

Closed-end fund update

Update on Convertible Funds: Asset Composition

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Highlights

- In recent weeks we have seen pressure from several directions on the convertible funds we cover. This note provides an update on these funds and a breakdown of the assets in them. This will help in understanding the recent weakness in the funds' prices and net asset values.
- We cover three convertible funds -- NCV, NCZ and CHI -- and the CSQ total return fund, all of which have exposure to convertible and high-yield securities. Convertible securities holdings include both convertible bonds and convertible preferreds (see Table 2 for the breakdown).
- Recent weakness in the underlying preferred securities market since the proposed plan regarding of Fannie Mae and Freddie Mac and the downgrade of their preferred securities by the rating agencies have led to weakness in the preferred market overall. This has put pressure on the convertible preferred holdings of the funds. The pullback in the equity markets also hurt convertible bond prices.
- As of yesterday's close, convertible funds were trading at a 3% discount, with a yield of almost 13 percent. We believe the dividends are stable at this level based on the current yields on NCV, NCZ and CHI.
- CSQ is trading at a 12% discount versus its 52-week average discount of 10% and yielding 11.4%. The decline in NAV is largely due to the weakness in equities and convertible securities in the portfolio.
- **Action:** Our top picks in the taxable sector are the two non-leveraged Putnam funds listed below (see Table 3 for the asset breakdown). These funds have recently increased dividends and trade at attractive valuations.

Table 1: Convertible Funds Asset Composition

Ticker	Convertible	High-Yield	Other
CHI	35%	54%	11%
NCV	54	41	5
NCZ	55	41	4
CSQ	24	22	52 (47 stock))

Source: Fund Reports and UBS

Table 2: Convertible Holdings Breakdown

Ticker	Bonds	Preferreds	Synthetic Preferreds
CHI	19	14	2
NCV	9	45	-
NCZ	9	46	-
CSQ	11	10	3

Source: Fund Reports and UBS

Table 3: PIM and PPT Asset composition

Ticker	High-Yield	US Govt Securities	Int'l/Emerging Mkts
PIM	34	46	20
PPT	31	46	23

Source: Fund Reports and UBS

Table 4: Coverage Universe

Fund Name	Ticker	Rating	Price	NAV	Premium (Discount)	Dividend	Yield
Calamos Convertible Opport & Income	CHI	Hold	\$13.34	\$13.30	0.3%	\$1.68	12.6%
Nicholas-Applegate Convertible& Inc	NCV	Hold	\$10.94	\$11.28	-3.0%	\$1.50	13.7%
Nicholas-Applegate Convertible&Inc Fd II	NCZ	Hold	\$10.61	\$11.11	-4.5%	\$1.43	13.4%
Calamos Strategic Total Return Fund	CSQ	Buy	\$10.80	\$12.27	-12.00%	\$1.23	11.4%
Putnam Master Intermediate Incme Trust	PIM	Buy	\$5.92	\$6.44	-8.1%	\$0.54	9.1%
Putnam Premier Income Trust	PPT	Buy	\$5.88	\$6.54	-10.1%	\$0.52	8.8%

Source: Bloomberg and UBS as of July 28, 2008

Statement of Risk

Both credit risk and interest rate risk exist for the funds we cover. Market risk is also a factor since closed-end funds can and do trade above or below their NAVs.

Appendix

Terms and Abbreviations	
Terms / Abbreviation	Description / Definition
Closed-End Fund	A closed-end fund (CEF) is a publicly traded investment company registered under the SEC Investment Company Act of 1940. Capital is raised through an IPO and the proceeds are invested in securities as determined by the investment objectives set by the particular fund's prospectus. The shares of a CEF trade on major exchanges such as NYSE and AMEX.
Net Asset Value	Net Asset Value (NAV) = (total assets – total liabilities)/shares outstanding. The NAV of a CEF fluctuates as the value of the underlying portfolio changes.
Market Price	As CEFs are publicly traded securities, the market price of a CEF fluctuates depending on the supply and demand in the market.
Discount/Premium	When demand exceeds supply, CEFs trade at a premium to the NAV. When supply exceeds demand, the shares of the CEF may trade at a discount to its NAV (i.e., the share price will be less than the fund's NAV). <i>Example:</i> Market Price: USD 9 NAV: USD 10 Discount: 10% Premium/discount = (market price/NAV) -1
Leverage	Many funds use leverage to enhance income and returns to shareholders by borrowing capital at a lower rate (possibly by issuing senior securities such as preferred stock or debentures) than the fund's earnings on investments.
Duration	Duration is a rough measure of a bond's sensitivity to changes in interest rates.
Qualified dividend income (QDI)	Some or all of the fund's dividend income qualifies for the reduced dividend tax rates to individuals and is set to expire on 31 December 2010.

Appendix

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Appendix

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Analysts provide two ratings, an absolute rating and a relative rating. The absolute rating is based on the current Estimated Fair Value Range (EFVR) for the stock and the recent trading price for that stock. The relative rating is based on the stock's total return potential against the total estimated return of the appropriate sector benchmark over the next year.

The EFVR is the price range within which the analyst estimates the stock to be fairly valued. The estimation of the EFVR is based on methods such as discounted cash flow valuation or valuation multiples comparison. In the definition of the EFVR analysts take into account the risk profile (predictability) of the stock.

Absolute Stock Rating System

Buy

We believe the stock is undervalued relative to current market prices.

Hold

We believe the stock's current market valuation is within a fair range.

Sell

We believe the stock is overvalued relative to current market prices.

Under review

Upon special events that require further analysis, the stock rating may be flagged as "Under review" by the analyst.

Suspended

If data is not valid anymore, the stock rating may be flagged as "Suspended" by the analyst.

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Industry Sector Relative Stock View

Outperform (OUT) Expected to outperform the benchmark

Marketperform (MKT) Expected performance in line with the benchmark

Underperform (UND) Expected to underperform the benchmark

Current WMR Global Rating Distribution

Buy	27%** (48%*)	Outperform	32%*** (53%*)
Hold	62%** (54%*)	Marketperform	46%*** (46%*)
Sell	2%** (44%*)	Underperform	12%*** (45%*)

*Percentage of companies within this rating for which investment banking services were provided by [UBS AG or UBS Securities LLC] or its affiliates within the past 12 months. Source: UBS WMR, as of 1 June 2008

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*** Under our Industry Sector Relative Stock View system, "Outperform" most closely corresponds with a "Buy" recommendation, "Marketperform" most closely corresponds with a "Hold" recommendation, and "Underperform" most closely corresponds with a "Sell" recommendation.

UBS Closed-End Funds Ratings: Definitions and Allocations

UBS Financial Services Rating	Definition and Criteria	% of companies under coverage with this rating	% for which IB services have been provided
Buy	Higher stability of principal and higher stability of dividends	36	38
Hold	Potential loss of principal, lower degree of dividend stability	61	31
Sell	High potential for loss of principal and dividend risk	3	33

Source: UBS WMR, as of 17 July 2008

Appendix

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