Income is one of investors’ most common goals — but one not easily achieved, especially in today’s low-yielding environment. That’s why investors should consider looking beyond traditional investments in their quest for income.
Closed-end funds (CEFs) can provide investors with the opportunity for attractive income and capital appreciation.

Like a traditional open-end mutual fund, a closed-end fund is a professionally managed investment company that pools investors’ capital and invests in stocks, bonds or other securities according to an overriding investment objective. But they differ from open-end funds in several significant ways.

**Focus on income**
Many CEFs are designed with the primary goal of providing income. Income-focused CEFs pay out monthly or quarterly dividends, potentially providing an attractive stream of income to investors. Investors can choose to receive dividend payments or have them reinvested in the fund through a dividend reinvestment program. Over time, reinvested dividends can potentially help drive total return through the power of compounding.

**Exchange-traded**
CEFs look like open-end funds, but trade like stocks. A CEF raises a fixed amount of capital at inception through an initial public offering (IPO). After the IPO, shares of the fund change hands on an exchange (such as the New York Stock Exchange) just like the stocks of individual companies. When an investor wants to buy or sell shares of a CEF, the investor trades with other buyers or sellers on the exchange, instead of with the sponsor company.

**Pricing**
Because it’s traded on an exchange, a CEF’s price is determined by market supply and demand. While open-end funds are bought and sold based on the fund’s net asset value (NAV) per share less any applicable sales charges, the price at which a CEF is bought or sold may be higher or lower than its NAV. A CEF trades at a premium when its market price is higher than NAV; when the market price is lower than NAV, the CEF trades at a discount.

Distributions are not guaranteed and are subject to change.
CEFs and open-end funds share many similarities, but CEFs’ unique characteristics make it important to fully understand their differences before investing.

<table>
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<th>Closed-end vs. open-end funds: Key differences</th>
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<td><strong>Closed-end fund</strong></td>
<td><strong>Open-end fund</strong></td>
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</table>
| Fund management | • Generally actively managed  
• May be able to invest in niche or thinly traded securities  
• Defined asset pool allows managers to remain fully invested  
• Not forced to buy in a rising market or sell in a declining market due to fund flows | • Can use active or passive (index-based) management  
• Generally require trading liquidity, making it harder to invest in thinly traded securities  
• Typically need to keep cash on hand for redemptions  
• May need to buy or sell holdings to accommodate changing flows |
| Buying and selling shares | • Initially, shares are bought during an IPO  
• Shares are bought and sold on an exchange in the secondary market  
• Market price based on supply and demand and may be higher or lower than NAV | • Shares bought and sold through issuing mutual fund company or through a trading platform  
• Price based on current NAV, less applicable sales charges |
| Trading | • Exchange-traded; intraday purchases and sales | • Orders generally placed at close of business, based on closing NAV |
| Use of leverage | • Can use leverage to potentially enhance income and total return | • Traditional open-end mutual funds typically do not use leverage |
| Fees and expenses | • Management fees  
• Brokerage commissions  
• No ongoing costs for distributing shares  
• Other fees and expenses | • Management fees  
• Sales charges/brokerage commissions  
• Potential for ongoing distribution expenses (e.g., 12b-1 fees)  
• Other fees and expenses |
| Minimum investment | • Generally no minimum investment requirements | • Most mutual funds impose a minimum purchase amount |

**Are closed-end funds and ETFs the same?**

Closed-end funds and exchange-traded funds (ETFs) both trade on an exchange, but that is where the similarities end. First, CEFs are actively managed, while ETFs are overwhelmingly passive investments designed to track specific indexes. Second, a CEF has a fixed pool of capital and number of shares outstanding based on what was raised during its IPO; assets and shares of an ETF vary as investors buy or sell shares.

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1 Leverage involves the use of loans, preferred shares or other financial instruments in an attempt to increase the yield, or return, of the portfolio. Leverage may result in greater volatility of the NAV and market price of common shares, and it increases a shareholder’s risk of loss.

2 Some open-end funds are available directly from their sponsor without sales charges. These are referred to as “no-load” funds.

3 Minimums may apply to purchases made at IPO. Brokerage firms may require a minimum investment to open an account.
The benefits of closed-end funds go beyond professional management and diversification. Their distinct features mean they can play a critical part in many investment strategies.

Should I buy at IPO?

Purchasing a CEF during its IPO may provide a number of advantages, including:

- Exclusive access to new or timely investment ideas that may not currently be available in other products or easily accessible to retail investors.
- Higher distribution potential than offered by existing CEFs or other products, since new CEFs may be able to capitalize on current market conditions more easily.
- An opportunity to buy into a specific fund at NAV, less applicable sales charges, since not all CEFs trade at discounts.

Whether you decide an IPO or secondary market purchase is appropriate, be sure to carefully consider the objectives, risks and expenses of the particular fund before investing.

What makes a closed-end fund distinctive is how it’s bought and sold. By trading on an exchange, CEFs offer investors greater control over how they can buy and sell a specific fund. CEFs provide:

**Intraday purchases and sales**

Like the stock of an individual company, CEFs can be bought and sold throughout the day. The market price is driven by supply and demand, which often fluctuates throughout the day.

**Opportunity to buy at a discount**

CEF investors may be able to better target their ideal purchase or sale price through trading tools such as limit orders (an order to buy or sell a set number of shares only at a specified price or better).

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**Traded purchases and sales**

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Exchange-traded flexibility is just the start of how closed-end funds may benefit an overall portfolio.

### Additional advantages of closed-end funds

#### Attractive income potential
The potential to generate income is largely what makes CEFs attractive. Some CEFs may leverage their investment position with the goal of enhancing distribution and total return. This can be accomplished by borrowing at a low cost, which in turn allows a CEF to purchase additional portfolio securities that, it believes, will pay a higher rate of return than the cost of the borrowed securities. Note that the amount a CEF can leverage is usually restricted to no more than 33.33% of its total assets.

#### Ability to tap into specialized asset classes
Their stable capital structure makes CEFs particularly ideal for investing in niche, less liquid markets that may be ill-suited for other investment structures. CEFs can also invest in asset classes that may be otherwise unavailable to retail investors, or in some cases greatly simplify the way investors can access a particular asset class, such as master limited partnerships (MLPs).

#### Efficient management
A CEF’s capital and number of shares outstanding are fixed once it completes its IPO. That means managers are able to remain fully invested at all times without worrying about having enough cash on hand to meet redemptions from investors who suddenly sell — especially in a down market. Conversely, in a rising market, CEF managers don’t need to invest a flood of new cash at rising prices.

#### Lower investment minimums
CEF do not have minimum investment requirements, if purchased on the secondary market. As long as an investor is willing to purchase a single share, an investor can buy into the fund. And because they trade on an exchange, closed-end funds do not have ongoing distribution costs, such as 12b-1 fees. Individual brokerage requirements may vary.

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4 Other fees and expenses will apply to the purchase and ongoing ownership of a CEF. These fees and expenses include sales charges, management fees, operating expenses, and, if applicable, interest expense. Brokerage commissions may be assessed by your broker to purchase or sell CEF shares.
Today, the closed-end market includes 537 funds that together have over $268 billion in assets. These funds invest in a variety of asset classes, styles and sectors to accommodate a broad range of investor objectives.

**A RANGE OF STRATEGIES TO MEET INVESTOR NEEDS**

- **Stock funds**
  - **Domestic equity funds** invest in equity securities issued by a broad mix of U.S. companies, and look for a combination of long-term capital appreciation and high current income. Funds may be diversified or target a single sector, style or market capitalization.
  - **Global/international equity funds** include global, regional, single-country and sector CEFs spanning developed and emerging markets. Some may also focus on a specific region or group of countries.

- **Bond funds**
  - **Taxable domestic bond funds** provide current income by investing in securities across the fixed income universe of government, agency, investment-grade or high-yield corporate bonds.
  - **Municipal bond funds** generally seek to provide high after-tax distributions by investing in bonds issued by state and local governments and agencies. As with open-end municipal bond funds, national and single-state options are available.
  - **Global/international bond funds** build portfolios composed of debt securities of both U.S. and foreign governments and companies. As with global equity CEFs, particular emphasis may be placed on specific regions or countries. These funds may also include investments in currency to enhance return or manage risk.

- **Specialty**
  - The closed-end structure allows for investment in some asset classes that may be less widely available in other types of investments. These include energy-related master limited partnerships (MLPs), real estate investment trusts (REITs) or floating-rate securities. Speciality CEFs may also use hedging techniques, such as covered call writing, as part of their fundamental investing strategy.

- **Structure**
  - Closed-end funds are typically structured two ways: Perpetual or term.
    1. **Perpetual CEFs** are most common and trade on an exchange indefinitely.
    2. **Term CEFs** exist for a finite period; for example, 10 or 15 years. A term is commonly employed if the CEF manager has identified a unique or timely investment opportunity.

Like any investment, closed-end funds involve a number of risks that should be carefully considered before investing.

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Legg Mason is the fifth-largest closed-end fund manager in the U.S., offering over 25 CEFs, with more than $10 billion in assets under management.¹

Our CEFs are managed by experienced portfolio managers, including Western Asset Management, ClearBridge Investments, Brandywine Global and Royce & Associates.

We offer a comprehensive lineup of closed-end funds that targets compelling investment opportunities across fixed income, equity and specialty sectors. Our funds offer investors the potential for attractive dividends and active professional management with the convenience of an exchange-traded security.

Find out more about our complete lineup of closed-end funds. Visit www.lmcef.com or call 888-777-0102.

Distributions are not guaranteed and are subject to change.

¹ Source: Lipper, as of December 31, 2016.
What should I know before investing?

All investments involve risk, including loss of principal amount invested. Investments in foreign securities involve risks, including the possibility of losses due to changes in currency exchange rates and negative developments in the political, economic or regulatory structure of specific countries or regions. These risks are greater in emerging markets. Fixed income investments ("bonds") are subject to credit risk, inflation risk and interest rate risk. As interest rates rise, bond prices fall, reducing the value of a fund’s share price. Lower-rated, high-yield bonds are subject to greater credit risk. Leverage may result in greater volatility of NAV and the market price of common shares, and it increases a shareholder’s risk of loss.

There is no guarantee that investment objectives will be achieved. Investors should carefully consider their objective, risk tolerance and time horizon before investing.

The closed-end funds are not sold or distributed by Legg Mason Investor Services, LLC (LMIS) or any affiliate of Legg Mason, Inc. Unlike open-end funds, shares are not continually offered. Like other public companies, closed-end funds have a one-time initial public offering, and once their shares are first issued, they are generally bought and sold through non-affiliated broker/dealers and trade on nationally recognized stock exchanges. Share prices will fluctuate with market conditions and, at the time of sale, may be worth more or less than your original investment. Shares of exchange-traded closed-end funds may trade at a discount or premium to their original offering price, and often trade at a discount to their net asset value. Net Asset Value (NAV) is total assets less total liabilities divided by the number of shares outstanding. Market Price, determined by supply and demand, is the price at which an investor purchases or sells the fund. Investment return, market price and net asset value will fluctuate with changes in market conditions. The funds are subject to investment risks, including the possible loss of principal invested.