THE SCOTT LETTER: CLOSED-END FUND REPORT

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THE SCOTT LETTER is intended to educate global investors about closed-end funds. Closed-end funds can be a valuable and profitable investment tool. To learn about closed-end funds, visit our web site, www.CEFAdvisors.com, and in particular, read our article, *What Are Closed-End Funds*. Feel free to forward this newsletter to anyone who you believe could benefit from information on closed-end funds or global portfolios.

– George Cole Scott
Editor-in-Chief

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Managed Duration Investment Grade Municipal Fund (MZF)

The Managed Duration Investment Grade Municipal Fund (NYSE:MZF) is a diversified closed-end management investment company registered in Delaware. The investment manager, Cutwater Asset Management (established in 1991), manages $43 billion in assets. The firm is an income asset management specialist dedicated to providing quality fixed income performance.

Jeffrey S. MacDonald oversees the Total Return suite of products. From 2004 to 2007, Jeff was a vice president and portfolio manager at Hartford Investment Management Company where he managed broad-based fixed income styles. Jeff holds a bachelor's degree from Trinity College and a master's degree from Boston University. He is a Chartered Financial Analyst ("CFA").

Jeffrey S. MacDonald

James B. DiChiaro

James B. DiChiaro joined MBIA in 1999 and is a vice president at Cutwater. He manages the company's municipal bond portfolios (taxable and tax-exempt). At MBIA, James worked with the conduit group structuring medium-term notes for Meridian Funding Company and is treasurer for MBIA's Triple-A One Funding Corporation. James holds a bachelor's degree from Fordham University and a master's degree from Pace University.

MZF's investment objective is to provide shareholders with high current, tax-exempt income while seeking to protect the value of the Fund's assets during periods of interest rate volatility. This is achieved by investing at least 80% of its total assets in municipal bonds of investment grade quality. There is no assurance that the Fund's objective will be realized. The Fund has maintained the same amount of structured leveraged since inception (42%).

CEFA's executive vice president, John Cole Scott, interviewed Jeffrey MacDonald and James B. DiChiaro on May 11, 2010:

SL: What differences do you see between managing municipal bonds for a closed-end fund versus managing a mutual fund?

MacDonald: The closed-end fund ("CEF") format provides a number of advantages for a portfolio manager. In addition to being able to use leverage, the CEF format is not impacted by the same cashflow instability as an open-end structure. In the absence of a need for liquidity, we are able to position the Fund with securities that can offer attractive relative value.

SL: Why should an investor buy shares in MZF versus municipal bonds, an ETF or a mutual fund?

MacDonald: We leverage our Fund with auction rate preferred securities (ARPs). This market has been closed for some time because of the steep yield curve. Therefore, an attractive yield can be captured because of its leverage. We acknowledge that leverage can, at times, increase volatility and be disadvantageous to shareholders. We maintain a diverse, professionally managed portfolio of bonds whose credit profile and quality are overseen by our credit analysts.

DiChiaro: We stress that many state and local governments are faced with the most challenging fiscal pressures in many years, which necessitates a thorough credit analysis of all bonds contemplated for purchase.

SL: How do you track and rate MZF's performance regarding benchmarks, and what time frames do you use?

MacDonald: The Fund's performance is tracked daily and measured monthly against the unlevered broad Barclay's Muni Index as well as against a peer universe of levered, similar closed-end funds. We report our performance to the Board of Trustees on quarterly, annual, 3-year and 5-year total returns.

SL: How do you stand out from the average national muni CEF bond fund?

MacDonald: We are not as focused on general obligations as the broader market and have a strategy that is more based on total return versus the strong income focus of many CEFs. We also employ a managed duration strategy unique in the CEF universe.

SL: Tell us about your managed duration policies at MZF?

MacDonald: Traditionally the CEF market is a yield-oriented marketplace. Claymore has some unique strategies, and we have partnered on a total return approach. Regarding duration, we mean all of the duration buckets, including interest rate duration, spread duration and credit risk across the cycle. Sometimes you want to be defensive on rates or risk, and at other times, you might want to become more offensive. We manage the duration both using derivatives and cash bonds.

SL: At CEFA, we start our fund analysis by comparing how a fund's data points differ from their peer group averages. For example, our weekly CEF data service currently has 69 CEFs in your peer group, each with an average discount of -1.01% versus your Fund's discount of -2.10% (as of May 7, 2010).

What are your thoughts on the current discount of MZF?

MacDonald: Many CEFs are trading at a discount so I do not feel this is specific to MZF. One factor specific may be name recognition, as MZF is the only tax-exempt CEF that we currently manage.

[**Editor's Note:** We rarely buy funds at premiums to net asset values for CEFA clients. Our mantra is to buy active management, with the fixed capitalization that CEFs have. We can control execution with limit orders to buy funds at a discount, especially at a relative discount to other funds. Recently, discounted funds have been hard to find, but with diligent search, there are pockets of them out there that meet our research qualifications.

We like medium-size closed-end funds because they can be tactical and typically have a unique investment approach. The closed-end fund structure also allows for management personalities to come through the investment process.]

SL: What are your thoughts regarding your distributions that are higher than your peer average of 6.6%? This can enable you to give the shareholder a current distribution yield of 7.1% (as of May 7, 2010).

MacDonald: MZF was deliberately defensive prior to 2008. As the credit cycle turned downward, we rotated out of pre-refunded bonds and other high grade positions. We then invested more heavily in healthcare and other offensive sectors. This enabled us to raise the distribution rate over the last two years, providing positive NAV performance.

SL: Should the fact that MZF has 7% higher effective leverage than its peer group (42% versus 35% as of May 7, 2010) be considered an additional risk factor for the Fund?

MacDonald: Not necessarily. The common shareholders are currently benefitting from higher leverage. To the extent that tax-exempt yields back up or the curve flattens, we have the option to call all or a portion of our leverage. We recognize that leverage can, at times, increase volatility and be disadvantageous to shareholders.

SL: The latest expense ratio of MZF was 1.54% versus the peer group average of 1.02%. How has the use and amount of leverage changed for the Fund in the past two years?

MacDonald: We have made concessions on some management fees, but some of our expenses are out of our control. Certain fee waivers were scheduled to expire, but we plan to continue them for the foreseeable future. The dislocation of the auction rate preferred ("ARP") market has kept the Fund leverage at a standstill, with the exception of NAV fluctuation and the 15% tender executed this year.

SL: Why did the Fund do its recent tender offer and are any more planned?

MacDonald: Not at this time, as this would reduce NAV and hurt the Fund's ability to operate efficiently. The size of the Fund and its ability to bear its expenses are crucial for the long term. The tender was an effort to narrow the discount.

SL: How did you manage the Fund through the 2008-2009 credit crisis?

MacDonald: In 2008 (a time of market challenges), we began repositioning the portfolio to focus on lower quality securities with longer durations. This caused our performance to lag some in 2008. It recovered very well in 2009, and we got our NAV levels back.

This is our style – to react to changing market conditions and adjust the portfolio's holdings accordingly. You never know what the inflection point is going to be. You may underperform in the short term, but it allows you to take advantage of the market recovery. We feel that you can't chase risk around the cycle to provide returns for shareholders.

[**Editor's Note:** MZF's NAV, $14.22 on May 11, 2010, was slightly higher than its December 31, 2009 NAV of $14.09. A combined dividend rate of $1.336 per share was paid out in 18 monthly dividends. This increased the distribution rate in August of 2009 by +22% and again in November of 2009 by +10% over the previous periods.]

SL: What is the current state of the ARP markets, and do you think MZF will continue to leverage in the future?

DiChiaro: Term Preferred shares are attractive as they have 2- to 5-year maturities, which can act as a good hedge against rising interest rates. The syndication costs associated with the Term Preferred shares are expensive and prohibitive for a fund of our size. As the market becomes more established and costs come down, we could see replacing some or all of our ARPs with these shares.

We are reluctant to unwind our leverage as it is now structured. Tender option bonds are a way to replace some leverage. However, with a fund of our size, it can be challenging as you need a $10 million block of bonds to attract money-market investors.

MacDonald: In this capacity, you are at the mercy of the dealer community if they decide to unwind that structure. Historically, they have forced the unwinding of tender option bonds just when holders want to keep the leverage in place.

SL: As of May 5, 2010, MZF's year-to-date performance is 2.7% higher for market price (8.5% versus 5.8% for peer group average) and 1.3% higher for NAV (6.4% versus 5.1% peer group average). What do you believe drove this performance?

MacDonald: We have an increased exposure to lower quality securities which have been top performers year-to-date. Spreads have been extremely wide as compared to their historic averages, and as they revert to their means, the Fund's performance increases. We also had been maintaining a longer than peer duration which has boosted performance as the strength of the new Build America Bonds ("BABs") drove long-term, tax-exempt yields lower. MZF has had a number of dividend increases which helps increase interest in the Fund and narrows its discount.

SL: How do you think BABs fit into the fixed income market?

MacDonald: It is unclear at this point. Legislation has recently been passed by the Senate and House to extend the program for another two years. There will be decreasing subsidy rates, but the program will only work if there are savings for the issuer. If the traditional tax-exempt market becomes more attractive, the BAB program becomes worthless.

SL: MZF is currently about one-quarter the size of the average national muni bond fund in its grouping on our weekly Closed-End Fund Universe report ($96 million in net assets versus $396 million for the peer group average). The average fund in the sector trades about $659,000 per day while MZF trades around $597,000 per day. In your opinion, why does the Fund trade at higher than peer average volume for its asset size?

MacDonald: First, to be clear, the portfolio has $165 million gross exposure with $96 million in net assets.

One reason for increased share volume was due to dissident activity. Large institutional shareholders were building up positions when discounts were wide.

DiChiaro: Another reason for the volume increase may be attributable to the Fund's tender offer. We announced the tender offer in November for up to 15% of the outstanding common shares at a price of 98% of NAV.

Upon the occurrence of certain events and other terms and conditions, the Fund's Board of Trustees agreed to conduct up to three conditional tender offers if, during an approximate 3-calendar month period prior to such conditional tender offer, the Fund's shares traded at an average daily discount to NAV of more than 5% during the applicable period. During the three calendar months ended May 31, 2010, the Fund's average daily discount was less than 5%, and so the conditional tender offer expired. The Fund has also become more competitive from a distribution rate prospective, and we believe it has been highlighted on more investors' research screens.

SL: What are the advantages of having a smaller fund?

MacDonald and DiChiaro: We can get smaller size bond positions where the shares are well below the $10-$15 million size to get exposure. With smaller funds, we can also rotate in and out of bonds easier that larger funds can.

SL: What are your policies to reduce discounts or premiums?

MacDonald: The board is very focused on the discount. While there is no formal target, we are pressured as a team to focus on its minimization. We recently asked shareholders to tender 15% of their shares for this reason. The Fund's leverage remained relatively unchanged.

SL: How often do you report undistributed net investment income ("UNII")? Do you think it is a good idea to report these figures monthly, and is it likely to get UNII on a monthly basis in the next few years?

MacDonald: Currently, we track it quarterly, but it is available monthly. We would support a more frequent schedule. However, as portfolio managers, we are somewhat indifferent to that data point. It is more of a Claymore decision than a Cutwater decision. We pay-out what we earn, and maybe even carry some UNII balance.

SL: What can you tell us about your dividend policy?

MacDonald: The board makes the ultimate decision, but we have a say. They are focused on the discount and shareholder value. Historically competitive distribution rates lead to competitive discount levels.

SL: Does the Fund ever use return of capital to meet income distribution shortfalls?

MacDonald: That is not a strategy that we normally consider for MZF. We have actively raised the distribution over the past two years but have only done so consistently with the income that the portfolio is able to generate.

SL: Where do you feel we are in the yield curve, and what are your concerns for the next 12 months?

MBIA Capital/Claymore
Managed Duration Investment Grade Municipal Fund (MZF)

Performance as of April 30, 2010

Total Return	Year-to-Date	1-Year	3-Year	5-Year	Since Inception (Aug. 27, 2003)
MZF Market (%)	8.05	39.62	7.95	8.00	4.61
MZF NAV (%)	5.89	25.73	5.49	5.18	5.67
Barclays Capital Municipal Bond Index (%)	2.48	8.85	4.88	4.51	4.98

Annualized Returns as of April 30, 2010

	2004	2005	2006	2007	2008	2009
MZF Market (%)	-10.3	1.4	9.1	0.9	-27.4	66.4
MZF NAV (%)	5.4	6.2	5.8	0.7	-22.3	42.7
Barclays Capital Municipal Bond Index (%)	4.5	3.5	4.8	3.4	-2.5	12.9

Bond Quality Breakdown as of January 31, 2010 (% of Total)

AAA	23.5	BB	3.7
AA	40.2	B	1.1
A	44.4	< B	0.0
BBB	45.3	Not Rated	0.9

Source: Thomson Reuters

MacDonald: It is our view that we are at least 6-12 months away from any meaningful flattening of the yield curve. In this environment, floating rate leverage should be beneficial to CEFs. Should the yield curve begin to flatten, there will be some difficult decisions to make with respect to maintaining leverage in CEFs. An unwinding of leverage based on higher [interest] costs could be risky to the long-term structure of the Fund, as the market for auction rate leverage of municipal bonds seems to be permanently damaged. It is unlikely that a Fund could re-lever in the future.

SL: Do you think that many states or cities will default in the next 1-2 years? What do you focus on in order to rate a bond's current risk versus reward?

MacDonald: We do not expect significant defaults in the muni markets in the next 1-2 years. We believe that improvement in municipal credit fundamentals will lag the broader economy, but that the outlook is in an improving trend. In the GO space, we view tax base, pension obligations, overall indebtedness and other metrics to determine relative value. In the revenue space, we perform the same in-depth analysis that we do for our taxable corporate credit.

SL: What sectors or states have you avoided recently?

MacDonald: We have used pre-refunded bonds to rotate into lower quality yielding parts of the market. We see better value in the sectors of the market away from GO debt and pre-refunded bonds.

DiChiaro: For credit reasons, we have avoided the Commonwealth of Puerto Rico and have reduced exposure to the tobacco sector.

SL: What have you done with the portfolio's duration in the past few months? Do you see any big changes on the horizon for 2010 or 2011?

MacDonald: Our duration positioning has been fairly stable over the past few months, but we realize that we will likely need to shorten it at some point between now and 2011. We may have to pare back on portfolio yield to accomplish this.

DiChiaro: We have already taken steps to lower the portfolio's duration.

SL: Do you have any concerns about the changes that Moody's and Fitch have suggested over proposed upgrades to the muni bond issuers?

MacDonald: I think it is a net positive for professional money managers as a new premium has been placed on credit research – away from the rating agencies. With less rating differentiations in the credit markets, investors will be forced to lean more heavily on professional research and analysis.

DiChiaro: It is somewhat ironic that they would upgrade municipal bonds during a time when the market fundamentals are deteriorating. We do, however, recognize that the rating changes are not "upgrades" but "recalibrations" to a global ratings scale.

SL: Do you have an "uncle point" where you would sell a position due to a dramatic change in the bid or market price?

MacDonald: Not really. We focus on changes in the credit worthiness of the bond to drive an exit decision. We use on-going fundamental analysis, not a set sell point. The bonds are evaluated on how they perform in the context of the current fundamental market conditions. We believe that "If you liked it at $90, your will love it at $75." We don't sell a bond because of price movements but because of changes in our risk outlook.

SL: What are your thoughts and comments on the "flash crash" of May 6, 2010?

MacDonald: I think it played out as you would expect. Volatility was high. The Euro zone and Greece were front and center. The global central banks have set a precedent that they are willing to step in, when needed. This infusion supports Greece and also other countries that might be at risk. It didn't feel good, but it wasn't surprising.

[**Editor's Note:** Muni funds held up very well after May 6, 2010. The average national muni fund was at a -1.24% discount, 6.4% distribution yield, a 1-week +0.3% NAV return, and a -1.1% market price return. For comparison, on May 7, 2010, the average CEF ended the week at a -4.4% discount, 6.9% distribution yield, -2.7% NAV return, and -5.2% market price return.]

MacDonald: Muni land can be a sleepy place. Investors are interested in income and tax-reduction, not fast money. We feel it is back to normal in the muni markets. Hedge funds are not able to access this sector easily.

SL: Do you think that higher taxes in the future will offset the lowering of bond values due to interest rate increases?

MacDonald: We are long-term constructive on the municipal market, due to improving fundamentals as we move through the cycle. Part of our bull market plan involves strong technical demand from a higher tax environment in the future.

SL: Do you make buy or sell decisions because of exposure to the alternative minimum tax ("AMT")?

MacDonald: We generally keep the AMT exposure under 25%. We will target AMT securities when they offer value versus non-AMT securities. This relationship will fluctuate over time and can provide trading opportunities.

SL: What would you tell an investor who says, "I don't care about principal and just want to maintain a monthly dividend?"

MacDonald: That is a common CEF shareholder mindset. MZF has a stability of NAV strategy embedded in its management. This Fund was designed for total return, not just "pedal to metal" on yield. If an investor only cares about distributions, then we may not be the Fund for them.

We consider total return so the NAV performance is as important as maintaining the dividend policy and pay-out amounts. We will need to become more defensive at some point in the future, which is likely to reduce our income payments but should protect the NAV compared to our peers.

SL: How do you answer an investor who currently owns outright bonds versus a professionally managed block of assets in a similar investment objective to MZF?

MacDonald: The simple answer is professional money management and experience. We are able to do the research and credit work on each issuer and take advantage of relative value opportunities

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Winslow Green Growth Fund: Green Investing Since 1983

Winslow Management Company, one of the oldest environmentally-focused investment firms in the country, was founded in 1983 by Jack Robinson. A lifelong environmentalist, Jack built a distinguished career in investment research and portfolio management at Prudential Securities and later as the president of Robinson & Harrington. In 1979, he served as the chief financial officer of Garden Way, Inc., a private garden supply company and saw that many of the company's most profitable products had "green" attributes, such as the utilization of recycled materials.

Seeing the market potential for environmentally responsible products and services, Jack incorporated Winslow Management Company in 1983 with the mission of demonstrating that an environmentally-focused strategy could yield positive results for clients.

Over the past quarter-century, Winslow has developed extensive relationships in the field of green investing. Their comprehensive portfolio management approach integrates financial and environmental analysis. They focus on renewable energy, energy efficiency and green infrastructure companies.

The mission is to demonstrate that a green investing approach can yield positive long-term results. Jack serves on the Advisory Board of the American Council on Renewable Energy (ACORE) and participates in the Brown Forum for Enterprise. He holds a B.A. from Brown University.

Even though Winslow is a mutual fund, we are including it in *The Scott Letter* because of the importance of its mandate to invest in rapidly growing green stocks. We are also making some efforts to alert the closed-end fund industry that it is time for our industry to launch a green closed-end fund.

We interviewed Mr. Robinson and his associate, Ethan Berkwitz, by telephone on April 30, 2010:

SL: There are now a number of green mutual funds, but as yet, no closed-end funds in this area. We can't think of anyone better qualified than you to launch a closed-end fund. Do you have any interest in doing this?

Robinson: Not at this time, but I sit on the board of a London-based closed-end fund called Jupiter European Opportunities Trust, so I know a little about CEFs and how they operate. It is very different from our funds, but I serve on the board due to a long-standing relationship with Jupiter.

[**Editor's Note:** The largest weightings (79%) of Jupiter as of March 31, 2010 are in the U.K., France, Denmark and Germany, with smaller holdings in the Netherlands, Sweden, Switzerland and Norway. Their 5-year investment performance as of March 31, 2010 was +68.2% (NAV) and +49.7% (market). The portfolio showed a 15% cash position at the end of the March quarter.]

SL: That's interesting. I co-authored the only hard-back book on Closed-End Funds in 1991. As part of the research for this book, I visited the U.K and met with a number of investment trusts there, both in London and Edinburg. British investment trusts date back to the 19th century and are quite different from the U.S. closed-end funds.

Robinson: Jupiter's overall strategy is to manage a green fund, The Jupiter Green Investment Trust. I was a board member of this fund until we started managing a portion of it. I then went off that board because of a potential conflict.

SL: Our son, John Cole Scott, and I left the brokerage business in May 2009. We now do most of our trades through Ameritrade. We also share the responsibility of managing the portfolios. Most of our new clients come to us through *The Scott Letter.*

Why did you merge the smaller fund, Winslow Green Solutions Fund into the larger one?

Robinson: After managing two very similar strategies in a small and mid-cap green space for several years, we realized that it would be more efficient to simply focus our efforts in a single strategy in one fund. Therefore, we closed the Green Solutions Fund to focus our efforts on the Winslow Green Growth Fund. We were pleased that many Green Solutions Fund shareholders voted in favor of the closure. Close to 60% of shareholders agreed to the merger.

SL: We were part of that 60%.

Robinson: Thank you. Now we are looking more closely at mid-cap stocks in the Green Growth Fund, in addition to the Fund's traditional small-cap mandate. Its average weighted mid-cap mandate is a little over $2 billion which may increase over time.

SL: How much of your fund is invested in foreign securities?

Robinson: About 25% which includes Canadian as well as other foreign securities. We hold five Canadian stocks. Our largest holding is a Canadian company, Waterfurnice Renewable, headquartered in Fort Wayne, Indiana. It does 90% of its business in the U.S.

We asked them why don't they list in the U.S., and they said that they don't want to spend the extra money to do so. They would rather share the money with the shareholders, and we didn't argue with them. We can invest up to 20% of the portfolio in foreign stocks while our research team focuses on the U.S. market.

SL: Socially Responsible Funds (SRI funds) have a broad base and manage $2.71 trillion out of $25.1 trillion in the U.S. mutual fund marketplace today. They recognize that corporate responsibility and societal concerns are a valid part of investment decisions. Institutional investors represent the largest and fastest growing segment of the SRI world. The focus includes green investing, but we don't know how much is in this space.

Robinson: Until recently, green investing was just a small piece of the SRI market, but now the green market is much larger and is growing rapidly. I feel that the market for green investing is critically important, as it provides capital for businesses that are solving environmental challenges.

SL: How do you do your research?

Robinson: We monitor a universe of about 1,000 green companies. We are actively conducting research on about 100-150 companies at any given time in order to create a model portfolio of 40-50 stocks. We try to personally get to know the management teams of every company in the portfolio.

We have three key criteria for investing:

1. Does the business model make sense, and is it attractive?
2. Is there a bona fide green story that is sustainable?
3. Is the stock attractively priced?

We have an in-house team of analysts and also access to the research department of our advisory company, Brown Advisory, which fields 17 sector-specific analysts.

SL: How do you declare capital gains and income?

Robinson: With regards to investment decisions, capital gains decisions are not the first priority as we are driven primarily by what is going on with individual companies and whether we want to continue to hold them.

If you are asking whether our open-end fund declares capital gains in the same manner as closed-end funds, the answer is yes. We also have to declare and distribute to shareholders any long-term capital gains and income, in the same year as it is earned.

SL: That is similar to what we look for in closed-end funds.

What is your report "Green Energy at the Crossroads" about?

Robinson: That is the title of a white paper we wrote in 2009, covering trends that, in our view, are making fossil fuels less attractive and renewable energy more attractive over time.

We are importing more oil than we produce, adversely affecting the U.S. balance of trade, and we have a security issue around oil as well. The depleting nature of oil has already resulted in much higher marginal cost of production. As we have seen in the Gulf oil spill, there are significant risks of extraction as well.

The impact of climate change is already making itself felt in terms of melting ice caps, weather volatility, drought and other issues – all driven by greenhouse gas-producing energy sources.

Conversely, renewable costs and technologies are getting better and cheaper, so we are not far off from seeing solar power on a par with electricity from the grid, meaning 12 cents a kilowatt hour. Wind power is now economic in many parts of the world.

Depending on how you want to quantify the externality of coal, this really makes a lot of sense. Renewable energy is a good and strong place to be today and will be even stronger tomorrow.

SL: We strongly agree with your scenario. What percentage of your portfolio is in renewable energy?

Robinson: We have almost 40% in clean tech, including efficiency plays. These are companies that are able to enhance the efficiency of products and therefore, reduce energy consumption.

For example, light emitting diodes ("LEDs") are the future of lighting in our view. They consume only 10% of the energy compared to incandescent bulbs. They are still expensive, but their price will be coming down. They also compare favorably with compact fluorescents ("CFLs"), and they don't have any mercury in them. Also, they last so long that disposal isn't much of an issue. It seems inevitable that they will eventually replace other bulb technologies. You can buy them at Home Depot today, but they are expensive. The cheapest one is around $20, but they last 20 years.

Another clean tech company makes extremely efficient electrical motors of all types that are used in pumps or in manufacturing processes. These include home energy systems such as light systems that go on when you walk into or out of a room.

SL: Regarding wind energy. I have just read that the Great Lakes have consistent high winds and therefore, have a strong potential for wind power generation. Are you aware of that?

Robinson: That is not surprising because the state with the most consistent wind, I think, is North Dakota, followed by Texas. That whole strip that runs through the center of the country is windy. They don't call Chicago the "Windy City" for nothing, do they?

SL: Yes, Lake Michigan would be a good one. I have been a fan of alternate energy for a long time. We featured the Petroleum & Resources Fund in the April/May 2010 issue. This 1928 fund is managed by Adams Express in Baltimore, and its chairman, Doug Ober, is very interested in all types of alternate energy. Are you familiar with these funds?

Robinson: Yes.

SL: We are particularly incensed when West Virginia advertises "clean coal" everywhere you go in that state.

Robinson: I know that "clean coal" doesn't exist, as I have invested in that space for 30 years, and I have found that there wasn't any way to do it. So I gave up.

SL: A fund's expense ratio is something that we have followed very closely ever since I was on the board of Bergstrom Capital that had a very low expense ratio. Not all of our clients know that the expense ratio of a fund is the total of its annual operating expenses, expressed as a percentage of the fund's average net assets. What is your expense ratio?

Robinson: It is 1.45% for the investor share class and 1.20% for the institutional shares class of the Fund.

SL: This has been very helpful for me and, hopefully for our readers as well. ■

For more information about the Winslow Green Growth Fund, contact Winslow Management Company, LLC at 99 High Street, Boston, MA 02110, phone 888-314-9049 or visit their web site, www.winslowgreen.com.

Disclosure: Shares of Winslow Green Growth Fund are held by clients of Closed-End Fund Advisors, George Cole Scott, and his family.

Hitting the Wall: A Gargantuan Wall of Debt Is Coming Due Over the Next Years

Just as the United States and other developed countries are emerging from recession, with gross domestic product ("GDP") growth returning and strong corporate earnings are pushing stock markets back up to pre-Lehman levels, another bogyman is waiting to pop out of the wings.

Once again, it's a hangover from the free-spending era that was the mid-nineties. This time, the problem is not mortgage–backed securities or consumer credit; it's the longer-dated corporate and government debt that is coming due from 2012 onward. The numbers are awesome.

Come 2012, some $860 billion of U.S. government bonds will reach maturity and need refinancing. Add to that an anticipated federal deficit of $974 billion, which will also have to be funded, and the U.S. government's demands on capital markets amount to more than $1.8 trillion. Another $1.4 trillion is called for through 2014.

Just think about that. It may cause a headache, but the problem is the mountain of leveraged loans taken out by sub-investment companies during the boom years. The debt retirement will peak at $290 billion in 2014, according to a report published by Credit Suisse.

The same is true in Europe, where €6 billion (euro) of leveraged loans will mature in 2010 (figures include the Middle East and Africa), and by 2014, leveraged loans rise to €61 billion. The outlook is better for European high yield bonds, where redemption rises gradually from €15 billion in 2010 to peak at €23 billion in 2014.

The move by many corporations to pay down their debts and reinforce their balance sheets means that there is less demand overall, while today there are relatively low levels of merger and acquisition activity. Nonetheless, with the high yield sector alone facing a funding gap of close to $1 trillion USD globally, new money must be found to get through the "maturity wall". Now that banks are more cautious in lending to companies, the bond markets will have to take up the slack.

The abrupt shift from bank financing to bond markets is even more pronounced in Europe, because most European companies have traditionally looked to their banks rather than capital markets for funding, while the reverse is true in the U.S.

There is some good news: So far, corporate bond markets have comfortably absorbed rising demand. In 2009, there was a record $200 billion of high yield-issuance globally. The first quarter of 2010 has been the busiest ever, with $85 billion of deals done as companies are looking to refinance ahead of multiple deals coming up in the next few years.

"Many companies are deleveraging so there's not enough issuance to meet investor demand," says Jean-Marc Mercier, European head of global syndication at HSBC, who is very optimistic about the market's ability to respond.

In Europe, for instance, some €119 billion of investment grade and high-yield bond issuance was completed in the first quarter of 2009, while for the same quarter of 2010, issuance plummeted to €50 billion. As a result, Mercier says, "the dynamics of supply and demand are moving in favor of companies looking to raise money."

Driving investment demand is the search for enhanced yield in today's low interest rate environment. Money needs to be put to work. There is now a lot of money in the retail market because savings accounts offer so little in return. Only a massive rally in yields when short-term rates are rising will dampen that demand.

The same momentum is present in Latin American markets, which have been arguably the best place to invest over the year 2010 as a string of high-yield Eurobond offerings have come out of Mexico, Brazil, Columbia and Peru.

"This market is really on fire, and the Latin American companies all want to go ahead now," says Michael Fitzgerald, head of Latin American practice at Milbank attorneys.

Strong investor demand in high-yield corporate bonds is enabling sponsors to become more creative in how they deploy capital. Many prefer to invest in a company's debt and use that tool to help the company restructure its balance sheet.

Corporate bonds, where bond holders can convert bonds into equity in the company, are also broadening in scope. "Whereas in 2009 it was mostly investment-grade companies issuing convertible bonds, as the cost has fallen more, high yield or unrated companies are entering the market," says Mark Lewellen, head of European corporate origination at Barclay's Capital. Lewellen sees a window of opportunity for companies to issue convertibles based on today's stock prices, either to replace existing senior debt or finance merger and acquisition activity with another rights issue.

Buoyant capital markets are now permitting private equity and other leveraged investors to cash in. There is a re-emergence of "dividend deals" where leveraged buy-outs ("LBOs") issue a bond or raise new debt in order to distribute cash to shareholders rather than for investment purposes or to restructure the balance sheet.

At the same time, investors are seeking greater protection in the wake of the financial crisis. The way European bonds are structured has improved, so that with senior secured bonds, broad based investors virtually step into the shoes of bank lenders.

"Rather than appealing to high-yield specialists, they are now attracting a broader range of investors," notes Lewellen, adding that often the terms and language are more specific to provide a greater level of comfort for investors."For instance, unless the bonds are rated within a specific period, the coupon (rate of interest) steps up. Alternatively, if the company loses its investment grade rating, then the coupon is increased.

With better structured bonds attracting a broader investment community, there is a new international asset class emerging. However, many companies are already addressing their funding needs ahead of the impending wall of redemptions, more than they immediately needed, just in case of another financial meltdown.

Higher yields are currently being demanded by troubled governments such as Greece, Spain, and Portugal. Some players such as the Spanish telecom group, Telefonica, refused to pay a higher price, waiting for the markets to normalize.

Possibly the greatest threat to successful financing at competitive rates will come not, as previously, from high profile companies defaulting or a string of downward movements from weakness in the market for government bonds.

"Sovereigns crowding out the market could have some effect on corporate' issue plans. If returns on sovereigns and highly rated bonds started rising, more leveraged securities might be expected to have difficulty in accessing the marketplace."

That almost happened in February, when the high-yield market faltered because the spreads over safer bonds had tightened too far. The root problem was a Greek government bond issue in January 2010, which turned sentiment in all markets. As a result, new issue volumes dropped 50% across all sectors.

Since March 2010, sentiment has bounced back, though heightened volatility still poses a problem for corporations planning to tap the market. And, with the success of further auctions of Greek bonds still looking uncertain, we are not out of the woods yet.

Truly global investment grade corporations counting on investors demand have time to arrange their financing. For less highly rated companies with redemptions coming up, they are advised to take action now, while yields are low and margins compressed. In other words, groom the company and issue the bonds while the window of opportunity is still open. ■

Source: *Global Finance,* May 2010

CEFA'S Closed-End Fund Universe Adds Four New Data Points

We have added four new data points to our weekly service: Percent of Dividend that is a Return of Capital (Principal), Dividend Growth Percent, Relative Discount and Comparable Discounts. Market Price, NAV and 52-Week Highs and Lows have now been removed as they are available on numerous web sites and don't add much value for peer-to-peer comparisons.

Return of Capital ("ROC")

One of the first things an investor scrutinizes are the dividend yields. For this service, CEFA wanted to have a better idea of what sectors were returning capital to shareholders in a quick and easy format that also provided the opportunity to get peer group average figures for comparisons. For example, in the past 90 days (as of May 7, 2010), many CEF investors would be surprised to learn that the average closed-end equity fund paid 33% of their distributions as a ROC, while the average closed-end bond fund only paid an average 3% in ROC distributions, and taxable CEF bond funds paid an average of 7.5% ROC.

This data point is a clear view of what percent of a fund's previous 90 days of announced distributions have been characterized as a "return of capital". CEFA avoids ROC payments as we feel they are not in the best interest of shareholders. When distributed, they tend to lead to an erosion of NAV and provide fewer assets to produce future income.

Dividend Growth Percentages

Many closed-end fund investors were surprised and disappointed when their funds cut their dividends in 2009, due to market conditions. In this environment, dividend cuts were inevitable for some funds and are a part of the market cycle.

At CEFA, the same questions arose in our research meetings. What sectors are cutting their dividends? Is this unique for funds versus peers, and are any funds increasing their pay-outs?

This data point clearly shows, as of the last dividend announcement, whether the fund increased, decreased or maintained its dividend distribution. The figure is expressed as a percentage, making fund comparisons more valuable to the investor.

Relative Discounts

We changed the 52-week average discount/premium to a 90-day average discount/premium. Our goal is to make this data point more sensitive to recent movements in the CEF sector to gain a better understanding of the current discount/premium that a fund might have. This figure subtracts the current discount/premium from the 90-day average. We find it increasingly helpful in the peer-to-peer comparisons as the figure is calculated for each fund group and averaged for the fund's peer group.

Comparable Discounts

This data point is designed to identify funds that are priced well above or below their peer group. This is helpful in selecting a fund in a certain asset class or investment focus to meet an investment goal objective. It can also provide a reason to research the particulars of a fund more thoroughly in order to gain a full understanding of how the manager is accomplishing his investment objective. The data point is calculated from a fund's current discount/premium versus the current average discount/premium for the related peer group. ■

Closed-End Fund Advisors has hired Colin Hynson to help us manage the data point side of our business. Colin brings us almost 20 years of experience on the floor of the NYSE. He recently attended the Capital Link Closed-End Conference in New York City with us.

Colin may be reached by e-mail (chynson@cefadvisors.com) or phone 914-840-2226. He is responsible for servicing current and new subscribers to our weekly data service.

We plan to continuously improve the data service and welcome your thoughts, insights and feedback.

CFA Annual Conference Attracts 1,600 Attendees from 65 Countries

The theme of the Chartered Financial Analysts' 2010 annual conference, held May 15-19 in Boston, was to "Refocus: Your Thinking, Your Networks and Your Profession". We were among the 1,600 attendees who had plenty of opportunities to do this.

The CFA program sets the standard around the world for professional excellence and financial market integrity. It has a graduate-level study program which, once completed, certifies financial analysts as CFA charter holders and commits them to "professional ethics as the core of what we do". The organization, based in Charlottesville, Virginia, holds hundreds of educational meetings and has thousands of members around the world.

There was a strong international group from 65 countries at the conference.

The program opened with the CFA Institute Annual meeting. The opening speaker, Dan Ariely, spoke on "Predictably Irrational: The Hidden Forces That Shape Our Decisions". Other speakers addressed "Understanding Financial Crises," "Managing Portfolio Risks and Rewards," "The Art and Science of Hedge Fund Manager Selection," "International Wealth Planning" and "Understanding the Inflation/Deflation Debate". The sessions were highly relevant for those of us who manage portfolios for a diverse clientele.

Speaker George Akerlof, Koshland Professor of Economics at The University of California, Berkeley, shared the 2001 Nobel Prize in Economics with Joseph Stiglitz. His topic was "The Psychology of Investing". His recently published book is *Animal Spirits and the Economy.*

The conference book store had many books of interest to investors. Many new ones were about Ben Graham, best known for his book, *Securities Analysis*. Graham (1894-1976) is well known as Warren Buffett's mentor and is required reading for every CFA Charterholder. Graham always tried to buy stocks trading at a discount to their "net current asset value", something very familiar to those of us who invest in closed-end funds.

The CFA 2011 Annual Meeting will be held in Edinburgh, Scotland. ■

Source: http://cfa2010.posterous.com/

What is Transparency International?

Transparency International is a global civil society organization leading the fight against corruption. It brings people together in a powerful worldwide coalition to end the devastating impact of corruption on people around the world.

Each year, Transparency International publishes an annual report on its work to intensify a crackdown on corruption in the public sector. We can't list all of the 180 countries rated in its 2009 edition of *the Global Corruption Barometer,* but we have listed some the findings in their "Corruption Perceptions Index" table.

Here is a summary of the best and the worst in terms of transparency.

The least corrupt countries are: New Zealand, Denmark, Singapore, Sweden, Switzerland, Finland, The Netherlands, Australia, Canada, Iceland, Norway, Hong Kong and Luxembourg.

The most corrupt countries are: Somalia, Afghanistan, Myanmar, Sudan, Iraq, Iran, Haiti, Venezuela, Russia, Pakistan, Mexico, China, Italy and Cuba.

For more information, visit their web site www.transparency.org.

Source: Transparency International,
2009 Global Corruption Barometer

Managed Duration Investment Grade Municipal Fund (MZF)

Continued from page 4

with institutional execution on trading. I don't know how any individual can accomplish this [on his own] with much success. We research and trade all day long, and that is all that we do.

[**Editor's Note:** We learned a lot from this interview. We asked William Korver, Vice President of Claymore, about his thoughts on UNII, any changes in its quarterly distributions and why the UNII figures weren't updated monthly.

He told us that the Fund's UNII figures are publicly disseminated every six months via the semi-annual and annual reports. The Fund's most recent semi-annual report provides the figures for the period ending January 31, 2010. He strongly believes in transparent and compliant communication with shareholders and the investing public, and was interested in on-going feedback.

He explained that UNII figures have varying degrees of relevance, depending on the fund's investments. For example, CEFs that invest primarily in fixed-income securities may have a greater proportion of dividends paid to shareholders derived from UNII, whereas equity-oriented funds may derive more from realized gains. They would consider providing more frequent public communication of UNII in a fair and accurate manner after carefully considering all relevant information.]

SL: Thanks to all of you for your time in helping our subscribers learn more about the municipal side of the closed-end fund world.

For questions regarding Claymore's closed-end funds, we encourage investors to contact them at 800-345-7999 or visit www.claymore.com/cef/fund/mzf.

More information about MZF is available at www.cutwater.com.

Disclosure: At the time of publication, no shares of MZF were held by CEFA's clients, employees or family. ■

Portfolio Manager's Review

After the high volatility that we have experienced in the last 18 months, it is time to look at the fundamentals that are the driving force behind higher stock prices. There is no question that we face formidable structural problems that make U.S. stocks less attractive for many investors. However, many Americans still believe that the spirit of innovation and entrepreneurship that has defined America in past crises will prevail again and propel our markets forward.

Do we really need to hear any more about a "double-dip" recession? Sure, housing is still weak and deficit levels are rising, but compared to the rest of the world, the U.S. is in reasonably good shape. Our manufacturing levels are sound and continue to improve, and interest rates and inflation are low enough to bring continued broad improvements.

Consider Europe: It is grappling with significant sovereign debt, deflation and an inflexible currency system that is straining its governments. We are going to look into this situation further in the next few weeks as we consider interviewing the managers of the European Equity Fund to help us decide whether to invest again in this area, which seems to be deeply oversold.

What about the emerging markets? The largest (Brazil, Russia, India and China) have advanced their global GDP to 15% from 7% (since 1995). However, their relative economic expansion has come at the expense of Europe and Japan, not from the U.S. What's more, emerging market prosperity is to our advantage. It hinges on increasing domestic demand that translates into a larger market for U.S. goods and services.

Potential investment risks clearly remain, including trade complications, escalating credit contagion, overly aggressive financial regulation and tax increases. But for the moment, our nation seems to be in a slow and sustained recovery.

Source: *The Wall Street Journal*

In the last few months of severe stock market volatility, we raised considerable amounts of cash. Then, when the markets sold off sharply in early May, we were buying heavily in such classic bargains as Adams Express, Source Capital, General American Investors and other funds near their lows for the year.

We were also concerned about sustainability of future rallies, so we added two defensive funds: Templeton Global Income (NYSE:GIM) and Templeton Emerging Market Income Fund (NYSE:TEI).

We also reduced some positions where the asset allocations were out of line. As is our mantra, we concentrated purchases in funds paying monthly or quarterly distributions in as many sectors as we could because the more diversified an investor is, the better off he will be. It is more difficult for the mutual fund investor to generate as much cash. Buying funds at considerable discounts is what we like to call "buying 85 cent dollars".

For many of our income-oriented accounts, we made sure that they were in funds with well-covered distributions. In one case, a closed-end fund was sold because of a dividend cut, another because it was paying out a return of capital and a third because they changed their investment objective. For some of these accounts, we rotated out of CEF exposure, moving to a few open-end funds momentarily and a few ETFs while waiting for discounts to widen again to their historical averages. During the market weakness in May and early June, we took the opportunity to work back into the markets, but we are still holding cash balances for the moment. We also plan to raise more cash for opportunities on market strength.

In sum, we remain positive as equities are still oversold, and as value investors, we are constantly looking for undervalued and overlooked funds that should reward investors over the long term. ■

George Cole Scott

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