



CLAYMORESM

Claymore Closed-End Fund Market Update

Q2 2009

● CLOSED-END FUNDS

“The New Normal”

HIGHLIGHTS

- Average discount approaches long-term average
- Dividend adjustments continue with the majority of increases among municipal funds
- Cost of leverage remains low while auction rate market remains frozen
- De-levering subsidies and cost of leverage remains low
- IPOs continue to raise assets, but at a modest pace

Review

Just when you thought things were returning to normal, along comes a “new normal”. The new normal, as loosely defined, is the growing realization that significant adjustments will need to be made in our lives to reconcile the events of the recent past with the prospects for the future. What exactly happened to normal isn’t clear, but the aftermath of last year continues to overshadow the early signs of recovery and nag at investor optimism. In spite of this sentiment, closed-end funds have witnessed a return to normal of sorts, with the average discount to net asset value (“NAV”) (“discount”) for all U.S.-listed funds hovering around 5%, as of July 21, 2009, which is close to the ten-year average of approximately 4%. It is hard to believe that less than one year ago, the average discount touched a record of approximately 26%.

The initial public offering (“IPO”) market for closed-end funds has continued to plug along at a modest pace. Although the industry has already raised more assets than it had in all of 2008, with approximately \$1 billion year-to-date, the individual IPO amounts have remained modest as compared to the record IPOs of the past. In addition, these deals have primarily focused on higher quality areas such as high grade municipal securities and investment grade corporate bonds, which may illustrate the lingering skittishness of many investors.

Discounts

For the second quarter-end in a row, MLP funds topped all fund categories with the greatest average market price premium to NAV at 14% (“premium”). REIT fund discounts were no longer the worst as global hybrid funds claimed the title, registering an average discount of slightly over 15% at the end of the second quarter. It is worth noting, however, that the spread by category of the greatest average premium to the greatest average discount narrowed from the prior quarter, primarily due to discount tightening. In addition, approximately 76% of all funds were trading at a discount, which is a far cry from the over 90% figure witnessed last year and is also closer to the ten-year average.

Performance

In our last Claymore Closed-End Fund Market Update, REIT funds were highlighted as the worst one-year performers based on both NAV and market price, along with trading at the deepest discounts, while national municipal funds were highlighted as the best one-year performers based on NAV. Lo and behold, during the second quarter, REIT funds were the best performers based on market price (up 65%) and second best based on NAV (up 46%). On the other hand, national municipal funds were the worst performers for the quarter based on market price (up 7.6%) and NAV (up 6.1%). The top three category performers for the quarter based on NAV were preferred funds (up 47%), REIT funds (up 46%) and senior loan funds (up 33%). The bottom three category performers for the quarter based on NAV were Municipal funds (up 6%), covered call funds (up 11%) and domestic equity funds (up 16%). In fact, all major closed-end fund categories were positive for the second quarter and the year through June 30, 2009, based on both market price and NAV. The average NAV return for all closed-end funds during the quarter was 15%, while the average market price return was 20%. Of course, past performance is not indicative of future results.

Dividends

Approximately two-thirds of all closed-end funds have made dividend adjustments year-to-date. The number of funds increasing dividends has actually exceeded the number of funds decreasing dividends. However, the vast majority of funds increasing dividends were within the municipal category as declining leverage costs, higher yields and stable-to-increasing NAVs provided the necessary tailwinds. Categories that were especially hard hit during the volatility over the past year, such as equity, high-yield, senior loan and REIT funds have witnessed the bulk of dividend reductions this year. One factor that appears to be re-emerging somewhat is the correlation between a fund's distribution rate and its premium or discount, whereas over the past few months greater emphasis may have been placed on NAV volatility and dividend sustainability.

Leverage

During the market turmoil over the past few months, several funds were forced to de-lever and, in certain cases, delay dividends until

the asset coverage requirements were again met. Fortunately, recent NAV appreciation and proactive efforts to reduce leverage have helped funds avoid additional dividend delays. In addition to reducing leverage, funds have continued to replace auction-rate preferred securities ("ARPS") with alternative forms of leverage while seeking to implement measures to reduce leverage costs. Fortunately, historically low short-term rates have kept leverage costs below 2%. Several closed-end fund sponsors, including Claymore, have even pursued a reduction in the fee paid to the broker-dealers for facilitating auctions of ARPS that result in the maximum rate. Generally, the fees have been reduced from 25 basis points to 15 basis points. As of June 30, 2009 more than half of all closed-end fund ARPS outstanding had been redeemed or refinanced by closed-end fund sponsors. The vast majority of ARPS that have yet to be redeemed remain on the municipal side as fewer viable alternatives exist for tax-exempt funds relative to taxable funds.

Outlook

If we are in the midst of a new normal, then it is worth seriously questioning the relevance of recent historical data and current valuations before making any investment decision. Conversely, if the new normal is another way of saying "it's different this time", then the implications of shunning legitimate long-term investment opportunities within the closed-end fund arena could be equally severe. Given the continued strength in nearly all asset classes year-to-date and the general outperformance of market prices over NAVs, investors should carefully evaluate asset class valuation and growth prospects, along with the attractiveness of the fund's discount, among other important factors. If we are headed for a period of muted growth as the new normal entails, then emphasis on these factors (asset class valuation, growth prospects and fund valuation) may help buffer returns relative to placing greater emphasis on other factors such as distribution rate or past performance. Regardless of how the current environment is labeled, the broader demographic needs for growth of investment to outpace inflation paired with the need to maintain a certain level of income, risk will once again come to the forefront and closed-end funds may provide opportunities to achieve both of those objectives.

CLAYMORE CLOSED-END FUND RESEARCH DATA POINTS

	6/30/08	9/30/08	12/31/08	3/31/09	6/30/09
Average CEF Premium/(Discount)	-5.92%	-13.20%	-11.12%	-7.95%	-6.05%
S&P 500 Index ¹	1280.00	1166.36	903.26	797.87	919.32
CBOE Volatility Index (VIX) ²	23.95	39.39	40.00	44.14	26.35
10-Yr. Treasury Yield	3.97%	3.83%	2.21%	2.67%	3.54%

For illustrative purposes only. Past performance is not a guarantee of future results.

Source: Claymore Data/Fundamental Data Limited, 6/30/09

Claymore's Closed-End Fund Group - July 2009

All data as of 06/30/2009, unless otherwise noted. Source: Fundamental Data Limited

As a means of attempting to improve the common shareholder's total return, many closed-end funds will utilize leverage to help enhance a fund's yield and overall performance potential. A closed-end fund may benefit from leverage by borrowing and/or issuing preferred shares at a lower interest rate and investing those monies at a higher reinvestment rate to take advantage of any spread that may exist. In general, leverage may be a positive contributor to performance if the rate earned on the investment strategy exceeds the cost of borrowing or issuing preferred shares. Conversely, leverage can detract from the overall fund performance if the spread narrows; thereby pressuring a fund's cash flows.

Leverage can be structured in a number of different ways. The most typical forms of closed-end fund leverage include the issuance of senior securities in the form of preferred shares, or the utilization of commercial paper, bank loans or debt securities. Leveraging carries certain risks, including higher volatility of NAV, share price and income, which may increase the chance of loss to the common shareholders.

Leverage risk is the risk associated with the borrowing of funds and other investment techniques, including the issuance of the preferred shares by a fund, to leverage the common shares. Leverage is a speculative technique which may expose a fund to greater risk and increase its costs. Increases and decreases in the value of the fund's portfolio will be magnified when a fund utilizes leverage. For example, leverage may cause greater swings in a fund's NAV or cause a fund to lose more than it invested. A fund will also have to pay interest or dividends on its leverage, reducing a fund's return. This expense may be greater than a fund's return on the underlying investment. There is no assurance that a fund's leveraging strategy will be successful.

¹Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The index is unmanaged and it is not possible to invest directly in an index. (Source: Standard and Poors)

²CBOE Volatility Index ("VIX") - Chicago Board Options Exchange (CBOE) Volatility Index ("VIX"), displays the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk. The index is unmanaged and it is not possible to invest directly in an index. (Source: CBOE)

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. This commentary contains forward-looking statements about various economic trends and strategies. You are cautioned that such forward-looking statements are subject to significant business, economic and competitive uncertainties and actual results could be materially different. There are no guarantees associated with any forecast; the opinions stated here are subject to change at any time; are the opinion of Claymore's Closed-End Fund Group; does not pertain to any Claymore product; and is not a solicitation for any product.

There can be no assurance that any closed-end fund will achieve its investment objective(s). The value of any closed-end fund will fluctuate with the value of the underlying securities. Until the original listing of a closed-end fund on an exchange, no closed-end fund's shares will have a history of public trading and, historically closed-end funds often trade at a discount to their net asset value.

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