Fixed Income/Credit Market Strategy (August 4, 2015)

Closed End Funds – Primer

With the past 4+ months experiencing a dramatic move in interest rates (upward-then downward) from a likely generational low 1.68% to 2.47%, back to 2.15% today we have seen massive liquidations of bond funds as the fear of rising interest rates (yet again) frightens the retail investor. @ 2.15 today, the higher interest rate camp (all brokerages) is proving fleeting.

One area that has experienced far greater than normal sell-off is closed end funds.

A quick primer:

Closed-end funds are professionally managed investment companies. ***They generally issue a fixed number of common shares that typically are listed on a stock exchange. Once issued, a closed end fund's common shares are not typically purchased or redeemed directly by the fund, but instead are bought and sold in the open market.*** *The market price of closed-end fund shares fluctuates like that of other publicly traded securities. Closed-end funds invest in a wide variety of domestic and international securities, including common stocks, preferred stocks, high-yield bonds, municipal bonds, and corporate bonds.*

A closed end fund has 2 prices once it begins trading. A market price (what folks are willing to pay) and the NAV or Net Asset Value price. You should NEVER buy a closed end fund at the IPO price due to the underwriting commission that immediately reduces your NAV by 7%. Once they have seasoned (1+ years) you can usually buy well run CEFs at discounts of 5-15% of the underlying portfolio value (NAV). For income based funds this provides price protection AND a higher yield.

Quick example: MEN (Blackrock MuniEnhanced Fund)
Current Price: $ 11.15
NET ASSET VALUE: $11.98 (discount to NAV 7%)
Inception Date: 3/1989 - perpetual (no liquidation date)
Current Yield: 6.5% tax free @ market price (taxable equivalent yield: 10.8%)

The ownership base of closed ends is almost entirely retail investors. They have been "sold" these funds @ IPO for an almost guaranteed loss; however, once they season they provided tremendous value. We are finding that value today as the selloff in income securities (bond, high dividend yield stocks, preferreds etc.) is reaching dramatic proportion. The price sell-off in the CEFs is far beyond the change in the underlying NAV. *See example attached.*

Closed end funds can have more volatility (per retail ownership), can employ leverage, and do have other unique features such as year end tax seasonality (for the unfortunates who paid IPO price during the year). Based upon the reality of the current environment (lower for longer interest rates) we believe the risks are priced into many closed end funds.

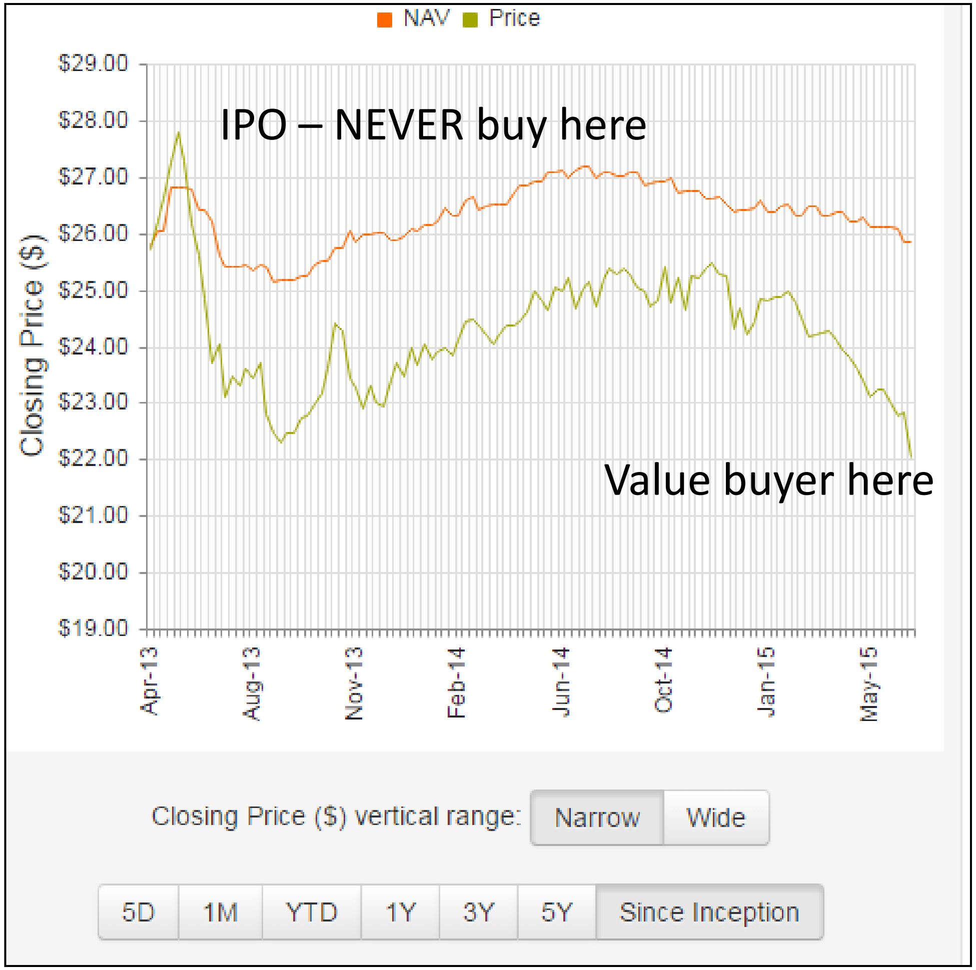
Thank you for investing with Forest Capital!

For additional information on portfolio positioning, please contact Forest Capital directly @ jbooth@forestcapital.net

FC FOREST CAPITAL
INCOME & GROWTH ADVISORS

Fixed Income/Credit Market Strategy (August 4, 2015)

Closed End Funds – Discount to Net Asset Value Example



Example - Market price YTD change of approximately $2.30/share vs. NAV change of $0.57.

During this period the position paid $0.95 in distributions.

Net, net, during the YTD period of volatile interest rates this fund created a positive return on its underlying NAV. The investor base only views market price without understanding for NAV.

Thank you for investing with Forest Capital!

For additional information on portfolio positioning, please contact Forest Capital directly @ jbooth@forestcapital.net

FC FORESTCAPITAL
INCOME & GROWTH ADVISORS