Mariana F. Bush, *CFA, Senior CEF/ETP Analyst*
Adam Shah, *CEF/ETP Analyst*

WELLS FARGO ADVISORS

Closed-End Funds | An analysis of the closed-end fund market

March 29, 2016

Closed-end Fund IPO Trends

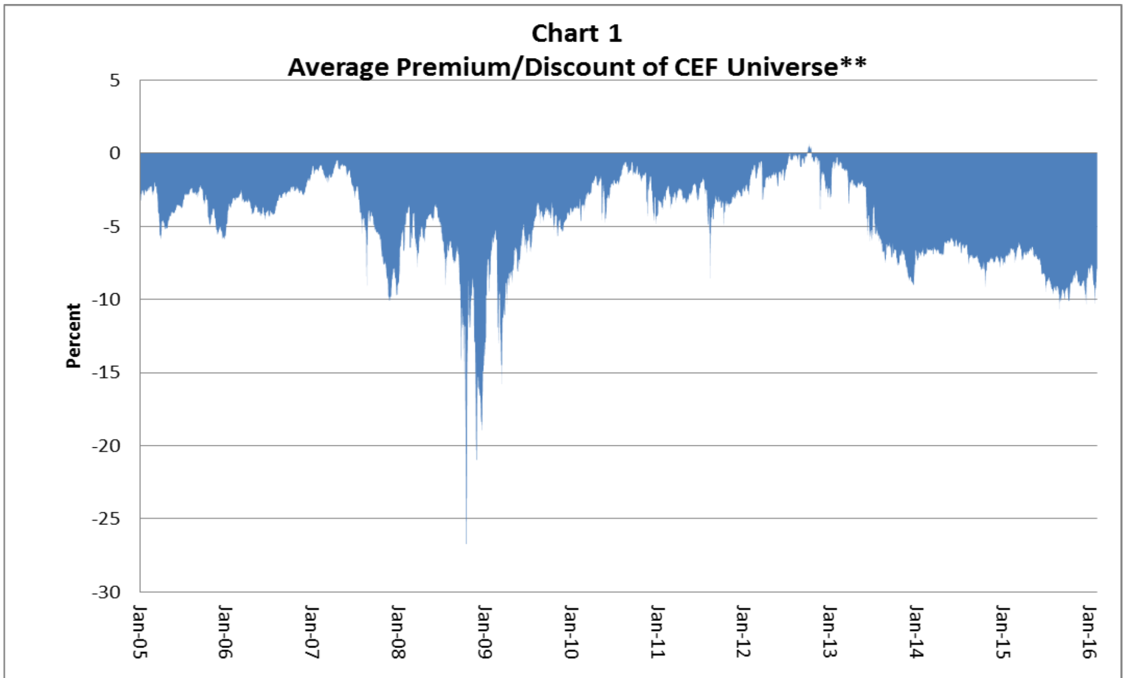
Summary:

Historically-wide discounts tempered the closed-end fund (CEF) initial public offering (IPO) market in 2015; however, they gave rise to numerous innovations in the offering process, some of which may turn out to be transformative for the CEF IPO universe. The objective of this report is to provide a glimpse into what trends have been emerging among CEF IPOs during the past few years and to also take a look at how some CEF sponsors are exploring new ways to launch a CEF in a period of persistently wide discounts.

Trends among CEF IPOs:

Number of IPOs & Assets Raised

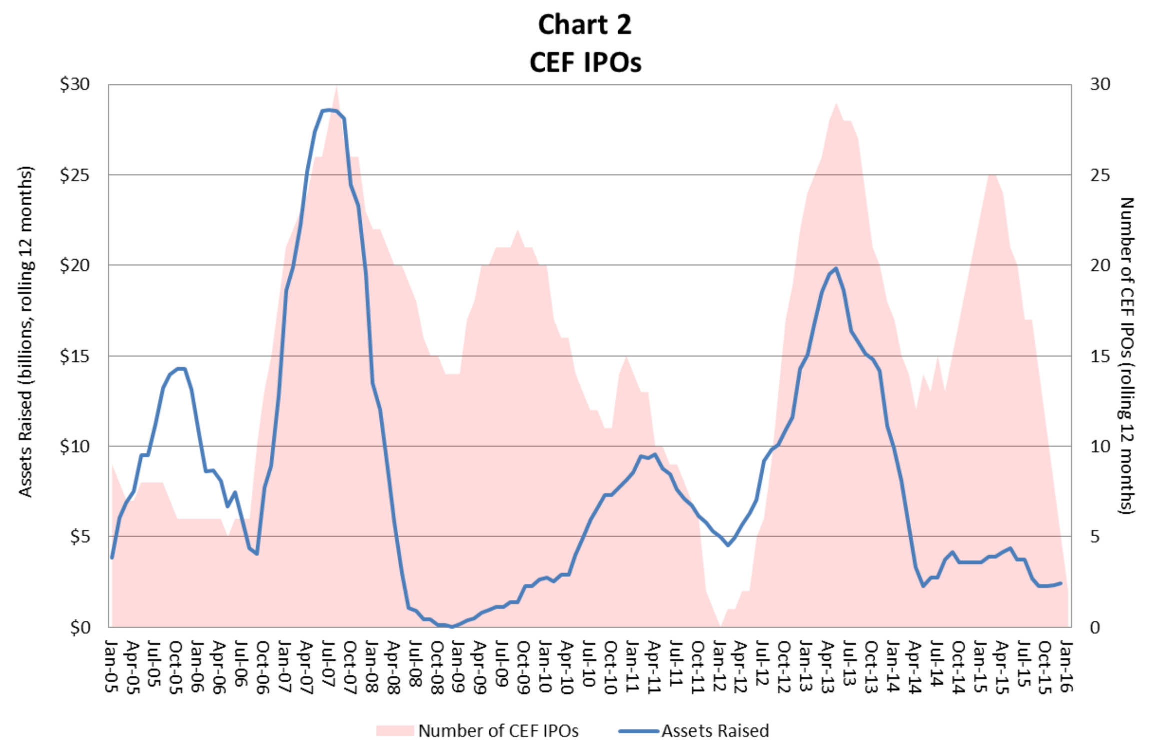
The primary market for CEFs — as measured by the number of IPOs and assets raised — has been subdued over the past three years, according to data gathered from Morningstar as of February 29, 2016. In fact, one could argue that the slump began a few months after the Taper Tantrum in mid-2013*, which resulted in a substantial widening of discounts that has continued to this day – the average premium/discount from January 2005 to January 2016, can be seen below in Chart 1.



Source: Wells Fargo Advisors, Bloomberg. Data as of Jan 31, 2016.

*Taper Tantrum was the market's response to comments made by the Fed in 2013.
**When a CEF's market price is above its NAV, the fund is said to be trading at a premium. When a CEF's market price is below its NAV, the fund is said to be trading at a discount.

Please see pages 6-8 of this report for Important Disclosures, Risk Factors and Analyst Certification



Source: Wells Fargo Advisors, Bloomberg. Data as of Feb 29, 2016.

We think wider discounts reflect the market's concern over higher interest rates, and it is more challenging to raise new assets when comparable CEFs are trading at a wide discount. The number of CEF IPOs in 2014 and 2015 was less than half that of the previous two years, as shown in Chart 2 above. Similarly, assets raised through CEF IPOs in 2014 and 2015 were also only a fraction of the assets raised in the previous two years.

Asset Class Trends

A few exposures dominated the underlying assets of CEF IPOs in the recent past, and Master Limited Partnerships (MLPs) were at the front of the line. During 2013 and 2014, 26% and 60%, respectively, of total CEF assets raised were invested in Energy MLPs. These amounts would be even larger if we were to include the MLP exposures of non-MLP CEFs. It is noteworthy that the largest CEF IPO during 2014 was the $1.3 billion Goldman Sachs MLP and Energy Renaissance Fund (GER-$5.15) – it accounted for approximately 39% of total CEF assets raised in that year. Unfortunately, high demand for a specific exposure has historically often foretold a peak of that market. Given that oil entered into a bear market and has fallen more than 65% since July 2014, thus making the environment for launching a new fund related to the commodity much less favorable, no MLP CEFs have come to market since September 2014.

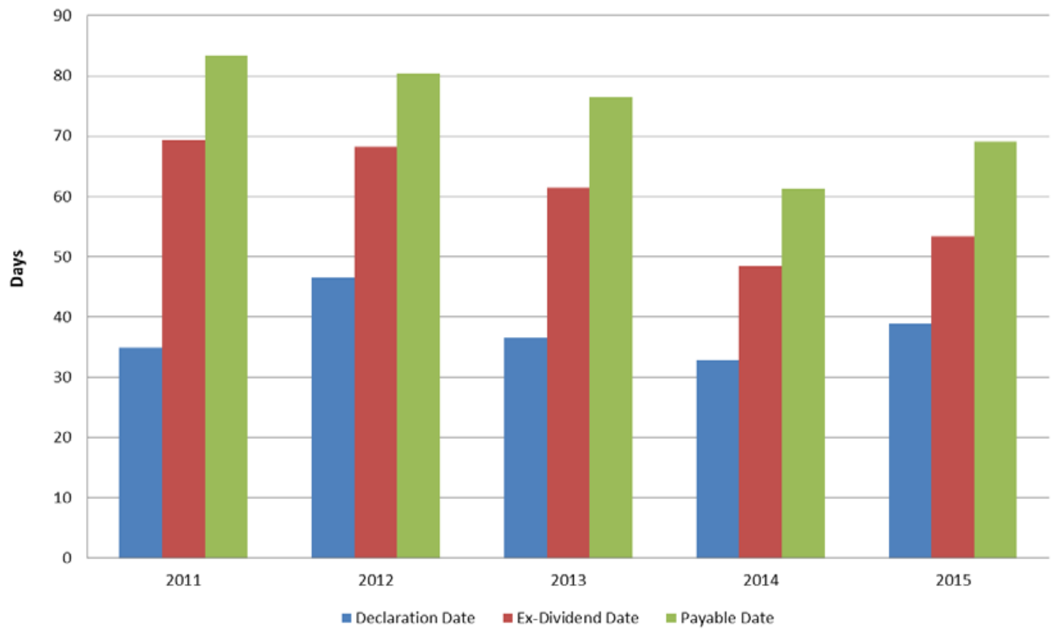
While MLPs dominated the underlying assets of CEF issuance in 2013 and 2014, exposures were more diversified during 2015. Several asset classes were represented in 2015 included convertible bonds (two CEFs), high yield bonds (two CEFs), multi-asset (two CEFs), healthcare (one CEF), and European-equity (one CEF). See the table of all 2015 CEF offerings on the following page. We view this broader diversity in exposures as a positive development that is less likely to reveal an overheated asset class.

CEF IPOs During 2015

Ticker	Name	Assets Raised	Inception Date
RIV	RiverNorth Opportunities Fund Inc	$75,103,100	12/23/2015
JHA	Nuveen High Income December 2018 Target Term Fund	$261,000,000	11/13/2015
FDEU	First Trust Dynamic Europe Equity Income Fund	$330,000,000	9/24/2015
JHY	Nuveen High Income 2020 Target Term Fund	$124,000,000	7/28/2015
THW	Tekla World Healthcare Fund	$580,000,000	6/26/2015
EGIF	Eagle Growth & Income Opportunities Fund	$127,500,000	6/19/2015
ACV	AllianzGI Diversified Income & Convertible Fund	$280,000,000	5/21/2015
CCD	Calamos Dynamic Convertible & Income Fund	$555,000,000	3/27/2015

Source: Bloomberg, Wells Fargo Advisors, Morningstar. Data as ofDec. 31, 2015

Chart 3
Average Period Between IPO and Declaration, Ex-Dividend, or Payable Dates



Source: Wells Fargo Advisors, Bloomberg, Morningstar. Data as of Dec. 31, 2015

When will the cash flow?

A regular cash flow is arguably one of the most important features shareholders look for when selecting a CEF. We thought it would be wise to see if there has been a trend in the timing of the first distribution of new CEFs. In Chart 3 we plotted the average days between the completion of the IPO and the first declaration, ex-dividend, and payable dates. One could argue that there has been a decline in the number of days it takes a new CEF to make its first distribution after the completion of its IPO. This may be due to the abundance of new CEFs adopting a monthly distribution schedule rather than quarterly – which was much more prevalent in years past. (We recognize that there is another variable that may be involved here — fixed-income CEFs tend to pay monthly and equity-focused CEFs tend to pay quarterly.) We suspect that managers of CEF IPOs, and possibly the underwriters, believe that making the first distribution as early as possible may reduce the risk of turning the inherent IPO premium into a wide discount i.e. the CEF launching at a premium due to the presence of a selling commission reducing the NAV of the fund below the IPO price. However, there has not been much of a significant change in the period between the completion of the IPO and the first distribution declaration dates from 2011 to 2015.

Recent Innovations in the CEF marketplace:

While CEF IPOs were muted in 2015, there were several notable innovations. The intention to provide a better IPO experience for CEFs is laudable, but not all of the innovations had positive results. We believe that some will be immediately beneficial to investors (a smaller selling concession, for example), while others may take longer to prove their worth (contingent conversion feature to aid in narrowing the discount, among others). Below we describe the numerous innovations we observed from various CEF managers.

Allianz

An interesting development has been the agreement to purchase a certain number of outstanding shares should the discount between its net asset value (NAV) and its market price widen beyond a set threshold. This is done with the intention of providing additional liquidity to the secondary market and for tightening the market price discount to NAV. While the intent of this stipulation is admirable, unfortunately we haven't seen much of a positive effect in secondary market pricing. For example, the $270 million AllianzeGI Diversified Income & Convertible Fund (ACV-$17.34) offered in May 2015 has a stipulation in its prospectus to purchase its common shares should its shares trade at a discount greater than 2% to NAV. However, within approximately two months after its IPO date the fund began trading near a 10% discount to NAV and was near a 13.5% discount as of February 29, 2016. Unlike the case of the Calamos fund, which we discuss in the next paragraph, shareholder money (i.e., NAV) is used to purchase shares. Admittedly, retiring shares at a wide discount is usually accretive to NAV over time.

Calamos

Calamos is another asset manager that implemented multiple changes to its newest CEF, the $530 million Calamos Dynamic Convertible and Income Fund (CCD-$17.24) that was launched in March 2015. It has employed a target term provision that will terminate CCD in 2030.

What is more interesting about this fund offering is the stipulation laid out in its prospectus that allowed Calamos to purchase up to $20 million of CCD's common shares for a period of time following the IPO date (subject to a variety of market and discount conditions and a daily purchase limit). Unlike the repurchase plan of the newest Allianz fund, Calamos generously offered to use its own money — not the fund's assets — to support the shares if they traded at a discount to NAV. Within the first year after the CCD IPO, Calamos purchased 4.4% of the shares outstanding. Unfortunately, this was not sufficient to stop the discount from widening. According to Calamos, they have no current plans to sell the shares in CCD; however, one should recognize that if Calamos were to someday decide to sell these shares, this could create downward price pressure.

First Trust

First Trust has also made a few contributions to the IPO market with its latest fund, the First Trust Dynamic Europe Equity Income Fund (FDEU-$15.97). This fund also has a "contingent conversion" feature that will allow shareholders to vote in the year 2023 to convert the CEF into an open-end the fund. The benefits and drawbacks to this feature will be summarized in the "RiverNorth" section on the next page. A more interesting innovation that FDEU implemented came in the form of a "Quarterly Special Distribution Program". This program allows the fund, for a period of two years after its IPO completion date, to distribute 50% of its NAV gains during that given quarter. However, if the fund does not record an increase in NAV during the quarter above a previously established level determined by the fund, the fund will not distribute any special distributions above and beyond the regular distribution.

This may prove to be an interesting development for the CEF universe. For one, this special distribution feature may entice new shareholders to continue to hold the fund with the expectation that if the NAV appreciates, shareholders will be rewarded with extra distributions above and beyond their regularly scheduled ones. However, this feature may sacrifice future earnings potential by paying out additional capital from the fund's investment portfolio and thus potentially limiting future capital appreciation.

Unfortunately, so far FDEU's NAV has fallen since its inception in late September 2015 in line with European equities, so the fund has not been able to test its new feature — no special distributions so far — and its discount has remained wide.

Nuveen

Nuveen also made multiple changes to its IPOs in 2015. First off, they launched two new target term funds – the $260 million Nuveen High Income December 2018 Target Term Fund (JHA-$10.08) and the $120 million Nuveen High Income 2020 Target Term Fund (JHY-$10.22). This in and of itself is not actually very noteworthy – there have been multiple target term funds launched in the past. However, what is pioneering is the termination period — much shorter than past term trusts. JHY was launched in July with only a 5 year life, and if that was not short enough, JHA was launched in November with a 3 year life — the shortest term ever for a CEF. Secondly, Nuveen also significantly lowered the initial sales concession from the typical 4.5% to only 1.5% for JHY and a lower 1.3% for the shorter-term JHA. Lastly, Nuveen decided to slightly change the new term trusts' target payout and has stated it intends to return the initial NAV at termination. Of course, keep in mind that this is an objective and not a guarantee. Returning the initial NAV is a new development. The objective of previous term trusts had been to return the initial IPO price (first generation of term trusts) or whatever the NAV is at termination (second generation). Nuveen has created a third generation of term trusts, which resembles the "objective" of the first-generation term trusts.

These innovations have so far been successful as they relate to supporting the CEF market price. First, by lowering the sales commission, more of an investor's money will actually be invested to produce cash flow. Second, a smaller sales incentive is more likely to keep "flippers" away. Such undesired players typically participate on the IPO and then "flip" or sell the shares short at the first chance they get putting unnecessary pressure on the market price. Keep in mind that all the current demand for the fund was most likely already absorbed at the IPO, leaving the shares of the IPO with no support. It appears that the short term, the lower selling concession, and/or the target IPO NAV price at termination, or some combination of all three, has so far contributed to both funds continuing to trade at a premium to their current NAVs. That is noteworthy in our opinion.

This year, Nuveen followed up with a third offering — the Nuveen Municipal 2021 Term Trust (NHA-$10.01) — in January. NHA invests primarily in high yield municipal bonds, has a short term (3 years) and also had a lower selling concession, but the assets raised were disappointing. NHA raised only $80 million in assets, which is very low for a CEF.

RiverNorth

RiverNorth — an old timer when it comes to investing in CEFs, but a new player in the CEF IPO market — also added a new twist to its CEF IPO. Its newest fund, the $73 million RiverNorth Opportunities Fund (RIV-$18.05) that was launched in late December 2015, also lowered its IPO sales concession from the typical 4.5% to 3%. While not as large of a reduction as with the new Nuveen CEFs, we still believe this change is beneficial to shareholders for the reason previously stated. The more unique characteristic about the fund came in the form of a "contingent conversion" feature. What this means is that during the calendar year of 2021 the fund will call a shareholder vote, and if greater than 50% of the fund's total outstanding shares approve the conversion, the fund will convert to an open-end fund during the following 12 months.

The "contingent conversion" feature has benefits and drawbacks. A benefit would be that if the fund is trading at a wide discount to its NAV at the time of the vote a conversion to an open-end fund would drastically narrow that discount and help shareholders realize an increase in market value relative to NAV. However, this may come with a drawback that the fund may not be able to continue to use leverage in the open-end fund like it had in the CEF. It may also then be susceptible to inopportune fund inflows/outflows that are not normally present in the CEF structure. Both situations may negatively impact the distribution and/or the NAV.

While RiverNorth's innovative features may be beneficial now or in the future, unfortunately RIV's initial premium has turned into a discount like most other CEF IPOs — a disappointment for IPO buyers, but an opportunity for secondary market investors.

Conclusion

While the CEF IPO market may appear to have been very calm, if measured by the number of CEF IPOs and/or the assets raised during 2015, there was significant innovation that took place. The innovations discussed attempted to genuinely the CEF IPO market and took a lot of effort, but results were poor in most cases. More specifically, all of these innovations attempted to avoid turning the inherent IPO premium into a wide discount, an ailment of most CEF IPOs. For some cases this behavior was more punishing than for others. At this point, one would argue that Nuveen's features — very short terms, a target IPO NAV price at fund termination and substantially lower selling concessions — were the most effective at preventing the IPO premium from turning into a substantial discount. It will be interesting to monitor over the next few months the trends of assets raised for CEF IPOs. We think there is still sufficient concern over the impact of higher rates, which is still contributing to wide discounts and may be the main driver preventing the primary market of CEFs from reigniting.

IMPORTANT DISCLOSURES

Disclosure information . . . For important disclosure information, please contact:
Wells Fargo Advisors Attn: Advisory Services (Disclosure Information)
One North Jefferson, St. Louis, MO 63103 Or call phone (888) 410-9203
Please remember to specify the issuer(s) with respect to which you would like to receive disclosure information.

ANALYST CERTIFICATION: *The Analyst who prepared this report hereby certifies that the views expressed in this report accurately reflect his/her personal views about the subject companies and their securities. The Analyst also certifies that he/she has not been, is not, and will not be receiving direct or indirect compensation for expressing the specific recommendation(s) or view(s) in this report.*

All prices are as of March 28, 2016 unless indicated otherwise.

Risk Factors

Closed-End Funds (CEFs) are actively managed and can employ a number of investment strategies in pursuit of the fund's objectives. Some strategies may increase the overall risk of the fund and there is no assurance that any investment strategy will be successful or that the fund will achieve its intended objective. A CEF has both a market price and net asset value (NAV), and these two values and their respective performances may differ. Changes in investor demand for a particular fund may cause the fund to trade at a price that is greater (lower) than it's NAV, creating a share price premium (discount) to its NAV. CEFs are subject to different risks, volatility, fees and expenses. Many CEFs can leverage their assets to enhance yields. Leverage is a speculative technique that exposes a portfolio to increased risk of loss, may cause fluctuations in the market value of the fund's portfolio which could have a disproportionately large effect on the fund's NAV or cause the NAV of the fund generally to decline faster than it would otherwise. The use of leverage and other risk factors are more fully described in each closed-end fund's prospectus under the heading "Risks."

A closed-end fund that concentrates its investment in energy-related Master Limited Partnerships (MLPs) is subject to the risks of investing in MLPs and the energy sector. Investment in securities of MLPs involves certain risks which differ from an investment in the securities of a corporation. Holders of MLP units have limited control and voting rights on matters affecting the partnership. In addition, there are certain tax risks associated with an investment in MLP units and conflicts of interest may exist between common unitholders and the general partner, including those arising from incentive distribution payments. MLPs may be sensitive to price changes in oil, natural gas, etc., regulatory risk, and rising interest rates. A change in the current tax law regarding MLPs could result in the MLP being treated as a corporation for federal income tax purposes which would reduce the amount of cash flows distributed by the MLP. Other risks include the volatility associated with the use of leverage; volatility of the commodities markets; market risks; supply and demand; natural and man-made catastrophes; competition; liquidity; market price discount from NAV and other material risks.

An MLP is not required to make distributions and distributions may represent a return of capital as detailed in the K-1 delivered to the unitholder. Unlike regular dividends, a `return of capital' is typically tax-deferred for the unitholder of an MLP and each distribution may reduce the unitholder's cost-basis.

Convertible securities are subject to the same interest rate, price and credit risks as regular debt securities. Prices tend to be inversely affected by changes in interest rates. In addition, a convertible security is also subject to the risks associated with common stocks. The return and principal value of stocks fluctuate with changes in market conditions.

Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. These risks are heightened in emerging markets.

A CEF fund that invests in other CEFs and in exchange-traded funds (ETF) will be subject to substantially the same risks as individual ownership of these securities would entail. The fund will also be indirectly subject to the underlying CEF and ETF expenses and the cost of this type of investment may be higher than the cost of investing directly in these securities.

A CEF that is concentrated in a single sector may present more risks than a fund that is broadly diversified over numerous sectors of the economy. This will increase the CEF's vulnerability to any single economic, political or regulatory development affecting the sector and may result in greater price volatility.

This communication is not an offer to sell or solicitation of offers to buy any securities mentioned herein. This report is not a complete analysis of every material fact in respect to any fund or fund type. The opinions expressed here reflect the judgment of the author as of the date of the report and are subject to change without notice. Statistical information has been obtained from sources believed to be reliable but its accuracy is not guaranteed. Wells Fargo Advisors does not render legal, accounting or tax advice. Please consult your tax or legal advisors before taking any action that may have tax consequences.

Wells Fargo Advisors research analysts receive no compensation in connection with the firm's investment banking, sales and trading, or principal trading revenues. Analysts may be eligible for annual bonus compensation based on the overall profitability of the firm, which takes into account revenues derived from all the firm's business activities, including its investment banking business, sales and trading, and principal trading.

The Advisory Services Group (ASG) of Wells Fargo Advisors works with information received from various resources including, but not limited to, research from affiliated and unaffiliated research correspondents as well as other sources. ASG research analysts provide investment advice based on their own observations and analysis (both fundamental and quantitative) for the clients of Wells Fargo Advisors and its affiliates. ASG does not assign ratings to or project target prices for any of the securities mentioned in this report.

ASG receives research from affiliated and unaffiliated correspondent research providers with which Wells Fargo Advisors has an agreement to obtain research reports. Each correspondent research report reflects the different assumptions, opinions, and the methods of the analysts who prepare them. Any opinions, prices or estimates contained in this report is as of the date of this publication and is subject to change without notice.

Additional information available upon request. Past performance is not a guide to future performance. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee as to its accuracy or completeness. This material is published solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or investment product. Opinions and estimates are as of a certain date and subject to change without notice. The suitability of the individual securities should be reviewed by investors and their Wells Fargo Advisors Financial Advisor to determine whether a particular security is suitable for their portfolios, with full consideration given to existing portfolio holdings.

Wells Fargo Advisors is registered with the U.S. Securities Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with Wells Fargo Advisors.