COHEN & STEERS

Closed-End Fund

As of September 30, 2018, the market-price total return of the Morningstar U.S. All Taxable ex-Foreign Equity Closed-End Fund Index[1] was 2.6% for the quarter, while its return on a net asset value (NAV) basis was 3.0%. Year to date, the index had a total return of 2.8% based on market price and 2.8% based on NAV. By comparison, the S&P 500 Index[2] and the Barclays Capital U.S. Aggregate Bond Index[3] had total returns of 7.7% and 0.0% for the quarter, and 10.6% and –1.6% for the year to date, respectively.

Investment Review

The third quarter was generally positive for financial markets, with strong gains in stocks and modestly positive returns for credit-sensitive fixed income classes. Economic growth remained fairly strong in most economies, particularly in the U.S., which continued to benefit from tax cuts and regulatory reforms. However, momentum slowed across most regions for a variety of reasons including concerns about the mounting trade dispute between the U.S. and China, stalled Brexit negotiations and rising interest rates.

Although the growth was accompanied by still-low inflation, there were indications that pressures are building, with recent price data generally exceeding expectations globally. The Federal Reserve continued to normalize interest rates, raising its short-term benchmark by 0.25%, as expected, and signaling its intention to continue tightening credit into 2019. U.S. Treasury yields climbed above 3% and settled near the highest levels for the year. Bond yields also rose across the eurozone as the European Central Bank, while leaving short-term interest rates at 0%, reaffirmed plans to wrap up its asset purchases in December.

In this environment, major closed-end-fund categories had gains, led by the equity group. The category's NAV increased more than its market price, resulting in the average equity fund discount widening from 2.6% to 3.4%, compared with a long-term average of 5.1%. The average discounts on taxable fixed income and municipal funds each slightly widened, to 3.9% and 9.4%, compared with long-term averages of 3.1% and 3.8%, respectively.

Sector Highlights

- Health/biotech funds (11.1% return based on market price) were top performers on both a market price and NAV basis, seeming to benefit from their relative insulation from global trade concerns.
- The U.S. general equity (6.3%) and equity tax-advantaged (6.7%) sectors performed well in a quarter where the S&P 500 Index rose nearly 8%.
- Master limited partnership funds (2.3%) advanced but underperformed the broad equity fund category, despite solid operational and cash flow performance in the quarter for the underlying companies. The sector rose more than 6% based on NAV, with a significant widening of its average discount.
- Commodities funds (–6.8%), which invest primarily in precious metals, were hindered by a decline in gold and silver prices in the quarter, amid a strengthening in the U.S. dollar.
- The energy/resources sector (–2.0%) also underperformed, despite a rise in oil and natural gas prices in the period.
- Convertibles funds (6.0%) were the best-performing sector among fixed income sectors, rallying along with the stock market.
- Multi-sector fixed income funds (4.0%), which have the latitude to maneuver among various asset classes, also outperformed.
- High yield funds (2.1%) performed well despite weakness in emerging stock and debt markets and many commodities—asset classes with which high yield tends to be correlated.
- Emerging market income funds (2.0%) gained back a little of the sizable decline they had in the first half of the year.
- The taxable municipal sector (–1.7%), which is typically sensitive to movements in interest rates, was hindered by the rise in Treasury yields.

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 near their historical averages, in our opinion.

Given the likelihood of continued economic growth, the Fed could have greater reason to hike interest rates faster than the market expects, especially if stronger growth results in higher inflation. Rising interest rates may 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

Closed-End Fund

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.

Closed-End Fund

Closed End Sector Returns

	Q3 2018		YTD 2018	
	Market	**NAV**	**Market**	**NAV**
Health-Biotech	11.13%	11.19%	12.45%	13.76%
Energy-Resources	-2.02%	-1.24%	-1.23%	-1.47%
Covered Call	4.54%	5.47%	7.54%	5.99%
Commodities	-6.75%	-6.08%	-12.14%	-10.19%
Global Equity Dividend	0.61%	2.89%	-2.21%	0.90%
International Equity	-1.64%	-2.11%	-5.88%	-6.03%
Preferreds	0.69%	1.49%	-3.48%	-0.14%
Convertibles	5.98%	5.43%	7.45%	8.25%
Senior Loan	1.17%	2.47%	2.85%	5.19%
Municipal High	0.03%	-0.21%	-2.37%	0.41%
Multi-Sector	3.99%	2.66%	11.33%	5.17%
Investment Grade	2.76%	2.48%	3.91%	2.07%
State Municipal-Other	-2.13%	-0.63%	-5.49%	-1.33%
Taxable Municipal	-1.70%	-0.72%	-3.77%	-0.94%
Limited Duration	1.40%	2.19%	-2.42%	2.11%
NY State Municipal	-1.13%	-0.64%	-5.77%	-1.12%
High Yield	2.05%	2.37%	0.28%	2.46%
CA State Municipal	-1.97%	-0.89%	-6.94%	-1.42%
US General Equity	6.32%	5.94%	8.96%	7.78%
National Municipal	-0.91%	-0.47%	-4.13%	-0.71%
Equity tax-Advantaged	6.69%	5.47%	7.06%	4.54%
Global Hybrid (Growth & Income)	1.63%	2.85%	2.17%	1.08%
Global Income	0.77%	0.53%	-1.98%	-1.54%
Global Equity	3.82%	3.82%	16.06%	9.59%
Mortgage Bond	1.78%	1.32%	-0.24%	2.71%
Government	-1.48%	-0.62%	-2.67%	-2.21%
US Hybrid (Growth & Income)	4.72%	4.24%	9.14%	4.59%
Real Estate	0.96%	0.95%	-1.12%	-0.19%
MLP	2.32%	6.34%	1.20%	6.02%
Emerging Market Income	1.96%	0.55%	-7.38%	-9.00%
Utilities	2.98%	2.37%	-0.82%	-0.16%
Finance	1.36%	-0.24%	-1.39%	4.10%
US Equity Dividend	3.50%	3.05%	4.65%	2.56%

Source: Cohen & Steers.

Data quoted represents past performance, which is no guarantee of future results. This information is not representative of any Cohen & Steers account and no such account will seek to replicate an index. You cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes.

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

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.

The views and opinions in the preceding commentary are as of the date of publication and are subject to change. There is no guarantee that any market forecast in this report will be realized.

This material should not be relied upon as investment advice, does not constitute a recommendation to buy or sell a security or other investment and is not intended to predict the performance of any investment.