

Understanding Closed-End Fund Pricing

What is a Closed-End Mutual Fund?

Closed-end mutual funds (“CEF’s”) have actually been around longer than their open-ended brethren. Most investors are familiar with an open-end mutual fund structure which redeems and creates shares on a daily basis—it is “open” to new and departing investors. Those shares are always priced at the net asset value (“NAV”) of the fund whether the investor is buying or selling. CEF’s usually raise all of their capital at the onset of the fund. The shares are not redeemable from the fund nor are new shares typically created—it is “closed” to new and departing investors. Instead, most CEF’s are listed on a recognized stock exchange—their shares can be bought and sold throughout the trading day on that exchange. The price per share will be determined by the market, similar to a listed stock, and that price may or may not be equal to the fund’s underlying net asset value.

The Closed-End Fund Structure

CEF’s have a number of attractive qualities due to the nature of the structure. The most obvious one is that closed end funds do not have contributions and withdrawals from shareholders that the manager need worry about. The retail nature of mutual funds usually results in the largest cash inflows occurring as markets are peaking, and the largest withdrawals occurring when markets are bottoming. Invariably it forces fund managers to buy at high valuations and sell at low valuations—pretty much the exact opposite of the “buy low, sell high” adage. In a closed end fund, since shares cannot be redeemed, a manager can remain fully invested if so desired. In fact, the manager can be over-invested as CEF’s are allowed, by law, to use up to 50% leverage. Allowable leverage is calculated as a percentage of the fund’s total assets—50% leverage means that an investor gets \$2 of market exposure for every \$1 dollar invested. The typical CEF uses 30% to 40% leverage. There are a variety of investment vehicles used to effect that leverage, but most of them are tied to short-term interest rates.

What Asset Classes are Available for the Closed-End Fund Investor?

Investors can access a wide array of asset classes through closed-end mutual funds. The bias tends to be toward more income-oriented asset classes, but one can still find the occasional growth asset class. One of the largest tax-exempt asset classes offered in the closed-end fund structure is municipal bonds. There are over 100 national municipal bond closed-end funds and nearly another 100 funds that focus on the municipal bonds of 18 specific states. In taxable asset classes one can find senior bank loan funds, preferred stock funds, domestic and global corporate bond funds, mortgage-backed securities funds, emerging market bond funds, infrastructure funds, master limited partnership (MLP) funds, precious metals funds, miner funds, natural resources funds, real estate investment trusts (REIT) funds, domestic and global high dividend income funds, covered call funds, growth and income balanced funds and convertible bond funds. In total, there are close to 400 listed taxable closed-end funds and nearly 200 tax-exempt closed-end funds.

“The Closed-End Puzzle”

We believe the biggest drawback to CEF’s is their propensity to persistently trade at prices that are below, or at a discount to their true net asset value. This phenomenon, which typically occurs within several months after the fund’s initial public offering, is known as the “CEF puzzle”. This persistent discount appears to violate even the weakest form of efficient market theory which states the price of a publicly traded asset reflects all known public information.

To illustrate the extent of these discounts, the following is a chart of the 50 Largest Municipal Bond CEF’s detailing their Market Cap, Current Indicated Yield, Current Premium or Discount, 5-Year Average to NAV, % Above or Below Average NAV and 1-Year Return.

Current Indicated Yield*:

Current indicated yield is calculated by taking the most recent dividend multiplied by the number of dividend payments each year. This figure is then divided by the current share price to produce a current indicated yield value. The "current indicated yield" in the chart below is not that of the Fund.

$$\text{Indicated Yield} = \frac{(\text{Most Recent Dividend}) \times (\# \text{ of Dividend Payments Each Year})}{\text{Stock Price}}$$

Current Premium or Discount:

This is the difference between the fund's closing price on the day of the most recent Net Asset Value (NAV) and the NAV of the fund on that day all dividend by the NAV of the fund on that day. The value is displayed on a percentage basis. A negative premium is commonly called a discount.
(Closing Price - NAV)/NAV *100

5-Year Avg. Premium or Discount to NAV (%):

This is calculated as a simple mathematical average of the daily premium or discounts for each security over the past 5 years. To calculate, the daily figures are added together into a single sum, and then the sum is divided by the count of the numbers in the set.

As of 7/31/2015			Current	Current	5-Year Avg.	% Above(+)/	1-Year
Ticker	Name	Market Cap	Indicated Yield (%)	Premium or Discount to NAV (%)	Premium or Discount to NAV (%)	Below(-) Avg. NAV	Return
NUV Equity	Nuveen Municipal Value Fund Inc	\$1,984,306,763	4.04	-3.66	-1.98	-1.68	9.07%
BTT Equity	BlackRock Municipal Target Term Trust	\$1,453,824,951	4.66	-8.49	-6.23	-2.26	11.42%
NIO Equity	Nuveen Municipal Opportunity Fund Inc	\$1,338,553,589	6.26	-8.55	-5.67	-2.88	7.41%
NEA Equity	Nuveen AMT-Free Municipal Income Fund	\$1,027,846,313	5.94	-11.88	-5.71	-6.17	4.45%
NPM Equity	Nuveen Premium Income Municipal Fund 2 Inc	\$955,060,425	6.40	-10.80	-6.50	-4.30	7.16%
MYI Equity	BlackRock MuniYield Quality Fund III Inc	\$953,466,064	6.32	-5.07	-3.38	-1.69	11.12%
NPI Equity	Nuveen Premium Income Municipal Fund Inc	\$847,200,439	6.22	-12.64	-5.73	-6.91	6.09%
NPP Equity	Nuveen Performance Plus Municipal Fund Inc	\$846,178,833	6.21	-11.35	-5.34	-6.01	5.55%
VMO Equity	Invesco Municipal Opportunity Trust	\$841,065,186	6.83	-9.16	-1.98	-7.18	9.89%
EIM Equity	Eaton Vance Municipal Bond Fund	\$834,379,395	6.26	-10.80	-3.43	-7.36	6.85%
PML Equity	PIMCO Municipal Income Fund II	\$727,233,582	6.57	-1.74	2.58	-4.32	9.12%
IIM Equity	Invesco Value Municipal Income Trust	\$711,132,446	5.56	-5.70	-3.46	-2.24	9.66%
VGM Equity	Invesco Trust for Investment Grade Municipals	\$687,847,900	6.91	-10.61	-2.74	-7.86	7.25%
VKQ Equity	Invesco Municipal Trust	\$674,353,516	6.69	-11.39	-3.28	-8.11	7.08%
MYD Equity	BlackRock MuniYield Fund Inc	\$666,908,447	6.46	-7.29	-0.39	-6.91	6.70%
NMZ Equity	Nuveen Municipal High Income Opportunity Fund	\$666,126,282	6.86	-1.77	-2.92	1.15	10.96%
NQU Equity	Nuveen Quality Income Municipal Fund Inc	\$661,610,413	6.08	-12.43	-5.92	-6.51	4.35%
IQI Equity	Invesco Quality Municipal Income Trust	\$632,490,234	6.37	-12.14	-4.91	-7.23	5.82%
NQM Equity	Nuveen Investment Quality Municipal Fund Inc	\$614,083,191	6.66	-6.85	-3.62	-3.23	8.52%
MVF Equity	BlackRock MuniVest Fund Inc	\$612,246,338	6.72	-5.07	0.77	-5.84	5.41%
BFK Equity	BlackRock Municipal Income Trust	\$611,181,213	6.60	-6.06	-0.69	-5.37	8.49%
NMO Equity	Nuveen Municipal Market Opportunity Fund Inc	\$602,326,111	5.80	-12.65	-5.81	-6.84	5.97%
MMU Equity	Western Asset Managed Municipals Fund Inc	\$601,430,725	5.56	-0.98	-0.95	-0.03	16.20%
NID Equity	Nuveen Intermediate Duration Municipal Term Fund	\$574,033,508	5.59	-10.02	-7.12	-2.90	5.93%
NPT Equity	Nuveen Premium Income Municipal Fund 4 Inc	\$564,700,012	6.26	-7.02	-4.46	-2.56	10.37%
MFL Equity	BlackRock MuniHoldings Investment Quality Fund	\$536,492,310	6.05	-7.10	-4.16	-2.93	11.08%
NAD Equity	Nuveen Dividend Advantage Municipal Fund	\$531,679,626	6.30	-10.07	-6.02	-4.05	6.47%
MUI Equity	BlackRock Muni Intermediate Duration Fund Inc	\$528,105,530	5.70	-12.04	-4.58	-7.46	4.08%
NMA Equity	Nuveen Municipal Advantage Fund Inc	\$522,835,876	5.95	-12.72	-5.74	-6.98	3.55%
LEO Equity	Dreyfus Strategic Municipals Inc	\$499,749,329	6.39	-7.12	-0.69	-6.43	4.45%
KTF Equity	Deutsche Municipal Income Trust	\$497,980,530	6.62	-5.07	-0.10	-4.97	2.73%
NZF Equity	Nuveen Dividend Advantage Municipal Fund 3	\$494,342,743	5.86	-11.87	-6.93	-4.94	4.84%
NQJ Equity	Nuveen Quality Municipal Fund Inc	\$492,998,779	5.33	-13.19	-5.97	-7.22	4.88%
VKI Equity	Invesco Advantage Municipal Income Trust II	\$490,409,515	7.06	-10.87	-2.84	-8.03	6.30%
MUA Equity	BlackRock MuniAssets Fund Inc	\$488,254,059	5.50	-1.50	-4.13	2.62	13.18%
MMD Equity	MainStay DefinedTerm Municipal Opportunities Fund	\$481,929,321	6.72	-7.06	-3.25	-3.80	7.37%
MQY Equity	BlackRock MuniYield Quality Fund Inc	\$472,467,010	6.23	-1.95	-2.38	0.43	12.17%
NQS Equity	Nuveen Select Quality Municipal Fund Inc	\$471,976,501	5.96	-12.79	-4.26	-8.53	4.18%
PMO Equity	Putnam Municipal Opportunities Trust	\$471,117,981	6.06	-9.86	-6.04	-3.82	9.27%
NXZ Equity	Nuveen Dividend Advantage Municipal Fund 2	\$398,927,826	6.03	-12.81	-6.23	-6.59	5.67%
PMM Equity	Putnam Managed Municipal Income Trust	\$392,600,220	6.23	-10.24	-3.54	-6.70	8.71%
DSM Equity	Dreyfus Strategic Municipal Bond Fund Inc	\$378,425,049	6.46	-8.37	-1.20	-7.17	3.55%
AFB Equity	AllianceBernstein National Municipal Income Fund Inc	\$377,133,545	6.03	-7.13	-2.61	-4.53	6.02%
NVG Equity	Nuveen Dividend Advantage Municipal Income Fund	\$367,052,155	5.49	-12.58	-7.79	-4.79	3.68%
PMX Equity	PIMCO Municipal Income Fund III	\$354,352,051	6.88	1.39	10.06	-8.67	8.19%
PMF Equity	PIMCO Municipal Income Fund	\$353,276,276	7.03	8.76	14.02	-5.26	7.36%
BLE Equity	BlackRock Municipal Income Trust II	\$331,637,054	6.71	-7.30	-0.13	-7.17	6.52%
MEN Equity	BlackRock MuniEnhanced Fund Inc	\$330,836,853	6.49	-6.85	-3.46	-3.39	9.80%
BKK Equity	BlackRock Municipal 2020 Term Trust	\$317,917,419	3.42	-2.54	0.09	-2.63	-1.10%
OIA Equity	Invesco Municipal Income Opportunities Trust	\$313,013,000	5.96	-10.58	-2.65	-7.92	2.39%

Source: Bloomberg, Robinson Capital

Unlocking the Value of Rational & Irrational Closed-End Fund Discounts

Numerous academic papers have been written on the topic of persistent discounts within CEF's ("The Post-Offering Price Performance of Closed-End Funds", K. Weiss, 1989; "Investor Sentiment and the Closed-End Fund Puzzle", C. Lee, A. Shleifer & R. Thaler, 1991; "The Persistence and Predictability of Closed-End Fund Discounts, B. Malkiel, 2005; "A Liquidity-Based Theory of Closed-End Funds", M. Cherkes, J. Sagi & R. Stanton, 2006; "Essays on Closed-End Funds and Advance Disclosure of Trading, S. Lenkey, 2012) The literature ranges from irrational explanations based on investor sentiment and market imperfections to rational causes such as expenses, taxes, etc.

"Rational factors" that may contribute to explaining a deviation between a CEF's price in the market and the true value of the assets it holds are:

- Performance—funds that consistently provide stronger or weaker performance relative to the fund's asset class have a rational reason for investors to pay a premium or demand a discount.
- Expenses—funds with excessively high expenses have a rational reason to trade at a discount, whereas funds with extremely low expenses may have a rational reason to trade at or above their underlying net asset value.
- Transparency—funds with difficult to value securities will generally trade at a discount simply because it calls to question how accurate the stated net asset value really is.
- Dividend Distributions —the level, sustainability and consistency of a fund's dividend distribution, particularly relative to other funds in its asset class, is a rational valuation factor to be considered by investors. Funds with consistently higher sustainable distributions should be valued more than funds with chronically low and/or unsustainable distributions.
- Sentiment—frequently the relative strength of an asset class has a high correlation with the relative discounts/premiums of CEF's invested in that asset class. Sentiment might be a rational explanation for a fund's net asset value, but it is an irrational reason for a fund's price to be more or less than that net asset value.
- Unrealized Capital Gains (Losses)—it is rational for investors to avoid funds with huge unrealized capital gains but to favor funds with significant unrealized losses.
- Vintage Tax Issues—it is also rational for taxable investors to harvest short-term losses in funds trading below purchase price. This factor is most readily identifiable and quantifiable for funds brought to market in the previous 12 months; but, we also see some of this in older funds if they have gone down in value in any given year.
- Cost/Use of Leverage—the cost and overall use of leverage is a rational factor for discerning valuations among CEF's. Obviously, in rising markets leverage is desired, and in falling markets it is scorned. Regardless of market direction—low cost leverage is always more attractive than high cost leverage.
- Liquidity—the relative ease with which investors can buy or sell a fund is an important rational factor to be considered. Most CEF's exhibit trading characteristics very similar to small- or micro-cap stocks. Trading them efficiently requires a more thoughtful approach than buying or selling large-cap stocks or open-end mutual funds.
- Governance—while a little trickier to quantify than the above factors, a fund company's governance record is one of the most important rational factors for valuing CEF's. Many of the larger fund company boards have adopted shareholder friendly policies to support the prices of their CEF's. These policies include share buy-back programs, tender offers, fund mergers, fund conversions and fund liquidations.

$$\begin{aligned} \text{Net Asset Value} \pm \text{Rational Factors} &= \text{Fair Value} \\ \text{Market Value} - \text{Fair Value} &= \text{True Arbitrage Opportunity} \end{aligned}$$

When the market value is below the Fair Value, there must be an additional set of irrational factors that are contributing to the discount. Investors, as well as management of the closed end fund may take several actions to eliminate or reduce the irrational portion of a fund's discount.

Those actions may include several of the following:

- **Rotation**—CEF discounts ebb and flow just as prices on financial securities do. Constantly rotating ones holdings in CEF's toward those that have the greatest irrational discount and away from the ones that are overvalued is one way of monetizing a discount that has narrowed and/or identifying an even more attractively valued fund.
- **Tender Offers**—many fund companies will attempt to support their fund prices by tendering offers for their shares. A typical tender offer might have the fund company offering to buy back 20% of their outstanding shares at 95% of net asset value at a time when the fund is trading in the market at 90% of net asset value. The retail nature of CEF ownership has historically resulted in low participation rates in these tender offers.
- **Mergers**—fund companies will periodically merge two or more funds in the same asset class to reduce the overall combined discount of the funds. Mergers have to be done on a NAV-to-NAV basis. Often times, even after the terms of the merger have been announced, one or more of the funds to be merged will be trading at greater discounts than the others.
- **Share Buybacks**—a number of fund companies have specific governance rules in place to effectively put a floor in to prevent their fund prices from trading at too great a discount to net asset value. An example would be a fund company that automatically initiates a share buyback program should their funds trade at a 10% discount for 20 consecutive trading days.
- **Liquidation or Conversions**—a fund's board is charged with protecting shareholder interests. Sometimes the only way to address a chronic discount is to liquidate the fund's holdings and return the fund's net asset value to shareholders or to convert the fund to an open-end fund structure which must trade at net asset value.
- **Tax-Related Rebalancing Trades**—CEF's exhibit a strong seasonality. Discounts tend to widen out beginning in October and ending in late December as a result of tax-loss selling. Typically, from late December into February that widening trend reverses itself and discounts tend to collapse. Funds in asset classes that have been out of favor will likely come under even more selling pressure at the end of the year due to investors seeking to harvest tax losses. Those funds' prices are irrationally bid down due to this activity and by late December frequently offer value.

These are just some of the techniques that may be used to appropriately measure discount opportunities within a carefully selected portfolio of CEF's.

Conclusion

All CEF discounts are not created equal. A strong understanding of the nuances of the CEF market along with diligent and ongoing research can help to identify those CEF discounts that truly represent a savings in an attempt to avoid the ones that do not. Potentially turning the one big drawback of CEF's—the chronic discount the funds frequently trade at relative to their underlying net asset value—into a positive.

- As of 7/31/15, the municipal CEF universe traded at a -7.34% discount versus a five year average discount of -2.59% (Source: Robinson Capital).

Municipal CEF - Premiums/Discounts



Source: Bloomberg, Robinson Capital

As of March 31, 2015, the most recent date that full portfolio holdings were made publically available, Fund's Top Ten holdings were as follows: PIMCO Municipal Income Fund III (PMX) 6.08%, Invesco Trust for Investment Grade Municipals (VGM) 5.60%, Pioneer Municipal High Income Trust (MHI) 5.43%, PIMCO Municipal Income (PML) 5.33%, Dreyfus Strategic Municipal Bond Fund (DSM) 5.13%, Invesco Advantage Municipal Income (VKI) 5.15%, Alliance Bernstein National Municipal Income Fund (AFB) 4.80%, Nuveen Performance Plus Municipal Fund (NPP) 4.77%, Dreyfus Strategic Municipal Fund (LEO) 4.56% and Putnam Managed Municipal Income Trust (PMM) 4.34%.

The Municipal Bond CEF's listed may or may not be held by the Fund as of the date this material is first published or anytime thereafter. All current and future holdings are subject to risk and to change. They are merely provided for illustration purposes.

Before investing you should carefully consider the Robinson Tax Advantaged Income Fund's investment objectives, risks, charges and expenses. This and other information is in the prospectus and summary prospectus.

RISK AND OTHER DISCLOSURES:

An investment in the Fund is subject to risk, including the possible loss of principal amount invested and including, but not limited to, the following risks, which are more fully described in the prospectus:

- The Fund will invest in shares of closed-end funds (CEFs). Investments in CEFs are subject to various risks, including reliance on management's ability to manage the CEF portfolio, fluctuation in the market value of CEF shares, and the Fund bearing a pro rata share of the fees and expenses of each underlying CEF in which the Fund invests.
- The underlying CEFs in which the Fund invests will invest primarily in municipal bonds. Litigation, legislation or other political events, local business or economic conditions or the bankruptcy of the issuer could have a significant effect on the ability of an issuer of municipal bonds to make payments of principal and/or interest. Changes related to taxation, legislation or the rights of municipal security holders can significantly affect municipal bonds.
- The underlying CEFs in which the Fund invests will invest primarily in fixed income securities. Interest rates have been and continue to be low relative to historical levels. A rise in interest rates could negatively impact the value of the Fund's shares. Generally, fixed income securities decrease in value if interest rates rise, and increase in value if interest rates fall, with longer-term securities being more sensitive than shorter-term securities. These risks are greater during periods of rising inflation.
- It is expected that the CEFs in which the Fund will invest will be leveraged as a result of borrowing or other investment techniques. As a result, the Fund will be exposed indirectly to leverage, and may expose the Fund to higher volatility in the market value of such CEF and the possibility that the Fund's long-term returns will be diminished. In addition, regulations implemented pursuant to the Dodd-Frank Act, particularly the Volcker Rule, may in the future hinder or restrict a CEF's ability to maintain leverage; which in turn may reduce the total return and tax exempt income generated by the underlying CEFs in which the Fund will invest and may cause a reduction in the value of the Fund's shares.
- There is no guarantee that the Fund's income will be exempt from regular federal income taxes. Events occurring after the date of issuance of a municipal bond or after a CEF's acquisition of a municipal bond may result in a determination that interest on that bond is subject to federal income tax. Federal or state changes in the tax treatment of municipal bonds may make municipal bonds less attractive as investments and cause them to decline in value.
- The Sub-advisor, where deemed appropriate, will seek to hedge against interest rate risk by shorting U.S. Treasury futures contracts. To the extent the Fund holds such short positions, should market conditions cause U.S. Treasury prices to rise, the Fund's portfolio could experience a loss; and should U.S. Treasury prices rise at the same time municipal bond prices fall, these losses may be greater than if the hedging strategy not been in place.

- The Fund and the CEFs held by the Fund may use derivative instruments, futures contracts, options, swap agreements, and/or sell securities short. Each of these instruments and strategies involve risks different from direct investments in the underlying assets. Risks include: futures contracts may cause the value of the Fund's shares to be more volatile and expose the Fund to leverage and tracking risks; the Fund may not fully benefit from or may lose money on option or shorting strategies; swaps may be leveraged, are subject to counterparty risk and may be difficult to value or liquidate.
- The Fund's turnover rate may be high. A high turnover rate may lead to higher transaction costs, a greater number of taxable transactions, and negatively affect the Fund's performance.
- As a non-diversified fund, the Fund may focus its assets in the securities of fewer issuers, which exposes the Fund to greater market risk than if its assets were diversified among a greater number of issuers.
- The Fund is newly organized and has a limited operating history. As a result, prospective investors have a limited track record or history on which to base their investment decisions.
- Diversification does not assure a profit or protect against a loss.

The Fund may not be suitable for all investors. We encourage you to consult with appropriate tax and financial professionals before considering an investment in the Fund.

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