

# THE SCOTT LETTER: CLOSED-END FUND REPORT

Vol: XVII No. 2

A Global View of the Closed-End Fund Industry

June 2017

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](http://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](http://www.CEFData.com).

CEFA now offers over 20+ CEF/BDC indexes to help benchmark the universe. More information is available at [www.CEFdata.com/index](http://www.CEFdata.com/index)



— George Cole Scott,  
Editor-in-Chief



— John Cole Scott,  
Contributing Editor

## IN THIS ISSUE:

- Interview with Larry Antonatos at Brookfield Asset Management ..... 1
- Portfolio Managers' Review ..... 6

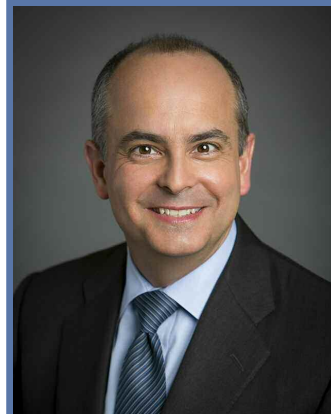
## Brookfield's Real Assets Income Fund: Multisector Approach to Income Investing

The Multisector bond grouping of closed-end funds according to our CEFdata.com system has 21 funds, 4% of the sector, from 11 sponsors. The group adds up to a total of \$16 billion in net assets or 6% of the closed-end fund universe net assets as of June 9, 2017. The sector currently trades at an average of +3.4% above NAV with a 7.4% yield and a duration of 4.1. We believe one of the reasons the sector trades about 5% above the average taxable bond CEF, is because investors seem to allow a bond manager with a wide “go anywhere” mandate to generally enjoy the opportunity to trade above NAV when they are comfortable with the results and experience. Half the group is currently at a premium vs. 23% for the entire taxable bond grouping.

In this interview, we focused on the three Brookfield funds that merged into a new offering in December of 2016. For reference, we included data on the entire Multisector group of funds in a table on page 3. If you would like to see more information on these or other funds, please visit our free public CEF profiles at [www.CEFdata.com](http://www.CEFdata.com) powered by our internal CEF/BDC data team and you can benchmark the group with our Multisector Bond Fund index launched with our 25 other indexes in the first quarter 2017 at [www.cefddata.com/index](http://www.cefddata.com/index). We interviewed Larry Antonatos via telephone on May 10, 2017.

Larry Antonatos – Managing Director, Portfolio Manager Larry Antonatos has 26 years of experience and is a Portfolio Manager on the Real Asset Solutions team for the Public Securities Group. He oversees the portfolio construction process, including execution of asset allocation. Before joining the Real Asset Solutions team, Larry was a Product Manager for the firm’s equity business where he was responsible for the development and growth of new and existing

# Brookfield



Larry Antonatos

investment strategies. Prior to joining the firm in 2011, Larry was a portfolio manager for a U.S. REIT strategy for ten years. He also has investment experience with direct property, CMBS, and mortgage loans. Larry earned a Master of Business Administration degree from The Wharton School, University of Pennsylvania and a Bachelor of Engineering degree from Vanderbilt University.

**SL:** Give us some background on the fund sponsor.

**LA:** Brookfield is a global asset manager focused on real assets. In general, our definition of real assets

includes real estate, infrastructure, and sustainable resources/natural resources. Everything we are doing in this fund is publicly traded securities—both equity and debt—but Brookfield also runs a series of large, principally institutional private equity funds focused on real assets. We also have a number of publicly traded partnerships focused on real assets.

My career has been focused on real assets. My undergraduate degree is in civil engineering, and I spent the early part of my career designing bridges and managing construction projects. I later went to business school and earned an MBA in finance. Since business school, I’ve been investing in real assets in multiple ways: real estate and infrastructure, equity and debt, public securities and private funds. Now, at Brookfield, I focus on asset allocation across our public real-asset strategies.

The fund commenced operations on December 5, 2016, following the reorganization of three legacy Brookfield funds - HHY, HTR, and BOI - into the new Brookfield Real Assets Income Fund. The fund’s investment objective is to seek high total return, primarily through high current income and secondarily through growth of capital.

Under normal market conditions, the fund will invest at least 80% of its managed assets in real-asset securities defined to include three categories—real estate, infrastructure, and natural resources—and will invest at least 65% of its managed assets in fixed income. The fund pays a monthly distribution, and, as of March 31, 2017, had an annual distribution rate of approximately 9.3% based on NAV and 10.5% based on market price.

**SL:** How do you allocate capital and make investment choices?

**LA:** This fund is a multi-strategy fund investing across four main real-asset sectors: securitized credit, real asset high yield, infrastructure equities, and real-estate equities. There are two elements to our investment team. First, we have an asset allocation team focused on the relative valuation and relative attractiveness of these four real-asset sectors, and we are dynamically allocating fund capital across these sectors. The second element of the investment team is that we have four specialized security selection investment teams, each team focused on one of the four specific real-asset sectors: securitized credit, real asset high yield, infrastructure equities, and real-estate equities. Each of these specialized investment teams buys and sells individual securities within their specific real-asset sectors.

**SL:** How much change do you see in those four areas? What do you think about the different potential allocation in those four subsectors?

**LA:** One of the important investment restrictions is that under normal market conditions, the fund will invest 65% or more of its assets in fixed-income securities. That fixed income component will be in securitized credit and real-asset-high-yield. That leaves us with a maximum of 35% in the infrastructure and real estate equities.

Securitized credit is currently the largest allocation within the fund. We expect that to remain true in the short run, but in the long run our expectation is that the securitized credit allocation may decline. Our strategy is focused on non-agency, residential-mortgage-backed securities, a space that has been shrinking over time. Most new mortgage securitization today is government sponsored. There is very little new non-agency mortgage securitization. So, just by virtue of the trend in this asset class, this allocation may come down over time.

We think of real asset high yield allocation as an alternative to securitized credit and we expect this allocation to increase in the long run. We don't typically see other people focusing on real asset high yield the way that we do, focusing on real estate, infrastructure, and natural resources as a group. We observe that real asset high yield has historically had lower default rates and higher recovery rates than the broad-high-yield market, potentially leading to more attractive risk-adjusted returns within the real-asset-high-yield space.

*“Under normal market conditions, the fund will invest 65% or more of its assets in fixed-income securities... in securitized credit and real-asset-high-yield.”*

The three legacy funds that we consolidated were principally focused on securitized credit and high yield. The ability to have more equities in the portfolio comes along with the reorganization. Our allocations for infrastructure equities and real-estate equities were very close to nil at the time of the reorganization, and today we are roughly 17% in infrastructure equities, including US MLPs.

Income is a primary investment objective of the strategy and we see a mix of fixed-income assets and equity assets as an interesting way to meet that income objective. We look to the cash received by the fund from fixed-income distributions and from equity dividends as the primary means to pay the fund's distributions. But we also look to capital appreciation, either realized or unrealized gains in the equities, as additional means to cover the fund's distribution. In addition, over the long run, we do think that the increased exposure to equities will drive NAV appreciation over time.

**SL:** Would you consider yourself more of a multi-sector bond firm with an equity kicker or more of a hybrid balanced fund? You are still bond-focused currently, but if you were in charge of grouping your fund versus your closed-end fund peers, where would you classify it?

**LA:** Multi-asset fixed income. I don't think there is a category with equity kickers. I mentioned our equity exposure is less than 20% today and the maximum allowed is 35%. I'm not sure that we will approach that maximum anytime soon, but keep that in mind

that the scale we have right now is less than 20%.

**SL:** What are your favorite benchmarks?

**LA:** There is not a good benchmark for the overall fund because the fund includes multiple asset classes. However, there are benchmarks relevant to each of the asset classes within the fund. One of the things that we do to understand what's driving performance of the overall fund is to evaluate each of the sleeves of the fund—securitized credit, real asset high yield, infrastructure equities, and real-estate equities—against their respective benchmarks. In this way, we get a sense for the relative performance driven by the investment teams within their respective sleeves.

**SL:** You mentioned earlier that there weren't a lot of people doing it your way. What's the Pepsi to your Coke? Is there anyone, either an open-end fund wrapper or some other investment, you're using as a structure benchmark?

**LA:** We have put together a peer group of somewhat similar multi-strategy fixed-income closed end funds that have meaningful correlation of performance with our fund and also a mix of securitized credit and corporate high yield. No single one of these funds is an ideal comparison, but as a group they are a reasonable peer group. On average, this peer group is somewhat representative of what we are doing.

What we are doing within securitized credit is different from many other funds in that we are primarily focused on non-agency residential. What we are doing in high-yield is also different from many other managers because we are focused only on the real-asset sectors. So no peer group is perfect and no single fund is a perfect match.

**SL:** Talk about the sectors you like. What do you like in a sector? What drives you to reduce the allocation by holding or sector?

**LA:** Well, let me start with the investment universe that we are focused on. Within securitized credit, it is principally US-centric. Within high yield, it is predominantly US-centered. But within the real-estate equities and the infrastructure equities, the opportunity set is roughly 50% US and 50% international.

We are very much focused on value. We want to own things that, for whatever reason, are temporarily out of favor. We want to take a long-term view and focus on the long-term intrinsic value of these real-asset securities. It's very simple, but it's actually hard to execute, as any money manager knows.

Our asset allocation team constantly reviews a wide variety of valuation metrics for the four principle sectors that we invest in. Based on those valuation metrics, conversations with the portfolio managers that are running the individual sleeves of this fund and also our macroeconomic outlook, we will shift the asset allocation of the fund over time.

It might be interesting to walk through what we've done with the fund since the reorganization in early December. The first thing we did was reduce our allocation to certain lower-yielding securitized credit investments and redeploy that capital into real asset high yield that provided a higher coupon. We also initiated our allocation to US-energy master limited partnerships (MLPs). All of that was done in December 2016.

In 2017, Q1, we made three further changes. Number one, we trimmed back our exposure to real asset high yield based on the valuation in the real-asset-high-yield market. What we saw was strong performance, the spread narrowing and prices appreciating modestly above par, limiting future capital appreciation potential. Number two, also in the first quarter, we sold certain securitized credit investments that reached or exceeded our target price objective. That somewhat reduced our allocation to securitized credit. With the proceeds from those two reductions, we initiated an allocation to infrastructure equities.

In our opinion, the infrastructure equities provide an attractive yield, which is important for funding the distribution, but also the potential for greater capital appreciation than the high-yield allocation and the securitized credit allocation. We think infrastructure equities are an interesting addition to the portfolio. MLPs, the energy pipelines that we added to the portfolio in December, are a part of the infrastructure universe, but the broader infrastructure universe is global, and includes many other sectors. It includes utilities like electric utilities and water utilities, it includes communications infrastructure such as cell phone towers, and it also includes transportation infrastructure like airport, seaport, and roads. That is a very interesting group of

### Multisector Bond Funds

Ticker	Name	Sponsor	Discount	Market Yield	LevAdj NAV Yield	Duration	Beta (S&P500)	RoC % (1Yr)	Leverage	Net Assets in millions
AWF	AB Glbl Hi Incm Fd	AllianceBernstein	-8.43	6.55	4.02	4.89	0.24	0.00	49.21	1.206
BHK	BR Core Bnd Tr	BlackRock	-7.12	5.70	4.08	9.16	0.01	0.09	29.61	795
BIT	BR Mlt-Sctr Incm Tr	BlackRock	-8.21	7.83	5.13	3.49	0.17	0.00	39.96	744
BTZ	BR CR Alloc Incm Tr	BlackRock	-9.09	6.31	4.64	6.21	0.11	4.50	23.80	1.583
DBL	DbLin Opportunistic Cr Fd	Doubleline	13.18	7.91	7.71	8.50	-0.15	1.74	16.05	333
DSL	DbLin Incm Solutions Fd	Doubleline	-3.49	8.68	6.57	5.35	0.23	0.22	27.46	2.178
GOF	Gghm Stgc Opp Fd	Guggenheim	6.95	10.37	8.64	N/A	0.20	0.31	28.41	411
PCI	PIMCO Dyn Cr & Mortg Incm	PIMCO	-1.77	8.89	6.00	4.17	0.17	0.01	45.60	3.094
PDI	PIMCO Dyn Incm Fd	PIMCO	6.59	8.89	6.45	4.02	0.66	0.00	46.85	1.324
PFL	PIMCO Incm Stgy Fd	PIMCO	3.68	9.13	7.50	4.10	0.18	0.00	26.20	289
PFN	PIMCO Incm Stgy Fd II	PIMCO	2.55	9.17	7.58	3.70	0.17	0.00	23.97	604
PHK	PIMCO Hi Incm Fd	PIMCO	28.28	11.12	11.41	3.68	0.17	17.91	24.97	868
PKO	PIMCO Incm Opp Fd	PIMCO	5.47	8.70	6.54	3.70	0.20	0.00	40.20	374
VGI	Virtus Glbl Mlt-Sctr Incm Fd	Virtus	-2.55	11.12	8.58	4.70	0.39	54.11	26.33	195
RA	Brkf Real Ast Incm Fd	Brookfield	-7.64	10.13	7.55	1.55	N/A (under 2 years)	20.70	23.83	932
<b>Average</b>			<b>1.23</b>	<b>8.70</b>	<b>6.83</b>	<b>4.80</b>	<b>0.20</b>	<b>6.64</b>	<b>31.50</b>	<b>995.00</b>

Data as of June 13, 2017. Data from CEFdata.com

businesses that we think offer attractive risk-and-reward potential to investors in the fund.

**SL:** How does the fund monitor the income being produced by the portfolio as it changes the distribution components over time?

**LA:** Let me first of all say that we have a very short operating history on this fund, and we've changed the portfolio since the commencement of operations, so, looking at our first full quarter doesn't really give you a very good run rate. For example, we purchased equities that pay a quarterly dividend, and that quarterly dividend may have come early in the quarter before we owned the securities. The next dividend will come early in the second quarter. And some equities pay only twice per year.

So there is different distribution timing. So, any one quarter is not necessarily a good run rate.

We are looking to cover the distribution with a combination of cash receipts on our investments – this includes interest on the fixed-income component as well as dividends and other distributions on the equity component - and realized and unrealized capital gains on our investments. To the extent we have realized capital gains, that may result in a special distribution at the end of the year as we are required to pay out all of our realized capital gains.

**SL:** Based on the notice from your tax team.

**LA:** Right. Conversely, if we have unrealized capital gains for the full year, so our NAV has increased, some portion of the dividend

may be return of capital. Our return of capital in this fund is really going to have two components. One will be any of the distributions that we receive on the MLPs, to the extent we have MLPs in the portfolio at any given period of time, because the MLP distributions are typically 80% to 100% return of the capital as they leave the MLP and come into the fund. We are a pass-through, so those cash receipts will be considered return of capital.

Secondly, to the extent we have unrealized capital gains that are part of covering the distribution, that will represent a return of capital. Both of those components can move around significantly year over year depending on our allocation to MLPs (which may change year over year) and depending on the amount of unrealized capital gains in the portfolio (which may change year over year).

**SL:** We use leverage-adjusted NAV yield, which takes NAV yield and reduces it by the implied impact of leverage essentially seeing what the manager has to do to meet the dividend policy. Then we will look at a one- or three-year NAV performance versus NAV yield, any characterization of return of capital. Our investors in the 40+% marginal tax bracket love return of capital when it's sustainable, because their taxes are horrible. If a return of capital erodes the principal and there is a dividend change that people weren't expecting, it's usually never fun for anyone involved in that decision.

I don't know how much you've looked at our data (we offer some of that publicly on our site), but it's the way we try to take the hard

decisions you make at the portfolio level and to understand what's normal. Your leverage-adjusted NAV yield is about 7.55% as of yesterday's close—not crazy high but maybe higher than many of your peers—and just for a benchmark the average taxable bond fund is 5.8%.

**LA:** Since inception through March 31, the leverage as a percentage of managed assets has ranged between 22% and 25%—so, relatively low leverage. Our number may be higher than average due to lower than average leverage. We believe we can deliver some capital appreciation because we have equities in the portfolio, and also because, in our securitized credit portfolio in particular, we have a fair amount of discount-price securities which over time will, hopefully, appreciate in value as they move closer to par. So, because of the mix of the assets that we have, we are comfortable with a number that is higher than our peers that are purely fixed income. Our portfolio is slightly different, and that's appropriate.

**SL:** How do you think about unrated versus anything rated in your mix? That's usually a big value in the closed-end fund wrapper, being able to find mispriced investments that don't have a Moody's or a Standard & Poor's rating. Any perspective on that?

**LA:** The unrated securities in the portfolio represent roughly 17% as of March 31, and those unrated securities are generally within the securitized credit allocation and generally non-agency residential securities. They are also, to a small extent, commercial-real-estate loans that have not been securitized and therefore are not rated.

Unrated securities tend to be less liquid, and the closed-end fund structure is very attractive for investing in less liquid securities. Because we have a specified pool of capital - there are no inflows or outflows - we have the ability to try to achieve some excess yield and return by going into less liquid, unrated securities in a very prudent way.

**SL:** Let's shift gears a little bit. Interest rates are going to rise or they are not, but how do you think about that movement of duration risk, both mathematically for the bond components (though your duration is rather short) and, for the equity side, where there is some relation to the trade-in of MLPs generally to interest rates? How do you think about the beta and duration risk as you think about the portfolio?

**LA:** Our interest-rate duration is relatively low. It was 1.7 as of March 31, and we anticipate maintaining a duration of less than three years. By the way, this is just for the fixed-income component of the portfolio. We don't calculate a duration on the equities. A significant portion of our securitized credit is actually floating rate, and that's one of the things that keeps the duration low. As interest rates rise, the coupon on those floating-rate bonds will rise as well.

*“Unrated securities tend to be less liquid, and the closed-end fund structure is very attractive for investing in less liquid securities. Because we have a specified pool of capital - there are no inflows or outflows.”*

The other component of fixed income is high yield, and high yield tends to have a relatively modest duration of four years or less. We also feel that there is equity-like behavior in the high-yield market; when interest rates are moving up because the economy is accelerating, credit quality is also increasing, and that's a positive for the high-yield market. So, even though rates may go up, credit spread will tend to tighten in a rising rate environment. So, the duration impact of these high-yield bonds is not as high as you may otherwise expect.

**SL:** Do you know roughly what percentage of the loans is floating?

**LA:** Yes. On the fixed-income investments only, approximately 66% are fixed rates and 34% are floating rates as of March 31.

**SL:** Would these loans look more like the ones in the senior loan bucket of closed-end funds or business development companies? What types of loans do you find attractive?

**LA:** In the floating-rates space, it's principally within the securitized credit portfolio, so there are floating-rates non-agency residential mortgage loans.

**SL:** They would not be BDC type of loans or senior loan funds so very different from both buckets.

**LA:** It is not BDC loans. We have a very limited exposure to floating-rate senior loans in the high-yield portfolio.

**SL:** What's the public service announcement you wish you could do before any speech or talk to address the thing that everyone just gets wrong about your fund?

**LA:** I think one portion of our fund is somewhat misunderstood, and that is the securitized credit portion of the fund. Everyone still remembers the Global Financial Crisis, which was led by US housing, and that has given mortgage-backed securities a bad name, specifically non-agency, non-investment-grade residential-mortgage-backed securities. So, there is a little bit of a bad reputation hangover. Clearly, some of those securities were very impacted by the very weak housing market of 2008-10, but I would say that housing fundamentals are very strong now and bonds related to US residential housing are in a very different place than they were seven or eight years ago. I think that's one fundamental perception that needs to be addressed.

My public service announcement, based on recent history, would be that the mortgage-backed securities portfolio can be a very attractive part of a fixed-income portfolio, because, number one, it tends to have low volatility, and number two—and this is very important—it has, historically, low correlation to broad fixed income and low correlation to broad equities. So, securitized credit has the potential to serve as a low-volatility diversifier within any portfolio.

**SL:** It's interesting you merged the funds. I know Nuveen did a ton of mergers, mostly on the municipal bond fund side, for similar reasons—taking outdated ideas and repurposing into a fresh, unique area. In what other ways have you identified or connected to current or potential shareholders?

**LA:** In reorganizing the three funds—HHY, HTR, and BOI—into the new RA fund, we had three objectives:

1. Greater scale. Each of those legacy funds had net assets that were approximately \$200 million to \$400 million, and the new RA fund has net assets of over \$900 million. We think this greater scale is very helpful for the potential to increase trading liquidity and broad-market interest and narrow the trading discount to NAV over time.

2. Greater income. The potential for greater income, income growth, and capital appreciation by having multiple strategies and multiple asset classes.

3. Better investment product. We think that a fund that can shift from one sector or one asset class to another can provide more robust

income and more robust returns across market cycles.

We spent a lot of time talking to investors about these three objectives. For many of the investors we spoke to, the reorganization of the three legacy funds seemed like a very attractive option. Two of the legacy funds were securitized credit funds that had the ability to do some high yield and a small amount of equities, and the other legacy fund was a high-yield fund that had the ability to do some securitized credit and a small amount of equities.

So, putting all three funds together, every investor retained exposure to what they were seeking when they bought those legacy funds, but they also got exposure to another significant asset class, whether it's securitized credit or high yield, plus the increase in equities over time. We think that the investors' support of the reorganization is indicative of a view that the objectives of the reorganization are worthy.

I think the most important objective is the multi-sector, multi-portfolio manager strategy. We think we have a lot of different tools in our toolbox now that can help navigate varying market environments. We now have the ability to shift capital among different asset classes and create, hopefully, a more robust pattern of income and returns for shareholders.

**SL:** You have a non-leverage expense ratio by our math of 1.03%, which is very good—about a third less than the average taxable bond fund—proving that your expense ratio is not too bad. We always like to look at non-leverage, because expensive leverage can be very valuable sometimes, and cheap leverage can really mess up the portfolio if not used properly. Did the people at Brookfield know about us at CEF Advisors? Did you know we existed two months ago? Do you stay in touch with any of the other firms in this space or the analysts and wirehouse analysts?

**LA:** We do. We participate in closed-end fund conferences and have good relationships with wirehouse analysts and of course with investors.

**SL:** The country has a new president, and we have trends that are unfolding in 2017. It's always interesting to get people's perspectives on how less regulation, on how getting tax cuts, is going to impact the portfolio. Where do you see bumps or opportunities in the credit or equity markets?

**LA:** I don't want to be too political, but I would say that less regulation tends to be great for business. I also want to say that lower corporate tax rates tend to be great for business. I think that less regulation probably has more chance of driving GDP growth, whereas lower taxes may drive performance of the equity markets, and may or may not translate into more GDP growth.

So, I think that both less regulation and lower taxes are good for most investments, stocks, and bonds.

**“One of my concerns is that a tax cut may result in increased deficit spending. The government’s increased borrowing may drive interest rates up, and rising interest rates are bad for the present value of any financial asset. That makes equity multiples contract and bond prices decline as well.”**

One of my concerns is that a tax cut may result in increased deficit spending. The government's increased borrowing may drive interest rates up, and rising interest rates are bad for the present value of any financial asset. That makes equity multiples contract and bond prices decline as well.

**SL:** In your perspective, what would be a normal or proper interest-rate environment?

**LA:** Well, let me just say that where we were six months ago was not a normal interest-rate environment. Interest rates were incredibly low. We had a huge move in interest rates in the fourth quarter of 2016 that appeared driven by the Trump victory in the election. That got us from an interest rate environment that was abnormally low to an environment today which is just low.

My view is that we have are moving through a long term inflection point. For the past 10 to 15 years interest rates had been generally declining. I think we have entered a new phase where interest rates are going to be generally moving up. I think it's going to be a very slow, very gradual process

of interest rates moving up, because the rise in rates will be driven by, hopefully, accelerating global growth and some accelerating inflation.

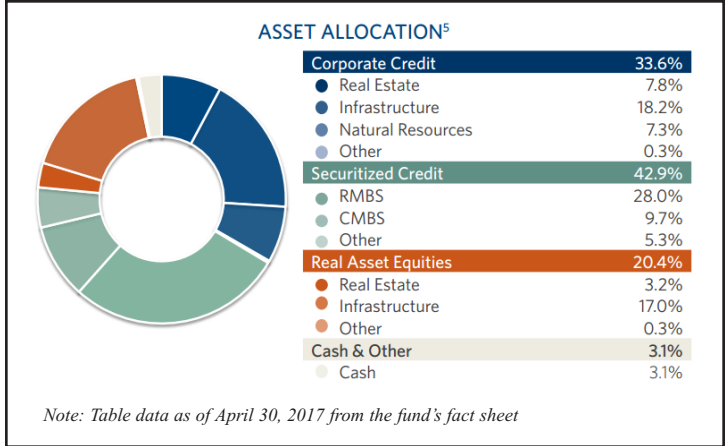
I don't see inflation, interest rates, or growth moving rapidly in the near term, but I think we are in an environment where all of those things will likely have an upward bias—whereas, over the past 10 to 15 years, we've had a downward bias on all of those measures.

*Disclosures*

*Opinions expressed herein are current opinions of Brookfield Investment Management Inc. and are subject to change without notice. The mention of specific securities is not a recommendation or solicitation for any person to buy, sell or hold any particular security. Any outlooks or forecasts presented herein are as of May 23, 2017 and are also subject to change without notice.*

*Past performance is not indicative of future performance and the value of investments and the income derived from those investments can fluctuate. Future returns are not guaranteed and a loss of principal may occur.*

*Information herein contains, includes or is based upon forward-looking statements within the meaning of the federal securities laws, specifically Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include all statements, other than statements of historical fact, that address future activities, events, or developments, including without limitation, business or investment strategy or measures to implement strategy, competitive strengths, goals, expansion and growth of our business, plans, prospects and references to our future success. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” and other similar words are intended to identify these forward-looking statements. Forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many such factors will be important in determining our actual future results or outcomes. Consequently, no forward-looking statement can be guaranteed. Our actual results or outcomes may vary materially. Given these uncertainties, you should not place undue reliance on these forward-looking statements.*



## Portfolio Managers' Review

The average closed-end fund, as measured by our 12 Major Sectors index, 7 most liquid funds in the 12 major sectors, ended June 13, 2017 up +7.83% on market price and +5.48% on net asset values (NAV). The average discount for the group was -2.83% vs. a 5-year average for the indexes' funds of -4.41% vs. the current average discount for funds in each sector entire grouping of -4.39%, showcasing how investors generally "pay-up" for liquidity as liquid funds trade tighter.

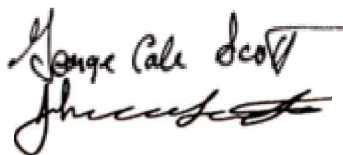
The best performing equity sectors YTD are the International Equity sector at +19.92% and Utilities / Infrastructure up +17.17%. Master Limited Partnership (MLP) funds were down -1.87% and Preferred Equity funds were only up +8.89%. The best performing Bond sectors were Convertible Bond funds, up +12.15% and Multisector Bond funds up +10.36%. The weakest Bond sectors were Sr Loan Funds up +2.11% and Debt focused BDCs up +2.85%. The fund groups with the widest discounts include Global and US REIT/Real Estate funds at -9.35%, International Equity funds at -9.20% and High Yield Bond Funds at -5.84%, these may provide some increased upside during the rest of 2017 and beyond if discounts were to narrow.

We updated our "ABCs of BDCs and Closed-End Funds" webinar. The 'replay' and slide deck can be found on our webpage. As we manage our diversified models, we are paying close attention to our clients' Beta or volatility to the S&P 500, duration exposure (sensitivity to interest rate changes), discounts to NAV, the estimated impact of taxes on distributions and our proprietary distribution sustainability analysis, or how confident we are in stable to growing dividends.

We have been monitoring our holdings' correlation to each other and average inter-portfolio correlation as an additional level of diversification. With our robust research and portfolio monitoring capabilities, this information is available for clients to monitor their portfolio through uncertain markets.

The sectors we think will outperform in the second half of 2017 include a well selected portfolio of debt-focused business development companies and the MLP sector, as we think oil and MLPs will become less correlated and oil, in our opinion, is likely to end the year 5%-15% higher than at current levels. We are very pleased with a recent partnership to reduce client volatility or Beta by about half with a sub-advising options firm in Chicago, allowing a personalized approach to a clients' individual investment portfolio. Check out our current models at:

[www.cefddata.com/portfoliocomp](http://www.cefddata.com/portfoliocomp).



**CEF Advisors' Quarterly  
CEF/BDC Research Call at  
4:15pm EST on July 13, 2017**

Register for session or replay  
[www.CEFAdvisors.com/webinars.html](http://www.CEFAdvisors.com/webinars.html)

**DISCLAIMER:** The views and opinions herein are as of the date of publication and are subject to change at any time based upon market or other conditions. None of the information contained herein should be construed as an offer to buy or sell securities or as recommendations. Performance results shown should, under no circumstances, be construed as an indication of future performance. Data, while obtained from sources we believe to be reliable, cannot be guaranteed.

Use or reproduction of any or all of The Scott Letter: Closed-End Fund Report requires written permission from Closed-End Fund Advisors. All rights reserved.

Note: All data referenced is from CEFA's CEF Universe data dated June 9, 2017 unless otherwise stated.

**GEORGE COLE SCOTT**  
Founder and Editor-in-Chief  
Senior Portfolio Manager

**JOHN COLE SCOTT**  
Contributing Editor  
Chief Investment Officer

**DAVID CARTER**  
Copy Editor

The Scott Letter Online  
is published by

### Closed-End Fund Advisors

Currently offering managed portfolios with the following objectives:

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

7204 Glen Forest Avenue, Suite 105  
Richmond, Virginia 23226  
(804) 288-2482  
[www.CEFAdvisors.com](http://www.CEFAdvisors.com)  
[www.CEFData.com](http://www.CEFData.com)

