IPO Market is Wide Open—For Closed-End Funds At Least

New Offerings and Strong Relative Performance Highlight Third Quarter

New York, October 9, 2001— Closed-end fund IPOs were one of the few bright spots for the funds business in the latest quarter, with 27 funds launching so far this year, compared with six during all of last year.

“The equity IPO window has essentially slammed shut, but fund investors are snapping up new closed-end fund issues like they were this year’s version of the Furby or Beanie Baby,” said Lipper Senior Research Analyst Don Cassidy. “The difference is asset class: investors are looking to load up their portfolios with bonds rather than stocks, and almost all of the closed-end Class of 2001 are bond funds.”

INITIAL PUBLIC OFFERINGS

Investor caution, declining interest rates, and relatively high after-tax returns in the municipal market combined to create a receptive climate for 11 new closed-end municipal-bond funds' debuts—five by BlackRock and six (on September 26) by Nuveen. Total dollars raised by new closed-end issues in the past three months were $2.08 billion, bringing the 2001 nine-month total to $4.24 billion in a total of 27 funds with 30 share classes. Income has been the nearly universal theme this year, as equity markets have been sour. All but two new funds have been bond portfolios, with 24 tax-free funds and one Loan-Participation issue including four classes. Cohen & Steers brought a Real Estate fund to market, raising $315 million in May, and Putnam raised just $78 million in a venture fund on July 27 as well. Nuveen leads all issuers in 2001 with 16 IPOs raising a net of $1.95 billion; BlackRock's five offerings in July raised $1.06 billion, easily placing it second in both count and dollars. Nuveen had registered seven intended muni-bond IPOs for late September, but it postponed a single-state New York offering due to market turmoil following the events of September 11. By a narrow margin, the national BlackRock Muni Income raised the most dollars per fund, garnering $540 million in July.

IPO results in the latest 2001 quarter alone dwarf closed-end funds' full-year activity in 2000—a year that saw no new funds debut in its third quarter. All of last year, six new funds with seven classes raised a total of $637 million after commissions and expenses; three (four classes) of those were Loan Participation issues and three were technology or equity venture capital types.

Three recently filed funds are pending, of which two are of the hedge-oriented variety. Advantage Advisers Multi-Sector Fund I and UBS PW Event & Equity Fund LLC (the latter employing up to eight sub-advisors) would seem to face challenges in the presently cautious atmosphere. In September, Nuveen Real Estate Income Fund, the first equity closed-end offering by that Chicago advisor, was also filed.

OTHER CORPORATE ACTIONS

Five funds, all of the world equity type, announced or completed tender offers for from 10% to 25% of their shares in the latest quarter. Liberty All-Star Growth Fund was the only closed-end conducting a rights offering this quarter and just the fourth this year; two did so in all 2000. Two pairs of closed-end funds announced pending mergers. The Korean Investment Fund approved conversion to open-end form for October 31; Lincoln National Convertible Securities and The Italy Fund are battling against proposals to force a conversion to open-end status.

PERFORMANCE

Closed-end fund investors fared considerably better in the September quarter than did owners of open-end mutual funds. This, of course, reflected the very different makeups of the two populations. Closed-end funds consist of 120 equity portfolios and 373 bond portfolios with 399 classes, whereas a much higher percentage of open-end funds invest in equities, which suffered their worst quarter in 14 years. In the latest three months, 309 closed-end funds produced positive Net Asset Value (NAV) returns and 210 (or just 40%) generated losses. Not surprisingly given stock prices' direction worldwide, only seven (6%) of equity funds were up: two gold, two preferred-stock, one convertibles, and two Pacific country funds.

The performances of closed-end funds combined to show the following averages:

Table 1. Performances of Closed-End Funds (percentage return)

	Third Quarter		Year-to-Date	
	NAV Basis	Market Basis	NAV Basis	Market Basis
Mean	-2.9	-3.7	-1.8	3.7
Median	1.6	0.2	4.4	8.2
Dollar Weighted	-6.2	-5.1	-5.8	2.0

The heavy proportion of bond funds helped raise the medians, and large narrowings of average discounts have boosted market-basis returns for the year-to-date despite a small setback in the latest three months. Year-to-date, 323 (65%) of the 497 funds show NAV-basis positive returns; again, gainers are rare (only 13 or 11%) among equity funds: four preferred-stock, three convertibles, two gold, two financial services sector, and 2 Pacific country funds are up.

PREMIUM AND DISCOUNT BEHAVIOR

As in so many other aspects of life and Wall Street, trends were doing one thing before September 11 and have been on a different course since. Through September 7 (a Friday), closed-end fund discounts had continued to narrow moderately in the third quarter. After a brief but sharp widening and a recovery of most ground lost in the shock phase, discounts ended the quarter mixed to slightly wider overall. The median discount for all closed-end funds had been 4.8% on June 30 and was essentially unchanged at 4.7% on September 7 but ended the quarter at 5.4%. The smallest weekly median for the quarter had been 4.3% in early August, a level not seen previously since early/mid-1999. The September 30 level was slightly more than half the 10.1% seen at year-end 2000. Despite the upheavals of the quarter, high yield funds ended at continued large premiums (see details in following table), although below record-setting levels (14.4%) reached on August 24.

Net directions of premiums and discounts were a somewhat eclectic mix in the quarter. Nearly all bond fund types saw modest widenings of discount, as did world equity funds. On the plus side, domestic equity funds led the overall equity grouping to a modestly narrower median discount, and world income funds moved in the same direction. The latter may have been considerably influenced by the weakened dollar against the euro and yen in particular. The following table provides details:

Table 2. Median Premiums and Discounts for Closed-End Funds by Major Types

	Sept. 30, 2001	June 30, 2001	Dec. 31, 2000
All Closed-end Funds	-5.4	-4.8	-10.1
All Equity Funds	-10.2	-11.1	-16.6
Domestic Equity	-6.3	-6.9	-12.6
World Equity	-16.7	-16.1	-21.3
All Fixed Income Funds	-4.6	-3.8	-8.8
World Income	-4.2	-4.8	-13.4
Tax-Exempt Fixed Income	-5.1	-4.7	-10.2
Taxable Fixed Income	-2.0	-0.2	-5.8
High Yield	8.3	8.7	3.3

Despite the modest widening of discounts in the latest period, the numbers of funds trading above their respective NAVs have declined slightly:

Table 3. Number of Closed-end Funds at Premiums and Discounts

	Sept. 30, 2001	June 30, 2001
Number at Premium	174 (36.6%)	143 (30.2%)
Number at NAV	2	0
Number at Discount	304	330

Discounts among individual funds at the latest quarter's end were as deep as 43.4% (vs 39.0% at June 30), while the largest premium at September 30 was 50.5% (vs. 49.6% earlier). The 13 funds with the largest premiums (all above 20%) were either high yield funds or others paying high-percentage managed distributions. Most of the largest discounts were found in single-country, sector, and gold funds.