurring revenue - either from maintenance revenue via perpetual licenses or from a SaaS-based model.

Many technology companies are migrating from perpetual license contracts to the SaaS-based models, but you've got strong renewal rates on these very sticky maintenance revenues. We also like the higher levels of cash flow generated by these companies. Effectively, you have negative working capital (as the customers are paying for the service up front), and then you've got very low capex on the follow.

"Senior secured obligations get paid before others in the capital structure. This consistency of the underlying loan cash flow is the foundation for the overall dividend level of the fund."

In a similar vein, we also have a positive view on business services. Some of the same characteristics in technology play out in business services. It's a very broad sector. We typically look for a top-three player, and, in most cases, we look for the number one player in the major product offering.

SL: We always tell people to try to balance three things: We want NAV stable or growing; we like discount to be stable and narrowing; and we like to have dividend stable or growing, or at the very least, look to have a smaller cut coming vs. larger for investors. Talk about lumpiness of earnings in the senior-loan market. How do you think about the dividend policy? How do you manage the portfolio? Obviously, you don't want to lose money in the loans, but you want to try to meet the needs of the dividend policy set by the board.

Good: The good news is - and, again, it foots back to one of the more compelling aspects of the asset-class, bank loans - is the consistent nature of their cash flows. Again, senior, secured - these obligations get paid before all other in the capital structure. The consistency of the underlying loan cash flows is the foundation for the overall dividend level of the fund.

We are a floating-rate asset class. Rates have remained stable to rising. Three months LIBOR is now 85 or 86 bps, and that's up 50 bps in the last six months.

We've got solid, recurring revenue from an asset perspective, and those levels only continue to look like they are expanding as LIBOR continues to move up overall. We don't find ourselves in a position to have to stretch for yield. We don't have to look into strange nooks and crannies of the market to find excess yield. The whole market is $900 billion (give or take 1,600 names in the Index), so there is a wide breadth of opportunities for us in both the primary and secondary markets.

The primary objective of the fund is to give investors exposure to the loan market. Quite frankly, the dividend will be the dividend. The dividend is not reverse-engineered from a level that we need to go out and try to hit. We construct the portfolio, we generate income, that income falls to the bottom line, and we analyze that relative to our dividend policy overall.

We are prudent from an income generation perspective. Let's face it: We're late in the credit cycle. Growth overall in the US is somewhat muted. We don't think this is the time or place to stretch for yield, and we are not inclined to do so.

SL: Do you have any sense as to why your senior-loan-oriented portfolio has done better on a one-year basis versus your peers? Do you think it has been more of a sector or name decision, or more that you have more senior loans than many of your peer funds?

Good: That is a good question. The NAV has been helped notably so far this year relative to our lack of exposure in the energy sector and in the mining sector overall. Those two sectors were very difficult earlier in the year and late last year and have really presented the market with a lot of volatility. In the second quarter, those sectors rallied dramatically. They've been under pressure over the last two months, post the second quarter overall.

I think it's our lack of exposure to the commodity sector first and foremost. Also, our fund is a little smaller than some of the

larger products that are out there. As a result, I think that the fund can be more flexible and potentially a little more selective. We really aren't pushed into the market like the larger funds or the redemptive funds. The closed-end format and smaller size overall allow us to be prudent, selective, and deliberately position the portfolio regarding the risk that we find most compelling and the returns that we find are most defensible.

That has ultimately resulted in better overall performance. We played better defense in the market earlier in the year, and that put the NAV in a better position initially, and then as the market has expanded our portfolio has responded very well. The riskier portions of our portfolio have performed exceptionally well, but I think it was good defense early on that positioned us to play better offense, and that offense has been playing out over the last few months.

SL: What is one item that advisors or investors always seem to misunderstand about the fund or the sector?

Good: For the last 10-plus years, loans have been sold in retail channels or marketed in retail channels as a rising-rate investment. It's funny - I bump into broker-dealers that I haven't seen in 10 years and the guy will say, "Hey! There is the bank loan guy. That's the guy that you call when rates go up."

The fund is delivering great returns right now in this environment, but there is just a view out there that loans are most useful and attractive in a rising-rate environment relative to other fixed-income products. That was the case up until this most recent downturn.

My frustration is with the way loan funds have been marketed for the last 15 years. I don't think many retail brokers and retail investors will look at loans until rates really begin to move up. Loans, relative to other parts of the fixed-income market, are probably as tight from a yield perspective as I've seen in years. Look at high yield bonds, historically, high yield bonds have out-yielded bank loans by 200–300 bps. I think the folks at Bloomberg came out and said that high-yield bonds were only 13 bps wider from a yield perspective than loans.

"We are in the most senior position in the company's capital structure, again, defending against a more dificult fundamental credit environment"

Given the massive run-up in high yield bonds and the fairly moderate state of play in loans, I think loans, from a relative-value perspective, are as attractive as they have ever been relative to the other capital markets.

Loans are doing well today and are providing a lot of excess income and return relative to other parts of the fixed-income market - and on a mutually exclusive basis. They also insulate you from higher interest rates in the future, are much cheaper overall than high yield and some of the EM debt that you see out there at much different price points. I think loans are cheap (or well-positioned).

We are seeing more and more investors, both institutional and retail, come back to the asset class. Loans are coming back around for all the right reasons, and are positioned to provide very unique returns and lower risks when rates actually do start moving up on the short end of the curve. Three months LIBOR has moved up nicely already, which has helped the loan market overall. My personal view is that interest rates will move up, and it will catch a large portion of the market off-guard, and loans will become a very handy investment for many of those fixed-income investors who are looking for some insulation against higher rates in the future.

Steve: I think Brian has made a great case for the asset class, and I think the template is, historically, to trade up in capital structure exposure. You've historically given up some returns, and that's just not the case today on a relative basis. The asset class is performing quite well and giving superior risk-adjusted returns relative to other spread assets.

The delivery of that asset class in a closed fund - which is not ever under forced falling pressure of redemption or misguided investor sentiment - is just a superior way to deliver the asset class. You are just not subject to the whims or vagaries of market behavior, which is sometimes not necessarily logical.

Good: A couple of final thoughts: This is a great time to be writing this article, because I do think that we are seeing a lot more focus and a lot more tension on loans overall. A large portion of the market is concerned about higher-interest rates and how that will affect fixed-income portfolios and income overall and the volatility of fixed-income markets generally. Loans do present a very unique place to defend against higher-interest rates, [because they] actually benefit from higher-interest rates and offset some of that fixed-income risk. Let's face it: We've been on a 30-year declining-rates trajectory. There is a better chance than not the rates will begin to move up, and that will be a prolonged period of increasing interest rates, probably many years into the future.

There is a "rate fear" camp which loans do an exceptionally good job defending against, and then there is the "slowing economy" camp. Is the US slowing to a recessionary level? Does growth continue to come in below projection? Do the equity markets roll back over? Do we have a growth scare similar to what we did late last year? My personal view is that the higher-rate crowd is currently winning.

That's the more pressing and urgent risk in the marketplace overall, but the secondary risk of a flowing economy, a potential recession, and equity and other credit risk instruments trading down - if you think about that scenario, loans are senior secured in the company's capital structure and/or collateralized by real assets with floating rate coupons. So our primary investments in TSLF are in

Replay: "The ABCs of BDCs and Closed-End Funds"

On September, 22, 2016, we held a session as an introduction and education on closed-end funds and business development companies. Slides and a replay link are available on our website.

www.cefadvisors.com/webinars-on-demand.html

the most senior position in the company's capital structure, again, defending against a more difficult fundamental credit environment.

We believe loans, strangely enough, are well-positioned to continue to produce solid recurring revenue in a slowing economy and in a rising-rates economy, and are poised to do very good work in both environments for investors over the foreseeable future.

Baffico: The only thing I would add from the perspective of the advisors is that we've been extremely happy with peaks, the approach to the market; obviously, the performance, as you've indicated, has been best in class. We're believers in the asset class and continue to believe that it's poised to deliver great results for investors.

EAGLE | Asset Management
An Affiliate of Carillon Tower Advisers

We interviewed James Camp, Managing Director and Portfolio Co-Manager and David Blount, Portfolio Co-Manager of Eagle Asset Management, Inc. on September 23rd via telephone. Steve Baffico joined us on the manager call.

SL: How did you get to where you are today? How is the organization set up to run the assets or the fund? How do you divvy human capital at the firm?

Camp: I run all the fixed-income for Eagle and co-manage the closed-end fund as well as a separately managed account that sort of mirrors the closed-end strategy. I came to the bond world from the engineering world. That was my undergraduate degree.

When I finished graduate business school, I was hired by the large Dutch insurance company ING to sort of be their quant-modeling guy. [That was] 26 years ago; the proliferation of the analytical technology was not quite there. I was able to marry up the technical background that I had and then started getting capital market experience.

I joined the parent company 23 years ago, and I have basically been a bond manager, because my belief, coming from the engineering world, is that there is an answer out there, and if you look at the map, the map will reveal the answer. I think the main difference between what my colleague David Blount does and I do is, bond managers can ascertain the value of securities and cash flows. It's the price that's ambiguous because of the way the bond market works. The dividend team, the equity team, everybody can almost agree on the price, they have a more difficult time and their challenge is coming up with the value.

James Camp

It's an interesting, different mindset. I think bond managers, myself included, become common-law economists over time. We tend to be skeptical because of the asymmetric nature of what we do. We are lending people money, and we want it back. I have a skeptical eye. I have a very deep professional and personal interest in economics and how economic policy changes behaviors, capital markets, and, frankly, society at large.

Blount: I'm a co-manager. I have been in the investment field for 32 years, and I came to Eagle Asset Management the same time James went to the parent company. I just had my twenty-third anniversary here at Eagle about a week ago. I've always wanted to be in the investment world: majored in finance, also took quite a bit of accounting, just because I thought that would set me apart from my colleagues that just had a finance degree.

I realized early that accounting makes a big difference when you are looking at companies, so I did spend some time accounting for investments when I had gotten my CPA (which I keep up to this day - I don't know why, but I do). I started off in the fixed income side and did a lot of work there on treasuries, mortgage-backed, and then high-yield bonds, and that's when I really found the research type of things that I love to do.

David Blount

I actually did fixed-income high-yield bonds here for a little while, but soon after I came [to Eagle] I switched over. They had the high-yield bonds working under the equity income manager here and I decided to join forces with him. He was a very smart guy and taught me a lot. Equity income really does fit my personality. I am more of a conservative-type investor. I don't think I would make a very good hedge fund manager.

We have fundamental analysts here - I say "we" because my team consists of six people that does nothing but investment research on the stocks. Then we also have two people that support us more in the aspects of quantitative, looking at our returns, looking at our risk. They run all of our risk reports, as well as help us out with some marketing and communication with all of the monthlies and quarterlies. We have a very good team.

The way that we are organized, I'm one of three core portfolio managers, and then we also have three analysts. We all split up. We go out and visit companies, we talk to management teams, we run the numbers, and we split up the industries. I cover in particular the consumer staples and discretionary,

Eagle Asset Management, Inc. (EGIF)
Hybrid Balanced

Discount	-14.12%
1-year Average Discount	-13.3%
Market Yield	6.00%
Leverage Amount	24.12%
Average Liquidity	$209 Thousand USD
Net Assets	$139 Million USD
YTD NAV Total Return	+14.18%
YTD Mkt Pr Total Return	+15.82%

CEFData.com Data as of October 28, 2016

but then I'm also a portfolio manager and have decision making over the whole portfolio. We are a very collegial team. We are very competitive people to the outside world, but inside we are not competitive. We do the things that are the best for the portfolio, not the best for me.

SL: You said the portfolio's not fixed, so how do you wander? I'm always curious when I see ETFs in a closed-end fund. Why are they there, and what drove the decision? When or how would you potentially replace them?

Camp: The asset allocation process begins with the chassis that is our separate account asset management tool. We've been running that product for seven or eight years to run the closed-end. We use a series of regressors. There are about 32 of them. They come out weekly. They run a dashboard that is basically three major macro themes: monetary, economic evaluation, and then fundamental.

We encapsulate valuation, what's going on with money funds, the money supply, the Fed, and where the momentum, if you will, of the market is going. This generates a series of weights: stocks versus bonds, bonds versus cash. We have artificially truncated the maximum amount of equities we will own and the minimum amounts we will own.

It is not a purely unconstrained portfolio. We are focused on income and income generation, both in the separate account and in the fund, and the closed-end fund space is income. We then have a more important element, and that is the discussion that David and I and the team share. Remember that if we use modeling technology and indicators, we are sort of talking about the markets, and the markets may be defined as the S&P in the 10-year treasury's proxies for bonds and stocks. Our execution is different in security selection underneath that space focusing on the income side.

We have to be wary of the fact that quantitative screens and regressors may be good for relative valuation of stocks versus bonds in a simplistic sense. Our particular securities are different. I think the last part of that is this sort of agnostic nature of what we do for income. As a bond manager, one of the things we are wrestling with and have to conced is that this interest rate environment allowing corporations to re-leverage, borrow cheaply, and reward shareholders with higher dividends, etc., has been more productive for the ownership side of the balance sheet than the lending side.

The other part of the question you asked is on the ETF side. Given that we knew that we were going to distribute our first bond with a reasonably smaller deal than we hope to in the future, the allocation strategy for the pure high-yield in the sleeve that we were going to get suggested to us that the ETF was a better vehicle from a liquidity, from a diversification standpoint.

The high-yield market has become equity light. It is basically a risk on surrogate. We can tactically move that allocation in and out of high yield a lot more fluidly than we could cash bonds.

SL: Five years from now, do you envision having less ETF exposure? What would lead to more individual ownership?

Camp: I think so. The question is, will we have less ETF exposure, and the answer is "likely." We all hope, I think, for the constituencies that you report to and we represent, so the yield environment and the spread environment will be somewhat more normal. If it generates reasonable income, you don't have to do the things that the market has almost forced you to do.

SL: Talk about the fund's use of leverage. I notice it's about 24% by our math. The cost seems reasonably cheap. Our guys averaged it out to about 2.1% annualized, although I'm sure it's mixed a little bit. Why would use of leverage change over time, and why was it incorporated into the fund strategy? Don't you have enough equity exposure that you don't need leverage.

Camp: When we configured the fund, there were two major themes that we collectively agreed upon. The first was lower–longer. I have been steadfast in the belief that the Federal Reserve's policies are less involved with the real economy and more involved with financial assets. That may be a cynical take, but I think that their activities have borne that out.

The lower–longer thesis was paramount to us. We were convinced that reasonable leverage would still be generous, that the cost of funding would stay low for a very long time, and that we were in a position to use short term funding for yield versus taking massive risk and way down the credit curve that it was a better risk-return trade-off to take basically the largesse of the Fed.

SL: What do (or don't) you like about the closed-end fund structural wrapper for this investment?

Camp: There are things in the closed-end fund that we're comfortable doing given the sort of captive nature of the assets and the term that we have put on it. Most of David's and my business is separately managed accounts, which necessitates a higher degree of pure liquidity and perhaps a lower level of risk taking. Nothing that we own in the closed-end is outside of our research purview.

Blount: We manage the same objective over a bunch of different wrappers, whether it's a separately managed account where the customer owns their own individual stocks or a mutual fund or an institutional account where it's pooled.

Obviously, in this situation where it is pooled and it is also closed, the pool part of it works very well because we can make small movements. In an individual account, we can't go in saying, "We want to move these 10 bps up or down" - not that we do a lot of that here, but we obviously have that flexibility in a pooled account.

The advantage of the closed-end fund's nature is that you don't have flows to deal with. It would be nice if we had inflows, but that can cause problems as you are investing in them; more importantly, on the other way out, is if you get redemption. That's something we don't have to worry about here, either good or bad, and so it makes it a little bit different and it's an easy way for us

Eagle Gwth & Incm Opp Fd (EGIF)
Loan Participation Funds

Total Return (%)
Periods greater than 1 Year are annualized.

	1 Week	1 Month	3 Month	6 Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Price	0.12	-0.52	-3.91	4.82	-1.23	15.03	1.65			
Rank	3 / 14	2 / 14	13 / 14	9 / 14	2 / 14	4 / 13	11 / 13	/	/	/
Peer Group	*-0.43*	*-2.55*	*-0.38*	*7.08*	*-2.66*	*9.66*	*6.25*	*4.38*	*8.00*	*2.51*
NAV	-1.19	-2.92	-3.50	4.21	-2.13	12.71	8.56			
Rank	7 / 14	10 / 14	13 / 14	10 / 14	6 / 14	3 / 13	2 / 13	/	/	/
Peer Group	*-1.18*	*-2.69*	*-1.14*	*5.00*	*-2.35*	*7.25*	*3.14*	*3.95*	*7.34*	*2.81*

CEFData.com Data as of October 28, 2016

to manage assets in one pooled account and have that flexibility.

SL: Part of our broad mandate is solid NAV performance. I know that you think about the portfolio differently than I do because I'm buying the market price of a closed-end fund and you are managing capital inside the wrapper, but any thoughts on the NAV performance?

Steve: Number one, this was set up as a term fund, so it does have a stated maturity date. I think in this position around being a growth and income fund where we are actually trying to grow that asset value and balance that in conjunction with the competitive and compelling income stream, those two have equal voices as we look at earnings - and, in some cases, day-to-day investors' decisions or allocations.

We'd be remiss if we didn't point out that managing the NAV upwardly is a very important component of this, certainly with a maturity out 10 or 12 years. We've kind of stated our objective to stabilize and grow the net asset value. Those represented work in conjunction, but it may be slightly different and primarily still focused on high current income. There is a very healthy focus and discussion week to week and month to month on how best to balance those based on what each of the sectors or each of the segments of the book are giving us, be it fixed income, equities, or options.

SL: What's the thing that you are constantly explaining or refuting or wishing everybody already knew about the sector, the structure, and the mandate?

Camp: The biggest elevator pitch, if I have one, is: This is a high-quality income product. It is capital-structure agnostic. I believe this deeply, and I think David does as well: The yield environment that we are in, the policies of central banks around the world, have made it a lower-risk proposition potentially to generate income on the ownership side and the debt side.

By the way, those who use debt instruments to fund an income stream in what I call the “bond proxies” of the world have been victimized. They were victimized in the MLP space. You could buy very long-duration equities and have rate volatility. For me, it's the Reese's Peanut Butter Cup analogy. Chocolate and peanut butter go great together, and Dave and I have been doing this in a "you pick it" fashion, and now we are saying, "Let's do it in a robust, interactive fashion." I think that has a lot of value.

SL: Let's think of rates forced to go higher faster than anyone is calling for in the near term, say three years from now where LIBOR is 125 bps. How do you think about this portfolio with a bifurcated possible outcome: extremely lower–longer (which you told me was your perspective) or one where you’re wrong and get shocked by rates. How do you think about that in the portfolio's construction, and how would you react to it if it would happen?

Camp: We have a number of [levels of] leverage, and I think that's the beauty of the way the fund is structured. The first level can be in a higher-rate environment, with probably also a coincidence with a better economy and perhaps better earnings for stocks. We could essentially de-risk the portfolio and generate the same competitive income. What we try to tell folks is, "We are going to compound over the period when this thing terms at about a 6.5% total rate of return." This year, in the trailing 12, as we expected the dividend side of the equation, has now performed very, very nicely.

What we look at each week when we have the call on the fund is: What is the leverage that we have? Are we properly deploying the leverage that we have? And that means stocks versus bonds (and there is an options overlay strategy). What does the funding cost look like over the next couple of years or the next couple of quarters, and are we still comfortable with that? We will de-lever this fund at some period in time. This will be a lower-levered fund. It will still generate the income. We will not get income greedy and try to print an 8% or 9% yield. This is a term fund that has a NAV event that is meant to compound and reinvest at 6%–6.5%.

Blount: We are not investing in highly leveraged companies. So, from a fundamental basis, interest rates going up will not hurt the fundamental part of our stocks. You could say, "Well, if interest rates go up then stocks go down," and what we always point out to our clients is that, actually, from this standpoint, history would tell you that the P/E’s of stocks would go up as the interest rates go up.

If you look at a chart, a dot plot of where P/E’s are in the market, interest rates with the P/E’s going up, and interest rates going across from a 1.6% on a 10-year up to about 5% on the 10-year, actually history will tell you that P/E’s will rise, and it's for those exact reasons that we are going to get that in conjunction with some kind of economic recovery. And economic recovery is going to mean that my companies are going to earn more money, grow faster, and have higher P/E’s.

It's really not, historically, until you hit that 5%, which is where that inverse correlation comes in. And of course it makes sense. That's when the Fed comes in and things are overheating, the economy is going, inflation is a problem. So that's not to say that there won’t be a knee-jerk reaction. In this portfolio, as we've seen over the past year or so, the knee-jerk makes it hard, because we do have higher-income securities in here. But, fundamentally, I don’t think it's going to affect it.

Baffico: I guess the other thing to point out is, with the sector’s rising rates, generally speaking, that's also been pretty highly correlated with higher market volatility, which would certainly translate into an opportunity on the options book as well. We at the Eagle rather leave it to the guys at “recon” to elaborate on that, but we keep in mind that there are three moving pieces with this that have the ability to respond and react to a variety of market conditions.

Thank you for your time and perspctive on the funds. I hope this new Scott Letter format with the added perspective from a CEF sponsor was helpful. As usual, please call or email us with your feedback and questions.

CEF Advisors Holdings Disclosure: As of 10/31/2016, clients and/or family of CEF Advisors do not have positions in the following funds: TSLF and EGIF. We will not make any buy or sell trades in these funds until 72 market hours after this interview is publicly released.

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Portfolio Managers' Review

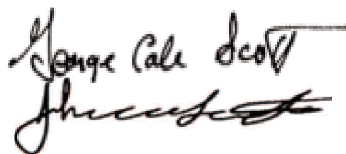
2016 has been a good year for taxable CEFs and business development companies (BDCs). Conversely, investors are giving back some of their profits for the municipal bond sector. As of our October 28th, 2016 data, the average fund in each group had the following: **Equity CEFs** had a -8.6% discount, 7.8% market yield and YTD NAV total return of +9.3% and market price TR of +11.8%. **Taxable Bond CEFs** had a -5.8 discount, 8.0% market yield and YTD NAV total return of +12.3% and market price TR of +15.5%. **National Municipal Bond CEFs** had a -4.8% discount, 5.3% market yield and YTD NAV total return of +5.2% and market price TR of +4.9%. **Debt-Focused Business Development Companies (BDCs)** had a -7.8% discount, 10.9% market yield and YTD NAV total return of +6.1% and market price TR of +13.6%. For more detail on specific funds please visit www.CEFdata.com and enter the ticker symbols of your interest. This includes BDCs for which we offer the only public fund profiles we are aware to exist.

The best asset class performance through the third quarter 2016, included BDCs, MLPs, Sr. Loans and high yield bonds as they generally recovered from a low base and a rough 2015 experience for many yield-focused investors. Even though these sectors have done well, they are still generally reasonably priced vs. their long term NAV and discount trends. Discounts are still attractive for many funds; even many national municipal bond funds, which it may be worth adding to (as we previously suggested lightening up) for some tax-driven or equity risk avoiding investors. Discounts have widened from near net asset value to about -5%, which is historically wide.

One benefit of our growing web-based CEF/BDC data system is that we are able to now offer investors or advisors 20 model portfolios to serve many investment objectives. We have added version of our popular models with monthly income, low correlation, low beta, better after tax yield (less tax friction) and more. If you have not seen the current list and overview on these models, please visit our website: www.CEFadvisors.com and click the "Model Portfolio Offering" link or image. Currently it takes about 30 seconds to load; but offers data on each model daily from our research system and by clicking a model name you can access more information.

As we continue to build and manage our client's income oriented accounts, we find it very helpful to consider the Beta, or reactiveness of a fund to the S&P 500 in addition to the historical correlations of various CEF sectors and after-tax yield when offering the best investment objective. We use this in addition to our long-term Trifecta analysis, to seek funds with discount that should be stable or narrowing, dividend levels expected to be stable or potentially rising (at the very least better than peers) and NAV or sector performance after expenses that is better than many peer funds. We believe and have learned from experience that building a CEF portfolio based on these guidelines gives you a three-legged stool to balance many of the risks possible in a closed-end fund.

We expect market volatility to be common before, during and after the election and suggest investors focus on their investment allocation goals while buying or selling discount alpha when possible and adjusting for fundamental changes in the sector, fund sponsor or fund. This increased volatility may give you better trading levels as closed-end funds are often great places to be a contrarian investor in moderation. If you missed our quarterly CEF/BDC research call it has been archived on our website and is available to be accessed as well as a recent webinar, "The ABCs of BDCs and Closed-End Funds".



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Note: All data referenced is from CEFA's CEF Universe data dated October 28, 2016 unless otherwise stated.

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Currently offering managed portfolios with the following objectives:

International Opportunity
Diversified High Beta
Diversified Growth
Growth & Income
Hybrid (High) Income
Alternative Income
Discount Capture
Foundation/Balanced
Diversified Low Beta
Low Correlation
Taxable Bond & BDC
Diversified Tax-Sensitive Income
Conservative Diversified
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Low Duration Municipal
Special Situations

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