CLAYMORE℠

Claymore Closed-End Fund Market Update

Q3 2008

CLOSED-END FUNDS

"History in the Making"

HIGHLIGHTS

- Closed-end fund discounts reached historic levels
- Unprecedented volatility, exacerbated by leverage and investor sentiment, hits closed-end fund NAVs and share prices
- Flight-to-quality may have dried up liquidity, seized credit markets and hurt equities
- IPO market remained muted
- Impact of global government intervention remained somewhat unclear

At the beginning of the third quarter, the average market price discount to net asset value ("NAV") for all U.S.-listed closed-end funds was approximately -6.5%.[1] By the end of the third quarter, this discount more than doubled to -13.2%.[1] At the time of the writing of this report, in early October, the average discount had nearly doubled again to -25.8%, as of October 10, 2008.[1] Even more noteworthy was the fact that more than three in every four closed-end funds were trading at a discount in excess of -20%.[1] To put it into perspective, the ten-year average discount for all U.S.-listed closed-end funds was approximately -4%, as of September 30, 2008.[1] We believe there was not a single closed-end fund asset class that was immune from the panic selling, as 97% of the universe was trading at some discount to NAV, as of October 10, 2008.[1]

We believe that the third quarter actually started off tame relative to where it ended. Although more than half of all closed-end funds reached their widest discounts of the year in July, the majority of the universe staged a slight comeback, in terms of discount narrowing, during the last part of the month and offered no preview of the volatility to come at the end of the quarter in September. Similarly, the broad equity market, as represented by the S&P 500 Index[2], offered no indication of the looming sell-off and ended the month essentially flat with a total return of negative 0.8% for the month of July. Crude oil prices hovered near record levels around $150 per barrel, stoking global inflationary concerns, in our opinion, and leading to a 17-year record high inflation reading of 5.6% in July, based on the year-over-year percentage change in the Consumer Price Index for All Urban Consumers[3] ("CPI-U"). However, if there was any piece of good news, during much of the third quarter and into the early part of October, oil prices continued to fall, alleviating some of the inflationary concerns, in our opinion.

To provide a general and oversimplified summary of the third quarter, we believe: July and August "weren't bad" for the broad equity market, with the S&P 500 Index down less than 1% in July and then up almost 1.5% in August. Closed-end fund discounts clocked in at -6.5% and -6.6% at the end of July and August, respectively.[1] As far as total return performance for all closed-end funds, market prices declined 2.5% and NAVs declined 2.0% in July and then declined another 0.9% and 0.1%, respectively, in August.[1] Unfortunately, during the month of September, we believe global recessionary concerns took center stage and permeated the equity and credit markets spurning investors to an all-out flight-to-quality, pushing the 10-Year U.S. Treasury Bond prices up and sending the yields below 3.4%. Meanwhile, the S&P 500 Index shed 8.9% in September and another 22.8% in the first couple weeks of fourth quarter, through October 10, 2008. Implied volatility, as measured by the CBOE Volatility Index[4] ("VIX"), soared to record levels, closing near 70% on October 10, 2008. To put this into perspective, the VIX, sometimes referred to as the "fear index", traded between 20% and 30% for most of the third quarter and into the middle of September.

Although closed-end funds are not an asset class, during times of market volatility and uncertainty, historically, closed-end funds occasionally experience indiscriminate selling pressure. The third quarter, dominated by the underperformance in September, witnessed closed-end funds living up to this unfair reputation, with the average closed-end fund market price declining 20.2% and NAVs falling 13.2%.[1] This translated into discounts to NAV more than doubling, on average, for the quarter. The ongoing credit concerns, among other factors, continued to hamper efforts to restore liquidity to the closed-end fund auction rate preferred securities, in our opinion. In spite of industry efforts and regulatory involvement, approximately 60% of the outstanding value of closed-end fund auction rate preferred securities remained illiquid, as of September 30, 2008, according to Thomas J. Herzfeld Advisors Incorporated. Additionally, the market for new closed-end funds remained frozen, except for one initial public offering ("IPO") in August – only the second IPO for the year so far.

Outlook

As we enter the fourth quarter, significant headwinds remain and it is important to keep in mind a few of these potential hurdles.

The end of the year often brings tax-loss selling in certain closed-end funds and given the losses this year, we believe there is the potential that the selling pressure could be significant. However, this is an extremely difficult historical phenomenon to measure, much less forecast. Additionally, the majority of closed-end funds implement leverage[5], which magnifies both positive and negative returns. Of course, it is also important to keep in mind the outlook and specific risk considerations of the various asset classes and investment strategies represented within the closed-end fund marketplace. Since the closed-end fund market has historically attracted income-oriented investors, among others, closed-end fund dividends and distributions have also been a key consideration. It is also important to understand what may comprise a fund distribution, especially during challenging and volatile markets. There is always the potential for changes to fund distribution rates or a return of capital. This will vary by fund and should be considered on a case-by-case basis.

It can be difficult to utilize history as a guide when we seem to be in the midst of making history in several areas of the marketplace. That being said, we have reached historically low valuations in several major asset classes. Looking back, the current valuations may be unjustified for certain asset classes, in our opinion, while looking ahead, it may be somewhat unclear. What is clear is that closed-end fund discounts to net asset value have reached levels unseen in more than a decade – trading, on average, for less than 80 cents on the dollar, as of October 10, 2008 (if you compare the fund's market price to its NAV).[1] The long-term performance of individual closed-end funds should be influenced by the underlying investments – although the risk of premiums and discounts remains. We believe volatile and uncertain markets such as these may present rare opportunities to take advantage of the unique features of closed-end funds. That is, if history is any guide.

Claymore's Closed-End Fund Group - October 2008

Past performance is no guarantee of future results.

CLAYMORE CLOSED-END FUND RESEARCH DATA POINTS

	12/29/06	12/31/07	3/31/08	6/30/08	9/30/08
Average CEF Premium/(Discount)	(0.58%)	(8.56%)	(6.02%)	(5.92%)	(13.20%)
S&P 500 Index[2]	1418.30	1468.36	1322.70	1280.00	1166.36
CBOE Volatility Index[4] (VIX)	11.56	22.50	25.61	23.95	39.39
10-Yr. Treasury Yield	4.70%	4.03%	3.41%	3.97%	3.83%

For illustrative purposes only. ***Past performance is no guarantee of future results.***
Source: Claymore Data/FUNDDATA, 9/30/08

All information is as of September 30, 2008, unless otherwise noted

[1] Fundamental Data Limited

[2] Standard 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)

[3] U.S. Bureau of Labor Statistics

[4] CBOE 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)

[5] 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.

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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CLAYMORE℠

Claymore Securities, Inc.
2455 Corporate West Drive
Lisle, IL 60532

800.345.7999
www.claymore.com

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