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# The Use of Tender Offers to Address Closed-End Fund Discounts

## ● CLOSED-END FUNDS

### Introduction

As of December 30, 2005, more than three-fourths of all closed-end funds were trading at a discount to net asset value (share price lower than net asset value per share). Ultimately, supply and demand dynamics dictate the level of premium (share price higher than net asset value per share) or discount of a particular fund. While some funds have utilized artificial methods, such as tender offers, to narrow their discounts, it is unclear if such methods have resulted in any long-term benefit for shareholders.

### Purpose

The purpose of this study was to examine the impact of tender offers as it relates to the premium or discount to net asset value ("NAV"), expense ratio and trading volume of closed-end funds. These three factors were analyzed to measure the positive or negative impact on the premium or discount to NAV, the expenses of the fund and the liquidity of the fund. Factors that were not specifically analyzed were distribution yield, leverage, existence of other methods to address the discount, tender offers implemented more than ten years ago and terminated funds. Since some of the factors excluded may influence how closed-end funds trade, the results of this study should not necessarily be considered representative of future results.

### Methodology

The study included twenty-three funds, comprised of thirteen country-specific funds and ten general funds. Since certain funds engaged in multiple tender offers, the sample size included a total of thirty-one tender offers. Given their tendency to be affected by specific factors, country funds were summarized separately, although analyzed utilizing identical factors.

The data, provided by Bloomberg, regarding premiums, discounts, expense ratios and trading volumes was analyzed before the announcement of the tender and after the expiration of the tender.

For the premium/discount, both the three-month and 52-week averages were recorded prior to the announcement of the tender offer and after its expiration. The expense ratios utilized in this study represented those reported prior to the announcement of the tender offer and one year after (or nearest to) the expiration. The average daily volume was also recorded up to the announcement date and after the expiration.

One of the challenges of this study was identifying an extensive universe of such funds. Of the more than 600 closed-end funds in existence today, fewer than thirty funds have implemented a share tendering program within the last ten years. Another challenge was distinguishing the effect of natural market forces from the effect of artificial forces introduced by the funds themselves. Understanding that it would be inaccurate to simply conclude that the changes experienced by each of the funds in the study were solely a result of the measures employed by the funds themselves, the overall closed-end fund environment was also considered.

### Results PREMIUM/DISCOUNT (GENERAL FUNDS)

On the surface, it would appear that tendering shares produced a positive result for some funds, based on the average discount before and after the tender offer. However, although half of the general funds exhibited a positive change three months after the tender, over half exhibited a negative change after one year. The median change was positive 1.3% after three months, while the median change was negative 1.5% after one year, effectively returning the funds to where they started.

As Table 1 illustrates, there were a few outliers that skewed the data, notably AWG, DDF, DGF and ADF. These four funds exhibited dramatic improvements in their discounts to net asset value on both the three-month and one-year timeframes.

TABLE 1									
Ticker	Fund Name	Announced	Expired	3-Month Average			52-Week Average		
				Before	After	Change	Before	After	Change
AWG	Alliance World Dollar Gov Fund	12/9/97	1/8/98	-4.40%	4.59%	8.99%	-7.27%	8.90%	16.17%
SLA	American Select Portfolio	10/25/99	11/29/99	-8.03%	-8.65%	-0.62%	-7.82%	-9.71%	-1.89%
ASP	American Strategic Income Port	10/25/99	11/29/99	-7.57%	-9.39%	-1.82%	-8.00%	-9.95%	-1.95%
BSP	American Strategic Income Port II	10/25/99	11/29/99	-7.83%	-9.97%	-2.14%	-8.85%	-10.01%	-1.16%
CSP	American Strategic Income Port III	10/25/99	11/29/99	-6.63%	-8.14%	-1.51%	-6.46%	-8.99%	-2.53%
DDF	Delaware Investments Div & Inc Fd	5/15/00	6/29/00	-9.19%	-2.32%	6.87%	-8.52%	6.27%	14.79%
DGF	Delaware Investments Global Div & Inc Fd	5/15/00	6/30/00	-15.31%	-5.05%	10.26%	-12.61%	2.27%	14.88%
ADF	ACM Managed Dollar Income Fund	2/13/01	4/27/01	-3.54%	9.28%	12.82%	0.80%	10.17%	9.37%
AWF	Alliance World Dollar Gov Fund II	9/14/03	11/14/03	-6.84%	-3.72%	3.12%	-6.49%	-8.75%	-2.26%
NRL	Neuberger Berman Real Estate Inc Fd	9/23/04	10/29/04	-10.69%	-12.84%	-2.15%	-9.58%	-12.82%	-3.24%
			<b>Average</b>	-8.00%	-4.62%	3.38%	-7.48%	-3.26%	<b>4.22%</b>
			<b>Median</b>	-7.70%	-6.60%	1.25%	-7.91%	-8.87%	<b>-1.53%</b>

However, it is important to note the overall closed-end fund environment during these time periods. AWG, for example, implemented its tender offer during an improving market for closed-end funds in general. The average discount for all closed-end funds improved by nearly 6% during the period one year before AWG's tender offer to one year after. To put it in perspective, this 6% improvement represented the second-best two-year discount improvement (based on year-end discounts) in more than fifteen years. The best two-year discount improvement occurred over the period of December 1999 through December 2001, in which the average discount for all closed-end funds improved by more than 8%. It was during this similar timeframe that DDF, DGF and ADF showed significant improvements in their discounts. This further highlights the challenge of distinguishing the effects of market forces from the effects of artificial forces, such as tendering shares. Dramatic improvements such as those experienced by AWG, DDF, DGF and ADF may have been more as a result of the closed-end fund market's general trend instead of measures implemented by the funds.

## Expense Ratio (GENERAL FUNDS)

Eight of the ten funds experienced an increase in their expense ratio (Table 2). The median increase was seven basis points. CSP and AWF showed decreases of 0.03% and 0.10%, respectively. AWF's expense ratio decreased primarily as a result of a reduction in the advisory fee and AWF's ratio declined as a result of a significant decrease in "mortgage servicing fees". NRL's expense ratio increased dramatically due to litigation costs incurred as a result of defending a hostile tender offer.

TABLE 2						
Ticker	Fund Name	Announced	Expired	Expense Ratio		
				Before	After	Change
AWG	Alliance World Dollar Gov Fund	12/9/97	1/8/98	1.43%	1.66%	0.23%
SLA	American Select Portfolio	10/25/99	11/29/99	1.07%	1.14%	0.07%
ASP	American Strategic Income Port	10/25/99	11/29/99	1.44%	1.56%	0.12%
BSP	American Strategic Income Port II	10/25/99	11/29/99	1.18%	1.23%	0.05%
CSP	American Strategic Income Port III	10/25/99	11/29/99	1.19%	1.16%	-0.03%
DDF	Delaware Investments Div & Inc Fd	5/15/00	6/29/00	0.77%	0.83%	0.06%
DGF	Delaware Investments Global Div & Inc Fd	5/15/00	6/30/00	1.00%	1.10%	0.10%
ADF	ACM Managed Dollar Income Fund	2/13/01	4/27/01	1.09%	1.11%	0.02%
AWF	Alliance World Dollar Gov Fund II	9/14/03	11/14/03	1.35%	1.25%	-0.10%
NRL	Neuberger Berman Real Estate Inc Fd	9/23/04	10/29/04	1.12%	6.79%	5.67%
			<b>Average</b>	1.16%	1.78%	<b>0.62%</b>
			<b>Median</b>	1.15%	1.20%	<b>0.07%</b>

## Volume (GENERAL FUNDS)

Six of the ten funds experienced a decline in their average daily volume with a median decline of approximately 12% (Table 3).

Ticker	Fund Name	Announced	Expired	52-Week Average Volume		
				Before	After	Change
AWG	Alliance World Dollar Gov Fund	12/9/97	1/8/98	17,862	13,339	-25%
SLA	American Select Portfolio	10/25/99	11/29/99	10,544	12,476	18%
ASP	American Strategic Income Port	10/25/99	11/29/99	4,560	6,921	52%
BSP	American Strategic Income Port II	10/25/99	11/29/99	15,892	17,347	9%
CSP	American Strategic Income Port III	10/25/99	11/29/99	18,831	19,713	5%
DDF	Delaware Investments Div & Inc Fd	5/15/00	6/29/00	25,388	14,624	-42%
DGF	Delaware Investments Global Div & Inc Fd	5/15/00	6/30/00	10,532	9,727	-8%
ADF	ACM Managed Dollar Income Fund	2/13/01	4/27/01	34,487	29,158	-15%
AWF	Alliance World Dollar Gov Fund II	9/14/03	11/14/03	126,270	105,636	-16%
NRL	Neuberger Berman Real Estate Inc Fd	9/23/04	10/29/04	14,182	8,329	-41%
			<b>Average</b>	27,855	23,727	<b>-6.45%</b>
			<b>Median</b>	16,877	13,982	<b>-11.55%</b>

## Premium/Discount (COUNTRY FUNDS)

Country funds were studied separately since they are often influenced by factors specific to where they are investing and do not always correlate to the factors that influence more general closed-end funds. The results from this category were more dramatic, perhaps due to the increasing popularity of international investing. After three months, sixteen of the twenty-one subjects in this sample showed an improvement, with a median change of positive 2.1% (Table 4).

Ticker	Fund Name	Announced	Expired	3-Month Average			52-Week Average		
				Before	After	Change	Before	After	Change
MXE	Mexico Equity and Income Fund	3/5/99	4/12/99	-23.03%	-18.00%	5.03%	-22.53%	-17.63%	4.90%
APB	Asia Pacific Fund, Inc.	11/10/00	12/11/00	-25.19%	-21.99%	3.20%	-26.55%	-18.95%	7.60%
APF	Morgan Stanley Asia Pacific	2/27/01	3/29/01	-20.08%	-20.60%	-0.52%	-25.93%	-19.23%	6.70%
JFC	JF China Region Fund Inc	4/24/01	7/9/01	-17.67%	-17.74%	-0.07%	-21.02%	-17.21%	3.81%
ETF	Emerging Markets Telecom Fund	10/10/01	11/21/01	-19.01%	-18.21%	0.80%	-20.79%	-16.75%	4.04%
LAQ	Latin America Equity Fund	10/10/01	11/19/01	-20.22%	-18.12%	2.10%	-22.37%	-16.28%	6.09%
APB	Asia Pacific Fund, Inc.	11/6/01	12/7/01	-17.82%	-15.63%	2.19%	-19.02%	-13.45%	5.57%
CH	The Chile Fund	11/27/01	2/4/01	-18.87%	-12.12%	6.75%	-21.07%	-12.37%	8.70%
GRR	Asia Tigers Fund	2/15/02	3/15/02	-13.87%	-11.78%	2.09%	-18.08%	-11.78%	6.30%
MXE	Mexico Equity & Income Fund, Inc	2/19/02	3/20/02	-6.52%	-5.28%	1.24%	-7.49%	-7.87%	-0.38%
APF	Morgan Stanley Asia Pacific	4/15/02	5/17/02	-16.31%	-12.74%	3.57%	-18.97%	-14.44%	4.53%
TDF	Templeton Dragon Fund Inc	5/10/02	6/14/02	-15.78%	-14.26%	1.52%	-16.71%	-12.22%	4.49%
APB	Asia Pacific Fund, Inc.	5/30/02	6/28/02	-12.24%	-13.39%	-1.15%	-15.08%	-12.14%	2.94%
IFN	India Fund Inc	8/30/02	9/27/02	-21.13%	-18.28%	2.85%	-19.06%	-14.90%	4.16%
TDF	Templeton Dragon Fund Inc	3/20/03	5/22/03	-9.62%	-7.48%	2.14%	-13.30%	-4.77%	8.53%
IFN	India Fund Inc	8/22/03	9/12/03	-13.06%	-9.32%	3.74%	-15.06%	0.81%	15.87%
KF	Korea Fund, Inc.	1/21/04	2/23/04	-14.42%	-12.66%	1.76%	-15.55%	-10.02%	5.53%
LDF	Latin American Discovery Fund	2/13/04	3/16/04	-13.60%	-16.11%	-2.51%	-15.23%	-13.91%	1.32%
IFN	India Fund Inc	2/20/04	3/12/04	4.46%	5.49%	1.03%	-8.29%	2.25%	10.54%
TFC	Taiwan Greater China Fund	6/11/04	9/3/04	-12.34%	-10.04%	2.30%	-11.48%	-8.53%	2.95%
IFN	India Fund Inc	8/26/04	9/16/04	3.52%	2.58%	-0.94%	0.22%	1.28%	1.06%
			<b>Average</b>	-14.42%	-12.65%	<b>1.77%</b>	-16.83%	-11.34%	<b>5.49%</b>
			<b>Median</b>	-15.78%	-13.39%	<b>2.09%</b>	-18.08%	-12.37%	<b>4.90%</b>

After one year, twenty of the twenty-one subjects showed an improvement, with a median change of positive 4.9%. Although discounts narrowed, it is important to note that the median discount to NAV remained at 13.4% after three months and 12.4% after one year.

## Expense Ratio (COUNTRY FUNDS)

The expense ratios increased for 60% of the subjects, with a median increase of seven basis points (Table 5). Declines in the expense ratios for certain funds were due primarily to strong performance in international and emerging market assets along with rights offerings that increased the overall asset bases of the funds.

TABLE 5						
Ticker	Fund Name	Announced	Expired	Expense Ratio		
				Before	After	Change
MXE	Mexico Equity and Income Fund	3/5/99	4/12/99	1.73%	2.03%	0.30%
APB	Asia Pacific Fund, Inc.	11/10/00	12/11/00	1.63%	2.24%	0.61%
APF	Morgan Stanley Asia Pacific	2/27/01	3/29/01	1.26%	1.37%	0.11%
JFC	JF China Region Fund Inc	4/24/01	7/9/01	2.02%	2.62%	0.60%
ETF	Emerging Markets Telecom Fund	10/10/01	11/21/01	1.75%	2.04%	0.29%
LAQ	Latin America Equity Fund	10/10/01	11/19/01	1.40%	1.42%	0.02%
APB	Asia Pacific Fund, Inc.	11/6/01	12/7/01	2.09%	2.24%	0.15%
CH	The Chile Fund	11/27/01	2/4/01	1.48%	2.10%	0.62%
GRR	Asia Tigers Fund	2/15/02	3/15/02	1.58%	2.07%	0.49%
MXE	Mexico Equity & Income Fund, Inc	2/19/02	3/20/02	1.90%	2.69%	0.79%
APF	Morgan Stanley Asia Pacific	4/15/02	5/17/02	1.39%	1.23%	-0.16%
TDF	Templeton Dragon Fund Inc	5/10/02	6/14/02	1.54%	1.73%	0.19%
APB	Asia Pacific Fund, Inc.	5/30/02	6/28/02	2.24%	2.05%	-0.19%
IFN	India Fund Inc	8/30/02	9/27/02	1.75%	1.76%	0.01%
TDF	Templeton Dragon Fund Inc	3/20/03	5/22/03	1.62%	1.54%	-0.08%
IFN	India Fund Inc	8/22/03	9/12/03	1.82%	1.64%	-0.18%
KF	Korea Fund, Inc.	1/21/04	2/23/04	1.25%	1.13%	-0.12%
LDF	Latin American Discovery Fund	2/13/04	3/16/04	1.47%	1.38%	-0.09%
IFN	India Fund Inc	2/20/04	3/12/04	1.76%	1.51%	-0.25%
TFC	Taiwan Greater China Fund	6/11/04	9/3/04	2.57%	N/A	N/A
IFN	India Fund Inc	8/26/04	9/16/04	1.66%	1.51%	-0.15%
			<b>Average</b>	1.71%	1.82%	<b>0.11%</b>
			<b>Median</b>	1.66%	1.75%	<b>0.07%</b>

## Volume (COUNTRY FUNDS)

Thirteen of the twenty-one subjects exhibited a decline in their average daily volume, with a median decrease of approximately 16% (Table 6). There were significant anomalies, such as IFN which tripled its average daily volume, possibly as a result of the country's recent popularity and lack of an exchange-traded fund alternative.

TABLE 6						
Ticker	Fund Name	Announced	Expired	52-Week Average Volume		Change
				Before	After	
MXE	Mexico Equity and Income Fund	3/5/99	4/12/99	28,528	31,920	12%
APB	Asia Pacific Fund, Inc.	11/10/00	12/11/00	17,862	13,339	-25%
APF	Morgan Stanley Asia Pacific	2/27/01	3/29/01	36,518	30,632	-16%
JFC	JF China Region Fund Inc	4/24/01	7/9/01	16,818	5,446	-68%
ETF	Emerging Markets Telecom Fund	10/10/01	11/21/01	28,525	16,419	-42%
LAQ	Latin America Equity Fund	10/10/01	11/19/01	16,999	8,378	-51%
APB	Asia Pacific Fund, Inc.	11/6/01	12/7/01	34,166	22,740	-33%
CH	The Chile Fund	11/27/01	2/4/01	27,401	29,818	9%
GRR	Asia Tigers Fund	2/15/02	3/15/02	21,732	13,601	-37%
MXE	Mexico Equity & Income Fund, Inc	2/19/02	3/20/02	5,288	3,361	-36%
APF	Morgan Stanley Asia Pacific	4/15/02	5/17/02	54,360	38,423	-29%
TDF	Templeton Dragon Fund Inc	5/10/02	6/14/02	52,022	54,111	4%
APB	Asia Pacific Fund, Inc.	5/30/02	6/28/02	28,628	17,395	-39%
IFN	India Fund Inc	8/30/02	9/27/02	49,411	55,700	13%
TDF	Templeton Dragon Fund Inc	3/20/03	5/22/03	53,615	141,219	163%
IFN	India Fund Inc	8/22/03	9/12/03	47,627	194,850	309%
KF	Korea Fund, Inc.	1/21/04	2/23/04	94,227	87,087	-8%
LDF	Latin American Discovery Fund	2/13/04	3/16/04	12,433	15,749	27%
IFN	India Fund Inc	2/20/04	3/12/04	137,720	166,815	21%
TFC	Taiwan Greater China Fund	6/11/04	9/3/04	67,388	27,876	-59%
IFN	India Fund Inc	8/26/04	9/16/04	196,938	169,019	-14%
			<b>Average</b>	48,962	54,471	<b>4.73%</b>
			<b>Median</b>	34,166	29,818	<b>-16.12%</b>

## Conclusion

Given the results of this study, it is unclear if actions such as tendering shares produce any long-term benefit for shareholders. For example, as of January 19, 2006, nine of the 10 general funds referenced in this study were trading at a discount to NAV, with a median discount of more than 9%. In some cases, tendering shares appears to narrow the discount, if only slightly. However, even if effective, it frequently introduces the negative effect of a higher expense ratio and less liquidity. Furthermore, the discount is rarely eliminated and occasionally, it even widens.

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