FUNDMARKET INSIGHT REPORT

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FEBRUARY 29, 2024

The Month in Closed-End Funds: February 2024

Performance

For the third month in four, equity closed-end funds (CEFs) on average witnessed plus-side returns on a net-asset-value (NAV) basis, gaining 1.81%, while for the fourth month in a row they posted plus-side returns on a market basis, rising 2.56% for the month. Meanwhile, also for the fourth month running, their fixed income CEF counterparts witnessed monthly gains on a NAV basis (+0.53%) and a market basis (+0.97%) for February.

Despite Federal Reserve officials putting the kibosh on interest rate cuts in March, U.S. indices hit new record highs during the first two days of February as better-than-expected Q4 earnings and a blowout nonfarm payrolls report were the primary focus for investors as a soft landing or no landing of the U.S. economy has becoming more likely.

The Dow and the S&P 500 posted their ninth and seventh record close of 2024 on Friday, February 2, after stronger-than-expected Q4 tech earnings and the Bureau of Labor Statistics reported that the U.S. economy added a whopping 353,000 new jobs in January, handily beating analysts' expectations of 185,000—signaling to investors the likelihood of a March rate cut is very unlikely. While the unemployment rate remained unchanged at 3.7%, hourly wages rose 0.6% in January, the biggest increase in a little less than two years. The 10-year Treasury yield rose 16 basis points (bps) to finish the day at 4.03%.

Investors pushed stocks higher the following week despite seeing Treasury yields rising across the board after the Institute of Supply Management said its service index climbed to 53.3% in January from a seven-month low of 50.5% the month before. Chinese stocks got a shot in the arm after authorities and financial regulators signaled their resolve to support the troubled markets. Big tech continued to rally, pushing the S&P 500 to an all-time closing high above the 5,000 mark as investors continued to believe the Federal Reserve will cut its key lending rate soon. However, the 10-year Treasury yield rose 14 bps for the week to settle at 4.17%.

The Nasdaq, S&P 500, and Dow ended lower on the day and the week, snapping a five-week winning streak on Friday, February 16, as investors evaluated inflation readings and corporate earnings reports. The Bureau of Labor Statistics released data that showed the January producer-price index rose 0.3%, its largest increase in five months, surpassing analysts' expectations of a 0.1% rise. Core wholesale prices—which strips out food and energy sectors—rose an even stronger 0.6% in January, indicating to some that inflation might be stickier than was thought a month ago. Earlier in the week, the Department of Labor reported that first-time jobless claims for the week prior declined by 8,000 to 212,000—a one month low—indicating layoffs remain low nationwide. The 10-year Treasury yield rose an additional 13 bps to finish the week at 4.30%.

All three broad-based U.S. indices chalked up plus-side returns the following week despite investors learning the U.S. Leading Economic Index declined by 0.4% in January, marking its twenty-second straight decline and after investors focused their attention on the Fed's policy setting meeting minutes from January 30-31 in which officials saw risks in cutting interest rates too soon. Nvidia's (NVDA) blowout Q4 earnings report and guidance set the tone for the broader markets, with both Dow and S&P 500 scoring fresh record highs. The 10-year Treasury declined four bps for the week to 4.26% after posting its highest closing value (+4.33%) since November 30, 2023, the day before.

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- For the third month in four, equity CEFs (+1.81% on a NAV basis) witnessed gains while their fixed income CEF (+0.53%) counterparts for the fourth month in a row posted plus-side returns.
- At month end, 13% of all CEFs traded at a premium to their NAV, with 13% of equity CEFs and 13% of fixed income CEFs trading in premium territory. The national municipal bond CEFs macro-classification witnessed the largest narrowing of discounts for the month among Lipper's CEF macro-groups—95 bps to a 11.58% median discount.
- Energy MLP CEFs (+4.86%), for the first month in 18, outpaced the other classifications in the equity CEF universe for February.
- Emerging Markets Hard Currency Debt CEFs (+2.12%), for the second month in three, outperformed the other classifications in the fixed income CEF macro-group.
- The world income CEFs macro-group (+1.00%) outperformed its domestic taxable bond (+0.56%) and municipal debt (+0.29%) CEF counterparts for the first month in four.

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On the last trading day of the month, the Nasdaq notched its first record close in more than two years after the core personal consumption expenditures price index—the Fed's preferred inflation gauge, which strips out the cost of food and energy—rose 0.4% in January from the month earlier. Both the S&P 500 and the Nasdaq notched their best February performances since 2015. The 10-year Treasury yield fell one bp for the week to close out the month at 4.25%.

Treasury yields in the belly of the curve witnessed the largest gains during the month, with the three- (38 bps to 4.43%) and two-year (37 bps to 4.64%) yields seeing the largest increases in February. The one-month Treasury yield, seeing no change, was the only maturity not to experience an increase, finishing the month at 5.53%. Yields remained inverted for all maturities, from the one-month to the seven-year yield. The two- and 10-year Treasury yield spread widened 11 bps from its January month-end closing value to minus 39 bps.

During the month, the dollar strengthened against the euro (+0.45%), the pound (+0.78%), and the yen (+2.48%). Commodity prices were mixed for the month, with front-month gold prices falling 0.13% to close the month at $2,045.70/oz., and front-month crude oil prices rising 3.18% to close at $78.26/bbl.

For the month, 79% of all CEFs posted NAV-based returns in the black, with 77% of equity CEFs and 81% of fixed income CEFs chalking up returns in the plus column.

For the third month in four, Lipper's world equity CEFs (+2.48%) macro-group outpaced its two equity-based brethren: domestic equity CEFs (+1.73%) and mixed-assets CEFs (+1.31%).

The Energy MLP CEFs classification (+4.86%) moved to the top of the equity leaderboard for the first month in 18, followed by Emerging Markets CEFs (+3.73%) and Natural Resources CEFs (+3.38%). Real Estate CEFs (-0.21%) suffered the only negative performance in the equity universe and was bettered by Utility CEFs (+0.37%) and Income & Preferred Stock CEFs (+1.24%). For the remaining equity classifications, returns ranged from positive 1.37% (Developed Markets CEFs) to positive 3.14% (Diversified Equity CEFs).

The three-top performing equity CEFs for February were warehoused in Lipper's Emerging Markets CEFs classification. At the top of the leaderboard were **Korea Fund Inc.** (**KF**), rising 7.88% on a NAV basis and traded at a 14.33% discount on February 29; **Templeton Dragon Fund Inc.** (**TDF**), gaining 7.84% and traded at a 15.94% discount at month end; and **China Fund Inc.** (**CHN**), gaining 7.04% and traded at a 15.26% discount on February 29. Following those three were **Calamos Global Total Return Fund** (**CGO**, housed in the Global CEFs classification), rising 6.80% and traded at a 10.79% discount at month end and **ClearBridge Energy Midstream Opportunity Fund Inc.** (**EMO**, warehoused in Lipper's Energy MLP CEFs classification), returning 6.74% and traded at an 8.49% discount on February 29.

CLOSED-END FUNDS LAB

TABLE 1 CURRENT-MONTH PERFORMANCE, P&D, P&D SHIFTS (% OF UNIVERSE)

	NAV RETURNS POSITIVE	PREMIUM/DISCOUNT		NOW TRADING AT	
		BETTER	WORSE	PREMIUM	DISCOUNT
Equity CEFs	77	50	50	13	87
Bond CEFs	81	64	36	13	87
ALL CEFs	**79**	**57**	**43**	**13**	**87**

TABLE 2 AVERAGE NAV RETURNS, SELECTED PERIODS (%)

	FEBRUARY	YTD	3-MONTH	CALENDAR-2023
Equity CEFs	1.81	1.25	4.75	9.69
Bond CEFs	0.53	1.02	4.16	10.73
ALL CEFs	**1.07**	**1.12**	**4.41**	**10.28**

TABLE 3 NUMBER OF IPOs, YTD VERSUS PRIOR YEAR

	FEBRUARY 29, 2024	CALENDAR-2023
Conventional CEFs	0	0
Interval CEFs	0	39

TABLE 4 AVERAGE SIZE OF IPOs, SELECTED PERIODS, $MIL

THREE MONTHS THROUGH 1/31/2024	0
COMPARABLE YEAR-EARLIER THREE MONTHS	0
CALENDAR 2022 AVERAGE	0

TABLE 5 NUMBER OF MERGERS & LIQUIDATIONS, YTD VERSUS PRIOR YEAR

	FEBRUARY 29, 2024	CALENDAR-2023
ALL CEFs	**1**	**33**

TABLE 6 MEDIAN PREMIUMS AND DISCOUNTS (%)

	30-NOV	29-DEC	31-JAN	29-FEB
Equity CEFs	-12.03	-13.16	-11.31	-11.73
Bond CEFs	-11.37	-11.11	-9.14	-8.68
ALL CEFS	**-11.69**	**-11.97**	**-10.08**	**-9.89**

Source: LSEG Lipper

For the month, the dispersion of performance in individual equity CEFs—ranging from negative 6.11% to positive 7.88%—was wider than January's spread and skewed to the plus side. The 20 top-performing equity CEFs posted returns at or above positive 5.68%, while the 20-lagging equity CEFs were at or below negative 1.32%.

For the month, 57 CEFs in the equity universe posted returns in the red. The worst-performing fund was housed in Lipper's Sector Equity CEFs classification. At the bottom of the pile was **ASA Gold & Precious Metals Limited** (**ASA**), shedding 6.11% of its January closing NAV and traded at a 16.92% discount on February 29. The second worst-performing equity CEF was **Wildermuth Fund, I Share Class** (**WEIFX**, an interval CEF housed in the Options Arbitrage/Options Strategies CEFs classification), posting a 3.30% loss.

The U.S. Treasury yield curve flattened slightly during the month, with the middle to the long end of the curve experiencing the largest gains during the month. All yields with maturities less than 10 years remained above the 10-year Treasury yield (+4.25%), with the one-month yield witnessing the highest absolute rate, coming in at 5.53%. At month end, the two- and 10-year Treasury yield spread (-39 bps) widened 11 bps for February.

For the first month in four, the world income CEFs macro-group outpaced the other two macro-groups in the fixed income universe, posting a 1.00% gain on average, followed by domestic taxable bond CEFs (+0.56%) and municipal debt CEFs (+0.29%).

Investors pushed the Loan Participation CEFs (+0.91%) classification to the top of the domestic taxable fixed income leaderboard for the first month in four, followed by High Yield CEFs (+0.82%) and High Yield CEFs (Leveraged) (+0.67%). Corporate Debt BBB-Rated CEFs (Unleveraged) (-1.20%) was the laggard of the group and was bettered by Corporate Debt BBB-Rated CEFs (Leveraged) (-0.89%).

On the world income CEFs side, Emerging Markets Hard Currency Debt CEFs (+2.12%) and Global Income CEFs (+0.83%) posted attractive returns, pushing the world income CEFs macro-group to the top position in the fixed income universe for the month.

The municipal debt CEFs macro-group (+0.29%) underperformed the other two groups, posting the weakest one-month return of the fixed income macro-groups, with eight of the nine classifications in the group posting gains for February. The High Yield Municipal Debt CEFs (+0.68%) classification once again posted the strongest plus-side returns of the group, followed by General & Insured Muni Debt CEFs (Leveraged) (+0.32%) and General & Insured Muni Debt CEFs (Unleveraged) (+0.31%), while New York Municipal Debt CEFs (-0.14%) posted the only decline of the group. Single-state municipal debt CEFs (+0.06%) lagged its national municipal debt CEF counterpart (+0.40%) by 34 bps.

The two-top performing individual fixed income CEFs were housed in Lipper's Emerging Markets Hard Currency Debt CEFs classification. At the top of the chart were **Virtus Stone Harbor Emerging Markets Income Fund** (**EDF**), posting a 3.63% return and traded at a 5.71% premium on February 29 and **Templeton Emerging Markets Income Fund** (**TEI**) chalking up a 3.58% return and traded at a 12.19% discount at month end. Those two were followed by **PIMCO Dynamic Income Strategy Fund** (**PDX**, housed in the Global Income CEFs classification), returning 3.33% and traded at a 13.71% discount on February 29; **KKR Income Opportunities Fund** (**KIO**, housed in the High Yield CEFs [Leveraged] classification) rising 2.10% and traded at a 1.76% discount at month end; and **RiverNorth Flexible Municipal Income Fund II Inc.** (**RFMZ**, housed in the General & Insured Muni Debt CEFs [Leveraged]), posting a 2.05% return and traded at a 10.73% discount on February 29.

For the remaining funds in the fixed income CEF universe, monthly NAV-based performance ranged from negative 2.50% for **GL Beyond Income Fund** (**GLBFX**, an interval CEF housed in the General Bond CEFs classification) to positive 2.04% for **City National Rochdale Strategic Credit Fund** (**CNROX**, an interval CEF housed in Lipper's Loan Participation CEFs classification). The 20 top-performing fixed income CEFs posted returns at or above positive 1.63%, while the 20 lagging CEFs posted returns at or below negative 0.91% for the month. For February, 68 fixed income CEFs witnessed negative NAV-based performance

Premium and Discount Behavior

For February, the median discount of all CEFs narrowed 20 bps to 9.89%—narrower than the 12-month moving average median discount (11.07%). Equity CEFs' median discount widened by 43 bps to 11.73%, while fixed income CEFs' median discount narrowed by 46 bps to 8.68%. The national municipal bond CEFs macro-group's median discounts witnessed the largest narrowing among the CEF macro-groups—95 bps to 11.58%—while the world equity CEFs macro-group witnessed the largest widening of discounts—124 bps to 14.95%.

Gabelli Utility Trust (**GUT**, housed in the Utility CEFs classification) traded at the largest premium (+103.28%) in the CEF universe on February 29, while **Highland Opportunities and Income Fund** (**HFRO**, housed in the Loan Participation CEFs classification) traded at the largest discount (-50.28%) at month end.

For the month, 57% of all closed-end funds' discounts or premiums improved, while 43% worsened. In particular, 50% of equity CEFs and 64% of fixed income CEFs saw their individual discounts narrow, premiums widen, or premiums replace discounts. The number of funds traded at premiums on February 29 (52) was seven more than the number on January 31 (45).

CEF Events and Corporate Actions

IPOs

There were no CEF IPOs in February.

Rights, Repurchases, Tender Offers

BNY Mellon Alcentra Global Multi-Strategy Credit Fund, Inc. (**XALCX**) announced the final results of its quarterly tender offer for up to 2.5% of the fund's issued and outstanding shares of common stock. The tender offer, which expired on February 13, 2024, was oversubscribed. Therefore, in accordance with the terms and conditions of the tender offer, the fund will purchase shares from all tendering shareholders on a pro rata basis—after disregarding fractions—based on the number of shares properly tendered. The final results of the tender offer are as follows: number of shares tendered: 531,201; number of tendered shares to be purchased: 47,719; pro ration factor: 0.090399; purchase price: $89.09.

Thomas J. Herzfeld Advisors, Inc. announced the commencement of a tender offer by **The Herzfeld Caribbean Basin Fund, Inc.** (**CUBA**). Under the terms of the tender offer the fund is offering to purchase up to 10% of outstanding shares of the fund at 97.5% of NAV. The fund announced the tender officer in a press release on February 9, 2024. The fund has offered to purchase up to 10% of the currently outstanding common shares of the fund, par value $0.001 per share at 97.5% of NAV per common share (determined as of the close of ordinary trading on the NASDAQ Capital Market on March 19, 2024) for cash, upon the terms and subject to the conditions contained in the offer to purchase dated February 20, 2024, and the related letter of transmittal.

Western Asset High Income Fund II Inc. (**HIX**) announced the completion of its transferable rights offering. The offer expired on February 26, 2024, and the rights no longer trade on the New York Stock Exchange (NYSE). Pursuant to the offer, the fund issued one transferable right for each common share of the fund held by stockholders of record as of January 29, 2024. Holders of rights were entitled to purchase shares of common stock by submitting three rights and the subscription price per share for each share purchased. The subscription price per share was $4.30, which was equal to 90% of the fund's NAV per share of common stock at the close of trading on the NYSE on February 26, 2024.

The offer was expected to result in the issuance of 22,508,740 shares of common stock (including notices of guaranteed delivery) resulting in anticipated gross proceeds to the fund of over $96 million. The offer was oversubscribed. The shares of common stock subscribed for were expected to be issued on or about March 4, 2024, after completion of the allocation of shares, proration of the oversubscription of shares, and receipt of all shareholder payments. The fund will return to subscribing investors the full amount of any excess payments.

Mergers, Liquidations, and Reorganizations

MFS Investment Management announced that the board of trustees of **MFS Special Value Trust** (**MFV**), a closed-end investment management company, approved a plan of liquidation and termination for the fund. The liquidation is currently expected to be completed on or about April 29, 2024.

In determining to terminate and liquidate the fund, the fund's investment manager, MFS, and the board considered a variety of factors, including the relatively small size of the fund and the nature of the fund's portfolio holdings. MFS and the board also considered alternatives, including merging the fund into another investment company and modifying the strategy of the fund. On balance, MFS and the board determined that a liquidation would be in the best interests of the fund and its shareholders.

Subsequent to the effective date of the plan of liquidation (on or about April 10, 2024), the fund will begin the orderly liquidation of its assets, determine and pay, or set aside in cash or cash equivalents, an amount at least equal to all known or reasonably ascertainable liabilities and obligations of the fund and make one or more liquidating distributions to the fund's common shareholders. The fund may also begin to liquidate certain holdings prior to the effective date of the plan. The fund has fixed the close of business on April 10, 2024, as the effective date for determining the common shareholders of the fund entitled to receive liquidating distributions. As of the effective date of the plan, the share transfer books of the fund will be closed except as necessary to allow settlement of trades. April 10, 2024, is expected to be the last day of trading of the fund's common shares on the NYSE. The MFS closed-end funds dividend reinvestment and cash purchase plan for the fund will be terminated and shares held in the plan will be liquidated and proceeds will be remitted directly to shareholders participating in the plan. The fund's March 2024 monthly common share distribution will be the fund's final monthly distribution.

The fund's liquidating distributions will be paid in cash. It is currently anticipated that the liquidation will be completed on or about April 29, 2024. Shareholders of record on April 10, 2024, will receive distributions of the fund's assets shortly after April 29, 2024.

BlackRock Advisors, LLC announced additional details related to the liquidation of **BlackRock Multi-Sector Opportunities Trust** (**MSO**). In accordance with the trust's

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plan of liquidation, the trust has entered into a liquidating trust agreement with MSO Liquidating Trust (the "liquidating trust") for the purpose of completing the final wind up of the trust's affairs and liquidation of its assets. On or around February 29, 2024, the trust distributed to common shareholders $64.7999 per share in a final cash liquidation distribution. In addition, for every one common share of MSO held, common shareholders will receive one equity interest in the liquidating trust with a fair value of $0.8121 per share of the trust's common shares. The trust's final cash liquidating distribution plus the equity interests in the liquidating trust represent substantially all of the trust's net assets at the time of liquidation. Since the adoption of its plan of liquidation on November 15, 2023, MSO has declared $1.521 per share in liquidating distributions, aligning with the regular quarterly distribution. All liquidating distributions paid after the date of the adoption of the plan of liquidation are return of capital distributions which lower an investor's cost basis in the shares of the trust.

First Trust Advisors L.P. (FTA) announced that shareholders of **First Trust Energy Income and Growth Fund** (**FEN**), **First Trust MLP and Energy Income Fund** (**FEI**), **First Trust New Opportunities MLP & Energy Fund** (**FPL**), and **First Trust Energy Infrastructure Fund** (**FIF**) (the target funds), each a closed-end investment management company managed by FTA and subadvised by Energy Income Partners, LLC (EIP), approved the mergers of the target funds into **FT Energy Income Partners Enhanced Income ETF** (**EIPI**), a newly formed actively managed exchange-traded fund (ETF) that will be traded on the NYSE Arca and will be managed by FTA and subadvised by EIP, at a joint special meeting of shareholders on February 29, 2024.

Subject to the satisfaction of certain customary closing conditions, the mergers of the target funds into EIPI are expected to close by the end of April 2024, or as soon thereafter as practicable. No assurance can be given as to the exact timing of the closing of the mergers. Upon the completion of a merger, shareholders of the applicable target fund will receive shares of EIPI with a value equal to the aggregate NAV of the target fund shares held by them immediately prior to the merger and such shareholders will become shareholders of EIPI, with the target fund thereafter terminated. The merger of each target fund into EIPI is expected to qualify as a tax-free reorganization for federal income tax purposes.

In connection with its merger into EIPI, each of FEN, FEI, and FPL will likely be required to recognize an adjustment to its NAV as of February 29, 2024. Based on information available on February 28, 2024, FTA estimates that such adjustments will not result in any change to the NAV of FEN and could result in an increase in NAV of approximately $1,357,800 (or $0.030 per share) for FEI and a decrease in NAV of approximately $1,943,747 (or $0.083 per share) for FPL. As FTA receives additional year-end tax information from the master limited partnerships (MLPs) held by the target funds, each of FEN, FEI, and FPL may need to further decrease its NAV from time to time prior to the completion of its merger and EIPI may need to decrease its NAV following the completion of the mergers. The amount and timing of all of the foregoing potential NAV adjustments will depend in part on the market prices and composition of the target funds' portfolio securities.

EIPI is an actively managed ETF that seeks a high level of total return with an emphasis on current distributions paid to shareholders. Under normal market conditions, EIPI will pursue its investment objective by investing primarily in a portfolio of equity securities in the broader energy market. EIPI will also seek to enhance its income paying capacity by selling call options. In advance of the merger of each target fund into EIPI, EIP anticipates repositioning the target fund's portfolio in order to de-lever and align the target fund's investments with the investment strategies of EIPI, while continuing to seek to achieve the target fund's investment objective.

Other

There were no other additional CEF events to report in February.

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