

FIVE CONSIDERATIONS WHEN EVALUATING A CLOSED-END FUND



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Closed-end funds (“CEFs”) can play an important role in a diversified portfolio. Given the intricacies of the CEF structure, many investors are not familiar with how to evaluate a CEF investment. Below are five things you should consider before making an investment in a CEF.

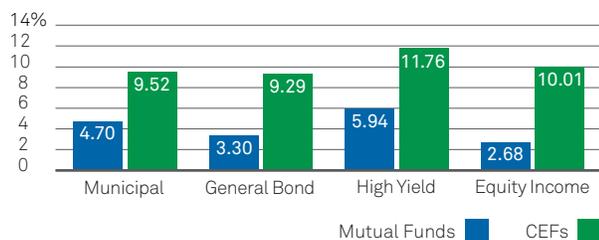
1) Understand the fund’s investment objective and portfolio composition

A CEF’s investment objective is explicitly stated in the fund’s prospectus and shareholder reports. Fund sponsors, like BlackRock, generally provide portfolio holdings and characteristics on a monthly basis via their public website and/or in fund factsheets. Before investing in a CEF, investors should consider and understand the risks associated with investing in CEFs, which are available in the fund’s prospectus and shareholder reports. Many CEFs utilize leverage to increase their exposure to a particular asset class in order to potentially enhance distributions or generate higher returns. The use of leverage may result in an increase in the volatility of the value of the fund’s assets, which is referred to as the net asset value (“NAV”). Careful consideration of the risks and benefits associated with CEFs can unveil potential value-add opportunities for your portfolio.

2) Focus on total return when measuring a CEF’s performance history

Rather than simply calculating a CEF’s price return (i.e. the change in share price over a certain period of time), the total return calculation takes into account both the change in share price, as well as any distributions received by the investor over the investment period. Since CEFs distribute the majority of their income and realized capital gains, a simple price return calculation overlooks a significant factor for CEF returns. When a CEF pays a distribution, the amount of the distribution is deducted from the fund’s NAV and, in an efficient market, the share price is reduced by a similar amount. Importantly, cash flow from CEF distributions should be viewed as a component of the investment’s total value. Accordingly, when calculating a CEF’s total return over a given period, the amount of the distributions paid by the fund should be added back to the share price to arrive at the total return. As seen in Exhibit 2, excluding distributions significantly understates a CEF’s performance.

EXHIBIT 1: CEFs MAY OFFER HIGHER DISTRIBUTION RATES THAN COMPARABLE INVESTMENT VEHICLES SUCH AS MUTUAL FUNDS



Source: Lipper as of 1/31/2016. Past performance is not indicative of comparable future results. Municipal distribution rates use tax equivalent distribution assuming max 39.6% federal tax rate.

EXHIBIT 2: EQUITY (OPTIONS STRATEGIES) CEF’s PRICE RETURN VERSUS TOTAL RETURN



Source: Lipper as of 12/31/15. Equity (Options Strategies) is Lipper Option Arbitrage/Option Strategies Funds. Past performance is not indicative of comparable future results.

3) Assess the fund's distribution rate and its distribution stability

In the current low interest rate environment, many investors are struggling to find a stable source of income. BlackRock believes that CEFs may be an attractive opportunity for these investors given their potentially higher distribution rates than comparable investments. As illustrated in Exhibit 1, certain CEFs may offer distribution rates that are two to three times greater than the distribution rates of equivalent mutual funds. Importantly, investors should evaluate the stability of a fund's distribution, in addition to the level of the distribution, as a distribution reduction could negatively impact a fund's share price. Moreover, distribution stability is important in maintaining a steady rate of cash flow into your portfolio. Many fund sponsors, like BlackRock, post earnings data for their taxable fixed income and municipal income CEFs on a monthly basis. To determine if a CEF is able to support its distribution, simply compare the level of earnings versus the distribution amount. If earnings exceed the distribution amount, then the fund earned its distribution for that period.

4) Analyze the fund's premium/discount history

It may be advantageous to purchase a CEF when it is trading at a discount to its NAV. Over time, CEFs tend to establish a particular premium/discount trading range. As a potential investor, it is important to understand a fund's short term (i.e. 1-year) and longer term (i.e. 3- and 5-year) historical trading patterns, specifically focusing on a fund's average discount and the magnitude of fluctuations around that average (i.e. high and low discount over each time period). BlackRock believes that over the long term, CEFs generally exhibit mean reversion to their historical premium/discount averages. Additionally, given the supply/demand dynamic in the CEF market, investors should consider the potential impact market sentiment and/or certain catalysts such as distribution increases/reductions may have in creating deviations from historical trading ranges.

5) Measure the fund's liquidity and consider using limit orders

CEFs tend to have lower trading volumes than other exchange-traded securities such as single stocks and exchange-traded funds. Larger CEFs generally trade more efficiently due to their larger asset base and higher daily trading volume. Less liquid securities tend to have wider bid/ask spreads, which may result in higher transaction costs, particularly when using

market orders. BlackRock believes it may be beneficial to use limit orders when buying or selling CEFs.

For more information about closed-end funds please visit BlackRock's closed-end fund resources page: <https://www.blackrock.com/investing/products/closed-end-funds>

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Availability of Fund Updates

BlackRock will update performance and certain other data for the Funds on a monthly basis on its website in the "Closed-end Funds" section of www.blackrock.com as well as certain other material information as necessary from time to time. Investors and others are advised to check the website for updated performance information and the release of other material information about the Funds. This reference to BlackRock's website is intended to allow investors public access to information regarding the Funds and does not, and is not intended to, incorporate BlackRock's website in this release.

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All investors should consider the investment objectives, risks, charges and expenses of the funds carefully before investing. The prospectus for each fund currently offering its securities contains this and other important information about the applicable fund currently offering its securities. Investors can obtain a prospectus for any fund currently offering its securities by calling 800-882-0052. All investors are urged to carefully read the prospectus of any such fund in its entirety before investing. There is no assurance any fund will achieve its objectives. The information contained herein is not complete and may be changed. This document is not an offer to sell a fund's securities and is not soliciting an offer to buy a fund's securities in any jurisdiction where the offer or sale is not permitted.

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Some BlackRock CEFs make distributions of ordinary income and capital gains at calendar year end. Those distributions temporarily cause extraordinarily high yields. There is no assurance that a fund will repeat that yield in the future. Subsequent monthly distributions that do not include ordinary income or capital gains in the form of dividends will likely be lower. Fund details, holdings and characteristics are as of the date noted and subject to change.

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