
Alternative Fixed Income ETFs:
It's the Yield, Stupid!

April 25, 2012



**S-Network
Composite Closed-End Fund Index**

Index Overview

- A Diversified Portfolio of 126 Closed-End Funds**
- Targets Yield**
 - Investment Grade Fixed Income Funds
 - High Yield Fixed Income Funds
 - Option Income Funds
- All US-Registered**
- Modified Net Assets-Weighted**
- Multiple Qualitative Screens**
 - Discount
 - Expense Ratio
- Screened for Liquidity**
- Designed to Take Advantage of Inefficiencies in the Closed-End Fund Market**

CEFX Provides Diversified Exposure to a Broad Range of High Quality Closed-End Funds.

Closed-End Fund Overview – Key Features

- ❑ **Diversification**
- ❑ **Professional Management**
- ❑ **Efficient Portfolio Management**
- ❑ **Periodic Distributions**
- ❑ **Pass Through Taxation**
- ❑ **Opportunity to Buy at a Discount**
- ❑ **Leverage Potential**
- ❑ **Lower Expense Ratios**

Closed-End Funds – a \$224 Billion Investment Class – Offer Investors a Number of Key Benefits That Are Incorporated into CEFX.

Index Composition

Investment Grade Fixed Income Funds

- Hold government and corporate bonds, mortgage backed securities, and preferred stock
- Some funds may concentrate on one particular debt instrument, various forms of debt securities or international fixed-income securities in developed and emerging markets

High Yield Fixed Income Funds

- Hold portfolios of corporate bonds with ratings below investment grade
- Bank loan funds hold senior bank loans of companies with bond ratings below investment grade
- Some funds have allocations to non-US government and corporate issuers

Option Income Funds

- Invest in portfolios of common stocks and write-call options on those stocks or comparable indexes
- Attractive to investors seeking higher income and lower volatility
- Actively managed to produce favorable taxation

CEFX Includes Three Types of Closed-End Funds that Provide Diversification, Yield, Discount, and Some Tax Advantages.

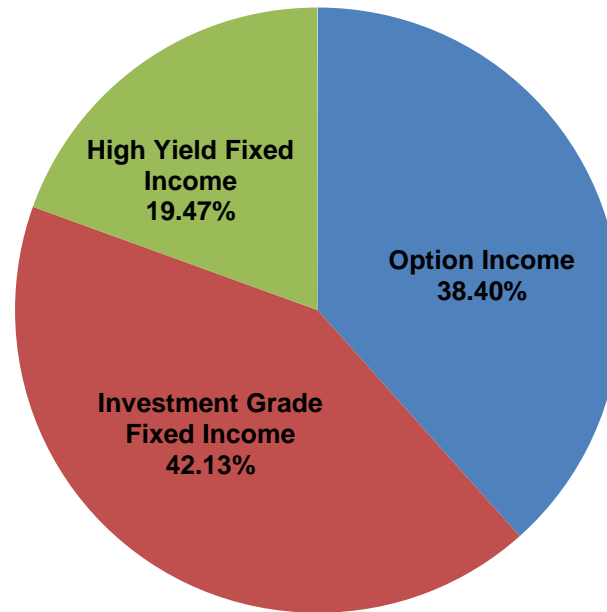
Index Rationale

- ❑ **Diversification by Asset Class**
- ❑ **Diversification by Investment Strategy**
- ❑ **Diversification by Manager**
- ❑ **High Current Yield**
- ❑ **High Current Discount to NAV**

CEFX Substantially Diminishes the Risks Implied in Owning a Single Closed-End Fund, While Providing High Current Yields and Discounts.

Index Rationale – Diversified Assets

**S-Network Composite Closed-End Fund Index:
Sector Breakdown**

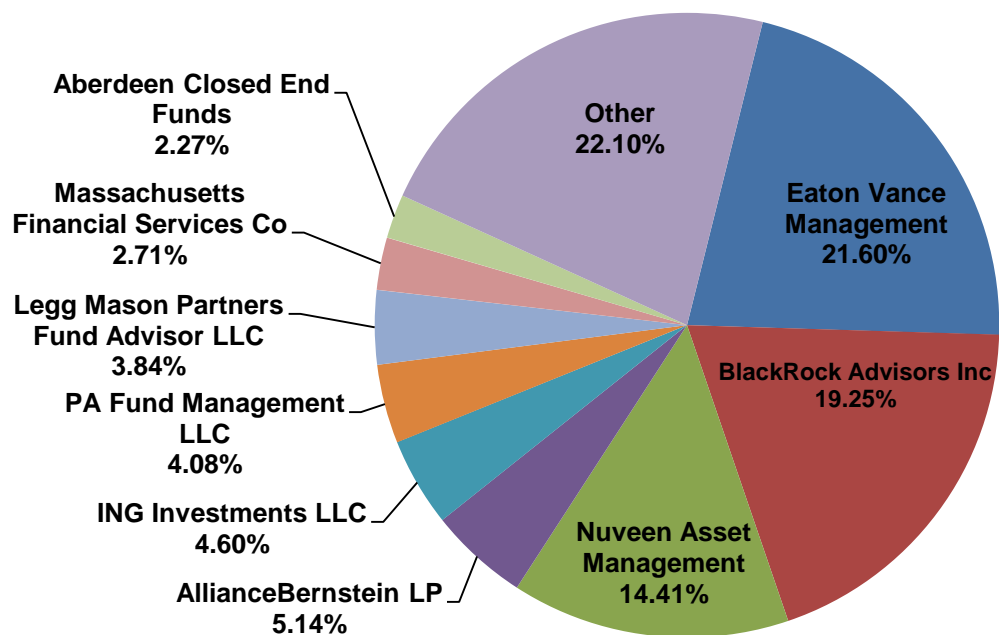


Source: Bloomberg, as of 30/30/2012

CEFX Diversifies Risk by Including Closed-End Funds that Hold Differing Asset Classes and Employ Differing Investment Strategies.

Index Rationale – Diversified Strategies

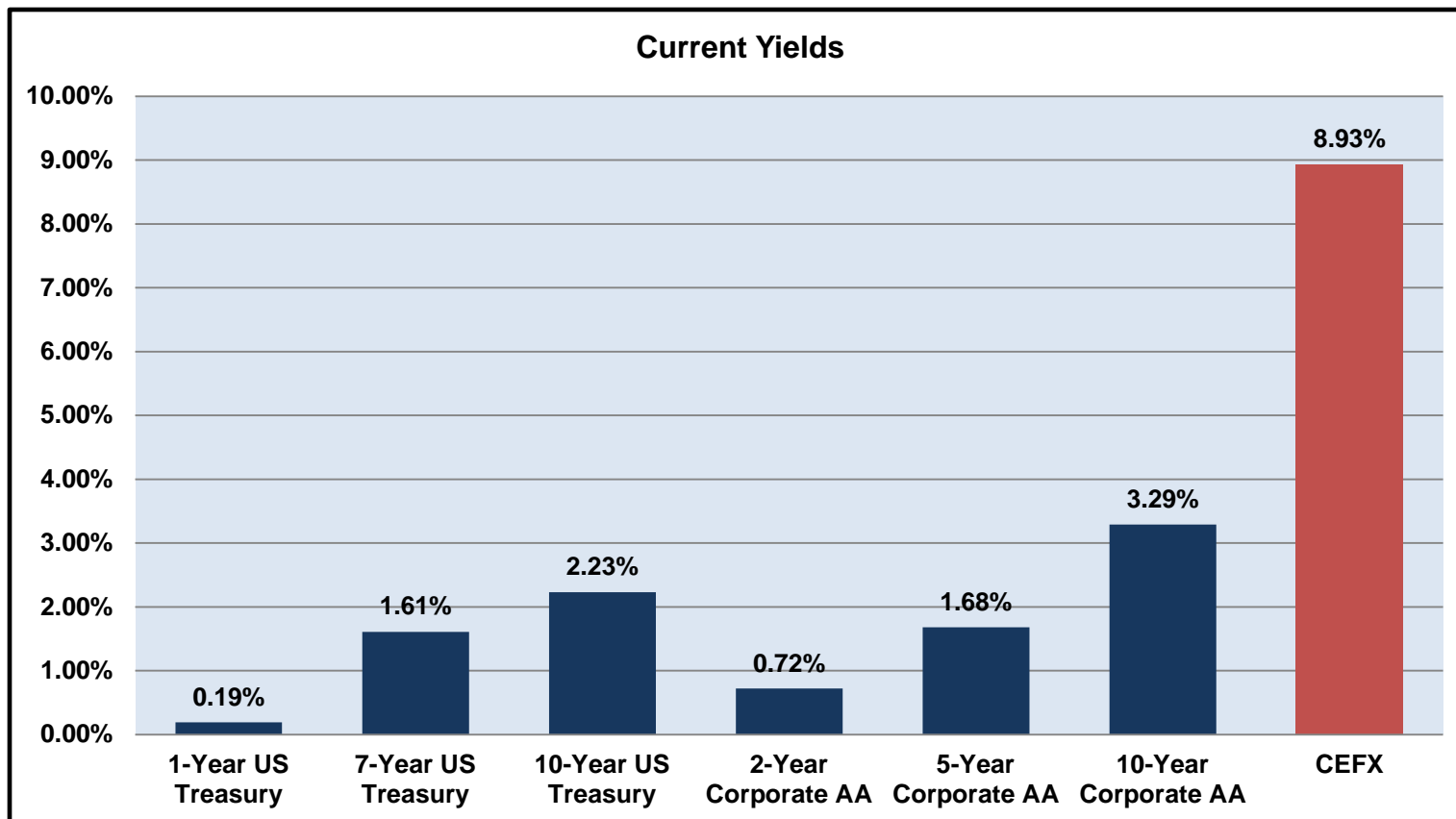
**S-Network Composite Closed-End Fund Index:
Manager Breakdown**



Source: Bloomberg, as of 3/30/2012

CEFX Also Diversifies Risk by Manager and Includes the Leading Fixed Income Managers in the US.

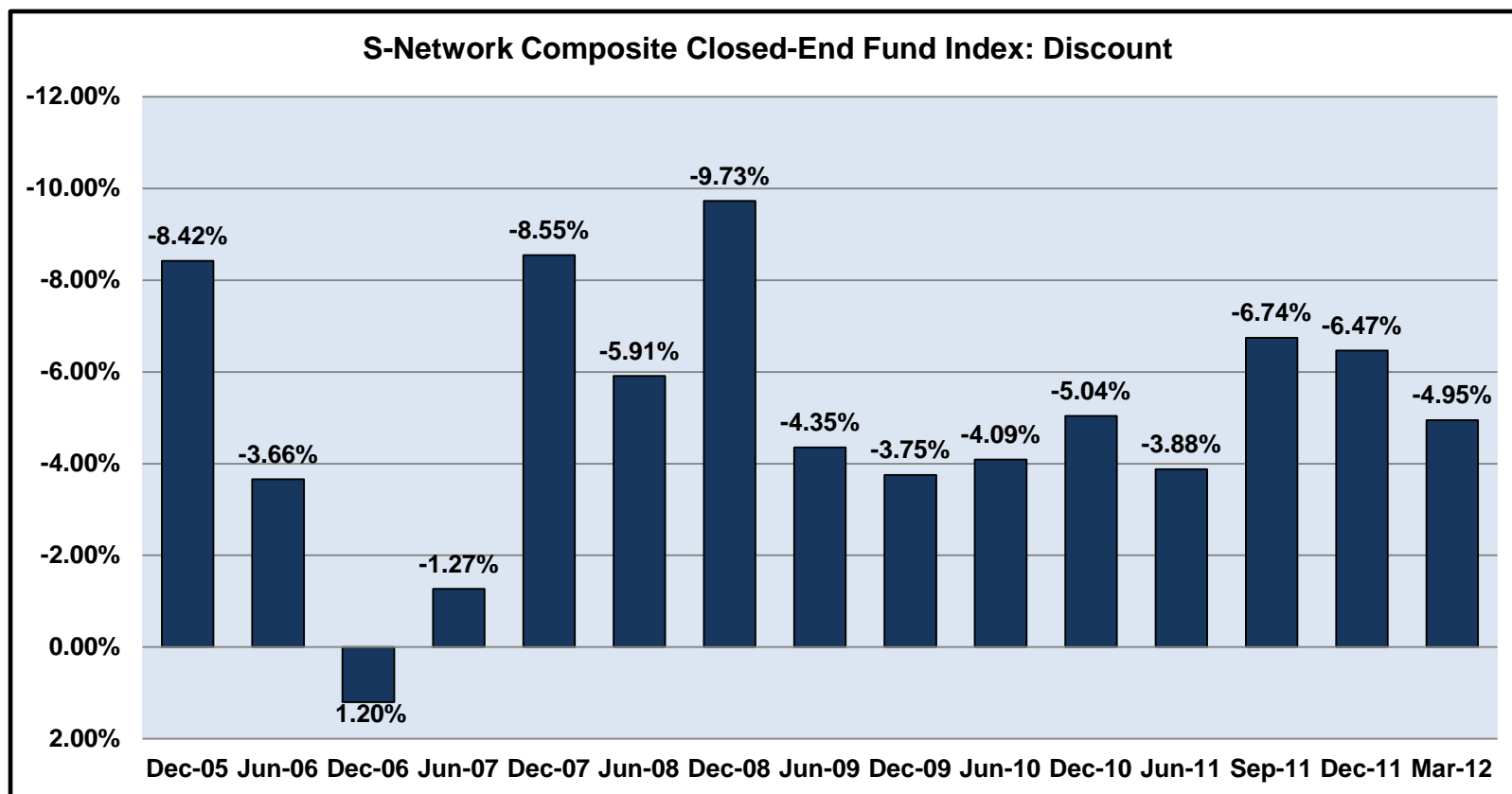
Index Rationale – Yield



Source: Bloomberg, as of 3/30/2012

With a Current Yield of 8.93%, CEFX Indicates a Higher Yield than Most Other Classes of Fixed Income Investments, Including Government and Corporate Bonds.

Index Rationale – Discount



Source: Bloomberg, as of 3/30/2012

CEFX's Current Market Value Trades at a Discount to Net Asset Value of -4.95%, Indicating Significant Undervaluation.

Index Construction - Weighting

- ❑ **Weights Based on Net Assets**
- ❑ **Net Assets Adjusted for Premium/Discount**
 - ❑ **Increases in Fund Net Assets for Funds Trading at a Discount***
 - ❑ Discount > 6% = 30% Increase in Net Assets
 - ❑ Discount > 3% and < 6% = 20% Increase in Net Assets
 - ❑ Discount > 0% and < 3% = 10% Increase in Net Assets
 - ❑ **Decreases in Fund Net Assets for Funds Trading at a Premium***
 - ❑ Premium > 6% = 30% Decrease in Net Assets
 - ❑ Premium > 3% and < 6% = 20% Decrease in Net Assets
 - ❑ Premium > 0% and < 3% = 10% Decrease
- ❑ **Stocks Capped at 8% Index Weight**
- ❑ **Combined Weight of Stocks with Weights over 5% Capped at 45%**

CEFX's Unique Weighting Methodology Accords Higher Weights to Closed-End Funds that Trade at Discounts.

*Discount/Premium +/- Average Discount/Premium of Indicated Funds

Summary – Index Features and Benefits

Feature	Benefit
Asset Diversification	Index constituents hold various types of assets, including government bonds, corporate bonds, emerging market bonds, high yield bonds, equities and options.
Strategy Diversification	Index constituents employ a wide range of trading strategies that diversify specific fund risk.
Manager Diversification	Constituent closed-end funds employ over 35 different managers, including some of the leading fixed income managers in the world.
High Current Yield	At 8.93%, the CEFX offers yields substantially higher than most fixed income investments.
High Current Discount	At -4.95%, the CEFX currently trades at an historically low valuation – exceeded only in times of severe market disruption.

CEFX Offers Multiple Forms of Diversification that Help Diminish Specific Risks, while Providing High Current Yield and High Current Discount.



**S-Network
Municipal Bond Closed-End Fund Index**

Index Overview

- ❑ **A Diversified Portfolio of 81 Municipal Bond Closed-End Funds**
- ❑ **Targets Federal Income Tax Exempt Yield**
- ❑ **All US-Registered Funds**
- ❑ **Modified Net Asset-Weighted Methodology**
- ❑ **Multiple Qualitative Screens**
 - ❑ Discount
 - ❑ Expense Ratio
- ❑ **Screened for Liquidity**
- ❑ **Designed to Take Advantage of Inefficiencies in the Closed-End Fund Market**

CEFMX Provides Diversified Exposure to a Broad Range of High Quality Municipal Bond Closed-End Funds.

Key Features

- Diversification**
- Professional Management**
- Efficient Portfolio Management**
- Periodic Distributions**
- Yield Exempt From Federal Income Taxes**
- Opportunity to Buy at a Discount**
- Leverage Potential**
- Lower Expense Ratios**

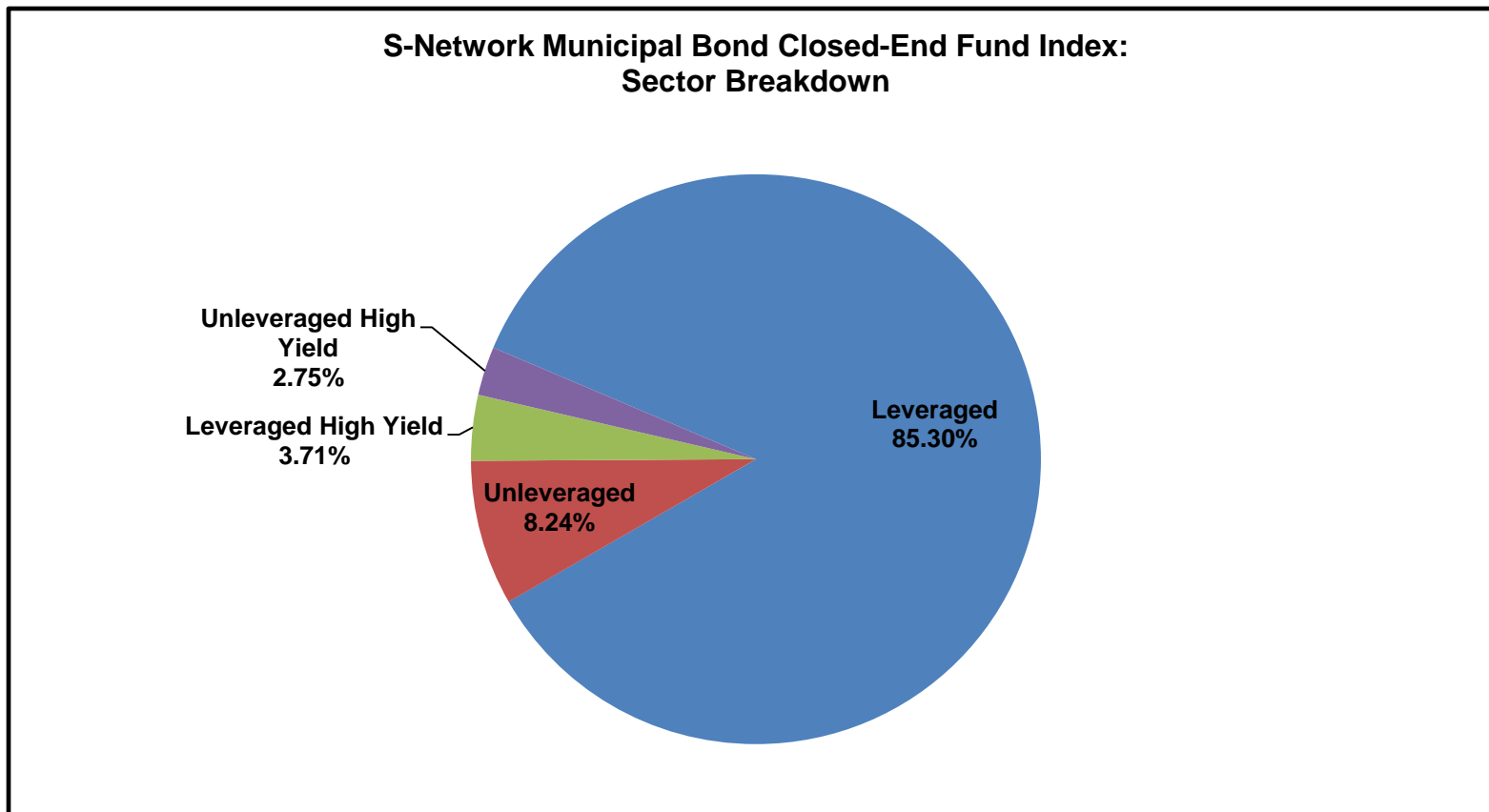
CEFMX Provides an Effective Benchmark for US Municipal Bond Closed-End Funds.

Index Rationale

- Diversification by Asset Class**
- Diversification by Investment Strategy**
- Diversification by Manager**
- High Current Yield**
- Yield Exempt From Federal Income Taxes**
- High Current Discount to NAV**

CEFMX Substantially Diminishes the Risks Implied in Owning a Single Municipal Bond Closed-End Fund While Providing High Current Yields Tax Free.

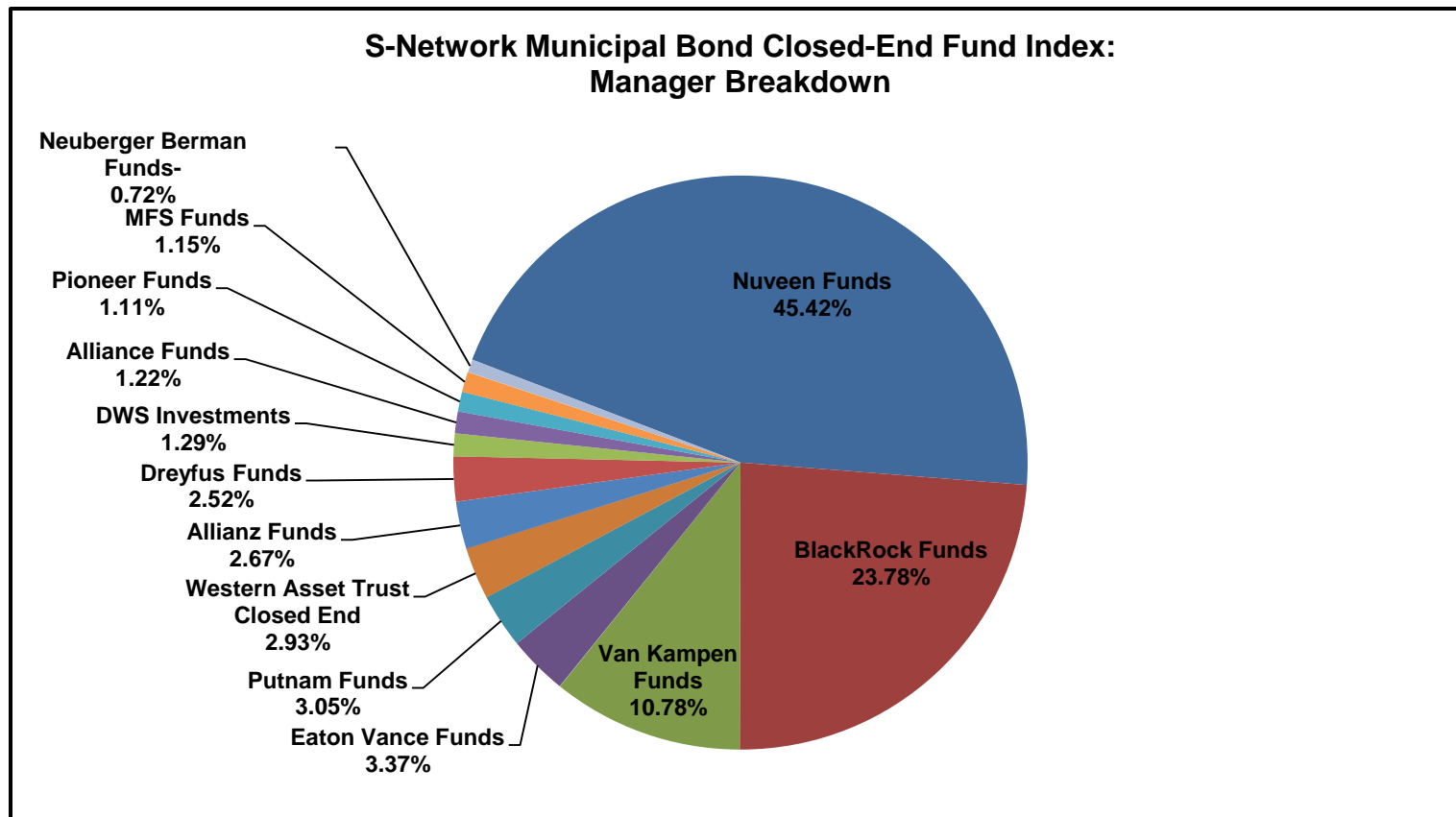
Index Rationale – Sector Breakdown



Source: Bloomberg, as of 3/30/2012

CEFMX Diversifies Risk by Including Municipal Bond Closed-End Funds that Employ Differing Investment Strategies and Use Different Levels of Leverage to Increase Yield .

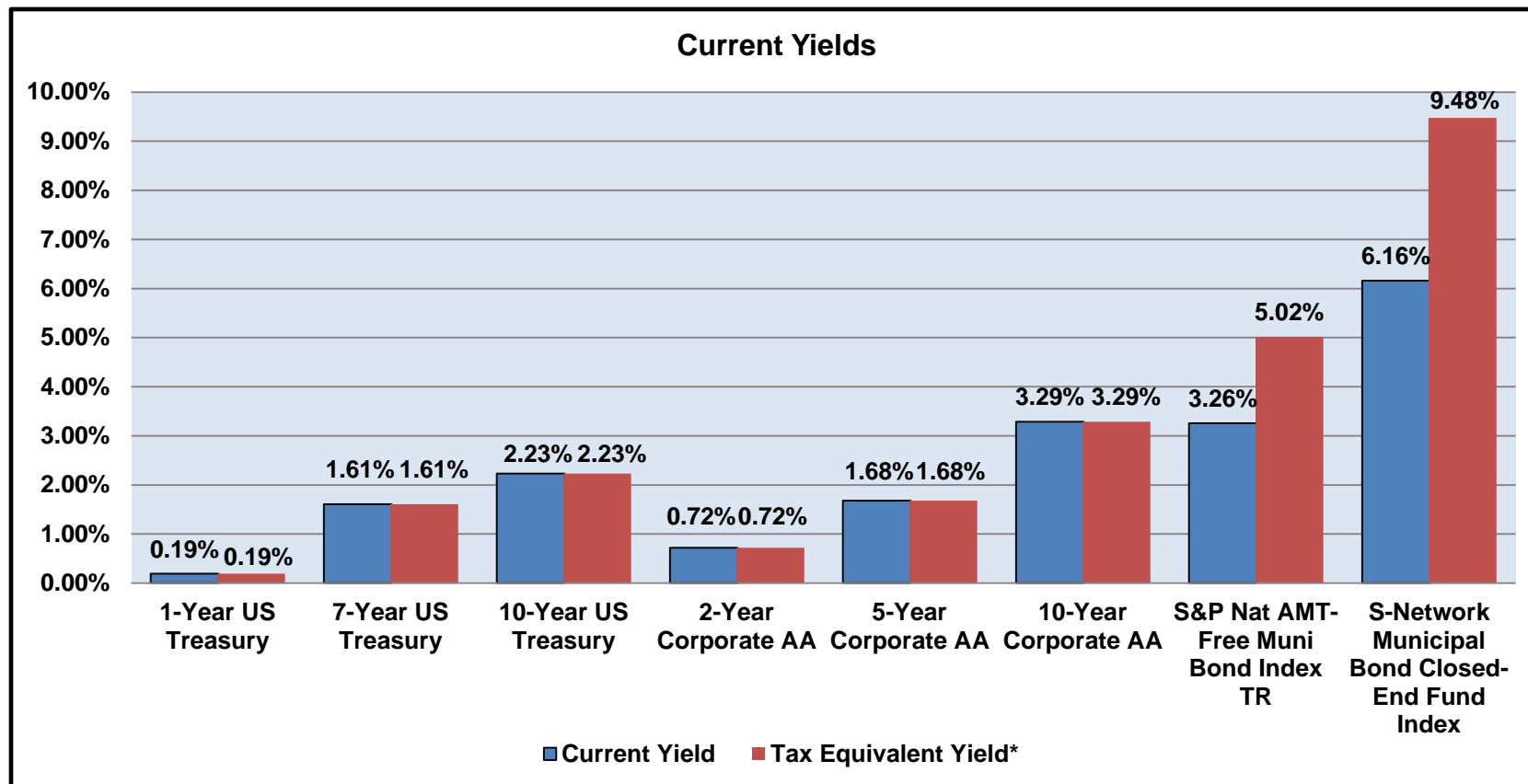
Index Rationale – Manager Breakdown



Source: Bloomberg, as of 3/30/2012

CEFMX Also Diversifies Risk by Manager and Includes the Leading Fixed Income Closed-End Fund Managers in the US.

Index Rationale – Yield

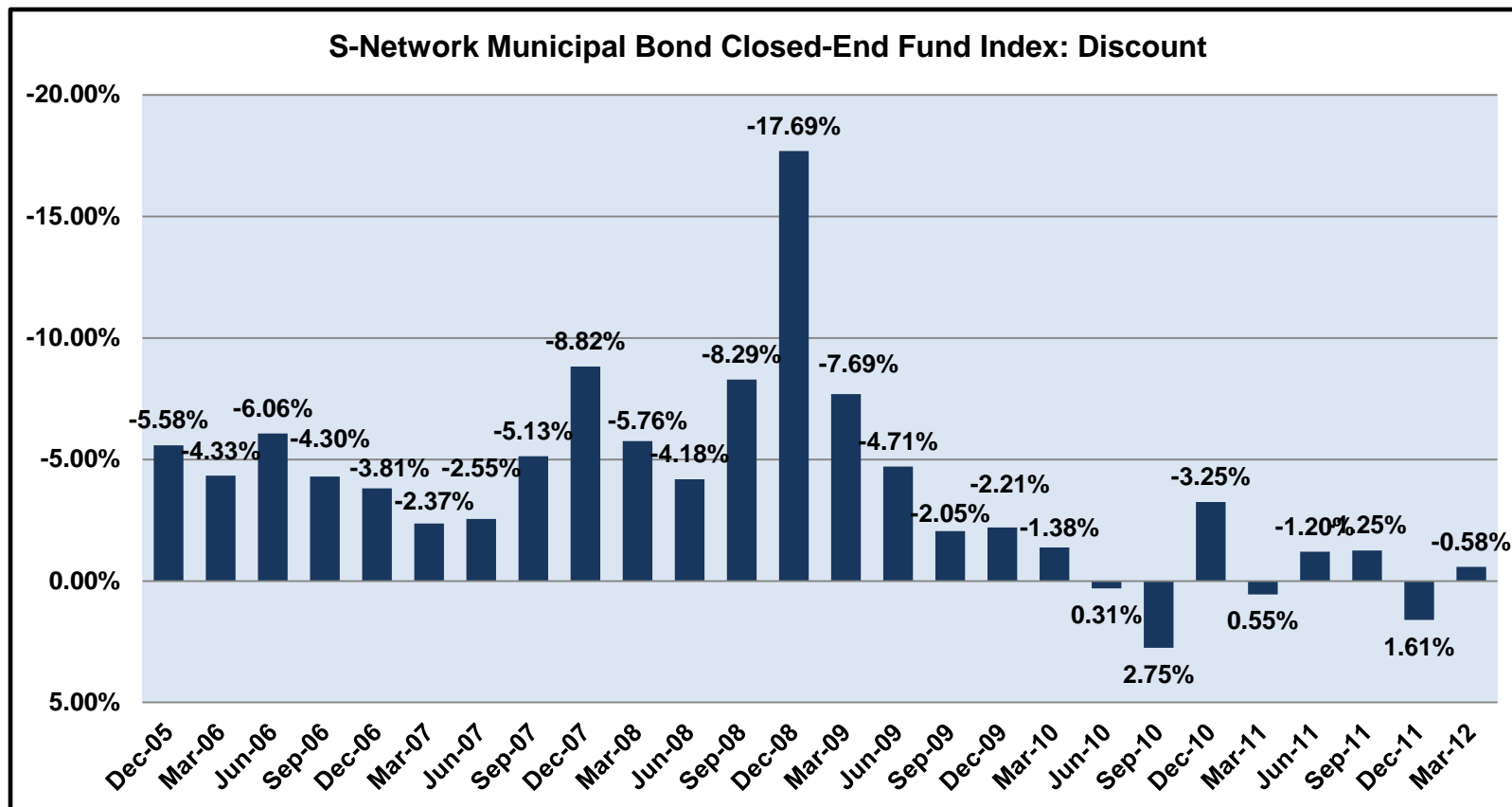


*Based on Marginal Tax Rate of 35%

Source: Bloomberg, as of 3/30/2012

With a Current Yield of 6.16%, CEFMX Indicates a Higher Yield Tax Free than Most Other Classes of Fixed Income Investments, Including Government and Corporate Bonds.

Index Rationale – Discount



Source: Bloomberg, as of 3/30/2012

**CEFMX's Current Market Value Trades at a Discount to Net Asset Value of -0.58%,
Indicating Undervaluation.**

Index Construction - Weighting

- ❑ **Weights Based on Net Assets**
- ❑ **Net Assets Adjusted for Premium/Discount**
 - ❑ **Increases in Fund Net Assets for Funds Trading at a Discount***
 - ❑ Discount > 6% = 30% Increase in Net Assets
 - ❑ Discount > 3% and < 6% = 20% Increase in Net Assets
 - ❑ Discount > 0% and < 3% = 10% Increase in Net Assets
 - ❑ **Decreases in Fund Net Assets for Funds Trading at a Premium***
 - ❑ Premium > 6% = 30% Decrease in Net Assets
 - ❑ Premium > 3% and < 6% = 20% Decrease in Net Assets
 - ❑ Premium > 0% and < 3% = 10% Decrease
- ❑ **Stocks Capped at 8% Index Weight**
- ❑ **Combined Weight of Stocks with Weights over 5% Capped at 45%**

CEFMX's Unique Weighting Methodology Accords Higher Weights to Municipal Bond Closed-End Funds that Trade at Discounts.

*Discount/Premium +/- Average Discount/Premium of Indicated Funds

Summary – Index Features and Benefits

Feature	Benefit
Asset Diversification	Index constituents hold various types of municipal bonds closed-end funds, including leveraged, unleveraged, leveraged high yield and unleveraged high yield.
Strategy Diversification	Index constituents employ a wide range of trading strategies that diversify specific fund risk.
Manager Diversification	Constituent municipal bond closed-end funds employ a wide range of managers, including some of the leading fixed income managers in the world.
High Current Yield	At 6.16%, the CEFMX offers yields substantially higher than most fixed income investments.
High Current Discount	At -0.58%, the CEFMX currently trades at an historically low valuation – exceeded only in times of severe market disruption.

CEFMX Offers Multiple Forms of Diversification that Help Diminish Specific Risks, while Providing High Current Yield and High Current Discount.

Data Sources and Availability

- ❑ Rule Books Available at: www.closedendfundindex.com
- ❑ Historic Data and Portfolio Snapshots at: www.closedendfundindex.com and various data vendors
- ❑ Constituent Data Available at: www.closedendfundindex.com and various data vendors
- ❑ Back Test Data from December 31, 2005
- ❑ Live Data from October 29, 2009
- ❑ Real Time Price Index Values in USD
- ❑ EOD Total Return Index Values in USD

This material has been prepared and/or issued by S-Network Global Indexes LLC and/or one of its consultants or affiliates. This document is for information purposes only and it should not be regarded as an offer to sell or as a solicitation of an offer to buy the securities or other instruments mentioned in it. The information, including any third party information, may not be accurate or complete in its entirety, and it should not be relied upon as such. S-Network Global Indexes LLC and/or its affiliates are not acting in a fiduciary capacity. The products mentioned herein may not be eligible for sale in some states or countries and may not be suitable for all investors. The potential yield created by these products may be adversely affected by exchange rates, interest rates, or other economic and political factors. An investor's return may be less than the principle invested. In addition, S-Network Global Indexes LLC, its shareholders, directors, officers, and/or employees and consultants, may from time to time hold a long or short position in these securities. This document may not be reproduced in any manner without the prior written authorization of S-Network Global Indexes LLC. Opinions expressed within reflect the opinions of S-Network Global Indexes LLC and the author/analyst and are subject to change without notice. "S-Network Composite Closed-End Fund Index" is a service mark of S-Network Global Indexes LLC.