FUNDMARKET INSIGHT REPORT

REFINITIV LIPPER RESEARCH SERIES

SEPTEMBER 30, 2020

The Month in Closed-End Funds: September 2020

Performance

For the first month in six, equity CEFs on average witnessed negative performance on both a NAV and market basis. They declined 2.56% and 4.89%, respectively. Meanwhile, for the sixth month in a row, their fixed income CEF counterparts posted returns in the black on a NAV basis (+0.02%), but also for the first month in six, in the red on a market basis (-0.62%). While still suffering negative returns year to date (-9.39% and -1.06%, respectively), the average equity and fixed income CEF chalked up three-month plus-side returns, rising 3.81% and 3.63%, respectively, on a NAV basis.

After posting their strongest August returns in 34 years and hitting new record highs in the first two days of September, the U.S. markets witnessed some large declines. The Dow Jones Industrial Average experienced its largest one-day drop (-808 points) since June as investors took some hard-won profits off the table after a spectacular run-up in tech and "stay-at-home" stocks. The August jobs report showed the U.S. economy regained jobs, but at a slower pace than the prior months. The Department of Labor announced the U.S. economy had added 1.4 million new jobs for August, beating analyst expectations of 1.2 million. The unemployment rate declined to 8.4% from 10.2% in July.

The following week, the NASDAQ booked its largest one-week loss since March, entering correction territory, as investors eyed increasing COVID-19 infection rates, the approaching U.S. elections, and increased U.S./China tensions. Investors also focused on the failure of U.S. politicians to agree on a new rescue package and weakening oil prices blamed on a decline in demand.

Technology issues continued their selloff, declining for the third consecutive week, after the Fed indicated that the recovery could be a long one and it didn't expect to lift rates for a few years. On a bright note, the University of Michigan said its preliminary September reading of consumer sentiment increased to 78.9 from 74.1 in the prior month.

While the NASDAQ broke its three-week losing streak the following week, the Dow and S&P 500 extended theirs to a fourth straight week as economic worries intensified. Many investors remained risk averse because the likelihood of a rescue package before the November elections was looking more unlikely and on concerns that another wave of COVID-19 cases could occur this fall. August durable goods orders rose 0.4%, but they missed analysts' expectations of a 1.5% gain.

On the last day of trading, the Dow managed to gain 329 points on the day as jobs and housing remained in the spotlight, but stocks still witnessed their first monthly decline since March. The National Association of Realtors said August home contract signings were at a record high and payroll services provider ADP LLC announced that the U.S. private sector had created 749,000 jobs in September, beating analyst expectations.

The Month in Closed-End Funds: September 2020

- For the first month in six, equity closed-end funds (CEFs) on average posted negative returns, declining 2.56% on a net-asset-value (NAV) basis for September, while for the sixth month running, fixed income CEFs witnessed returns in the black (+0.02%).
- Only 12% of all CEFs traded at a premium to their NAV, with 11% of equity CEFs and 14% of fixed income CEFs trading in premium territory. The municipal bond CEFs macro-classification witnessed the largest narrowing of discounts for the month among Lipper's CEF macro-groups—13 basis points (bps) to 7.33%.
- Real Estate Funds (-0.46%) mitigated losses better than the other equity classifications in the CEF universe for September.
- The domestic taxable bond CEFs (+0.30%) macro-group posted the strongest plus-side returns in the CEF universe for September.
- Energy MLP CEFs (-11.80%) suffered the largest declines of all CEF classifications for the month.

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As a result of a slight flight to safety during the month, the Treasury yield curve shifted down or remained unchanged during the month, with only the three-year Treasury yield rising one basis point to close the month at 0.16%. The largest declines were seen at the long end of the curve, with the 10-, 20-, and 30-year yields declining to 0.69%, 1.23% and 1.46%, respectively.

During the month, the dollar weakened against the yen (-0.23%), but strengthened against the pound (+3.57%) and the euro (+1.96%). Commodity prices declined for the month, with near-month gold prices falling 4.07% to close the month at $1,887.5 per ounce and front-month crude oil prices sliding 5.61% to close at $40.22 per barrel.

For the month, only 35% of all CEFs posted NAV-based returns in the black, with a scant 17% of equity CEFs and 47% of fixed income CEFs chalking up returns in the plus column. For the first month in six, Lipper's mixed-assets CEFs macro-group (-1.19%) mitigated losses better than its two equity-based brethren: world equity CEFs (-1.80%) and domestic equity CEFs (-3.21%).

The Real Estate CEFs classification (-0.46%), for the first month in six, outperformed all other equity classifications, followed by Income & Preferred Stock CEFs (-0.97%) and Developed Markets CEFs (-1.24%). Energy MLP CEFs (-11.80%) posted the worst returns in the equity universe and was bettered by Natural Resources CEFs (-8.99%) and Diversified Equity CEFs (-2.91%). For the remaining equity classifications, returns ranged from negative 2.91% (Diversified Equity CEFs) to negative 1.29% (Emerging Markets CEFs).

The two top performing CEFs for September were warehoused in Lipper's Developed Markets CEF classification. **Japan Smaller Capitalization Fund Inc.** (**JOF**) rose 4.55% on a NAV basis and traded at a 14.33% discount on September 30 and **Aberdeen Japan Equity Fund Inc.** (**JEQ**), gained 4.54% and traded at a 16.42% discount at month end. These returns propelled the funds to the top of the charts. Following those two were **BlackRock Health Sciences Trust II** (**BMEZ**, housed in the Sector Equity CEFs classification), rising 3.06% and traded at a 9.32% discount on September 30; **The Relative Value Fund, CIA share class** (**VFLEX**, an hybrid interval CEF housed in Lipper's Income & Preferred Stock CEF classification), posting an 2.82% return; and **Korea Fund Inc.** (**KF**, housed in the Emerging Markets CEFs classification), gaining 2.12% and traded at a 15.86% discount at month end.

For the month, the dispersion of performance in individual equity CEFs—ranging from negative 20.64% to positive 4.55%—was significantly wider than August's spread and skewed to the negative side. The 20 top-performing equity CEFs posted returns at or above 1.05%, while the 20-lagging equity CEFs were at or below negative 8.41%.

CLOSED-END FUNDS LAB

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

	NAV RETURNS	PREMIUM/DISCOUNT		NOW TRADING AT	
	POSITIVE	BETTER	WORSE	PREMIUM	DISCOUNT
Equity CEFs	17	25	75	11	89
Bond CEFs	47	38	62	14	86
ALL CEFs	**35**	**32**	**67**	**12**	**87**

TABLE 2 AVERAGE NAV RETURNS, SELECTED PERIODS (%)

	SEPTEMBER	YTD	3-MONTH	CALENDAR-2019
Equity CEFs	-2.56	-9.39	3.81	19.20
Bond CEFs	0.02	-1.06	3.63	10.84
ALL CEFs	**-1.05**	**-4.56**	**3.70**	**14.51**

TABLE 3 NUMBER OF IPOs, YTD VERSUS PRIOR YEAR

	SEPTEMBER 2020	CALENDAR-2019
Conventional CEFs	11	10
Interval CEFs	11	26

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

THREE MONTHS THROUGH 8/31/2020	736
COMPARABLE YEAR-EARLIER THREE MONTHS	583
CALENDAR 2019 AVERAGE	523

TABLE 5 NUMBER OF MERGERS & LIQUIDATIONS, YTD VERSUS PRIOR YEAR

	AUGUST 2020	CALENDAR-2019
ALL CEFs	**20**	**23**

TABLE 6 MEDIAN PREMIUMS AND DISCOUNTS (%)

	30-JUN	31-JUL	31-AUG	30-SEP
Equity CEFs	-11.92	-11.96	-11.92	-13.36
Bond CEFs	-8.50	-7.31	-7.20	-7.60
ALL CEFS	**-9.41**	**-8.72**	**-8.56**	**-9.36**

Source: Refinitiv Lipper

For the month, only 44 CEFs in the equity universe posted plus-side returns. The five worst performing funds were housed in the Energy MLP CEFs classification. At the bottom of the heap was **ClearBridge MLP and Midstream Fund Inc.** (**CEM**), shedding 20.64% of its August-closing NAV and traded at a 23.58% discount at month end. The second worst performing CEF was **ClearBridge Energy Midstream Opportunity Fund Inc.** (**EMO**), declining 18.50% and traded at a 27.34% discount on September 30.

Movement in the Treasury yield curve was flat for the month. The 10-year Treasury yield declined by three bps for the month to 0.69% (after hitting a high of 0.72% on September 4). For the second month in a row, domestic taxable fixed income CEFs remained at the top of the charts, posting a 0.30% return on average, followed by municipal bond CEFs (-0.16%) and world income CEFs (-0.93%).

Fixed income investors were generally more risk averse during the month, pushing U.S. Mortgage CEFs (+0.93%) to the top of the domestic taxable fixed income leaderboard for the first month in 24, followed by Loan Participation CEFs (+0.80%) and General Bond CEFs (+0.57%). Corporate Debt BBB-Rated CEFs (-0.79%) posted the largest negative returns of the group and was bettered by High Yield CEFs (Leveraged) (-0.49%). On the world income side, poor performance from Emerging Markets Hard Currency Debt CEFs (-2.72%) weighed on the sub-group, while somewhat better performance from Global Income CEFs (-0.24%) helped keep declines in check for September.

For the second consecutive month, the municipal debt CEFs macro-group posted a negative return (-0.16%) on average, with six of the nine classifications in the group experiencing returns in the red for the September. The Pennsylvania Municipal Debt CEFs (+0.18%), Other States Municipal Debt CEFs (+0.03%), and High Yield Municipal Debt CEFs (+0.02%) classifications managed to stay in positive territory, while New York Municipal Debt CEFs (-0.43%) was the group laggard. Single-state municipal debt CEFs (-0.15%) mitigated losses slightly better than their national municipal debt CEF counterparts (-0.16%) by slightly more than one basis point for the month.

The three top-performing individual fixed income CEFs were housed in Lipper's Loan Participation CEFs classification. At the top of the fixed income universe chart was **City National Rochdale Strategic Credit Fund** (**CNROX**, an interval hybrid CEF), returning 4.47%. Following CNROX were **XAI Octagon Floating Rate & Alternative Income Term Trust** (**XFLT**), returning 3.46% and traded at a 8.69% discount on September 30; **Pioneer Securitized Income Fund** (**XSILX**, an interval hybrid CEF), returning 2.92%; **City National Rochdale Select Strategies Fund** (**CNRLX**, an interval hybrid CEF housed in the General Bond CEFs classification), posting a 2.61% return; and **Western Asset Mortgage Opportunity Fund** (**DMO**, housed in the U.S. Mortgage CEFs classification), adding 2.52% to its August month-end value and traded at a 7.93% discount on September 30.

For the remaining funds in the fixed income CEF universe, monthly NAV-based performance ranged from negative 4.52% for **Stone Harbor Emerging Markets Total Income Fund** (**EDI**, housed in Lipper's Emerging Markets Hard Currency Debt CEFs classification and traded at a 7.60% discount at month end) to positive 2.13% for **AlphaCentric Prime Meridian Income Fund** (**PMIFX**, an interval hybrid CEF housed in Lipper's Loan Participation CEFs classification). The 20 top-performing fixed income CEFs posted returns at or above 1.46%, while the 20 lagging CEFs posted returns at or below negative 1.47% for the month. There were 189 fixed income CEFs that witnessed negative NAV-based performance for September.

Premium and Discount Behavior

For September, the median discount of all CEFs widened 80 bps to 9.36%—wider than the 12-month moving average median discount (7.97%). Equity CEFs' median discount widened 144 bps to 13.36%, while fixed income CEFs' median discount widened 40 bps to 7.60%. World income CEFs' median discount witnessed the largest widening among the CEF macro-groups—239 bps to 7.95%—while the municipal bond CEFs macro-group witnessed the largest narrowing of discounts—13 bps to 7.33%.

Gabelli Utility Trust (**GUT**, housed in the Utility CEFs classification) traded at the largest premium (+97.91%) in the CEF universe on September 30, while **NexPoint Strategic Opportunities Fund** (**NHF**, housed in the High Yield CEFs [Leveraged] classification) traded at the largest discount (-49.18%) at month end.

For the month, 32% of all funds' discounts or premiums improved, while 67% worsened. In particular, 25% of equity CEFs and 38% of fixed income CEFs saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on September 30 (59) was 13 less than the number on August 31 (72).

CEF Events and Corporate Actions

IPOs

BlackRock Capital Allocation Trust (**BCAT**) is a newly organized, non-diversified, closed-end investment management company with a performance start date of September 25, 2020. The trust's investment objectives are to provide total return and income through a combination of current income, current gains, and long-term capital appreciation. The trust will invest in a portfolio of equity and debt securities. Generally, the trust's portfolio will include both equity and debt securities. At any given time, however, the trust may emphasize either debt securities or equity securities. In addition, the trust may invest without limit in "junk bonds," corporate loans, and distressed securities. As part of its investment strategy, the trust intends to employ a strategy of writing (selling) covered call options on a portion of the common stocks in its portfolio, writing (selling) other call and put options on individual common stocks, including uncovered call and put options, and, to a lesser extent, writing (selling) call and put options on indices of securities and sectors of securities. This options writing strategy is intended to generate current gains from options premiums and to enhance the trust's risk-adjusted returns.

Rights, Repurchases, Tender Offers

First Trust Advisors L.P. announced that the boards of trustees of each of **First Trust Energy Income and Growth Fund** (**FEN**), **First Trust New Opportunities MLP & Energy Fund** (**FPL**), **First Trust MLP and Energy Income Fund** (**FEI**), and **First Trust Energy Infrastructure Fund** (**FIF**) have authorized a share repurchase program for each fund. Pursuant to each fund's share repurchase program, each fund may from time to time and at the direction of management personnel repurchase up to the amount of shares in each fund's share repurchase program in secondary market transactions in accordance with applicable law. Each fund's share repurchase program will continue until the earlier of (i) the repurchase of 5% of each fund's outstanding shares or (ii) March 15, 2021.

The board of directors of **Source Capital, Inc.** (**SOR**) reinstated the fund's stock repurchase program, which was initially approved by the board on November 16, 2015, and terminated on November 11, 2019. The program will be effective as of October 5, 2020, through December 31, 2021.

Under the program, the fund is authorized to make open-market repurchases of its common stock of up to 10% of the fund's outstanding shares at such times as the fund's shares trade at a greater than 10% discount to the fund's net asset value (NAV), when in FPA's judgment such repurchases would benefit shareholders.

Mergers and Reorganizations

The **Nuveen Municipal 2021 Target Term Fund** (**NHA**) has entered the wind-up period in anticipation of its termination date. The fund is a "target term" fund that will cease its investment operations and liquidate its portfolio on March 1, 2021, and distribute the net proceeds to shareholders, unless the term is extended for a period of up to six months by a vote of the fund's board of trustees.

The fund's investment objectives are to provide a high level of current income exempt from federal income tax and to return the fund's original $9.85 NAV to shareholders at termination. Recent market conditions may increase the risk associated with achieving the fund's objective to return original NAV. This objective is not a guarantee and is dependent on a number of factors including the extent of market recovery and the cumulative level of income retained in relation to cumulative realized portfolio gains net of losses.

During the wind-up period the fund may deviate from its investment objectives and policies and may invest up to 100% of its managed assets in high quality, short-term securities, including U.S. Treasuries. High quality, short-term securities for this fund include securities rated investment grade (A-/A3 or higher or unrated but judged by the fund's managers to be of comparable quality) with a final or remaining maturity of 397 days or less, so long as the maturity of any security in the fund does not occur later than September 1, 2021. The fund has also completed the process of redeeming and retiring its leverage in anticipation of its termination date.

Goldman Sachs Asset Management, investment advisor for the **Goldman Sachs MLP Income Opportunities Fund** (**GMZ**) and **Goldman Sachs MLP and Energy Renaissance Fund** (**GER**), announced that at the joint special meeting of shareholders held September 10 shareholders of GMZ had approved an agreement and plan of reorganization providing for the reorganization of GMZ with and into GER. Shareholders of GER have approved the issuance of additional common shares of GER in connection with the reorganization.

The reorganization was completed after the close of business on Friday, September 25, 2020, and was subject to all applicable regulatory requirements and other customary closing conditions being satisfied. After September 25, 2020, GMZ shares were no longer available to purchase or sell on the New York Stock Exchange (NYSE). When the NYSE opened on Monday, September 28, 2020, shareholders of GMZ held newly issued common shares of GER, the aggregate NAV which was equal the aggregate NAV (not the market value) of the common shares of GMZ held by such shareholders immediately prior to the reorganization.

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GER issued approximately 8,363,886 new common shares in connection with the reorganization, bringing the total number of its outstanding common shares to approximately 17,221,936. Following the closing of the reorganization, GER's total assets and NAV per share were approximately $139,791,208 and $8.12, respectively.

Other

Liberty Street Advisors, Inc. announced it has entered into a transition support services agreement with SP Investments Management, LLC, to facilitate LSA becoming the investment advisor to the **SharesPost 100 Fund** (**PIIVX, PRIVX, and PRLVX**). The fund is a non-diversified, closed end interval fund investing in private, late-stage, venture-backed growth companies. The transaction, which is subject to customary closing conditions, including the approval of the fund's board of trustees and shareholders, is expected to close in the fourth quarter of this year.

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