

Cohen & Steers Closed-End Fund Strategy

JUNE 30, 2010

INVESTMENT COMMENTARY

We would like to share with you our review and outlook for the closed-end fund market as of June 30, 2010. For the quarter, the market price total return of the Fund Data U.S. All Taxable ex-Foreign Equity Closed-End Fund Index was -6.1%, while its return on net asset value (NAV) was -4.7%. Year to date, the index had a market price total return of +0.1% and a return on NAV of -0.3%. By comparison, the S&P 500 Index and the Barclays Capital U.S. Aggregate Bond Index had total returns of -11.4% and +3.5% for the quarter and -6.7% and +5.3% for the year to date, respectively.

INVESTMENT REVIEW

Closed-end funds declined during a volatile second quarter, erasing first-quarter gains but still outperforming the broad stock market by a significant margin for both the quarter and the year to date. Discounts to net asset value (NAV) stood at 1.4% at the end of June, up from 0.3% at the beginning of the second quarter, but down considerably from 4% on May 6, the day of the “flash crash” stock market plunge.

The quarter started off on a positive note; 30 of the index’s 35 sectors turned in positive market price performance in April—32, based on NAV. Commodities led the way, spurred by a flight to gold in the wake of Greece’s sovereign debt crisis and China’s moves to cool its giant economy.

May saw a sharp reversal. Equities everywhere plunged amid concern that Greece’s problems would spread throughout Europe. Against this backdrop, the “flash crash” on May 6 rattled investors, sending many into the perceived relative safety of fixed income investments. Investors have more faith in fixed income funds’ ability to support high current yields—and this was reflected in bond funds trading at narrower quarter-end discounts (0.4%) than their equity counterparts (3%).

A flight to quality marked the quarter

This quest for safety and income was evident in the outperformance of fixed income funds, especially government (+4.4% on market price)¹ and investment-grade (+4.1%) funds. The riskier convertibles (-3.7%) and senior loan (-7.1%) funds were notable underperformers in the fixed income space.

CLOSED-END FUND SECTOR RETURNS⁽¹⁾

	Q210		YTD	
	Market	NAV	Market	NAV
Investment Grade	4.1%	0.7%	13.3%	8.5%
CA State Municipal	6.3%	2.8%	11.0%	5.4%
Preferreds	-0.6%	-1.6%	10.3%	7.2%
Limited Duration	0.9%	0.4%	10.3%	5.1%
High Yield	-1.0%	-0.4%	10.0%	7.1%
State Municipal-Other	4.3%	2.7%	10.0%	4.5%
Commodities	7.9%	9.6%	9.3%	11.5%
National Municipal	3.8%	2.8%	9.3%	5.2%
NY State Municipal	2.9%	2.6%	8.6%	4.7%
General Mortgage	1.9%	2.9%	8.6%	7.3%
MLP	-0.4%	1.7%	7.3%	9.5%
Municipal High	1.9%	2.7%	7.3%	7.0%
Multi-Sector	-0.3%	-1.7%	7.2%	5.3%
Finance	-11.4%	-8.8%	7.0%	3.8%
Senior Loan	-7.1%	-1.7%	6.1%	4.6%
Emerging Market Income	-2.1%	-0.8%	5.8%	5.3%
Convertibles	-3.7%	-7.4%	4.7%	-1.3%
Government	4.4%	3.0%	4.4%	4.5%
Real Estate	-10.9%	-5.9%	3.6%	2.3%
Global Income	-1.0%	0.0%	3.3%	4.2%
U.S. Hybrid (Growth & Income)	-5.3%	-6.7%	0.2%	-4.3%
U.S. General Equity	-10.8%	-11.0%	-4.6%	-5.2%
U.S. Equity Dividend	-8.6%	-7.6%	-5.1%	-2.6%
Energy-Resources	-6.8%	-7.0%	-5.2%	-5.8%
Global Hybrid (Growth & Income)	-10.0%	-9.5%	-5.4%	-6.6%
International Equity	-7.7%	-7.0%	-5.7%	-3.7%
Health-Biotech	-11.9%	-12.0%	-6.2%	-6.0%
Equity Tax-Advantaged	-11.5%	-10.8%	-6.3%	-7.5%
Covered Call	-11.8%	-9.8%	-8.8%	-8.1%
Global Equity	-14.6%	-9.3%	-10.7%	-6.9%
Utilities	-10.3%	-10.1%	-12.3%	-8.8%
Global Equity Dividend	-32.9%	-16.1%	-29.2%	-15.0%
Overall	-2.4%	-2.1%	3.5%	1.9%

Source: Bloomberg and Cohen & Steers.

Past performance does not guarantee 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.

(1) Sector constituents as per Fund Data U.S. All Taxable Ex-Foreign Equity Index; constituent returns as per Bloomberg L.P.

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Within the equity category, commodities funds (+7.9%), with their large allocation to gold stocks, had the best performance. Gold prices broke through a technical resistance level in April when the crisis in Greece took a turn for the worse, and continued to edge up through the quarter. Despite their slight decline, funds that invest in master limited partnerships (-0.4%) benefited on a relative basis from individual investors' demand for high, consistent, tax-deferred income.

Global equity dividend funds (-14.6%) suffered from their exposure to equities generally and to international companies at a time when major currencies risked further depreciation against the U.S. dollar. Equity tax advantaged funds (-11.5%) and U.S. general equity funds (-10.8%) tumbled, reflecting in part their use of leverage in a down market.

The IPO market remained open

The IPO (initial public offering) market for closed-end funds remained open in the second quarter. Nuveen launched a taxable municipal fund that invests in Build America Bonds, which are issued by municipalities but receive a federal subsidy on their borrowing costs. But the big issue came in June. ClearBridge Advisors (a Legg Mason company) launched a \$1.3 billion fund (ClearBridge Energy MLP Fund Inc.) that invests in master limited partnerships. There are more to come: a number of MLP funds currently in registration are expected to launch IPOs this year. MLPs typically offer higher yields than traditionally higher-yielding equity groups such as REITs and utilities, and a significant percentage of their annual distribution is typically tax deferred.

INVESTMENT OUTLOOK

Our outlook remains moderately cautious. The markets' behavior in the second quarter demonstrated the fragility of the economic recovery and the wariness with which investors receive bad news. Concerns about global growth have reinforced our view that Federal Reserve interest rate hikes will most likely be delayed until well into 2011.

We continue to overweight fixed income funds, including high yield funds, and remain underweight equity funds, which we expect to face a choppy road ahead. And we expect discounts to NAV to remain fairly narrow. Recent developments suggest that the period of low interest rates will be extended even further. In this environment, investors should continue to find appeal in the attractive monthly cash flows that closed-end funds provide. If risk concerns subside we could once again see funds trade at an average premium.

We continue to believe that, broadly speaking, new issuance will not hurt secondary market closed-end fund prices, although recent developments—including June's billion dollar plus IPO—have raised our sensitivity to this risk factor.

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