LEGG MASON
GLOBAL ASSET MANAGEMENT

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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[1] 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.[2] 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.

[1] ICI Factbook, http://www.icifactbook.org/ch4/16_fb_ch4#total.

[2] Individual brokerage requirements may vary. Fees and expenses will apply to the purchase and ongoing ownership of a closed end fund. These fees and expenses include sales charges, management fees, operating expenses, and, if applicable, interest expense. Brokerage commissions may be assessed by your broker to purchase or sell closed end fund shares.

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.

All investments involve risk, including loss of principal amount invested. Past performance is no guarantee of future results. The use of Leverage may increase volatility and the possibility of loss. Fixed-income investments ("bonds") are subject to credit risk, inflation risk and interest rate risk. As interest rates rise, bond prices fall, reducing the value of a fund's share price. High yield bonds are subject to greater price volatility, illiquidity, and possibility of default. Equity and equity-related securities are subject to price fluctuation and possible loss of principal. Investments in MLP securities are subject to unique risks, including the risks of MLPs and the energy sector, including the risks of declines in energy and commodity prices, decreases in energy demand, adverse weather conditions, natural or other disasters, changes in government regulation, and changes in tax laws. There is no guarantee that investment objectives will be achieved. Investors should carefully consider their objective, risk tolerance and time horizon before investing.

Income and distributions are not guaranteed and are subject to change.

The closed-end funds are not sold or distributed by Legg Mason Investor Services, LLC (LMIS) or any affiliate of Legg Mason, Inc. Unlike open-end funds, shares are not continually offered. Like other public companies, closed-end funds have a one-time initial public offering, and once their shares are issued, they are generally bought and sold through non-affiliated broker/dealers and trade on nationally recognized stock exchanges. Share prices will fluctuate with market conditions and, at the time of sale, may be worth more or less than your original investment. Shares of exchange-traded closed-end funds may trade at a discount or premium to their original offering price, and often trade at a discount to their net asset value. **Net Asset Value (NAV)** is total assets less total liabilities divided by the number of shares outstanding. **Market Price**, determined by supply and demand, is the price at which an investor purchases or sells the fund. Investment return, market price and net asset value will fluctuate with changes in market conditions. **The funds are subject to investment risks, including the possible loss of principal invested**.