CLOSED-END FUND review

FIRST QUARTER 2015

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First Quarter Overview

The first quarter of 2015 was a decent one for diversified closed-end fund (CEF) investors with the average fund up 2.03%. The continued decline in global interest rates was particularly beneficial to fixed-income CEFs which were up 3.04% for the quarter. While it was a volatile quarter for equities (particularly U.S. equities), the average equity CEF still managed to achieve a gain of 0.44% for the first three months of the year, although domestic equity CEFs were lower by 0.43%.

Leveraged municipal CEFs had a strong quarter (up 3.08%). As I wrote on 1/26/2015[1], given our Economic Team's forecast that both short- and long-term interest rates could begin to slowly rise this year, I prefer investors focus more on non-levered municipal CEFs (which tend to have less duration risk than leveraged municipal CEFs), while still providing attractive tax-free income as well as important balance in a portfolio. Non-leveraged municipal CEFs also had a strong first quarter of 2015, up 2.87%.

After a challenging 2014 when the average senior loan CEF was lower by 1.93%, senior loan CEFs bounced back during the first quarter of 2015 with the average senior loan CEF positive by 5.41%. Valuations for senior loan CEFs still remain compelling, in my opinion, with the average senior loan CEF at a 6.77% discount to net asset value (NAV) at the quarter's end, which remains more inexpensive than historical averages for the category (see below). Given the short duration of the underlying asset class of senior loans, as well as the sound fundamentals and still attractive discounts to NAV among senior loan CEFs, they continue to be an area in which I believe income-oriented investors should be exposed.

NOTE: All data is from Morningstar and is share price total return as of 3/31/15.

A Look at Valuations of Three Favored Categories

Three categories of the CEF marketplace to which I continue to advocate investors maintain exposure, include domestic equity CEFs, limited duration CEFs and senior loan CEFs. Given our Economic Team's forecast for continued "plow horse" growth in the U.S. economy, higher domestic equity prices and the fact that the Federal Reserve should begin to raise the federal funds in June, I believe the backdrop for these three categories remains a favorable one. Moreover, the valuations (i.e. discounts to net asset value) also remain compelling.

From my standpoint, the price an investor pays for any security should always be one of the most important criteria they should consider when deciding whether an investment is compelling (or not). To that end, when investing in a CEF, I believe investors should focus on the share price of a fund relative to a fund's net asset value (NAV). Importantly, in my view, investing in a CEF solely because the price is at a discount to its NAV is not all investors should consider as it relates to a fund's valuation. Rather, I prefer to focus on funds which are not only trading at a discount to NAV but, more importantly, are trading at a discount to NAV which is wider than where the fund's discount has historically been. When a fund trades at a discount to NAV which is wider than where it has historically traded, it could be an indication that there is real value in a fund and the market has yet to appreciate the value.

As you can see from the table below, all three of these favored categories are trading at wider discounts to NAV (for the most part) and therefore, more compelling valuations, in my opinion, than where they have historically traded. These compelling valuations, coupled with the positive back drop I mentioned above, continue to be why I still believe CEF investors should maintain exposure to these categories.

Category	Prem/Dis 3/31/15	Prem/Disc 3/31/14	Prem/Disc 3/31/12	Prem/Disc 3/31/10	Prem/Disc 3/31/05
Domestic Equity	-6.47%	-7.00%	-5.28%	-2.63%	-2.45%
Limited Duration	-11.22%	-8.68%	-1.95%	-3.79%	-4.34%
Senior Loan	-6.77%	-5.32%	-1.10%	2.60%	-1.00%

SOURCE: Morningstar

[1] http://www.ftportfolios.com/Commentary/Insights/2015/1/26/fourth-quarter-2014

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No Change to CEF Strategy For 2015

Given the First Trust Portfolios outlook for continued "plow horse" growth in the U.S. economy, the potential for mid-single digit growth in S&P 500 Index earnings and potential for both short- and long-term interest rates to move higher this year, I continue to believe the core parts of an investor's CEF positions should include domestic equity CEFs, senior loan CEFs, limited duration multi-sector CEFs and non-leveraged municipal CEFs. I also continue to believe that convertible CEFs, Master Limited Partnership (MLP) CEFs and preferred CEFs that specifically have an emphasis on fixed-to-floating[2] rate preferreds are three categories that should be used as satellite positions.

While both short- and long-term rates remain very low now, given our Economics Team's forecast for higher short- and long-term interest rates later in 2015, I would much rather have exposure to equity income-oriented CEFs, floating-rate & limited-duration CEFs, as well as more of an emphasis on non-leveraged municipal CEFs well in advance of a potential move higher in short- and long-term interest rates. Even if short- and long-term interest rates do not move higher later in 2015, in my view, the fundamentals, valuations and distribution rates of the favored core and satellite categories mentioned above, are all compelling when blended together to create a diversified CEF portfolio.

[2] A fixed-to-floating rate security has a coupon rate that is fixed for a certain period of time (typically five, ten or thirty years from the time of issuance), after which the coupon resets at a floating rate based on a spread over the security's benchmark (typically 3-month LIBOR).

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