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) may be a solution for some investors. 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**
CEF’s 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.
WHAT MAKES CEFs DIFFERENT?

CEFs and open-end funds share many similarities, but CEFs’ unique characteristics make it important to fully understand their differences before investing.

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Closed-end vs. open-end funds: Key differences

<table>
<thead>
<tr>
<th>Fund management</th>
<th>Closed-end fund</th>
<th>Open-end fund</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Generally actively managed</td>
<td>• Can use active or passive (index-based) management</td>
</tr>
<tr>
<td></td>
<td>• May be able to invest in niche or thinly traded securities</td>
<td>• Generally require trading liquidity, making it harder to invest in thinly traded securities</td>
</tr>
<tr>
<td></td>
<td>• Defined asset pool allows managers to remain fully invested</td>
<td>• Typically need to keep cash on hand for redemptions</td>
</tr>
<tr>
<td></td>
<td>• Not forced to buy in a rising market or sell in a declining market due to fund flows</td>
<td>• May need to buy or sell holdings to accommodate changing flows</td>
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<table>
<thead>
<tr>
<th>Buying and selling shares</th>
<th>Closed-end fund</th>
<th>Open-end fund</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>• Initially, shares are bought during an IPO</td>
<td>• Shares bought and sold through issuing mutual fund company or through a trading platform</td>
</tr>
<tr>
<td></td>
<td>• Shares are bought and sold on an exchange in the secondary market</td>
<td>• Price based on current NAV, less applicable sales charges²</td>
</tr>
<tr>
<td></td>
<td>• Market price based on supply and demand and may be higher or lower than NAV</td>
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<thead>
<tr>
<th>Trading</th>
<th>Closed-end fund</th>
<th>Open-end fund</th>
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<tbody>
<tr>
<td></td>
<td>• Exchange-traded; intraday purchases and sales</td>
<td>• Orders generally placed at close of business, based on closing NAV</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Use of leverage¹</th>
<th>Closed-end fund</th>
<th>Open-end fund</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Can use leverage to potentially enhance income and total return</td>
<td>• Traditional open-end mutual funds typically do not use leverage</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fees and expenses</th>
<th>Closed-end fund</th>
<th>Open-end fund</th>
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<tbody>
<tr>
<td></td>
<td>• Management fees</td>
<td>• Management fees</td>
</tr>
<tr>
<td></td>
<td>• Brokerage commissions</td>
<td>• Sales charges/brokerage commissions²</td>
</tr>
<tr>
<td></td>
<td>• No ongoing costs for distributing shares</td>
<td>• Potential for ongoing distribution expenses (e.g., 12b-1 fees)</td>
</tr>
<tr>
<td></td>
<td>• Other fees and expenses</td>
<td>• Other fees and expenses</td>
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</tbody>
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<tr>
<th>Minimum investment</th>
<th>Closed-end fund</th>
<th>Open-end fund</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Generally no minimum investment requirements³</td>
<td>• Most mutual funds impose a minimum purchase amount</td>
</tr>
</tbody>
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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. 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.

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
CEFs on the secondary market may trade at a premium or discount to their NAV. A CEF’s market price is based on a number of factors, including distribution rate, type of investments, performance or market conditions.

Purchasing at a discount may allow investors to benefit from price appreciation if the discount narrows over time, or if they later sell the CEF at a higher price. There is no guarantee a CEF’s discount will narrow or be eliminated.

Not all CEFs trade at a discount, however. A CEF trading at a premium, or above its NAV, may do so for a number of reasons, including having a superior distribution rate compared with its peers, providing access to a market with limited availability, or exhibiting strong historical NAV performance.

Trading flexibility
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).

How can I buy a CEF?
A CEF can be purchased two ways:

- During its IPO, through a participating firm. You will pay a sales charge on your overall investment in an IPO.
- In the secondary market, you can access CEFs through your financial advisor or trading platform, like any company that is listed on an exchange; purchases on the secondary market may be subject to transaction fees or other costs.

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.
ADDITIONAL ADVANTAGES OF CLOSED-END FUNDS

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

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’s 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.
A RANGE OF STRATEGIES TO MEET INVESTOR NEEDS

The closed-end market includes 530 funds that together have over $275 billion in assets. These funds invest in a variety of asset classes, styles and sectors.

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. Specialty 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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5 Source: Investment Company Institute. 2017, “Closed-End Fund Data, Fourth Quarter 2017” (December). For the most up-to-date figures about the fund industry, please visit www.ici.org/research/stats.
A LEADER IN CLOSED-END INVESTING

Legg Mason is one of the nation’s top 10 providers of closed-end funds manager in the U.S., offering over 25 CEFs, with more than $10 billion in assets under management.⁶

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.

⁶ Source: Lipper, as of December 31, 2017.
Legg Mason is a leading global investment company committed to helping clients reach their financial goals through long-term, actively managed investment strategies.

- A broad mix of equities, fixed-income, alternatives and cash strategies invested worldwide
- A diverse family of specialized investment managers, each with its own independent approach to research and analysis
- Over a century of experience in identifying opportunities and delivering astute investment solutions to clients

Where can I find more information?

History tends to repeat itself. Legg Mason seeks to ensure that your portfolio can withstand and recover from the inevitability of market corrections and portfolio losses, with a balance of strategies that addresses your need for portfolio growth, income, capital appreciation and risk management. Talk to your financial advisor today about the right investing strategy for your situation.

What should I know before investing?

All investments involve risk, including possible loss of principal. Equity investments generally provide an opportunity for more capital appreciation than fixed income investments, but they are subject to greater market fluctuations.

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

The Advisor Partnership Program (TAPP)®
Our Experience. Your Potential.®

The Advisor Partnership Program (TAPP)® is Legg Mason’s landmark value-added offering, featuring a wide range of multidimensional workshops and seminars that empower financial advisors to build successful practices and educate their clients. TAPP delivers value in three areas of importance to advisors: Practice Management, Addressing Client Needs, and Investor Education. Practice Management offers comprehensive resources for developing a value proposition and client acquisition. Addressing Client Needs provides in-depth materials to help advisors engage and inform their clients on a variety of topics. Investor Education offers valuable resources to keep you and your clients informed.

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Any information, statement or opinion set forth herein is general in nature, is not directed to or based on the financial situation or needs of any particular investor, and does not constitute, and should not be construed as, investment advice, forecast of future events, a guarantee of future results, or a recommendation with respect to any particular security or investment strategy or type of retirement account. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies should consult their financial professional. Legg Mason, Inc., its affiliates and its employees are not in the business of providing tax or legal advice to taxpayers. These materials and any tax-related statements, if any, may have been written in connection with the “promotion or marketing” of the transaction(s) or matter(s) addressed by these materials, to the extent allowed by applicable law. Any such taxpayer should seek advice based on the taxpayer’s particular circumstances from an independent tax advisor.

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