

MANAGING THE PORTFOLIO AND THE LEVERAGE

Since a closed-end fund's portfolio can be actively managed, the portfolio manager can respond to market changes by adjusting strategy, securities and leverage, within the guidelines spelled out in the prospectus. If the outlook for an individual stock in an equity based CEF deteriorates, the manager can sell the stock and replace it with one exhibiting better prospects. If interest rates appear to be on the rise, the manager of a closed-end bond fund can shorten maturities to lower volatility, although this would probably also lower income.

Closed-end fund portfolio managers have an advantage over managers of traditional mutual funds, because they do not need to worry about cash flow. When mutual fund holders liquidate, the manager must use cash on hand or sell securities to meet redemptions. If the pace of redemptions is exceptionally high, fund performance can suffer as the portfolio sells the more liquid securities. Conversely, as money flows into mutual funds, the manager must put the cash to work quickly, even if appropriate investment opportunities are not available. The number of outstanding shares of most mutual funds rises and declines as investors buy and sell the fund. CEF portfolio managers need not worry about cash flows, since the closed-end format entails a fixed number of shares. If an investor decides to cash out, the shares are sold, usually through the New York Stock Exchange, to another investor. As noted earlier, however, the seller may receive less than the NAV.

Leverage can be adjusted and hedged. In a few instances, as interest rates have moved higher, some portfolio managers have reduced borrowing, thus lowering the leverage ratio (and the income). Few closed-end funds have leverage ratios that exceed 40%, and most leveraged funds have target ratios of about 33%. Some portfolio managers hedge their leverage costs with long-term interest rate swaps. For example, as short-term rates rose, one fund manager did a swap with a derivatives provider that capped the short-term borrowing costs at 3% for five years.

CONCLUSION

Many closed-end funds offer higher yields than the underlying securities due to the use of leverage. This makes them attractive to long-term investors seeking income. However, when leverage is used, volatility and the associated risk tend to be higher than with non-leveraged investments. Investors must weigh the benefit of enhanced yield against the increased volatility. If interest rates rise, the values of CEFs, particularly those comprised of bonds and other income producing investments, will erode, with price declines more than offsetting the extra income provided by leverage.

Your Janney Financial Consultant can provide you with more information. Additionally, there are several informative websites you can visit. Both <http://www.etfconnect.com/> and <http://www.cefa.com/> are sponsored by fund trade groups, and the Securities and Exchange Commission has useful information at <http://www.sec.gov/answers/mfclose.htm>.

As always, we welcome any comments or questions. Contact your Janney Financial Consultant or contact us via email or mail, as follows:

- disclosure@jmsonline.com
- Disclosure Information
Janney Montgomery Scott LLC
1801 Market Street
Philadelphia, PA 19103

The information contained in the disclosure statement is not an offer to sell or a solicitation of an offer to buy any securities. Janney Montgomery Scott LLC is making no recommendation as to the prospects or suitability of any individual security. The table of specific CEFs is for information and example only. The information contained herein has been obtained from reliable sources, but accuracy and completeness is not guaranteed. Opinions expressed should be given only such weight as opinions warrant.



Janney Montgomery Scott LLC

1.800.JANNEYS

www.jmsonline.com

This list of closed-end funds includes issues which Janney has co-managed or under-written in the past two years. Leverage refers to actual leverage employed according to the most recent financial report filed by the fund. Price and NAV information is as of close 8-22-05. All Funds listed are NYSE listed except EVW which is ASE. Premium/(Discount) refers to the amount by which market price is above or below NAV.

Offer Date	Fund	Leverage	Initial Offer Price	Market Price 8/22/05	NAV 8/22/05	Premium/(Discount) to NAV 8/22/05
3/26/03	Nuveen Preferred Convertible Income Fund (IPC)	33%	\$15	\$13.14	\$14.65	-10.3%
3/26/03	Nicholas-Applegate Convertible & Income Fund (NCV)	33%	\$15	\$15.87	\$15.44	2.8%
4/24/03	Pimco High Income Fund (PHK)	34%	\$15	\$15.03	\$15.38	-2.3%
5/27/03	Calamos Convertible & High Income Fund (CHW)	32%	\$15	\$16.30	\$15.66	4.1%
5/27/03	Eaton Vance Limited Duration Income Fund (EVV)	28%	\$20	\$18.01	\$18.51	-2.7%
6/25/03	Nuveen Preferred and Convertible Income Fund 2 (JQC)	32%	\$15	\$12.99	\$14.49	-10.4%
7/17/03	Pioneer Municipal High Income Trust (MHI)	23%	\$15	\$15.04	\$15.60	-3.6%
9/25/03	Eaton Vance Tax Advantaged Dividend Income Fund (EVT)	29%	\$20	\$21.86	\$24.57	-11.0%
11/24/03	Gabelli Dividend & Income Trust (GDV)	15%	\$20	\$18.87	\$20.79	-9.2%
2/24/04	Western Asset Claymore US Treas. Inflation Protected Sec. Fund 2 (WIW)	32%	\$15	\$12.46	\$13.65	-8.7%
3/25/04	Calamos Strategic Total Return Fund (CSQ)	33%	\$15	\$14.19	\$15.10	-6.0%
10/26/04	Nuveen Equity Premium Income Fund (IPZ)	0%	\$20	\$20.32	\$18.71	8.6%
12/22/04	BlackRock Global Energy & Resources Trust (BGR)	0%	\$25	\$25.52	\$28.40	-10.1%
1/26/05	Nuveen Equity Premium Opportunity Fund (JSN)	0%	\$20	\$19.78	\$18.85	4.9%
2/23/05	NFJ Dividend Interest & Premium Strategy Fund (NFI)	0%	\$25	\$23.56	\$23.78	-0.9%
3/28/05	ING Global Equity Dividend & Premium Opportunity Fund (IGD)	0%	\$20	\$20.43	\$18.81	8.6%
4/26/05	Eaton Vance Tax-Managed BuyWrite Income Fund (ETB)	0%	\$20	\$20.10	\$19.61	2.5%
5/25/05	Nuveen Equity Premium Advantage Fund (JLA)	0%	\$20	\$20.02	\$19.12	4.7%
6/27/05	Eaton Vance Tax-Managed Buy-Write Opportunities Fund (ETV)	0%	\$20	\$19.98	\$19.62	1.8%

Investment Disclosure Communication

Closed-End Funds



INTRODUCTION

The combined assets of US closed-end funds (CEFs) topped \$259 billion at the finish of this year's first quarter, up from \$165 billion just 2 years earlier. Although this amount is dwarfed by the outstanding \$8.2 trillion in mutual funds, the growing popularity of CEFs is testimony to their unique place in the investment lineup. The closed-end structure offers advantages and disadvantages compared to mutual funds, unit investment trusts (UITs) and other similar investment vehicles. Janney Montgomery Scott believes that it is important that our clients understand both the benefits and risks of CEFs. This report will explain how they work and look at the pros and cons of including CEFs in an investment portfolio.

WHAT IS A CLOSED-END FUND?

Like mutual funds and UITs, closed-end funds are portfolios of stocks, bonds, preferreds and/or other securities. Their issuance is governed by the Investment Company Act of 1940. Approximately 66% of outstanding CEFs are bond funds, with tax-free municipal portfolios accounting for more than half of that total. Income producing securities such as utilities, real estate investment trusts and preferred stocks are also included in many CEF portfolios.

Unlike most mutual funds, which are continuously offered, closed-end funds come to market in the initial public offering (IPO) format. Once issued, the shares of CEFs are not typically purchased or redeemed directly by the fund, as is the case with mutual funds, but are bought and sold by investors in the open market, usually through the New York Stock Exchange, American Stock Exchange or NASDAQ. Exchange listing allows investors to buy or sell CEFs throughout the day (when markets are open), as opposed to UITs and mutual funds, which are traded once a day at the net asset value (NAV).

Since closed-end funds are usually listed on a major stock exchange, they may be considered exchange traded funds (ETFs). Although this is

technically correct, the ETF designation typically refers to a fund which is structured to closely track an index. For example, Standard and Poor's Depository Receipts (SPDRs) are a series of index ETFs that closely track the performance of various S&P indexes such as the S&P 500. Index funds are not considered in this disclosure statement.

NET ASSET VALUE

The net asset value (NAV) of a fund is the market value of all the fund's portfolio securities, minus expenses and liabilities, divided by the total number of outstanding shares. When an investor liquidates a mutual fund or UIT, she or he receives the net asset value, which is typically based on the closing prices (4 PM) of the underlying securities. Pricing of closed-end funds, however, is based on supply and demand and, therefore, is determined by the market and may be higher or lower than the NAV. So there is a tradeoff between the liquidity of a CEF, which trades throughout the day, and the once a day NAV pricing of a UIT or mutual fund. The table titled "Recent Closed-End Fund Offerings" on the back of this pamphlet compares the market price with the NAV for various funds, and, in many cases, the market price is below (at a discount to) the NAV.

Although the examples in this report are simplified for clarity, it is important that investors understand that, when initially offered, there is a sales charge on CEFs, usually 4.5%, as disclosed in the prospectus of each new issue. So an initial investment of \$20 per share begins with a NAV of \$19.10 per share since the amount of the sales charge is deducted before funds are invested. When a closed-end fund is purchased in the secondary market, a commission or fee may be charged, which the examples do not consider.

Features	UIT	CEF	MF
Continuously Offered	NO	NO	YES
Exchange Traded	NO	YES	NO
NAV Redemption	YES	NO	YES
Leverage Permitted	NO	YES	NO
Fixed Portfolio	YES	NO	NO
Closed End Format	YES	YES	NO

THE DOUBLE-EDGED SWORD OF LEVERAGE

A trait that sets many closed-end funds apart from their UIT and mutual fund brethren is leverage, which presents both opportunity and risk. Leverage involves using borrowed funds with the intention of increasing the impact of the earnings and price changes of the underlying investments. In some ways, it is analogous to a traditional margin account. In simple terms, if you can borrow at 2% and invest at 6%, you can earn the differential 4%. Many closed-end funds use that extra income to enhance the yield to investors. Although not every CEF relies on leverage, in many cases, leverage is a key part of the fund's investment strategy.

As the yield curve has grown flatter, the use of leverage has diminished, since the differential between short term borrowing costs and longer maturity investment yields has narrowed. Few newly issued CEFs use leverage, but many outstanding CEFs, particularly those with fixed income securities, continue to use leverage to enhance the yield. Using the example of the previous paragraph, if borrowing cost is now 3% and funds can be invested at only 4.5%, the 1.5% differential offers less advantage, especially when the added risk undertaken by leverage is considered. Keep in mind that all of the yields in this explanation are used for illustration only and are not representative of yields on specific funds.

The top table to the right shows a \$200 million investment (CEF Initial Public Offering), which is enhanced by borrowing an additional \$100 million (33% leverage). If all of the funds are invested to earn 4.5%, after paying interest of 2.5% on the borrowed money, the return on the initial \$200 million investment grows to 5.5%. This illustrates a major attraction of CEFs, the ability to enhance yield through the use of leverage. In a market where the typical long term tax-free bond has a 4.5% yield, the 5.5% tax free yield of a CEF comprised of tax-free bonds seems quite attractive.

The risk of using leverage is realized when the value of the underlying securities declines. The bottom table illustrates how a 10% decline in the value of the underlying securities can create a 15% decline in the NAV of the fund. This can be a particularly important issue

when the underlying securities are bonds or other interest rate sensitive securities. In a rising interest rate environment, the value of bonds will decline which, when magnified by the impact of leverage, creates a disproportionate drop in the CEF's net asset value. This can be further aggravated by the tendency of a close-end bond fund's market price to fall below the NAV when interest rates are rising. Remember, unlike mutual funds, which can be liquidated at the NAV, CEFs trade based on supply and demand at prices which may be above, but are frequently below, the NAV.

Another risk of leverage comes from the cost of borrowing. CEFs typically pay a monthly dividend representing a payout of most of the net interest or dividends of the securities in the fund. If the cost of borrowing increases, which will tend to happen as interest rates rise, it can lead to a lower dividend. For example, considering the "Leverage Impact on Yield" table, if the borrowing cost rose from 2.5% to 5.5%, the yield on NAV would fall from 5.5% to 4%.

Leverage Impact on Yield	
Total NAV of Fund	\$200 million
Borrowed Funds	\$100 million
Total Funds Invested	\$300 million
Income (4.5%)	\$13.5 million*
Borrowing Cost (2.5%)	\$2.5 million**
Net Income	\$11 million
Yield on NAV	5.5%
* 4.5% of \$300 million	
** 2.5% of \$100 million borrowed funds	
Leverage Impact on Price	
Number of Shares	10 million
NAV per Share	\$20
Total NAV of Fund	\$200 million
Leverage Ratio	33%
Borrowed Funds	\$100 million
Total Funds Invested	\$300 million
10% Market Decline ***	\$30 million
Less Borrowed Funds	\$100 million
New NAV of Fund	\$170 million
NAV per Share	\$17.00
NAV Decline	15%
*** value of underlying securities in fund	