



Use of Leverage in Closed End Funds

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Capital Link Forum

April 25, 2012

Agenda

Introduction

Municipal CEF Leverage

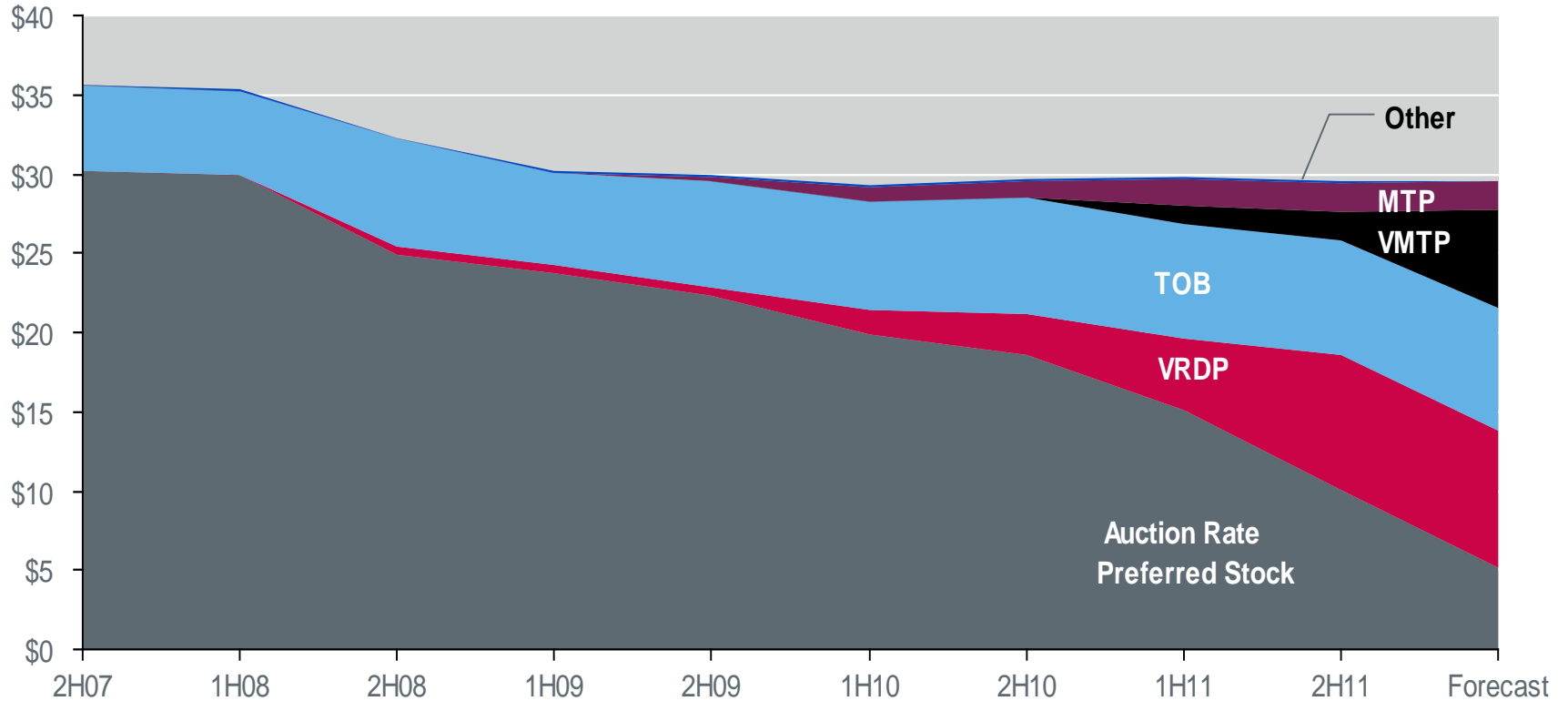
Taxable CEF Leverage

Leverage Cost, Maturity and Investor Base

Use of Derivatives

Structural Leverage Trends: Municipal CEFs

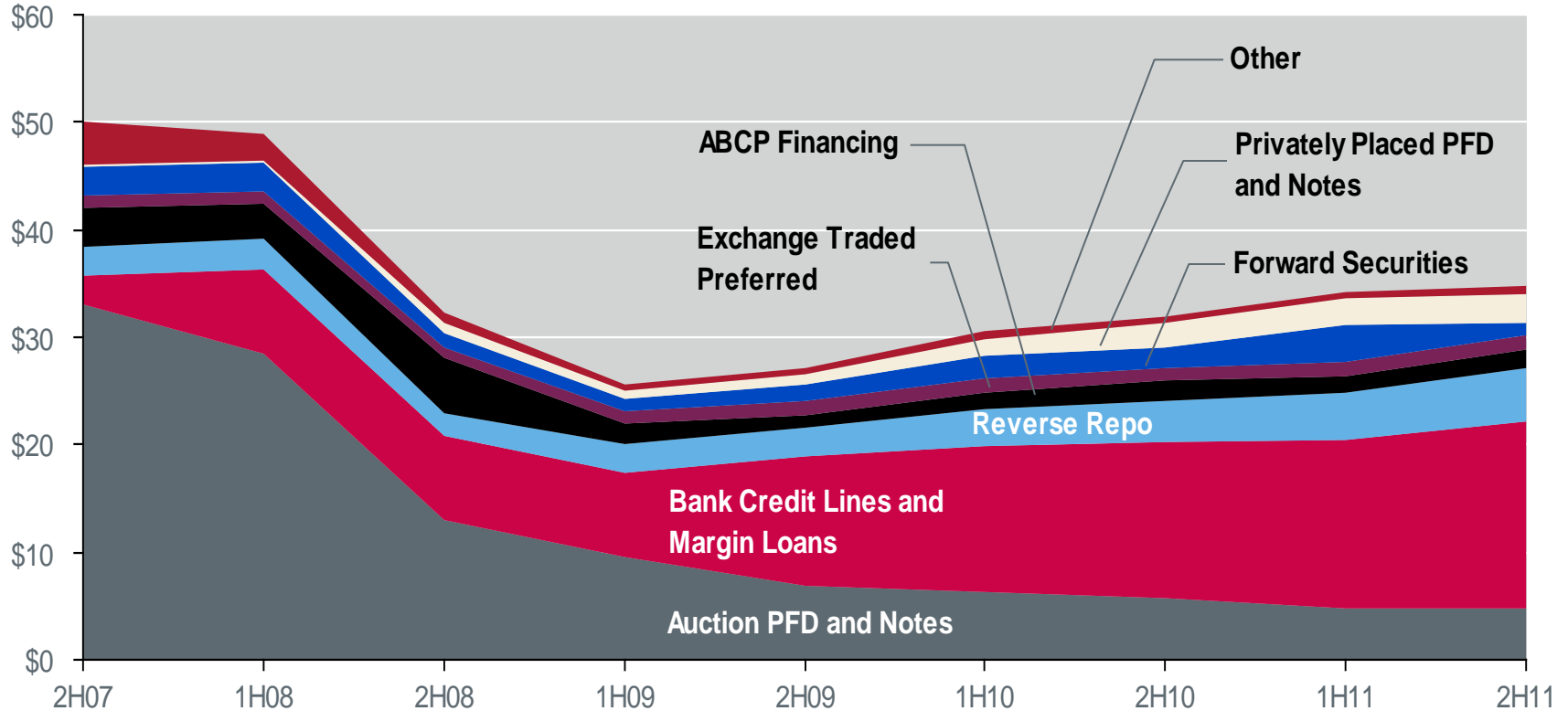
(Leverage outstanding, in billions)



Source: Fitch Ratings, Public financial statements as of end of 2011

Structural Leverage Trends: Taxable CEFs

(Leverage outstanding, in billions)



Source: Fitch Ratings, public financial statements as of end of 2011

Bank Lending to Taxable CEFs

As of Year-End 2011, in \$ millions

Bank Counterparties	Bank Facilities	%	Reverse Repos	%	Total	%
BNP Paribas (A+/F1+)	7,859	45%	377	8%	8,237	37%
State Street Bank (A+/F1+)	1,826	11%	–	0%	1,826	8%
Barclays (A/F1)	–	0%	1,160	23%	1,160	5%
Deutsche Bank (A+/F1+)	125	1%	983	20%	1,108	5%
Bank of Nova Scotia (AA-/F1+)	958	6%	–	0%	958	4%
Credit Suisse (A/F1)	73	0%	575	11%	648	3%
Other Counterparties	1,168	7%	1,927	38%	3,095	14%
Undisclosed Counterparties	5,310	31%	–	0%	5,310	24%
Total	17,319	100%	5,022	100%	22,341	100%

Source: Public financial statements as of end of 2011

Leverage Types: Municipal CEFs

Leverage Type	Approximate Cost (12/31/2011)	Investors	Term
ARPS	Dividends: 110% or 125% TIMES ref rate; 15 – 40 bps Auction Fee: 15 – 25 bps	Historically retail, now mostly broker-dealers	Perpetual
TOB	Interest: Remarketing based; 30 – 90 bps Liquidity Fee: 10 – 50 bps Remarketing Fee: 10 – 15 bps	Money market funds (banks provide liquidity)	Final: 5 – 8 years Liquidity: 1 year
VRDP	Dividends: Remarketing based, 25 – 40 bps Liquidity Fee: 35 – 140 bps Remarketing Fee: 10 – 15 bps	Money market funds (banks provide liquidity)	Final: 30 years Liquidity: 1 year
VMTP	Dividends: Spread over SIFMA; 115 – 150 bps	Banks	3 – 5 years
MTP	Fixed: 200 – 295 bps	Primarily Retail	3 – 5 years

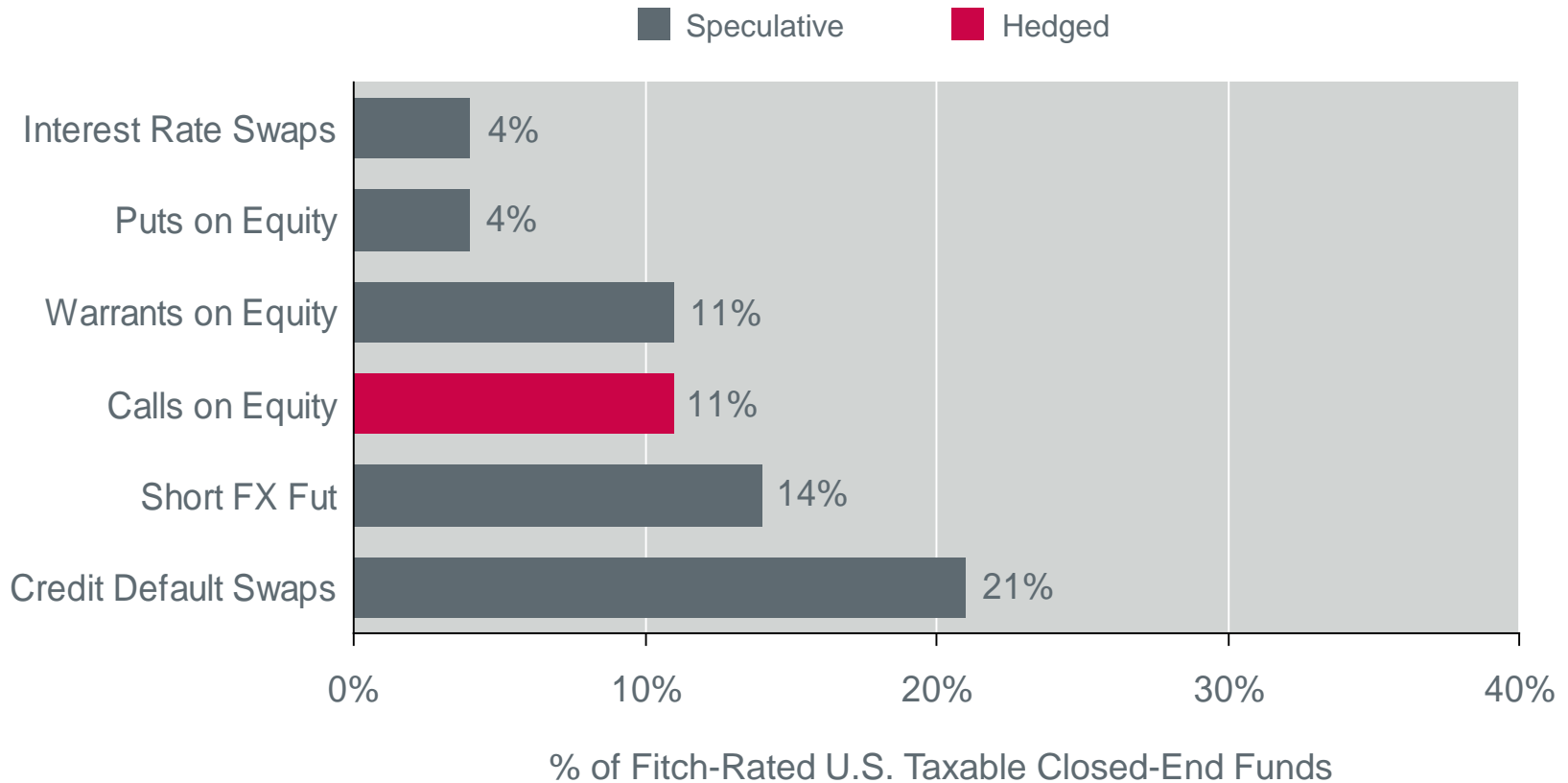
Source: Fitch Ratings, public financial statements as of end of 2011

Leverage Types: Taxable CEFs

Leverage Type	Approximate Cost (12/31/2011)	Investors	Term
Bank Facilities / Margin Loans	Drawn: LIBOR plus 75 – 125 bps Undrawn: 10 – 85 bps	Banks	6 months – 3 yrs
ARPS	Dividends: (1) 125% – 150% TIMES, or 125 – 150 bps ABOVE the (2) 7 day- or 30 day- (3) 'AA' CP or LIBOR. Auction Fee: 15 - 25 bps	Historically retail, now mostly broker-dealers	Perpetual
Reverse Repos	Interest: Tied to Fed Funds, 10 – 75 bps	Banks	30 – 90 days
Private PFD and Notes	Floating: LIBOR plus 130 – 200 bps Fixed: 300 – 600 bps	Insurance companies	5 – 10 yrs
Exchange Traded Pfd	Fixed: 550 – 650 bps	Primarily Retail	5 – 7 yrs

Source: Fitch Ratings, public financial statements as of end of 2011

Derivatives Utilized by Fitch-Rated CEFs



Source: Fitch Ratings

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