CLOSED-END FUND review

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FIRST QUARTER 2013

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First Quarter Overview

The first quarter of 2013 was a solid quarter for many closed-end funds, with the average fund up 4.31% on a share price total return basis, according to Morningstar. As you would expect, with the Dow Jones Industrial Average rocketing 11.25% in the quarter, which represented the best first quarter for the index since 1998, and with the Standard and Poor's 500 up 10.03%, domestic equity funds (one of the categories along with senior loan funds I highlighted back on January 3 as one that I have the highest conviction level in for 2013) were up on average 11.80% during the quarter on a share price total return basis (according to Morningstar). Indeed, rising global equity prices during the quarter, coupled with compelling discounts to net asset values (NAVs) led to an overall increase of 10.40% (on a share price total return basis) for all 171 funds that Morningstar classifies as equity funds in its database.

Low levels of corporate defaults, low leverage cost, mostly positive economic data, and high levels of demand for income on the part of retail investors all contributed to investors continued willingness to take on credit risk in portfolios. This helped many credit-sensitive categories within the closed-end fund (CEF) marketplace to also post positive total returns during the quarter. For example, high-yield CEFs were positive by 5.59% on a share price total return basis, according to Morningstar, during the quarter. Senior loan CEFs were positive by 7.07% for the quarter, according to Morningstar, on a share price total return basis.

As you might expect, with such a spectacular quarter for equities and other "risk on" asset classes, higher credit quality funds such as municipal CEFs were lower for the quarter. In fact, the Morningstar universe of 216 municipal CEFs (which represent the largest single category out of the 597 CEFs in the Morningstar database) were slightly lower by 0.12% on a share price total return basis during the quarter. While municipal CEFs started the quarter on a positive note, as the quarter progressed and the equity rally intensified, clearly by March some investors chose to take some profits in municipal CEFs (many had moved to premiums to their NAV) and shift some of those proceeds into equity-oriented funds.

Reiterate Comments from March 15th

I would like to reiterate something I wrote back on March 15 when municipal CEFs were going through an enhanced period of volatility. My views have not changed since March 15 and while I continue to have the highest conviction level in domestic equity CEFs and senior loan CEFs (and in addition to senior loan CEFs, advocate investors have exposure to other credit-sensitive categories such as limited duration CEFs and high yield CEFs for compelling income), I also believe that based on their very attractive tax-free yields (average municipal CEF yields 5.44% as of 3/31/13 according to Morningstar), low leverage cost for funds which borrow at floating short-term rates, high credit quality characteristics (the overwhelming majority of municipal CEFs have an average credit quality rating of investment-grade) and the important balance they can provide in a diversified CEF portfolio (which also should include domestic equity CEFs and credit-sensitive CEFs) investors should maintain some exposure to municipal CEFs.

Below are the direct comments from the March 15th Special Report:

"In short, despite the recent weakness and the interest rate risk they have, municipal CEFs still have compelling characteristics including attractive tax-free monthly income from mostly investment-grade bonds and now investors have the ability to buy select funds at discounts to NAV. However, I believe CEF investors who are not also invested in other compelling and often noncorrelated categories to municipal CEFs (such as domestic equity CEFs and senior loan and limited duration CEFs) should consider diversifying into these other categories as well to help create a balanced, three-pronged approach. (Please see my second quarter 2012 Closed-End Fund Review which discusses this approach.)"

Outlook for Remainder 2013

As the second quarter commences, I continue to be relatively sanguine about the overall environment for diversified closed-end fund investors who maintain exposure to a balanced, three-

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pronged approach to investing in closed-end funds. (See report for more on this strategy). The Fed remains very easy (which helps to keep leverage cost low for many leveraged funds), demand for income on the part of retail investors remains high at a time when we remain in a stubbornly low interest-rate environment (this helps to keep demand high in both the secondary and primary market for CEFs) and moderate growth in the U.S. economy continues to keep defaults low for credit-sensitive securities. In fact, Moody's reported that the global speculative-grade default rate stood at 2.4% in March, down from 2.7% in February. Moody's is forecasting a default rate of 2.8% for December 2013. The historical average for the default rate on speculative-grade debt has been approximately 4.7% since 1983. The U.S. speculative-grade default rate stood at 2.9% in March, down from 3.3% in February. The default rate on senior loans stood at 1.83% in March, up from 1.52% in February, but well below the historical average of 3.1%, according to Standard & Poor's LCD. Leveraged loan managers expect the default rate to be in the vicinity of 2.0% a year from now.

Furthermore, the moderate growth in the U.S. economy (our economics team is forecasting GDP growth of 2.5% to 3.0% in 2013), is not only helping to keep defaults below historical averages for credit-sensitive securities, but also helping to contribute to strong earnings per share (EPS) growth for the S&P 500 Index in 2013 which we estimate could reach 10%. Strong EPS growth for the S&P 500, coupled with average discounts to NAV of 3.56% fas of 3/31/13 or the Morningstar universe of domestic equity funds, continues to create a positive backdrop for the domestic equity category.

While the overall environment for many categories of the CEF marketplace remains a favorable one, it is important to note that given the very strong performance of many CEFs during the first quarter (and 2012 for that matter) many categories of funds are at slight premiums to their NAV. While domestic equity funds are still at average discounts to NAV of 3.56% (as of 3/31/13 according to Morningstar) and municipal funds are also at average discounts to NAV of 0.91% (as of 3/31/13 according to Morningstar), many other categories have moved to slight premiums to NAV. For example, high-yield funds trade at an average of a 2.4% premium to NAV (as of 3/31/13) and senior loan funds trade at an average of a 4.11% premium as well (as of 3/31/13). The slight premiums to NAV in these categories have 3 important implications:

1. Investors should expect more of the potential total return to come from the income component for funds in these categories, as opposed to meaningful capital appreciation.

2. When selecting funds to purchase in these categories which are at premiums to NAV, or when evaluating current holdings in these categories, investors need to be aware of the valuation of the funds they own and try to focus on funds trading at more inexpensive valuations relative to others in the peer group.

3. Should one of these categories (particularly senior loan funds) experience a correction, perhaps as a result of profit taking, investors should use the weakness as a buying opportunity as the fundamentals remain very sound for senior loans.

As always, due to the fact that closed-end funds can exhibit periods of high volatility, investors are encouraged to maintain a long-term time horizon and exposure to different types of funds.

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