STIFEL NICOLAUS

Closed-End Funds

March 9, 2009

Auction Rate Preferred Summary

Alexander Reiss (212) 407-0527 reissa@stifel.com

Industry Update

We are writing this note to keep investors and their advisors informed of the current situation regarding Auction Rate Preferred Securities (ARPS).

To date, approximately half of the ARPS issued by closed-end funds have been replaced or redeemed by their original issuers. The bulk of the redemptions occurred in the period between the ARPS market collapse and the beginning of September 2008. During that period, many taxable closed-end funds used debt agreements to replace ARPS. Some funds, however, were only able to redeem portions of their leverage because of limits to levels of debt leverage, as prescribed by the Investment Company Act of 1940 (1940 Act). Municipal bond closed-end funds also made numerous redemptions, though these were primarily funded by tender option bond (TOB) programs and were generally more limited in scope.

Several firms, including BlackRock, Eaton Vance and Nuveen, began development of new preferred structures designed to replace ARPS. These securities would be similar to ARPS, but would have liquidity guarantees that would in-turn make the securities money-market eligible. The participation of money-market funds would allow the issuers a feasible option to replace their ARPS and still comply with the 1940 Act. Nuveen successfully issued a new type of preferred security in July, called Variable Rate Demand Preferred (VRDP) shares, to refinance the ARPS from four of its municipal bond funds.

These efforts stalled, however, after September 15, 2008, when Lehman Brothers filed for bankruptcy. The Reserve Primary Money Fund, a money-market mutual fund with exposure to Lehman Brothers commercial paper, broke the buck. Investors in the fund were only able to reclaim $0.97 for each dollar they had invested. The event substantially affected the ARPS redemption process in two ways. First, money-market managers became exceedingly risk averse and began purchasing government guaranteed debt instead of corporate paper. As managers fled the commercial paper market, the issuers of ARPS found themselves with few buyers for their new liquidity-enhanced preferreds. We believe the money-market funds must be more comfortable with risk-taking before the refinancing of ARPS using VRDP and similar instruments can resume. Second, bank capital dried up significantly. The issuers' new securities required liquidity guarantees in order to make them market-money eligible. These guarantees became unavailable as banks tightened lending. We also believe banks must find a more stable footing before new securities such as VRDP will once again be viable alternatives to ARPS.

Since Lehman Brothers' bankruptcy, there have been only a few ARPS redemptions via refinancing. In mid-December, Nuveen announced financing for redemptions by eight taxable funds. In addition, two ING funds, the ING Clarion Global Real Estate Income Fund (IGR) and the ING Clarion Real Estate Income Fund (IIA), used "existing cash positions and available credit lines" to redeem all the outstanding securities. Recently, however, many issuers have cited difficulty in obtaining reasonably priced financing to replace their ARPS. Although the TOB market has reportedly recovered to some extent in recent weeks, there have not been substantial new redemptions using TOB financing.

Despite the slowdown in refinancing, many funds continued to announce redemptions for a significant portion of their remaining ARPS in the fourth quarter of 2008. These redemptions did not occur through the refinancing that had been typical through August. Instead, the vast majority occurred in light of the asset coverage restrictions outlined by the 1940 Act.

The 1940 Act requires closed-end funds to maintain at least $2 of assets for every $1 of outstanding preferred shares issued by the fund, among other restrictions. Should a fund's total asset value fall below this level, the fund would be found in violation of ARPS collateralization requirements. The fund may not declare or pay common dividends until the requirements are met. If the asset prices do not recover, the fund must reduce its leverage by an amount sufficient to restore the asset-to-leverage ratio to at least 2-to-1.

In the fourth quarter, as markets continued to slide and asset prices declined, many funds either fell below the required asset coverage ratio, or came very close to a violation. Most notable were numerous PIMCO funds that struggled with

leverage ratios in late 2008 and early 2009. These funds delayed dividend payments to common shareholders, and eventually redeemed a large percentage of their outstanding ARPS, bringing their asset coverage levels back in line. The funds' share prices experienced extreme volatility during this period. Their net asset values also suffered as the funds raised cash by selling assets into illiquid markets.

Many other funds avoided these forced redemptions by actively managing their leverage. At the beginning of 2009, Nuveen announced approximately $250 million in new ARPS redemptions for thirty-five of its funds.

Going forward, the influence of asset coverage ratios on funds' redemption decisions will depend on the specific assets held by each fund. If market prices erode from their current levels, the funds' asset coverage ratios will be under further pressure, and more ARPS redemptions will follow, in our view. If asset prices rise, or at least remain stable, we would not expect to see a substantial amount of voluntary redemptions without the restoration of financing options.

Recently, Nuveen proposed a new avenue for refinancing municipal ARPS. On March 5, 2009, the firm announced plans to create a new security called Municipal Term Preferred (MTP) shares. These securities would be a form of preferred stock with a tax-free, fixed-rate dividend and a mandatory redemption date of between three and six years. MTP shares would not require a credit line from a bank, nor would they need a credit enhancement such as the liquidity guarantee used for VRDP.

We believe MTP shares could lock in currently attractive market rates to provide an intermediate-term fix, effectively serving as a bridge until the credit markets improve. This could pave the way for future redemptions financed through VRDP or other vehicles that allow funds to finance their investment at the short end of the yield curve. Nuveen stated that the firm believes VRDP will be the future vehicle of choice for municipal closed-end fund leverage, but MTP could be a stepping stone on the way there. More details on MTP shares will be available in coming weeks, following registration statements filed with the SEC. We will continue to update investors on any pertinent developments.

While we believe MTP shares could have a positive impact in the ARPS market, there are a number of issues that we believe must be resolved in order to finally solve the auction rate preferred situation.

To begin, banks or other lenders must be willing to lend to the individual funds that have issued ARPS. There has been significant stress in banks' balance sheets and we believe this has caused them to restrict lending. While the banking crisis continues and a final resolution has not been reached, we believe that the problem will eventually be corrected. We believe closed-end funds are credit worthy borrowers, with the vast majority rated AAA by one or more of the national ratings agencies. In addition, Nuveen stated that it is currently seeking permission from the Federal Reserve for banks to use VRDP shares as collateral for the Fed Discount Window. We believe this would substantially reduce perceived risks by the banks, opening the way for more liquidity.

Redemptions also rely on the willingness of money-market managers to purchase liquidity-enhanced preferreds from closed-end funds. We believe that this too will resolve itself over time as investor's risk appetite increases. It could take some time as we remain in a financial crisis and risk appetites remain low.

In addition, we believe that many closed-end funds' ability to pay penalty rates on ARPS is temporary. With short-term interest rates at historically low levels, a conflict of interest between the preferred and common shareholders exists. Common shares benefit from the fund's ability to borrow at low cost and reinvest the proceeds in longer dated investments. This spread significantly increases the net income to the fund, in our view. This is particularly evident among municipal bond closed-end funds. When rates rise, however, we believe many funds' penalty rates may become unsustainable. For example, many municipal bond funds' penalty rates are tied to commercial paper rates. In a rising interest rate environment, we believe ARPS' penalty rates would likely rise above the interest rates paid by long-term tax free bonds. Thus the funds would pay rates on the ARPS that could be greater than the cash flows from bonds owned by the fund, thus reducing or eliminating the benefit to common shareholders. Therefore, we continue to believe that although the current interest rate environment supports the use of ARPS, in time the vast majority of ARPS will be refinanced or redeemed outright.

Going forward, we will continue to monitor the funds' treatment of ARPS and any consequences to common and preferred shareholders. Markets will continue to dictate the actions taken by closed-end funds with respect to ARPS. Specifically, a further decline in asset prices or a recovery in bank lending and risk appetite would most benefit ARPS shareholders, in our opinion.

Important Disclosures and Certifications

I, Alexander Reiss, certify that the views expressed in this research report accurately reflect my personal views about the subject securities or issuers; and I, Alexander Reiss, certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views contained in this research report.

Stifel, Nicolaus & Company, Inc.'s research analysts receive compensation that is based upon (among other factors) Stifel Nicolaus' overall investment banking revenues.

Our investment rating system is three tiered, defined as follows:

BUY -We expect this stock to outperform the S&P 500 by more than 10% over the next 12 months. For higher-yielding equities such as REITs and Utilities, we expect a total return in excess of 12% over the next 12 months.

HOLD -We expect this stock to perform within 10% (plus or minus) of the S&P 500 over the next 12 months. A Hold rating is also used for those higher-yielding securities where we are comfortable with the safety of the dividend, but believe that upside in the share price is limited.

SELL -We expect this stock to underperform the S&P 500 by more than 10% over the next 12 months and believe the stock could decline in value.

Of the securities we rate, 42% are rated Buy, 54% are rated Hold, and 4% are rated Sell.

Within the last 12 months, Stifel, Nicolaus & Company, Inc. or an affiliate has provided investment banking services for 8%, 9% and 3% of the companies whose shares are rated Buy, Hold and Sell, respectively.

Additional Disclosures

Please visit the Research Page at www.stifel.com for the current research disclosures applicable to the companies mentioned in this publication that are within Stifel Nicolaus' coverage universe. For a discussion of risks to target price please see our stand-alone company reports and notes for all Buy-rated stocks.

The information contained herein has been prepared from sources believed to be reliable but is not guaranteed by us and is not a complete summary or statement of all available data, nor is it considered an offer to buy or sell any securities referred to herein. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of Stifel, Nicolaus & Company, Inc. or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed within.

Stifel, Nicolaus & Company, Inc. is a multi-disciplined financial services firm that regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as a placement agent in private transactions. Moreover, Stifel Nicolaus and its affiliates and their respective shareholders, directors, officers and/or employees, may from time to time have long or short positions in such securities or in options or other derivative instruments based thereon.

These materials have been approved by Stifel Nicolaus Limited, authorized and regulated by the Financial Services Authority (UK), in connection with its distribution to professional clients and eligible counterparties in the European Economic Area. (Stifel Nicolaus Limited home office: London +44 20 7557 6030.) No investments or services mentioned are available in the European Economic Area to retail clients or to anyone in Canada other than a Designated Institution. This investment research report is classified as objective for the purposes of the FSA rules. Please contact a Stifel Nicolaus entity in your jurisdiction if you require additional information.

Additional Information Available Upon Request

© 2009 Stifel, Nicolaus & Company, Inc. One South Street Baltimore, MD 21202. All rights reserved.