DISPELLING COMMON CLOSED-END FUND MYTHS

Since the launch of the first closed-end fund (CEF) over 100 years ago, the industry has grown to include 558 funds with $261 billion in assets as of year-end 2015. And yet, a great deal of misunderstanding remains over how these investment vehicles are structured, traded and incorporated into an investment portfolio.

Myth 1: Closed-end funds are too complex for most investors.

Reality: The perception that closed-end funds are intricate investments reserved for a narrow base of investors is primarily a function of familiarity (or the lack thereof) with the investment vehicle.

A closed-end fund is a professionally managed investment vehicle that invests in stocks, bonds, or other securities not unlike a traditional open-end mutual fund. There are key differences between these two types of investment vehicles including:

• Closed-end funds issue shares through an initial public offering (IPO). And once completed, the number of shares outstanding is fixed. After the IPO, closed end fund shares trade on an exchange (such as the New York Stock Exchange) just like stocks. This structure enables managers to remain fully invested at all times without worrying about having enough cash on hand to meet redemptions from investors who suddenly sell — especially in a down market. Conversely, in a rising market, CEF managers don’t need to invest a flood of new cash at rising prices. Their defined capital structure can make CEFs particularly ideal for investing in niche, less liquid markets that may be ill-suited for other investment structures.

• Closed-end funds typically have the ability to use leverage. Leverage can be defined as borrowing money at a low interest rate while targeting higher yielding securities while this use of leverage increases potential for volatility, it also has the potential to magnify both investment gains and losses. The amount of leverage a closed-end can employ is usually restricted to no more than 33.33% of its total asset. Therefore it’s important to consider a fund’s leveraging capabilities, and to be cognizant of the associated costs and greater risk of volatility before investing. Not every closed-end fund employs leverage.

For more information, please call 1-888-777-0102 or consult the Fund’s web site at www.lmcef.com.
• The market price of closed-end fund shares may be higher or lower than the fund’s net asset value (NAV). Because closed-end shares trade on an exchange, the price at which they are bought or sold is determined by supply and demand in the market and can vary from the net asset value of the securities in the fund’s portfolio. When a closed-end fund’s market price trades below its underlying NAV it’s described as trading at a discount. When it trades above the NAV it’s trading at a premium.

**Myth 2:** Investors are better served by investing in open-end funds as opposed to closed-end funds.

**Reality:** Given their unique characteristics, closed-end funds may be better positioned to seek income and can provide access to specialized asset classes that are less suitable for other investment structures.

The defined asset base that is created by the closed-end fund structure effectively frees the fund’s portfolio management from monitoring daily fund flows and allows them to be fully invested without worrying about maintaining cash reserves or selling securities to meet redemptions. This capital structure also provides portfolio managers with the freedom to invest in less liquid markets where less traditional opportunities may be found, and in some cases, can simplify access to specialized securities such as master limited partnerships (MLPs).

Closed-end funds also have the potential to provide attractive distributions. The ability to remain fully invested, purchase less liquid, but potentially higher yielding securities, paired with the ability to use leverage helps the fund target additional income while aiming to deliver an attractive distribution to shareholders.

**Myth 3:** Only buy a CEF trading at a large discount.

**Reality:** Investors with a long-term investment strategy should consider a wide array of variables beyond just discounts or premiums when determining whether or not a closed-end fund can meet their goals.

A closed-end fund’s share price can move above the net asset value of its underlying holdings (described as trading at a premium) or below (trading at a discount) as a result of any number of factors including portfolio performance, demand for the underlying asset class, expectations surrounding market volatility, and portfolio manager turnover. In fact, during the course of a full market cycle, a closed-end funds can trade below, at, and above the underlying NAV.

Investors should be just that — investors, not traders. The focus should be on performance over the long-term. Discounts and premiums while important are only one variable to consider when choosing a closed-end fund. Like any investment, investors in closed-end funds should carefully consider risks and other factors before investing such as the investment objective of the fund, the manager’s experience and expertise, income needs, risk tolerance and investment time horizon, the fund’s cost basis and potential for total returns. Total returns are based on market price or NAV and assume the reinvestment of all distributions. Returns include the deduction of management fees, operating expenses and all other fund expenses, and do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares.

Investors looking to learn more about closed-end funds or seeking financial advice regarding the appropriateness of investing in any securities or strategy should consult their financial professional.