HIGHLIGHTS FROM CAPITAL LINK'S 14th ANNUAL CLOSED-END FUNDS & GLOBAL ETFs FORUM

CONFERENCE NOTES
THURSDAY, APRIL 23, 2015

On Thursday, April 23, 2015, Capital Link hosted another prestigious and hugely successful Closed-End Funds & Global ETFs Forum for the fourteenth year in a row at the Metropolitan Club in New York City. The event was organized in cooperation with the NYSE Euronext. As in previous years, it attracted more than 1,000+ delegates comprised mainly of financial advisors, wealth managers, institutional investors, portfolio managers, analysts, financial media and other industry participants, who gathered to discuss, debate and exchange information on critical industry topics, and network.

MORNING SESSIONS

"MLP Industry Roundtable"

Left to right: Daniel Spears, Edward Russell, Jay Hatfield, Ganesh Jois, Gabriel Moreen

Moderator: Gabriel Moreen, *Senior Analyst* – Bank of America Merrill Lynch

Panelists:
Daniel Spears, *Partner* – Swank Capital
Edward Russell, *Managing Director* – Tortoise Capital Advisors
Ganesh Jois, *Vice President* – Goldman Sachs Asset Management
Jay Hatfield, *President* – Infrastructure Capital Advisors; *Portfolio Manager* - InfraCap

Summary: In the past few months, MLPs have been more volatile than investors are used to. For investors who are looking to invest now, there may be more volatility to watch out for in the future. MLPs are therefore better for long run investments. This is a great time to increase exposure for MLPs and gain great return in the next 12-18 months.

For US taxable investors, direct ownership of MLPs remains the best alternative. However, if K-1s do pose a problem, then either a closed-end fund or an open-end fund makes sense. From the standpoint of tactical positioning, if investors believe that a recovery is imminent, closed-end funds may be better alternatives given that most closed-end funds employ leverage which could provide enhanced upside. Also, the vintage of the fund matters because older funds are likely to still have a deferred tax liability which shield investors on the way down but will likely be a headwind on the way back up. Conversely, newer closed-end funds could outperform as they have some accumulated losses that gains can be offset against.

Total return orientation remains the best approach vs. having a yield-only focus. Given the likelihood of higher interest rates, stocks with higher growth rates are likely to perform better.

Regarding interest rates, MLPs are not immune to their volatility but looking at the history of MLPs, volatility do not last long and if investors are willing to ride them out, they can do very well. Growth is also going pretty strong with last year's growth at about 10% and with this year, being a little more moderate between 5-7%.

"BDC Industry Roundtable"

Moderator: Rich Kendrick, *Co-Head of Equity Capital Markets and Senior Managing Director* – Stifel

Panelists:
Howard Levkowitz, *Managing Partner* – Tennenbaum Capital Partners; *Chairman & CEO* – TCP Capital Corp.
Terrence W. Olson, *Chief Operating Officer and Chief Financial Officer* – THL Credit
Michael Mauer, *Chief Executive Officer* – CM Finance

Left to right: Michael Mauer, Terrence W. Olson, Howard Levkowitz & Rich Kendrick

Summary: People are becoming more and more interested in the BDC space due to the increased growth in the sector; the increasing concern on how mid-market companies are going to finance themselves when banks are pulling back and are being restricted in their leverage lending when GE capital is being transformed and being taken apart which was a huge player in the sector and the growing number of new entrants; and how investors are going to get a high current yield. As a whole, BDCs with 7-11% current yield from current income on either a quarterly

or monthly basis provide just that – high current yield.

BDC portfolios are also very diversified because there is a requirement of diversity. Not any one portfolio is heavy or concentrated in any one industry. The purpose is to spread them out to as many different companies and to as many industries as possible. There are usually less than 10% in any one industry.

ALTERNATIVE INVESTING

"Alternative Income Institute"

Left to right: Elaine Zaharis-Nikas, Tyler Rosenlicht & Jason Yablon

Moderator: Joseph Williams, *SVP and National Sales Manager* – Cohen & Steers

Panelists:
Jason Yablon, *SVP and Portfolio Manager – Global Real Estate Securities* – Cohen & Steers
Tyler Rosenlicht, *VP and Portfolio Manager* – Cohen & Steers
Elaine Zaharis-Nikas, *SVP and Portfolio Manager – Preferred Securities* – Cohen & Steers

Summary: Finding attractive income today continues to be a primary objective for many investors. As the interest rate cycle changes, we believe that it is critical for investors to be diversified in their investments. REITs, MLPs and preferred securities are three income oriented alternative investment choices that may help investors achieve this objective while increasing their portfolio's diversification. Cohen & Steers has assembled a panel of experts that introduced each investment choice and addressed key topics such as fundamental drivers at work, implications of $50 oil and the impact that rising interest rates could have on income oriented investments. Finally, the panel identified where they are finding value today and pointed out things to possibly watch out for in the foreseeable future.

"The How/When/Where & Why for Alternative Investments" – John Gambla, *Senior Portfolio Manager* – First Trust Advisors

John Gambla

Summary:
An Alternative Investment is anything outside of stocks and bonds. The time to invest in Alternative Investments is now due to the economy recovering with rates rising and more volatility in the market. Also, alternative investment is the fastest growing segment of the asset management category with tremendous growth rate in the last couple of years and it is not stopping.

Three tools are used to build a portfolio: returns, volatility and correlation. Returns are hard to forecast, while volatility and correlation are a little easier to forecast. Correlations are especially important and Alts can provide low-correlation and more robust correlations

Alternatives will help you achieve a lot of things including drawdown protection with a decent upside capture which is all about terminal wealth accumulation

"Using CEFs & ETFs in Client Portfolios"

Moderator: Chris Dieterich, *Funds Editor and Staff Writer* – Barron's

Panelists:
Jon Maier, *Managing Director, Senior Portfolio Manager, Merrill Lynch ETF Model Portfolios* – Bank of America Merrill Lynch
John Cole Scott, *Portfolio Manager* – Closed-End Fund Advisors
Todd Yannuzzi, *Managing Director, Senior Portfolio Management Director, Wealth Advisor* – Morgan Stanley
Michael Starr, *Senior Vice President/Investments* – Stifel
Robert Hum, *Associate Vice President/Analyst* – Ladenburg Thalmann Asset Management

Summary: ETFs and CEFs both have their own pros and cons. For ETFs, they use active management with a passive instrument for overall turnover with daily equity and low expenses. They also have low tax impact and their structure makes a lot more sense. Overall, their aspect is more simplified.

For CEFs, they have good active management with fixed capitalization with no redemption pressure. They are usually geared towards long-term investors. Both funds are widely used in client portfolios. It primarily depends on what each client is looking for.

In regards to currency hedging in portfolios, a tactical play can turn into a strategic play; however, it is usually used as a 12-18 month investment or even less, rather than over a few years. Most companies focus more on industry construction of the index rather than currency hedging.

For the potential rise in interest rates, there should be a little bit of exposure to rising rate tool such as a fund that has senior loans in it and will increase in value as rates rise and might shoot out more dividends which should offset the discount when portfolios with munis start to rise.

Left to right: Robert Hum, Michael Starr, Todd Yannuzzi, John Cole Scott, Jon Maier & Chris Dieterich

INVESTING FOR INCOME AND TOTAL RETURN

"Uncovering Value in the BDC Industry" – Grier Eliasek, *President*

& *COO* – Prospect Capital Corporation

Grier Eliasek

Summary:
Prospect Capital Corporation is one of the two largest BDCs in the industry with about 134 portfolio companies with high diversification. It is currently yielding at about 11.5% with an available discount at 17% at net asset value – this is unheard of as this is a super attractive entry point during a normalized environment.

Prospect Capital believes that having a floating rate will help sustain value. Rather than having to choose one or the other, BDCs get all of the benefits of a syndicated floating rate with high achieving yields. This is because BDCs yield substantially more than high-yield bonds because they take illiquid positions in private companies and repay significant alpha in illiquidity premium in exchange

Prospect Capital is one of the top BDCs in the industry with very low non-accrual rate, growing portfolio, and high bank lending. In the BDC industry, a high quantity is required to have high quality and the larger the entity, the easier it is to be diversified in portfolios

"Investing in MLP's in a Volatile Crude Oil Environment" – Ganesh Jois, *Vice President* – Goldman Sachs Asset Management

Ganesh Jois

Summary:
Oil has gone from about $95/bbl to as low as $43/bbl and has now recovered to about $55/bbl. Given these swings and not knowing what lies ahead, how should one position their MLP portfolio?

Constructive on oil prices in the long-term because decline rates in non-OPEC (ex-US) production could be quite high. Also, the lower rig count in the US is a leading indicator for potentially balanced oil markets later this year. Finally, demand in the US has been quite strong. European demand also seems to be recovering and finally China has been trying to stimulate the economy with monetary policy measures which should eventually result in some improvement in demand dynamics later this year/early-next year.

Our approach has been to stay neutral to the price of oil. What we mean by that is having exposure to a handful of stocks that perform well during rising oil prices e.g. gathering and processing MLPs, and at the same time also having exposure to stocks that will act defensively should oil fall back to the low-$40s/high-$30s per bbl is the way to go.

Instead of focusing on oil prices, look for other investable themes such as Consolidation, High Visibility for Distribution Growth, Robust Activity Levels, and Valuation. Look for stocks that can benefit from multiple investable themes as opposed to simply focusing on higher/lower oil prices

We are constructive on MLPs overall but do want to remind investors that the next few months could be choppy. The OPEC decision on production in early-June and the decision on lifting sanctions on Iran around late-June are potential catalysts to look for in terms of thinking about whether or not to skew the portfolio aggressively or defensively

"The Energy Landscape and MLP Investment Opportunities" – Daniel Spears, *Partner* – Swank Capital

Summary:
Since 80% of MLPS have energy in their name and they've all been trading in commodities, which plays

Daniel Spears

a large role in the MLP space.

Some key factors that have contributed to oil prices forming a bottom: E&P companies have reacted quicker and more severely than in previous cycles; EIA now estimates that production growth may roll over in the next quarter; recent demand numbers are showing positive trends; and it is estimated that the US crude oil market could balance in the next twelve months.

Swank Capital believes that the crude oil prices are starting to bottom and are heading to a seasonally strong season for crude oil refineries which means that there is an estimate for tremendous return in the next 12-18 months.

Buy signals: absolute yields (currently over 6%); valuation – price to cash flow at attractive levels; yield spreads; distribution growth; market disconnect; and commodity pricing. When there is a market disconnect, this is a very good entry point as MLP markets have not seen such high levels of dislocation since 2008.

Cheap and abundant energy is what's driving the uplift. It is cheaper in the US and the oil and gas ratio is better than what was seen in the past which is growing the US manufacturing jobs

INTERNATIONAL INVESTING

"Emerging Markets Debt: Opportunities and Risks" – John DiSpigno, *Partner, Portfolio Specialist/Client Relationship Manager* – Stone Harbor Investment Partners

John DiSpigno

Summary: We believe Emerging Markets Debt is an attractive core holding when looking for risk adjusted yield and total return opportunities. Many EM countries have adopted monetary and fiscal policy reform. Factors supporting a very compelling case for the asset class are: Currently, Emerging countries on aggregate have higher GDP growth rates than developed markets. Emerging Countries have significantly less debt as a percentage of GDP than Developed Countries. Also, in stark contrast to Developed Countries, Emerging Country's Foreign exchange Reserves reaching 7 trillion are at record high levels, creating a cushion against external shocks and strengthens their ability to service debt. In an effort to manage inflation, many countries created independent central banks with inflation targeting regimes and also allowed their currencies to float. As a result Inflation rates of EM countries remain historically low. Credit Quality of Emerging Countries has improved drastically over the last 20 years. Almost 70% of Emerging Country's Dollar Denominated Sovereign debt as represented by the J.P. Morgan EMBI Global Diversified index is now rated investment grade. In a search for Global Yield, Emerging Markets Debt may provide diversification within a portfolio's income stream and help contribute to positive total return.

"The Sun Rises in the East: The Case for Investing in Asia" – Rennie McConnochie, *Senior Business Development Manager* – Aberdeen Asset Management

Rennie McConnochie

Summary: The U.S. and Europe have dominated for the last 200 years accounting for about half of global gross domestic product (GDP). But this wasn't always the case. For the previous 1,800 years, than half of the global economy. Independent forecasters have stated that by 2050 Asia will again account for half of global GDP. Aberdeen Asset Management believes that the era of Western economic dominance will prove to be small period in history and that Asia will become an increasingly important part of portfolio asset allocation.

There is economic growth in Asia, as can be witnessed in the rise of GDP per capita over the last 50 years and a trend of urbanization. Additionally, bond yields are collapsing in the developed world. Aberdeen believes that over time fixed income investors will have to diversify their sources of income and look to Asian and global emerging market bonds.

Aberdeen believes the baton of growth and economic dominance is being passed from the west to the east. Investors must be aware of that change and what it will mean for asset allocation in the future.

"Ireland-Europe's Bright Spot Continues to Shine" – Eoin Fahy, *Chief Economist, Investment Strategist* – Kleinwort Benson Investors

Eoin Fahy

Summary: Ireland continues to recover strongly following its period of crisis, and Kleinwort Benson Investors believe that this has created an attractive buying opportunity for the market. With the crisis largely behind it, the fundamentals of the economy are extremely positive (much improved competitiveness, access to European markets, low corporation tax rate, highly skilled workforce) and reinforce Ireland's position as a very attractive place to do business. The Irish stock market itself comprises an interesting blend of world-class companies that operate around the world, and domestic-oriented companies poised to benefit from the strong economic recovery, and the New Ireland Fund, Inc. has exposure to both of those themes.

"European Equities" – Christopher C. Warren, *Managing Director* – Deutsche Asset & Wealth Management

Christopher C. Warren

Summary: Economic activity indicators continue to be expansionary pointing to further growth in the Eurozone. The Citi Economic Surprise Index (CESI) shows momentum may be turning in the Eurozone as it recently surprised to the upside whereas the US disappointed. The recent decline in oil prices has the potential to further support economic growth in the Eurozone. Given that a large portion of sales by Continental European companies are generated outside the region, the recent decline in the Euro should have a positive impact upon corporate earnings for the Eurozone as a whole although the impact will vary by sector and individual company. As indicated by the recent ECB lending survey, net Eurozone demand for credit from corporates and households is increasing which may indicate that the so-called 'creditless recovery' may finally be coming to an end. Although Euroland P/E ratios may currently look fully valued, cyclically adjusted P/E ratios (CAPE) appear to indicate otherwise. Given that the

equity of more than half of European companies has a higher dividend yield than its credit yield the relative attractiveness of European equities is high. Political risks are real and include resolution of Greece's long-term financial issues as well as election-related uncertainty, in particular the apparent rise in anti-EU sentiment in several countries. Europe has clearly lagged the US on an earnings basis, with the divergence between the two near a high. As a result, improved earnings would be expected for European equities to advance.

CLOSED-END FUND INVESTING

"Raising Capital for CEFs"

Left to right: Kevin Deignan, Jerry Raio, John Key, Dietrich Moor, Edward Russell, Jay Spinola

Moderator: Jay Spinola, *Partner* – Willkie Farr & Gallagher LLP

Panelists:
Edward Russell, *Managing Director* – Tortoise Capital Advisors
Dietrich Moor, *Senior VP* – Raymond James Investment Banking
John A. Key, *Managing Director* – UBS Investment Bank
Jerry Raio, *Managing Director, Equity Capital Markets* – Wells Fargo Securities
Kevin Deignan, *Managing Director – Investment Banking* - Citi

Summary: The ability of closed-end funds to access the capital markets is an ongoing concern for investment managers, both for new products and existing funds. Yield continues to be a primary driver of investor demand, along with access to particular asset classes, such as multi-strategy funds. Funds are also exploring different structuring alternatives, such as term funds or continuously offered funds that engage in periodic tenders for shareholder liquidity.

Our panel reported that the average closed-end fund has tended to trade at modest discounts from net asset value in recent months. Because registered closed-end funds are legally constrained from selling their shares at a price below net asset value, funds need to be prepared to take advantage of market premiums for their shares when they arise. In order to seize these opportunities, closed-end funds have increasingly begun to file shelf-registration statements to register shares to be sold in at-the-market offerings, overnight follow-on offerings and rights offerings. Funds have also sought and received no-action relief to ease the registration statement updating process. Recently, funds with modest trading premiums have successfully sold additional shares in these types of offerings to shareholders seeking to access particular asset classes or yield targets.

USE OF LEVERAGE IN CEFS

"Rating & Leverage"

Left to right: Christopher Larsen, Andrew Hanson, Adam Joseph, Ian Rasmussen

Moderator: Ian Rasmussen, *Senior Director of Fund & Asset Management* – Fitch Ratings

Panelists:
Adam Joseph, *Managing Director* – Wells Fargo Securities
Andrew Hanson, *Managing Director – Head of Debt Private Placements* – Morgan Stanley
Christopher Larsen, *Director, Closed-End Funds* – Legg Mason

Summary: The panel discussion centered provided an in-depth look at how closed-end funds (CEF) are utilizing leverage. Over the last year, CEF managers issued new debt/preferred security types, attracted new lenders, and fixed their leverage costs by issuing term notes and preferred stock. The private placement market, in particular, has taken on increasing importance over the recent years for taxable funds looking to raise funding, with $325 million issued across six funds issued so far this year. Issuance has been heavily driven by MLP CEFs. This trend is expected to continue and include sectors other than MLP funds.

In the municipal space, funds have refinanced their remaining publicly traded preferred stock (MTPs) into institutional preferred stock sold to banks, money market funds and bond funds. Municipal funds are also focusing on solutions to tender option bond leverage that is being impacted by Volcker and Risk Retention Rules of the Dodd Frank.

241 taxable leveraged U.S. CEFs have issued approximately $54 billion of leverage -- an increase of $4 billion since the same time last year due to NAV appreciation, leverage upsizing and new fund IPOs. The 178 U.S. municipal CEFs reviewed issued approximately $34 billion, which is mostly unchanged since last year as fund managers chose not to upsize leverage despite NAV appreciation.

RISK MANAGEMENT

"New Study Presents First-Ever List of 119 Funds That Use Options to Manage Volatility and Enhance Yields" – Matt Moran, *VP, Business Development* – CBOE

Matt Moran

Summary:
The VIX Index has been lower than average but the SKEW Index just had its highest-ever average daily closing value ever.

There was a study done to analyze the performance of options-based funds. Results of the study showed that the number of options-based

funds grew from 10 to 119 in the past 14 years with 80 of them focused on the US and US option-based funds.

US option-based funds' performances showed that they had similar returns to the S&P 500 with lower volatility, lower maximum drawdowns, and had higher risk-adjusted returns.

There is a huge growth in the notional value of average daily volume in the S&P 500 Options in the past 14 years from $13 billion to $172 billion

LUNCHEON KEYNOTE ADDRESS

"Asset Allocation During Periods of Market Uncertainty" – John P. Calamos, Sr., *Chairman, CEO and Global Co-CIO* – Calamos Investments

John P. Calamos, Sr.

Summary: There appears to be much market uncertainty at this time.

Although the US economy is poised for some growth (+2.0% – 2.5% GDP for 2015), slowdown in job growth , low inflation and a strong US dollar is causing uncertainty with respect to FED intervention in increasing interest rates. Although the US is not in danger of a recession, lackluster growth is causing the FED to refrain from any immediate action as bond yields may continue to decline. Economic conditions in Europe and Japan are weaker than the US, and there remains concern over the economic viability of certain nations in the EU. There are also concerns over the sustainability of the growth rate in China, as current forecasts have been lowered. In addition, instability and global unrest in the Middle East and Russia continue to foster anxiety in the markets.

Although Calamos is generally bullish that we believe we are in the "mid-innings" of a US recovery, investors should be careful regarding ways to participate given the inherent market volatility associated with such dynamics. We believe that risk management assessment is paramount in times of market volatility. In spite of this, investors are seeking ways to receive income in a period of abnormally low interest rates. Accordingly, we emphasize the use of convertibles as a way to not only achieve income, but to participate in the equity markets in a more risk managed way. Calamos believes that the overall health of the convertible market is strong given the increased issuance of such securities over the past two years. In addition, the blend of issuance has been comprised of both US and non-US companies, thereby offering global opportunities for investors. Convertibles are particularly suited for investors during such periods of volatility and low yields because they do provide income, as well as offer upside equity market participation. However, because of the income component, they offer downside equity market protection. They offer downside protection with respect to bonds because of the equity component and because they inherently have lower maturities and durations.

AFTERNOON SESSIONS

"CEF Industry Roundtable"

Left to right: Keith McRedmond, Jonathan Isaac, Robert Bush, Dennis Emanuel & Alexander Reiss

Moderator: Alexander Reiss, *Director, Closed-End Fund Research* – Stifel

Panelists:
Dennis Emanuel, *Director of ETF & Closed End Fund Strategy* – ALPS Portfolio Solutions
Robert Bush, *SVP* – Calamos Investments
Jonathan Isaac, *VP, Director of Product Management* – Eaton Vance Management
Keith McRedmond, *Vice President, Head of Closed End Funds* – Goldman Sachs Asset Management

Summary: Right now, the most important thing for the CEF sector to do is to create better transparency. Data flow is very different from each company so it is very difficult to analyze and find information on certain funds. All funds have invested in the same securities, etc. so it's very difficult to tell one fund from another. A better transparency will make it easier for investors to determine if that fund is the one they want to invest in and it will be better for the industry as a whole.

There is a huge opportunity in the CEF universe. There is the opportunity to have leverage, be illiquid, to grow and have no issues to deal with such as liquidity issues in open-ended funds. Plus, where can you find an 8% distribution rate when the interest is 0? But why aren't CEFs being incorporated into models at firms? CEFs can be used to create better income stream with continued interest. The larger the discount, there is less chance of getting it to grow so you are able to retain good risk. And as discount grows, you can also get more yield which can be extremely significant.

It is also not easy to get a CEF done so the advisors who are available are usually the top of the line so you're getting good managers and it's a great tool to implement into your selections which can allow different exposure. CEFs are phenomenal income vehicles and usually have great yields.

INNOVATION IN THE ETF SPACE

"Beyond Market Cap Investing: The Evolution of Strategic Beta ETFs" – Timothy Devlin, *Executive Director and Client Portfolio Manager* – J.P. Morgan Asset Management & Glenn Smith,

Executive Director – J.P. Morgan Asset Management

Glenn Smith, Timothy Devlin

Summary:
Strategic Beta ETFs have doubled in assets over the last two years. There has been a huge evolution of product development in the ETF space from weighted passive to more active/strategic beta.

Strategic Beta sits between passive and active ETFs where it delivers a pattern of returns, in passive form, that differs from traditional market cap weighted indices and it also attempts to improve balance between risk and return.

Three insights that really inform their creation of strategic beta methodology: market cap may be less diversified than they appear; market cap prefer overvaluation; and research insights can systematically identify stocks with characteristics that tend to outperform over time.

J.P Morgan's approach is to focus on the risk and return. Started with the FTSE Developed Index then established the top down risk framework where they can determine the allocation of sectors. Then the stocks are ranked from a combination of factors. Lastly, the FTSE Developed America Diversified Index is the final index which is very different than cap-weighted index.

Four factors: value, momentum, size and low volatility. Where can this fit in the context of a broader portfolio? Given that international equity can be a fairly volatile place to invest so this dampens this volatility without decreasing the upside but is still very different from a cap-weighted. It can also complement to traditional cap weighted investments. It is also friendly to those who use risk budgeting as a tool. Since it is an ETF, it is a very efficient vehicle that offers flexibility in managing allocation and cash flows.

"Actively Managed ETFs – Investing Municipal Debt Securities" – John Wilhelm, *Senior Vice President – Municipal Bonds* – First Trust Advisors

John Wilhelm

Summary:
How do municipals make sense as part of a total portfolio or a diversified portfolio? Since 2012, the income stream for municipals have become much more valuable and they have really stood out in the volatile environment.

As of today, there has been a dramatic decline in yields within the past year – about 133-176 bps – and the current spread between Baa rated and Aaa rated municipal securities is 13 bps tighter than the long term historical average. This means that active management can now play a more critical role.

There is currently a modest supply of municipals with an expectation for supplies to pick up substantially. Currently, supply is driven by refinancing and not by the urge to build new infrastructure from the country

A factor that could be driving yield levels lower and spreads tighter is the improvement in credit quality. Credit trends appear generally favorable when viewed through the lens of top line revenue growth

First Trust's expectations for 2015 are: modest rise in municipal interest rates based on healthy US economic growth; Fed funds rate increase and a gradual rise in US Treasury yields; healthy and stable municipal credit quality; higher new issue supply compared to 2013-2014; slightly positive mutual fund flows for the full year; and positive total returns despite an environment of gradually rising rates if you are in the right yield and the right position

"Poliwogg Medical Breakthroughs Index" – Sam Wertheimer, PhD, *Chief Investment Officer* – Poliwogg Healthcare Investments

Sam Wertheimer

Summary:
Healthcare has been a top performing sector for 1, 5, and 10 years (the S&P 500 Healthcare Sector index has annualized returns of 26.19%, 20.09%, and 11.41% respectively). In large part this performance is primarily driven by two factors, demographics and innovation. Sam Wertheimer, Chief Investment Officer of Poliwogg, discusses these factors and how investors can access the innovative companies in this dynamic sector using the ALPS Medical Breakthroughs ETF, symbol SBIO.

Worldwide populations are aging rapidly. In the United States it is estimated that greater than 20% of the population will be 65 or older by the year 2030. The implications for healthcare are significant since half of all lifetime medical expenditures occur after age 65. Furthermore, the life expectancy after age 65 continues to increase. Thus a greater number of people are becoming consumers of healthcare and they are consuming these products and services for a longer period of time.

We are experiencing an unprecedented period of innovation in healthcare and medical technologies. As an example, the cost of sequencing a human genome has fallen faster than the rate of Moore's law. The first human genome sequenced was a tour de force requiring years of effort and approximately $100

million dollars. A human genome can now be sequenced in days for a under $5,000.

The most innovative companies in this sector are the small biotechnology companies and this have traditionally be the most difficult to own. As single stocks they are unusually volatile as they are driven by clinical news and events rather then earnings. The performance of most healthcare and biotechnology focused ETFs are dominated by the large pharmaceutical and large biotechnology companies.

The ALPS Medical Breakthroughs ETF, SBIO, based on the Poliwogg Medical Breathroughs Index, was specifically designed to capture the performance associated with biotechnology companies with market capitalizations between $250 million and $5 billion dollars; at least one program in Phase 2 or later clinical development; and at least two years of cash on hand; among other criteria. This ETF enables investors to own a diversified portfolio of innovative companies in an efficient structure.

"NextShares – Active Funds Remastered" – Kristine Delano, *Vice President and Managing Director* – Navigate Fund Solutions

Kristine Delano

Summary: NextShares are a new type of actively managed fund designed to provide better performance for investors. As exchange-traded products, NextShares have built-in cost and tax efficiencies. Unlike conventional ETFs, NextShares protect the confidentiality of fund trading information and provide buyers and sellers of shares with transparency and control of their trading costs.

NextShares offer significant advantages over both mutual funds and ETFs as vehicles for active investment strategies. NextShares were approved by the SEC in December of 2014 and are being licensed to the fund industry by Navigate Fund Solutions LLC, the Eaton Vance subsidiary formed to develop and commercialize NextShares.

Eaton Vance has announced a preliminary target to launch the first NextShares funds in the second half of 2015. Eaton Vance has filed registration statements for 18 initial NextShares funds. The timing of launch will depend on when final regulatory approvals are received and market readiness. As of April 2015, ten fund sponsors have indicated their intent to offer NextShares by entering into preliminary agreements with Navigate Fund Solutions LLC including American Beacon, Eaton Vance, Gabelli Funds, Hartford Funds, and Victory Capital Management. Navigate Fund Solutions LLC is in advanced discussions with a number of other major sponsors and expects NextShares to be broadly adopted across the fund industry.

NextShares funds can invest in all the same asset classes and strategies as mutual funds, including equity, income and alternative investments managed in a wide range of active styles. Planned NextShares funds include both proven mutual fund strategies and new offerings not available as mutual funds.

Investors in actively managed mutual funds may achieve meaningfully better performance and enhanced tax efficiency by switching to NextShares. Based on a retrospective study of the avoidable structural costs of mutual funds, there are, on average, sixty-three basis points of yearly performance benefit, that can be reflected in the NextShares structure. The 63 bps of potential performance benefit comes as a result of greatly reducing transfer agency costs, eliminating cash drag, and externalizing trading costs. Because NextShares protect the confidentiality of fund trading information, NextShares are broadly compatible with active management in a way that ETFs are not.

"ETF Industry Roundtable"

Left to right: Michael Jabara, Kristine Delano, Ogden Hammond, Kevin Rich & Tom Champion

Moderator: Tom Champion, *Managing Director – Global Index and Exchange Traded Products* – NYSE

Panelists:
Kevin Rich, *Founder & CEO* – Rich Investment Solutions
Ogden Hammond, *Executive Director, Head of ETF Strategy & Business Development* – J.P. Morgan Asset Management
Kristine Delano, *Vice President & Managing Director* – Navigate Fund Solutions
Michael Jabara, *Executive Director* – Morgan Stanley

Summary:
Different many thoughts about ETFs that use derivatives to gain exposure to gain exposure in certain asset classes and ETFs that use derivatives in their underlying strategy. Main consensus was that derivatives are useful tools where they can give you access to assets you can't get otherwise but can also offer very extreme risks. There is definitely a negative connotation with derivatives in ETFs mainly due to education where advisors fail to relay message on how they really work.

Smart Beta ETFs may be on the border between active and passive so how do advisors choose the best approach? Very carefully. It is hard

to figure out which one to buy and why. It is necessary to start with the core principles. Do they make any economic sense? What kind of exposure do you want? And is the product you're using to create the exposure the logical way?

For current sponsors, some current challenges are the amount of products that are out there. A lot of products are no longer straight forward and are more challenging. There is a need to learn more about their underlying strategies and they are now required to do a lot more research.

In the next 1-3 years, ETFs will probably see more active managers. Active management is coming to ETFs and will, over time, transform the asset management industry but they are not sure when. Product innovations are also moving more towards the active end of the spectrum.

> Click here to access the audio & presentation archive from the Forum

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Nicolas Bornozis, the *President* of **Capital Link**, stated that:

"The 14th Annual Closed-End Funds & Global ETFs Forum is the only educational, industry, marketing, and networking event to combine closed-end funds and ETFs. By combining CEFs and ETFs in one Conference we maximize attendance, as advisors and investors, who are our primary target audience, use CEFs and ETFs as complementary investment solutions. Also, most sell side research analysts follow both CEFs and ETFs. Furthermore, many Fund Sponsors provide both CEFs and ETFs, and our Forum enables them to present the range of their investment strategy and products. We are delighted that our Forum has consistently attracted over 1,000+ delegates every year providing unique informational, educational, marketing and networking opportunities."

SAVE THE DATE

For next year's Forum on *Thursday, April 21, 2016!*

ORGANIZER: CAPITAL LINK, INC.

Capital Link is a New York-based investor relations and financial communications firm, which, among other activities, maintains a strategic focus on closed-end funds and ETFs.

Capital Link has developed powerful investor outreach programs and IR tools focused on CEFs and ETFs aimed to enhance their profile among analysts, investors, and financial media. In pursuit of this objective, it maintains websites dedicated to CEFs (www.CEFForum.com) and ETFs (www.ETFForum.com) that track the news and developments of all U.S. listed CEFs and ETFs, providing investors with a free information resource on these topics. The Annual Closed-End Funds & Global ETFs Forum held in New York City every April (www.CapitalLinkForum.com), has a 13-year track record and considered a premier industry annual event. It attracts consistently over 1,000 delegates, bringing together investors, analysts, wealth management professionals, and CEF and ETF industry participants. **The next Forum is scheduled for Thursday, April 21, 2016**. Capital Link also offers the "Closed-End Funds & Global ETFs Webinar Series (www.CapitalLinkWebinars.com)," an online interactive platform on CEFs, ETFs and other pertinent industry topics. These virtual events provide an in-depth look into CEFs & ETFs facilitating interaction among industry participants.

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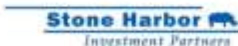

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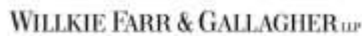

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