

## Closed-End Fund

*The market-price total return of the Morningstar U.S. All Taxable ex-Foreign Equity Closed-End Fund Index<sup>1</sup> was 14.2% for the first quarter, while its return on a net asset value (NAV) basis was 10.3%. By comparison, the S&P 500 Index<sup>2</sup> and the Barclays Capital U.S. Aggregate Bond Index<sup>3</sup> had total returns of 13.7% and 2.9% for the quarter.*

### Investment Review

Following a difficult fourth quarter, closed-end funds had sizable gains in the first quarter of 2019 in a broadly positive period for equity and fixed income markets. Amid signs of slowing U.S. economic growth and increasing global risks, the Federal Reserve indicated at its March policy meeting that it would likely pause further rate hikes for the rest of the year and said it would finish shrinking its balance sheet by September. Central banks in Europe and Japan also maintained dovish outlooks. In this environment, the yield on the U.S. 10-year Treasury note declined from 2.7% to 2.4%, while yields on 10-year government bonds in Germany and Japan fell below zero for first time since 2016.

The period saw a general narrowing in closed-end funds' discounts to their NAVs, although equity fund discounts remained near their long-term average of close to 5%. The average discounts on taxable fixed income and municipal funds narrowed to 3.2% and 6.8%, compared with long-term averages of 3.1% and 3.8%, respectively.

All sectors within the equity funds group advanced on market price, except for commodities funds, which had a flat return as demand waned for gold and silver (their focus) as safe-haven investments. Top performers included the real estate (23.0% return), utilities (21.5%) and master limited partnership (MLP) (21.2%) sectors, favored for their attractive yields amid low and declining interest rates. MLP funds also benefited from a rally in oil prices in the quarter.

The fixed income group, which held up better than equity funds in the fourth quarter, had lesser but still-strong gains in the first quarter. Convertibles funds (18.7%) outperformed, reflecting their typical sensitivity to movements in equity markets. Preferreds funds (15.2%), which invest in securities with longer durations, also performed well as interest rates declined. Senior loan funds (8.2%), which are less sensitive to changes in rates, underperformed.

### Renewed IPO Activity

There were two closed-end fund initial public offerings in the quarter: a \$900 million offering that invests in both the equity and debt securities of energy companies and a \$260 million fund focused on energy infrastructure companies. The

combined deals raised more than five times the amount raised in closed-end IPOs in all of 2018.

### Investment Outlook

We continue to find attractive values across various closed-end-fund categories. However, we believe selectivity will be the key to success in the coming months. The best long-term returns are likely to occur in categories where the underlying asset class offers relative value and discounts to net asset values are wider than their historical averages, in our opinion.

Given the likelihood of continued economic growth, the Fed could remain on a tightening path, although it has indicated that its decisions will be data-dependent. Rising interest rates may continue to challenge the earnings power for closed-end funds with leverage in their capital structure, although we believe rates will remain low relative to long-term historical averages.

**Our favored groups include multi-sector and tax-advantaged funds.** In taxable fixed income, we like the relative earnings and dividend advantage associated with multi-sector funds. We also favor multi-sector funds based on their longer-term record of successfully maneuvering among a wide range of fixed income asset classes. Within the equity category, we see particularly attractive opportunities in equity tax-advantaged funds.

**Underweight high yield and senior loans.** Our relatively cautious positioning in the high yield and senior loan groups is based on underlying valuations, although we continue to find compelling funds with exposure to those asset classes in other sectors, including multi-sector and limited duration. While high yield and senior loan funds offer relatively wide discounts, the yields and credit spreads on the underlying high yield bonds and loans leave little room for error, especially if default rates for low-quality companies pick up even modestly.

(1) Returns are based on market price per Bloomberg L.P. Sector constituents are determined as per the Morningstar U.S. All Taxable ex-Foreign Equity Closed-End Fund Index. The Morningstar All Taxable ex-Foreign Equity Index measures the market-capitalization-weighted total return of taxable equity and fixed income closed-end funds; it excludes international, regional and country closed-end funds. Index returns update frequently and are subject to change.

(2) The S&P 500 Index is an unmanaged index of 500 large capitalization, publicly traded stocks that is frequently used as a general measure of stock market performance.

(3) The Barclays Capital U.S. Aggregate Bond Index includes U.S. government, corporate and mortgage-backed securities with maturities of at least one year. Benchmark returns are shown for comparative purposes only and may not necessarily be representative of the Fund's portfolio.

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### Closed End Sector Returns

|                                 | Q1 2019 |        | YTD 2019 |        |
|---------------------------------|---------|--------|----------|--------|
|                                 | Market  | NAV    | Market   | NAV    |
| Health-Biotech                  | 12.85%  | 10.66% | 12.85%   | 10.66% |
| Energy-Resources                | 19.28%  | 14.07% | 19.28%   | 14.07% |
| Covered Call                    | 13.43%  | 10.37% | 13.43%   | 10.37% |
| Commodities                     | 0.00%   | -0.13% | 0.00%    | -0.13% |
| Global Equity Dividend          | 16.46%  | 9.47%  | 16.46%   | 9.47%  |
| International Equity            | 13.66%  | 11.17% | 13.66%   | 11.17% |
| Preferreds                      | 15.16%  | 10.36% | 15.16%   | 10.36% |
| Convertibles                    | 18.72%  | 13.96% | 18.72%   | 13.96% |
| Senior Loan                     | 8.16%   | 5.39%  | 8.16%    | 5.39%  |
| Municipal High                  | 14.10%  | 4.63%  | 14.10%   | 4.63%  |
| Multi-Sector                    | 15.21%  | 7.24%  | 15.21%   | 7.24%  |
| Investment Grade                | 13.65%  | 7.21%  | 13.65%   | 7.21%  |
| State Municipal-Other           | 9.29%   | 3.92%  | 9.29%    | 3.92%  |
| Taxable Municipal               | 7.30%   | 4.64%  | 7.30%    | 4.64%  |
| Limited Duration                | 8.71%   | 6.04%  | 8.71%    | 6.04%  |
| NY State Municipal              | 9.86%   | 4.15%  | 9.86%    | 4.15%  |
| High Yield                      | 12.26%  | 7.74%  | 12.26%   | 7.74%  |
| CA State Municipal              | 9.60%   | 4.12%  | 9.60%    | 4.12%  |
| US General Equity               | 15.85%  | 13.25% | 15.85%   | 13.25% |
| National Municipal              | 9.80%   | 4.26%  | 9.80%    | 4.26%  |
| Equity tax-Advantaged           | 19.73%  | 14.83% | 19.73%   | 14.83% |
| Global Hybrid (Growth & Income) | 20.01%  | 13.41% | 20.01%   | 13.41% |
| Global Income                   | 10.84%  | 5.63%  | 10.84%   | 5.63%  |
| Global Equity                   | 18.64%  | 16.05% | 18.64%   | 16.05% |
| Mortgage Bond                   | 5.88%   | 2.72%  | 5.88%    | 2.72%  |
| Government                      | 7.04%   | 5.07%  | 7.04%    | 5.07%  |
| US Hybrid (Growth & Income)     | 15.02%  | 13.67% | 15.02%   | 13.67% |
| Real Estate                     | 23.01%  | 17.64% | 23.01%   | 17.64% |
| MLP                             | 21.15%  | 23.62% | 21.15%   | 23.62% |
| Emerging Market Income          | 13.15%  | 6.23%  | 13.15%   | 6.23%  |
| Utilities                       | 21.50%  | 17.06% | 21.50%   | 17.06% |
| Finance                         | 16.83%  | 11.30% | 16.83%   | 11.30% |
| US Equity Dividend              | 16.71%  | 14.35% | 16.71%   | 14.35% |

Source: Cohen & Steers.

**Data quoted represents past performance, which is no guarantee of future results.**  
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