# Quarterly Performance Summary

### Closed-End Equity and Bond Funds Post Solid Third Quarter Performance

(October 20, 2000)—Three of four major categories of closed-end funds delivered overall positive returns and narrower discounts during the third quarter ended September 30, 2000. Domestic equity, taxable and non-taxable bonds posted positive average total returns based on both their net asset value and market price performance. Leading all categories was the convertible sector with a 6.9% average total return on market price, while investment grade bond funds delivered an average NAV total return of 3.5%. The only major category posting negative performance for the quarter was international equity, which includes international, regional and country equity funds. The sector posted an average total return for the third quarter of –7.2% based on market price and –9.1% based on NAV. Discounts also widened throughout the quarter in the sector.

Over the past 12 months, all four categories posted positive returns based on both market price and NAV performance. Domestic equity funds led all categories posting an average annual total return of 22.7% on market price and 24.8% on NAV performance.

**CLOSED-END FUND ASSOCIATION**

Investment Results for Periods Ended September 30, 2000

| | 3Q | | 1 Year | | 5 Years (Annualized) | |
|---|---|---|---|---|---|---|
| | Price | NAV | Price | NAV | Price | NAV |
| **Domestic Equity Closed-end Funds[1] (55)** | **4.7%** | **4.6%** | 22.7% | 24.8% | 14.0% | 15.0% |
| General Domestic Equity Closed-end Funds (18) | 3.2% | 2.2% | 26.0% | 24.7% | 19.2% | 19.1% |
| Convertible Closed-end Funds (8) | 6.9% | 1.2% | 22.7% | 23.0% | 12.1% | 13.4% |
| **International Equity Closed-end Funds[2] (70)** | **-7.2%** | **-9.1%** | 3.2% | 8.8% | 1.1% | 4.0% |
| **Taxable Income Closed-end Funds[3] (131)** | **3.6%** | **1.2%** | 8.7% | 6.2% | 7.7% | 7.4% |
| Corporate High Yield Closed-end Funds (28) | 1.9% | -2.3% | 2.5% | -2.9% | 5.9% | 4.7% |
| Corporate Loan Closed-end Funds (5) | 5.8% | 1.1% | 6.9% | 6.3% | 7.7% | 7.0% |
| Investment Grade Bond Closed-end Funds (15) | 5.1% | 3.5% | 9.8% | 6.8% | 6.6% | 7.0% |
| **Municipal Closed-end Funds[4] (217)** | **4.4%** | **3.2%** | 4.0% | 6.3% | 6.3% | 6.0% |

*Source: Wiesenberger, First Union Securities*

[1] Includes general, small cap, sector, convertible, preferred and income-oriented equity funds.

[2] Includes international, regional and country equity funds.

[3] Includes corporate, government, mortgage and international income funds.

[4] Includes national and single state municipal income funds.

Investment results for closed-end funds represent the average total return for the number of funds (shown in parentheses) in each category. Municipal returns have not been adjusted for taxes. Past performance is no guarantee of future results. Investment value and return will fluctuate. When sold, shares may be worth more or less than the original value.

Other observations and comments regarding the quarterly performance of closed-end funds include:

- Domestic equity closed-end funds continue to outperform their benchmarks in the year 2000 on an NAV basis. The average equity fund is up 14.5% year to date through the end of September versus a -1.4% return for the S&P 500. Discounts in these funds have narrowed dramatically this year, adding up to a strong year for this asset class.

  The average domestic equity fund return is being skewed by spectacular returns out of some REIT and healthcare funds. However, even when taking a more focused approach these funds stack up very well. The average large and small cap fund is outperforming the S&P 500 and S&P 600 respectively, and the average healthcare and REIT funds are outpacing their benchmarks as well. Bank funds and mid-cap funds are the only laggards so far in 2000 (table 1).

**Table 1**

**NAV returns 12/31/99-09/31/00**

| | |
|---|---|
| Large-Cap Funds | 4.78% |
| S&P 500 | -1.39% |
| Mid-Cap Funds | 7.24% |
| S&P 400 | 22.21% |
| Small-Cap Funds | 14.55% |
| S&P 600 | 10.42% |
| Healthcare Funds | 74.57% |
| S&P Helathcare | 21.65% |
| Financial Funds | 6.64% |
| S&P Banks (Major Regional) | 15.59% |
| REIT Funds | 23.41% |
| MS REIT | 22.16% |

  As this NAV outperfomance has occurred, discounts have narrowed adding further to total returns**. As of 12/31/99 the average domestic equity closed-end fund was trading at a 13.1% discount to NAV. That number now stands at 8.3%.** To show this in performance terms, as we mentioned above, the average domestic equity fund's NAV is up 14.5%, but **on market price these funds are up 18.3%, adding 380 basis points in total return.**

- **Convertible funds** are trading at wider discounts relative to domestic general equity funds potentially because the underlying asset class is somewhat more complex and not as easily understood by investors.

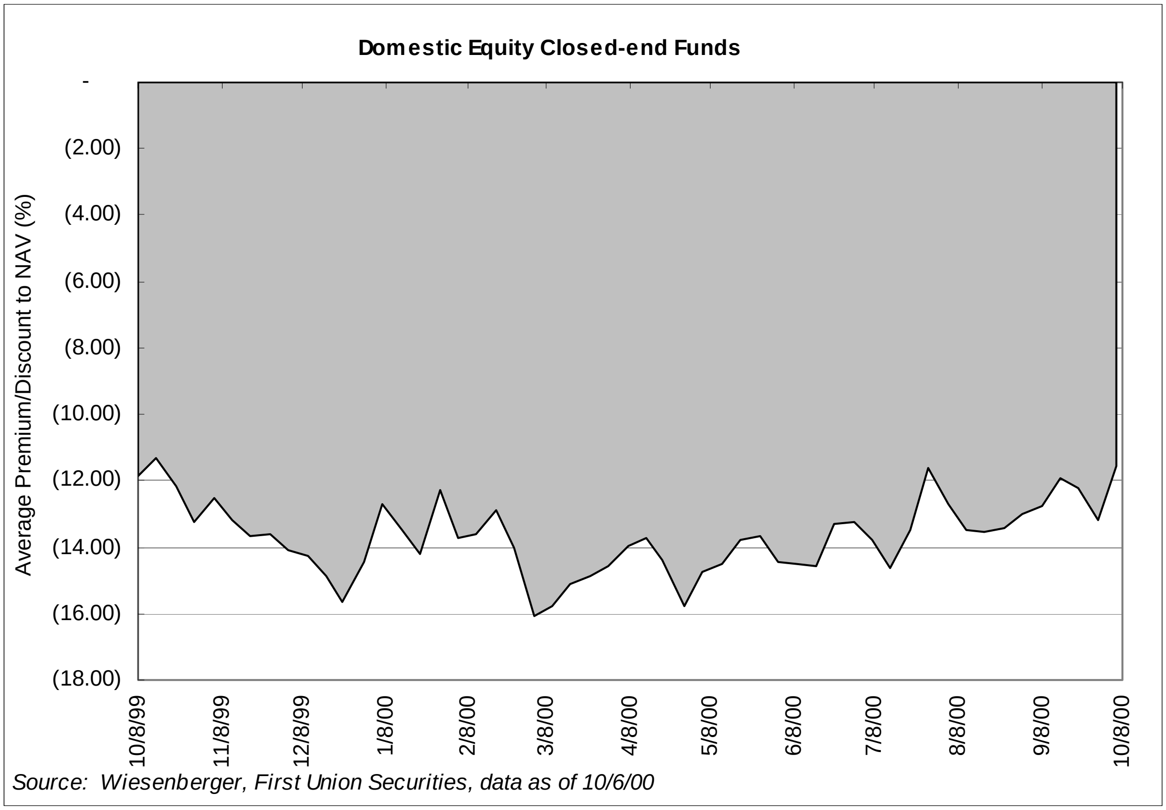
- On average, **international equity** had the worst performance in the third quarter and also had disappointing results over the last five years. While some European funds had stellar five-year returns (European Warrant Fund topped the group with a 33% annualized return), the Asian funds burdened the average return for the group. Several of the Asian funds also had some of the worst returns in the third quarter.

- **Corporate high-yield funds** have been under pressure; consequently the NAV returns have been negative for the third quarter and the twelve months. This may have caused the premiums to narrow in recent weeks. On average, the funds have under performed the DLJ High Yield Index (returns: 0.5% 3Q, 1.5% 1-year, 6.3% 5-year annualized), probably because most of the funds are leveraged and 4 out of the 28 funds have a lower credit quality (CCC) relative to the index. The NAVs of funds with a lower credit quality were hit harder.

- The average discount for **corporate loan funds** continued to narrow since April, possibly as investors were attracted to the relative stability of these funds' NAVs and as these funds have continued to increase their dividends.

- Discounts among **investment grade funds** have continued to narrow since year-end.

- **Municipal bond fund** discounts continued to narrow during the third quarter. On average, municipal funds outperformed stocks and high yield corporate funds in the third quarter. A few more leveraged municipal funds reduced their dividends as a result of a higher cost of leverage, but the number of dividend cuts is decelerating. Discounts have been on a narrowing trend, which is typical when long-term interest rates decline, as they have over the past several months. There is a strong correlation between changes in interest rates and the valuation level of the funds. As interest rates have inched up in recent weeks, discounts have widened ever so slightly.


Domestic Equity Closed-end Funds
Average Premium/Discount to NAV (%)
-
(2.00)
(4.00)
(6.00)
(8.00)
(10.00)
(12.00)
(14.00)
(16.00)
(18.00)
10/8/99
11/8/99
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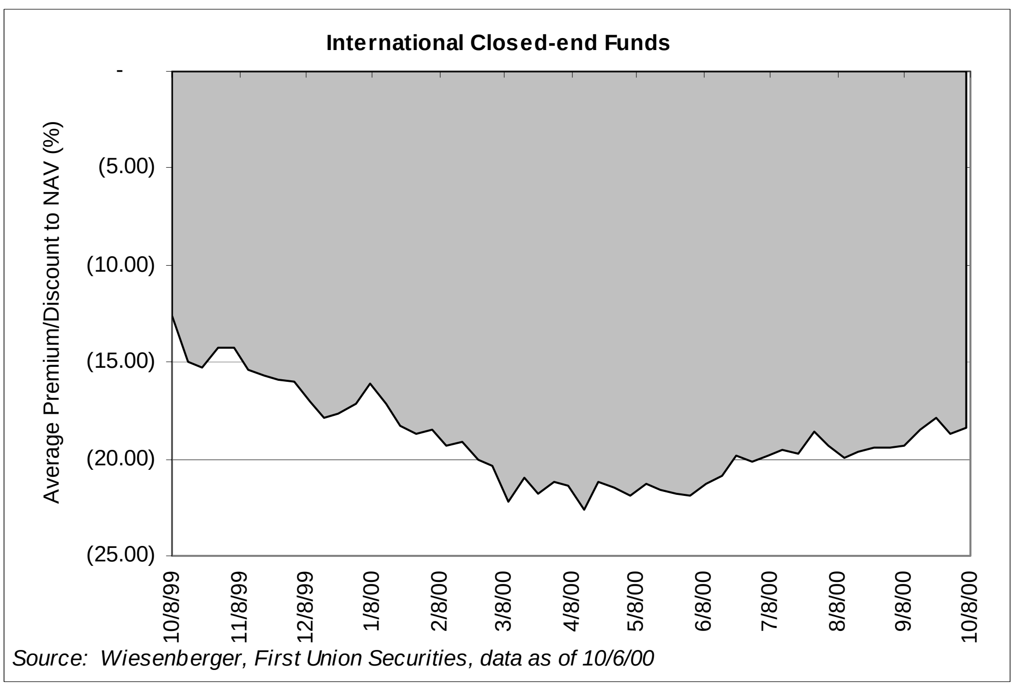
Source: Wiesenberger, First Union Securities, data as of 10/6/00


International Closed-end Funds
Average Premium/Discount to NAV (%)
-
(5.00)
(10.00)
(15.00)
(20.00)
(25.00)
10/8/99
11/8/99
12/8/99
1/8/00
2/8/00
3/8/00
4/8/00
5/8/00
6/8/00
7/8/00
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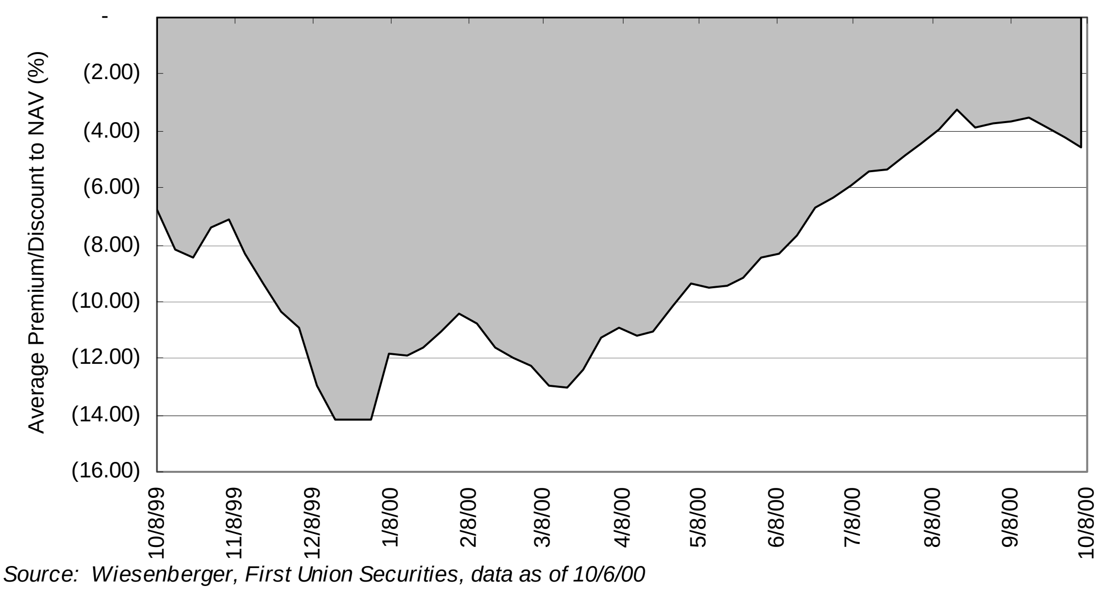
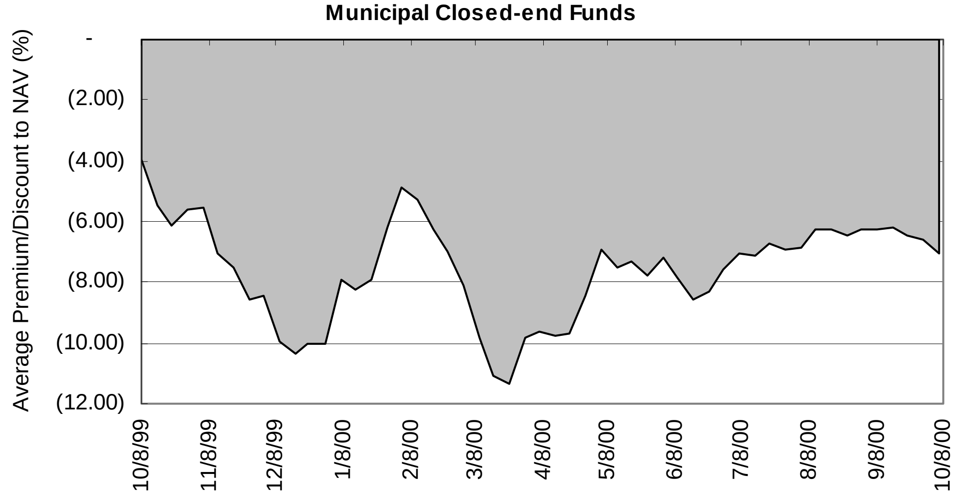
9/8/00
10/8/00
Source: Wiesenberger, First Union Securities, data as of 10/6/00

**Taxable Income Closed-end Funds**




*Source: Wiesenberger, First Union Securities, data as of 10/6/00*

**Municipal Closed-end Funds**




*Source: Wiesenberger, First Union Securities, data as of 10/6/00*