FUNDMARKET INSIGHT REPORT
THOMSON REUTERS LIPPER RESEARCH SERIES

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The Month in Closed-End Funds: February 2018

PERFORMANCE

For the first month is six equity CEFs on average witnessed a negative return on a NAV basis, losing 4.65% for February. And, for the first month in three on a market basis equity CEFs on average also posted a return in the red, declining 4.31%. For the second month in a row their fixed income CEF counterparts posted a negative return on a NAV basis (-0.61%) and for the fourth month in five on a market basis (-0.97%). Investors continued to be rocked by fears of inflation, rising interest rates, and—earlier in the month—the possibility of another government shutdown. The Dow Jones Industrial Average Price Only Index posted its first monthly loss in 11—declining 4.28% for February, its largest monthly drop since January 2016.

In the first week of the month the broad-based indices suffered their largest weekly decline in more than two years after the Bureau of Labor Statistics reported the U.S. economy had created 200,000 new jobs for January (exceeding analyst expectations of 180,000) and the average hourly wage grew 0.3%, pushing the annual increase to 2.9% (the fastest growth since 2008-2009). This news stoked inflation fears and pushed the ten-year Treasury yield to a four-year high (+2.83%). Energy stocks took a beating after oil prices declined.

The major indices took another drubbing in the following week, entering correction territory. On Thursday, February 8, the Dow and S&P 500 benchmarks witnessed another manic day, declining 1,032.89 points (-4.2%) and 100.66 points (-3.8%), respectively, as investors continued to fear inflation and rising interest rates. On Friday investors learned of the bipartisan budget deal to keep the government open and boosting spending an additional $300 billion over the next two years, which virtually insured the Treasury Department will have to borrow even more.

However, by the following week a cooling down of inflation fears, news of housing starts in January rising 10%, and the consumer sentiment index rising to 99.9 in February helped the market change direction. Investors pushed the Dow to its largest one-week gain since November 2016, despite the ten-year Treasury yield hitting 2.94% but closing the week out at 2.88%.

While Q4 GDP (+2.5%) came in weaker than expected (+2.6%), the Dow, the S&P 500, and the NASDAQ Composite ended the month with a whimper after new Federal Reserve Chair Jerome Powell's congressional testimony fueled inflation and interest rate-hike fears.

Despite a plunge in January durable goods orders and a rise in February consumer confidence, the stock market tanked on Tuesday, February 27, as Powell testified that some of the data he has seen adds to his confidence that inflation is moving up to the target. That caused many pundits to believe the Fed will take a faster approach to rate increases. According to the CME FedWatch Tool, the odds of a fourth rate hike this year grew to 33% from 20% the day before. On Wednesday the U.S. Energy Information Administration reported a larger-than-expected increase in domestic crude oil supplies, which pressured near-month crude oil prices.

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- For the first month in six equity closed-end funds (CEFs) witnessed a negative return on average, declining 4.65% on a net-asset-value (NAV) basis for February, while for the second month in a row their fixed income CEF counterparts posted a negative return, losing 0.61% on average for the month.
- For February only 14% of all CEFs traded at a premium to their NAV, with 18% of equity CEFs and 11% of fixed income CEFs trading in premium territory. World income CEFs witnessed the largest narrowing of discounts for the month among Thomson Reuters Lipper's macro-groups—118 basis points (bps) to 6.75%.
- Loan Participation CEFs (+0.02%) posted the only plus-side return of all the CEF classifications.
- Convertible Securities CEFs (-1.82%) jumped to the top of the equity charts for the first month in 34.
- For the second month in a row the municipal debt CEFs macro-group posted a negative return (-0.58%), with none of the classifications in the group witnessing a plus-side return.

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For the month of February the Treasury curve shifted up at all maturities on the curve, with the short end rising 19 bps for the three-month yield and between 11 bps and 19 bps for maturities greater than two years. The ten-year yield closed the month at 2.87% after hitting a four-year closing high of 2.94% on February 21. The two- and ten-year Treasury spread rose to 62 bps at month-end.

For February the dollar strengthened against the euro (+1.78%) and the pound (+2.89%) but weakened again the yen (-2.47%). Commodities prices were down for the month, with near-month gold prices declining 1.76% to close February at $1,315.50/ounce and with front-month crude oil prices falling 4.77% to close the month at $61.64/barrel.

For the month only 8% of all CEFs posted NAV-based returns in the black, with 3% of equity CEFs and 12% of fixed income CEFs chalking up returns in the plus column. For the first month in eight Lipper's mixed-asset CEFs macro-group (-2.14%) outpaced its two equity-based brethren: domestic equity CEFs (-5.57%) and world equity CEFs (-4.28%).

A move to less risky assets helped related CEF classifications mitigate losses better than other classifications for February. Convertible Securities CEFs (-1.82%) jumped to the top of the equity charts for the first month in 34, followed by Income & Preferred Stock CEFs (-2.27%), Real Estate CEFs (-2.76%), and Options Arbitrage/Options Strategies CEFs (-2.95%). At the bottom of the equity universe Energy MLP CEFs (-11.88%, January's leader) and Growth CEFs (-9.91%) witnessed the largest losses. For the remaining equity classifications returns ranged from minus 9.55% (Natural Resources CEFs) to minus 3.86% (Core CEFs).

There was no discernable trend in the five top-performing CEF classifications. At the top of the chart was **Japan Smaller Capitalization Fund, Inc. (JOF**, housed in Lipper's Developed Markets CEFs classification**)**, rising 0.79% on a NAV basis and traded at a 10.92% discount on February 28. JOF was followed by **Columbia Seligman Premium Technology Growth, Inc. (STK**, housed in the Options Arbitrage/Options Strategies CEFs classification**)**, gaining 0.75% and traded at a 2.91% premium at month-end; **RENN Fund, Inc. (RCG**, warehoused in the Global CEFs classification**)**, rising 0.69% and traded at a 5.02% premium on February 28; **BlackRock Science and Technology Trust (BST**, warehoused in the Sector Equity CEFs classification**)**, gaining 0.28% and traded at a 2.26% premium at month-end; and T**otal Income+ Real Estate Fund; Class I Shares (TIPWX**, an interval hybrid CEF housed in the Real Estate CEFs classification**)**, posting a 0.27% return.

For the month the dispersion of performance in individual equity CEFs—ranging from minus 16.22% to positive 0.79%—was narrower than January's spread

CLOSED-END FUNDS LAB

TABLE 1 CURRENT-MONTH PERFORMANCE, P&D, P&D SHIFTS (% OF UNIVERSE)

	NAV RETURNS POSITIVE	PREMIUM/DISCOUNT		NOW TRADING AT	
		BETTER	WORSE	PREMIUM	DISCOUNT
Equity Funds	3	65	32	18	81
Bond Funds	12	36	61	11	89
ALL CEFs	**8**	**48**	**49**	**14**	**86**

TABLE 2 AVERAGE NAV RETURNS, SELECTED PERIODS (%)

	FEBRUARY	YTD	3-MONTH	CALENDAR-2017
Equity Funds	-4.65	-1.93	-0.11	14.35
Bond Funds	-0.61	-0.88	0.08	7.98
ALL CEFs	**-2.34**	**-1.33**	**0.00**	**10.80**

TABLE 3 NUMBER OF IPOs, SELECTED 12-MONTH PERIODS

	FEBRUARY 2018	CALENDAR-2017
ALL CEFs	**34**	**33**

TABLE 4 AVERAGE SIZE OF IPOs, SELECTED PERIODS, $MIL

3 MONTHS THROUGH 1/31/2018	-
COMPARABLE YEAR-EARLIER 3 MONTHS	423
CALENDAR 2017 AVERAGE	339

Source: Thomson Reuters Lipper

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and much more skewed to the minus side. The 20 top-performing equity CEFs posted returns at or above minus 0.38%, while the 20 lagging equity CEFs were at or below minus 12.10%.

For the month only nine CEFs in the equity universe posted positive returns. The worst performing fund was housed in the Growth CEFs classification: **Engex, Inc. (EXGI)** shed 16.22% of its January-closing NAV price and traded at a 29.05% discount on February 28, bettered slightly by **Salient Midstream & MLP Fund (SMM**, housed in the Energy MLP CEFs classification**)**, declining 16.17% and traded at a 7.04% discount at month-end. Nineteen of the 22 worst performing funds were housed in the Energy MLP CEFs classification.

With another rise in hourly wages and the new Fed Chair stoking concerns of growing inflation, bonds witnessed a month-long selloff, with yields at all maturities of the curve rising. The ten-year Treasury yield exhibited an almost steady rise for the entire month and closed at a high of 2.94% (a closing height last exceeded on January 9, 2014) on February 21, before closing the month at 2.87%. Treasury yields between one month and one year all witnessed increases in excess of 7 bps, with the six-month yield seeing the largest increase of the entire curve for the month, 20 bps to 1.86%. For the first month in 15 domestic taxable bond CEFs posted a negative return on average (-0.52%), mitigating losses better than their world income CEFs (-1.44%) and municipal bond CEFs (-0.58%) counterparts.

Domestic taxable income funds benefitted from the only plus-side performance of the entire fixed income universe, that of Loan Participation CEFs (+0.02%). Loan Participation CEFs was followed by U.S. Mortgage CEFs (-0.31%), General Bond CEFs (-0.42%), and High Yield CEFs (-0.80%). Corporate Debt BBB-Rated CEFs (Leveraged) (-1.51%), Corporate Debt BBB-Rated CEFs (-1.41%), and High Yield CEFs (Leveraged) (-0.91%) were the laggards of the domestic taxable bond CEFs macro-group. The world income CEFs macro-group was dragged down by Emerging Markets Debt CEFs (-1.73%, the worst performing classification on the fixed income side) and Global Income CEFs (-1.29%).

For the second month in a row the municipal debt CEFs macro-group posted a negative return (-0.58%), with none of the classifications in the group witnessing a plus-side return. The Intermediate Municipal Debt CEFs (-0.34%) and High Yield Municipal Debt CEFs (-0.38%) classifications mitigated losses better than the other classifications in the group, while New York Municipal Debt CEFs (-0.69%) posted the worst return. National municipal debt CEFs (-0.53%) mitigated losses better than their single-state municipal debt CEF counterparts (-0.63%).

Four of the five top-performing individual fixed income CEFs were housed in Lipper's domestic taxable bond CEFs group. At the top of the fixed income universe chart was **PCM Fund, Inc. (PCM**, housed in the General Bond CEFs classification**)**, returning 1.07% and traded at a 9.56% premium on February 28. Following PCM were **Nuveen Short Duration Credit Opportunities Fund (JSD**, housed in the Loan Participation CEFs classification**)**, returning 0.72% and traded at a 4.11% discount at month-end; **PIMCO Flexible Credit Income Fund; Institutional Class Shares (PFLEX**, an interval hybrid CEF housed in the High Yield CEFs [Leveraged] classification**)**, also posting a 0.72% return; **PIMCO Dynamic Income Fund (PDI**, housed in the Global Income CEFs classification**)**, tacking 0.70% onto its January month-end value and traded at a 5.02% premium at February month-end; and **KKR Income Opportunities Fund (KIO**, housed in the General Bond CEFs classification**)**, returning 0.66% and traded at a 9.77% discount on February 28.

For the remaining funds in the fixed income CEFs universe monthly NAV-basis performance ranged from minus 5.39% for **Virtus Global Multi-Sector Income Fund (VGI**, housed in Lipper's Global Income CEFs classification and traded at a 0.33% discount on February 28**)** to 0.59% for **Western Asset Mortgage Defined Opportunity Fund Inc. (DMO**, housed in Lipper's U.S. Mortgage CEFs classification and traded at a 15.46% premium at month-end**)**. The 20 top-performing fixed income CEFs posted returns at or above 0.18%, while the 20 lagging CEFs were at or below minus 1.71%. Only 42 fixed income CEFs witnessed positive NAV-based performance for February.

PREMIUM AND DISCOUNT BEHAVIOR

For February the median discount of all CEFs narrowed 35 bps to 7.23%—still wider than the 12-month moving average median discount (5.72%). Equity CEFs' median discount narrowed 103 bps to 6.24%, while fixed income CEFs' median discount widened 10 bps to 8.04%. World income CEFs' median discount witnessed the largest narrowing among the CEFs macro-groups, 118 bps to 6.75%, while single-state muni bond CEFs witnessed the largest widening of discounts—108 bps to 10.64%.

For the month 48% of all funds' discounts or premiums improved, while 49% worsened. In particular, 65% of equity funds and 36% of fixed income funds saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on February 28 (72) was 4 more than the number on January 31.

CEF EVENTS AND CORPORATE ACTIONS

IPOs

There were no CEF IPOs in February.

RIGHTS, REPURCHASES, TENDER OFFERS

The board of trustees of **The Cushing(®) Renaissance Fund (SZC)** approved the terms of issuance of transferable rights to the holders of the fund's common shares of beneficial interest as of the record date, entitling the holders of those rights to subscribe for common shares. The board, based on the recommendations and presentations of the fund's investment advisor, Cushing(®) Asset Management, LP, and others, determined that it was in the best interests of the fund and the common shareholders to conduct the offer and thereby to increase the assets of the fund available for investment.

The record date for the offer was expected to be February 16, 2018. The fund distributed to common shareholders on the record date one right for each common share held on the record date. Common shareholders were entitled to purchase one new common share for every three rights held (one for three); however, any record-date shareholder who owned fewer than three common shares as of the record date would be entitled to subscribe for one common share. Fractional common shares were not to be issued.

The proposed subscription period was to commence on the record date and was anticipated to expire on March 22, 2018, unless extended by the fund. Rights could be exercised at any time during the subscription period. The rights were transferable and were admitted for trading on the New York Stock Exchange (NYSE) under the symbol SZC RT during the course of the offer.

The subscription price per common share would be determined on the expiration date and would be equal to 90% of the average of the last reported sales price of a common share of the fund on the NYSE on the expiration date and each of the four immediately preceding trading days (the "formula price"). If, however, the formula price was less than 78% of the fund's NAV per common share at the close of trading on the NYSE on the expiration date, the subscription price would be 78% of the fund's NAV per common share at the close of trading on the NYSE on that day. The estimated subscription price had not yet been determined by the fund.

Record-date shareholders who exercised all of their primary subscription rights would be eligible for an oversubscription privilege entitling record-date shareholders to subscribe, subject to certain limitations and allotment, for any additional common shares not purchased pursuant to the primary subscription.

Royce Value Trust, Inc. (RVT) announced it had fixed the close of business on March 5, 2018, as the record date for determination of shareholders entitled to participate in the fund's previously announced common shares rights offering. Each shareholder would receive one nontransferable right for each whole common share held as of such record date, rounded up to the nearest number of rights evenly divisible by ten. The rights would allow shareholders to subscribe for one new common share for each ten rights held. The rights would be nontransferable and could not be purchased or sold.

Record-date common shareholders who fully exercised their rights in the primary subscription could subscribe, subject to certain limitations and a *pro rata* allotment, for those shares not purchased pursuant to the primary subscription. If such oversubscription requests exceeded the number of shares available, the fund could, in its sole discretion and subject to certain anti-dilution limitations, increase the number of shares subject to subscription by up to 20% of the number of shares available under the primary subscription. The subscription price for all common shares issued pursuant to the offer would be the lower of: (i) $0.25 below the last reported sale price per share on the NYSE on the first business day after the expiration date of the offer or (ii) the NAV per share on the pricing date.

Western Asset Middle Market Income Fund Inc. (XWMFX) announced that the fund's board of directors approved a tender offer to purchase for cash up to 2.5% of the fund's outstanding common shares. The tender offer would be conducted at a price equal to the fund's NAV per common share on the day on which the tender offer expired. The fund intended to commence its tender offer on or about March 5, 2018, with the expiration of the tender offer expected to be April 4, 2018.

The Mexico Equity and Income Fund, Inc. (MXE) announced its offer to purchase up to 367,170 common shares of the fund at 95% of the NAV per common share as determined at the close of the regular trading session of the NYSE on February 23, 2018. Based on information provided by U.S. Bancorp Fund Services, LLC, the depository for the offer, a total of 1,960,943 shares or approximately 26.70% of the fund's outstanding common shares were validly tendered. Since the total number of shares tendered exceeded the number of shares the fund offered to purchase pursuant to the offer, on a pro-rated basis approximately 18.72% of the fund's shares tendered by each tendering shareholder were accepted for payment. All such shares would be accepted for payment at a price of $12.15 per share (95% of the NAV per common share of $12.79).

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The Taiwan Fund, Inc. (TWN) announced that on February 27, 2018, the fund repurchased 1,619 shares under the fund's discount management policy.

MERGERS AND REORGANIZATIONS

Investment firm Kayne Anderson Capital Advisors LP, which manages four publicly traded CEFs focused on energy, plans to combine those funds into two entities. Under one proposal, Kayne Anderson Midstream/Energy Fund Inc. would merge with Kayne Anderson Energy Total Return Fund Inc. in a share swap. Meanwhile, Kayne Anderson MLP Investment Co. and Kayne Anderson Energy Development Co. would also combine in a share-for-share transaction. Kayne Anderson Capital also agreed to reduce certain fees paid by Kayne Anderson MLP Investment Co.

Kayne Anderson announced the proposed merger of Kayne Anderson Midstream/Energy Fund and Kayne Anderson Energy Total Return Fund as follows:

• **Kayne Anderson Energy Total Return Fund (KYE)** would merge with and into **Kayne Anderson Midstream/Energy Fund (KMF)** in a nontaxable transaction.

• The exchange ratio was to be based on relative NAV per share immediately prior to closing. Based on NAVs as of February 14, KYE shareholders were to receive approximately 0.74 share of KMF for each share of KYE.

• KMF intended to pay a distribution at its current annualized rate of $1.20 per share over the next 12 months. Once the merger closed, KMF would convert from a quarterly to a monthly distribution schedule.

• KMF expected to realize approximately $1.1 million of cost savings annually as a result of the merger.

KA Fund Advisors, LLC ("Kayne Anderson"), which serves as the advisor to **Kayne Anderson Midstream/Energy Fund, Inc. (KMF)** and **Kayne Anderson Energy Total Return Fund, Inc. (KYE)**, announced that the board of directors of KMF and the board of directors of KYE approved a proposal to merge the two funds. Subject to KMF and KYE shareholder approval, KYE common shareholders were to be issued KMF common shares and KMF was to acquire substantially all the assets and liabilities of KYE. The exchange ratio would be based on the relative NAVs per share of each fund immediately prior to the closing of the merger. It was expected that the merger would be completed in the fiscal quarter ending in August 2018, subject to obtaining shareholder approval, compliance with all regulatory requirements, and satisfaction of customary closing conditions. The merger was expected to qualify as a tax-free reorganization for federal income tax purposes, and as a result the merger was not expected to be taxable to shareholders of either KMF or KYE.

Kayne Anderson announced the proposed merger of Kayne Anderson MLP Investment Company and Kayne Anderson Energy Development Company as follows:

• **Kayne Anderson Energy Development Company (KED)** was to merge with and into **Kayne Anderson MLP Investment Company (KYN)** in a nontaxable transaction (the "merger").

• The exchange ratio was to be based on relative NAV per share immediately prior to closing. Based on NAVs as of February 14 , KED shareholders were to receive approximately 0.96 share of KYN for each share of KED.

• Kayne Anderson MLP Investment Company was to change its name to Kayne Anderson MLP/Midstream Investment Company to reflect increased opportunities to invest in midstream energy corporations.

• KYN intended to pay a distribution at its current annualized rate of $1.80 per share over the next 12 months. Once the merger closed, KYN was to convert from a quarterly to a monthly distribution schedule.

• KYN expected to realize approximately $1.5 million of cost savings annually as a result of the merger.

• Kayne Anderson would establish new management fee waivers for KYN, providing substantial savings to shareholders as KYN's investments appreciate.

Kayne Anderson, the advisor to KYN and KED, announced that the board of directors of KYN and the board of directors of KED approved a proposal to merge the two companies. Subject to KED shareholder approval, KED common shareholders were to be issued KYN common shares, and KYN would acquire substantially all the assets and liabilities of KED. The exchange ratio would be based on the relative NAVs per share of each company immediately prior to the closing of the merger. It was expected that the merger would be completed in the fiscal quarter ending in August 2018, subject to obtaining KED shareholder approval, compliance with all regulatory requirements, and satisfaction of customary closing conditions. The merger was expected to qualify as a tax-free reorganization for federal income tax purposes, and as a result the merger was not expected to be taxable to shareholders of either KYN or KED.

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OTHER

Highland Capital Management Fund Advisors, L.P. and NexPoint Advisors, L.P. announced that the Texas Court of Appeals confirmed an aggregate $351-million award in favor of **Highland Floating Rate Opportunities Fund (HFRO)** and **NexPoint Credit Strategies Fund (NHF)**. Of this aggregate award HFRO would receive a total of $289.0 million ($236.5 million in damages together with an additional $52.5 million in post-judgment interest) and NHF would receive a total of $62.3 million ($51.0 million in damages together with an additional $11.3 million in post-judgment interest). Each of these amounts remained subject to deduction for applicable attorneys' fees and other litigation-related expenses. The judgment was to continue to accrue at 9% simple interest per year until the matter was finally resolved.

The confirmation by the Texas Court of Appeals remained subject to appeal to the Texas Supreme Court. No assurance could be given that the funds would be successful if the Texas Supreme Court granted certiorari to hear the case; it was not known when or how much if any of these monies the funds would receive. As a result, in accordance with accounting principles generally accepted in the United States ("GAAP"), this judgment was not recorded as an asset of the funds. It was expected that the judgment amounts would be recorded as an asset of the funds if and when the judgment no longer was subject to any further appeal.