RELATIVE VALUE PARTNERS

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“Living in the USA”-Steve Miller Band

July 2016

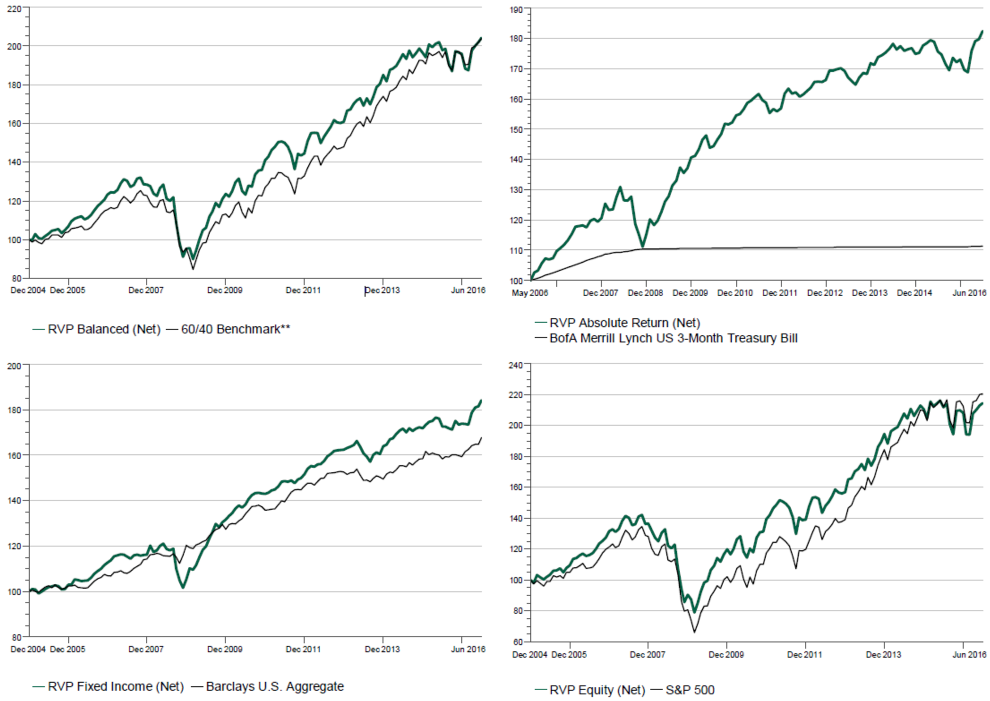
Listening to this song on July 4th, we were feeling particularly patriotic. Living in the USA has numerous benefits: freedom being the most obvious and, arguably, the most treasured. A less celebrated benefit is the US economy which continues to chug along with much less volatility than China, Japan or Europe; it is not a coincidence that our banking system is also in much better shape. Living in a country which has the world’s reserve currency, a well-capitalized banking system and a printing press has allowed our economy to keep plugging along while Europe and Japan are locked in a deflationary spiral.

Globalization has had a depressing impact on US wages and it is having the same effect on US interest rates. We are “importing” some of the financial repression via low interest rates which has a large impact on American investors trying to save and invest. What is an investor to do? The manipulated markets certainly differ from the markets we have followed for the last 30 plus years, but we are still able to find opportunities in a very unusual investment climate. We continue to believe that the US credit market represents value, especially given the slow growth economy we are experiencing. On top of that, fixed income closed-end funds are approximately 7% cheaper than they were in 2013 (when interest rates were at similar levels to now). So, like the Brits say, “Keep calm and keep the carry trade on.”

Equity markets had a relatively quiet quarter except for the brief pullback following Brexit. As we write this letter the S&P 500 is making new highs and global indices are back above pre-Brexit levels. We are surprised that the market is showing such resilience in the face of a contentious election cycle, global growth concerns and modest earnings. Especially considering equity valuations are extended and above the 90th percentile, according to the cyclically adjusted P/E (CAPE), of almost 27. However, it was the fixed income markets that really shined. The current 10 year US government bond appreciated to the lowest yield in history, 1.32% (on 7/8/16), and not due to a market crash, but rather from even lower rates globally. In fact, even Italy and Spain have lower rates than the U.S. Interestingly, credit spreads have remained stable and performed well despite global volatility.

RVP posted strong returns in each of its strategies this quarter, with every strategy outperforming its benchmark. Absolute Return (up 5.43%) and Durable Income (up 9.32%) had especially strong starts to the first six months of the year. Many of our closed-end fund positions had meaningful positive returns as investors once again sought yield-oriented securities. Credit positions gained from three sources: 1) the carry, 2) underlying NAV appreciation and 3) discount narrowing. We experienced a meaningful tender offer on one position and also were able to sell some positions that traded inside historically tight levels, and purchase positions that enhanced the relative value positioning of the portfolio.

RVP Cumulative Returns Net of Fees (as of 6/30/2016)



**60/40 Benchmark is 60% S&P 500 and 40% Barclays Aggregate Bond Index re-weighted monthly
Inception Dates: RVP Balanced 12/31/04, RVP Fixed Income 12/31/04, RVP Equity 12/31/04, RVP Absolute Return 5/31/2006
Source: Zephyr StyleAdvisor

As we have referenced in conversations and prior letters, we are allocating a larger portion of our portfolio to funds that we believe will have a near-to-mid-term NAV realization event. In April, two of our equity positions, the Zweig Total Return Fund (ZTR) and the Zweig Fund (ZF) announced up to 3 future tender offers; one 15% tender and two 5% conditional tender offers. At the end of May, we successfully tendered 34% of our ZTR and 38% of ZF at a 2% discount to NAV. Our shares were purchased at double digit discounts to NAV. It is worth highlighting that RVP tendered over 33% of its position despite the fund tendering for only 15% of its outstanding shares. This is because <u>less than half of the investors participated in the tender offer</u>! This is a great example of the ongoing inefficiencies in the closed-end fund market; there is no rational case for not participating in this tender offer, in our opinion as the funds were trading around an 8% discount going into the tender and we tendered our shares at a 2% discount. We hope to lose another significant portion of the holding in future conditional tender offers.

Among our fixed income holdings, RVP filed another 13D on MFS Charter Income Trust (MCR), one of our largest holdings. MCR is a multi-sector fixed income fund. It has been a long-term holding and we have been attracted to its low leverage, moderate duration and attractive distribution policy. However, we have been frustrated in their ability to implement their own buyback policy. Over two years ago, MFS instituted a 10% annual buyback policy. Over the history of the buyback program, they have bought back a fraction of what the policy allotted. We find this especially frustrating given that the fund traded at historically deep discounts over the past 12 months and yet a minimal number of shares were purchased. We continue to seek shareholder value for our clients from this fund.

As we enter the 3rd quarter with interest rates at all-time lows, we believe that the current market environment may prove to be exceptionally supportive of closed-end funds. We would like to believe we are in a slow growth but stable environment, which should bolster RVP's holdings. In 2013, we saw a similar environment and at that time the 10-year yield traded near 1.6% and fixed income closed-end funds trades 700bps richer (from a discount perspective) than they are today. With the recent Brexit vote, and global growth concerns, the pressure for the FOMC to raise interest rates has diminished significantly, making leveraged fixed income funds more attractive. Institutional investor ownership has increased in the closed-end fund space over the past few years which we believe increases the potential for activist events. Additionally, the lack of new issue supply has provided another support to this market. These market characteristics have contributed to the discount contraction we have seen the first half of 2016, but we also believe we have further to go.

<u>Simple Tax Alpha</u>

Lastly, we would like to remind clients who are charitably inclined to consider establishing a donor advised fund. In a donor advised fund, you can donate appreciated positions, achieving a tax write-off for the amount of the donation and simultaneously reducing your tax liability from a taxable account. Once in the donor advised account, RVP is able to manage the account and you are able to donate to the charities of your choice. It's a simple process and saves investors significant dollars compared to traditional cash donations. RVP has established these for many clients and believe if you are in the financial position to do so, we strongly recommend that you consider it.

We greatly appreciate your continued trust in RVP. Please feel free to come back to us with any questions.

Sincerely,

Maury Fertig Bob Huffman

Relative Value Partners Group, LLC Absolute Return Composite Net Returns

	YTD (ending 6/30/16)	1 Year (ending 6/30/16)	3 Years Annualized (ending 6/30/16)	5 Years Annualized (ending 6/30/16)	Since Inception (5/31/06 to 6/30/16) Annualized
RVP Absolute Return	5.43%	3.84%	2.98%	2.45%	6.14%
3 Month T-Bill	0.15%	0.19%	0.09%	0.09%	1.07%

Relative Value Partners Group, LLC Fixed Income Composite Net Returns

	YTD (ending 6/30/16)	1 Year (ending 6/30/16)	3 Years Annualized (ending 6/30/16)	5 Years Annualized (ending 6/30/16)	Since Inception (12/31/04 to 6/30/16) Annualized
RVP Fixed Income	5.96%	6.76%	4.63%	4.39%	5.46%
Barclays Aggregate Bond Index	5.31%	6.00%	4.06%	3.76%	4.60%

Relative Value Partners Group, LLC Balanced Composite Net Returns

	YTD (ending 6/30/16)	1 Year (ending 6/30/16)	3 Years Annualized (ending 6/30/16)	5 Years Annualized (ending 6/30/16)	Since Inception (12/31/04 to 6/30/16) Annualized
RVP Balanced	4.21%	3.26%	6.46%	6.34%	6.40%
60/40 Benchmark*	4.52%	5.04%	8.73%	8.90%	6.38%

60% S&P 500/40% Barclays Aggregate Bond Index, reweighted monthly

Relative Value Partners Group, LLC Absolute Return 30 Composite Net Returns

	YTD (ending 6/30/16)	1 Year (ending 6/30/16)	3 Years Annualized (ending 6/30/16)	5 Years Annualized (ending 6/30/16)	Since Inception (6/30/10 to 6/30/16) Annualized
RVP Absolute Return 30	5.64%	4.06%	5.27%	4.84%	6.82%
30% S&P 500/70% 3 Month T-Bill	1.32%	1.52%	3.57%	3.72%	4.54%

Relative Value Partners Group, LLC Limited Duration Fixed Income Composite Net Returns

	YTD (ending 6/30/16)	1 Year (ending 6/30/16)	Since Inception (9/30/13 to 6/30/16) Annualized
RVP Limited Duration Fixed Income	5.56%	5.62%	4.61%
Barclays 1-5 yr Corporate Total Return Index	3.17%	3.38%	2.63%

Relative Value Partners Group, LLC Durable Income Composite Net Returns

	YTD (ending 6/30/16)	1 Year (ending 6/30/16)	Since Inception (5/31/14 to 6/30/16) Annualized
RVP Durable Income	9.48%	6.10%	5.18%
Barclays US Corp High Yield Index	9.06%	1.62%	0.98%

Relative Value Partners Group, LLC Global Equity Composite Net Returns

	YTD (ending 6/30/16)	1 Year (ending 6/30/16)	3 Years Annualized (ending 6/30/16)	5 Years Annualized (ending 6/30/16)	Since Inception (4/30/07 to 6/30/16) Annualized
RVP Global	0.11%	-7.14%	3.28%	3.64%	3.91%
MSCI EAFE Index	-4.04%	-9.72%	2.52%	2.15%	-0.22%

Relative Value Partners Group, LLC Equity Composite Net Returns

	YTD (ending 6/30/16)	1 Year (ending 6/30/16)	3 Years Annualized (ending 6/30/16)	5 Years Annualized (ending 6/30/16)	Since Inception (12/31/04 to 6/30/16) Annualized
RVP Equity	3.02%	1.19%	7.77%	7.48%	6.85%
S&P 500	3.84%	3.99%	11.66%	12.10%	7.12%

Relative Value Partners Group, LLC (RVP) is a registered investment advisor. Prior to July 1, 2015, RVP was known as Relative Value Partners, LLC. The Balanced Account composite contains fully discretionary balanced accounts and for comparison purposes is measured against the 60/40 Benchmark. The 60/40 Benchmark is comprised of 60% S&P 500 and 40% Barclays Aggregate Bond Index, reweighted monthly. The Absolute Return Composite contains fully discretionary absolute return accounts and for comparison purposes is measured against the 3 Month Treasury bill. The Equity Account Composite contains fully discretionary equity accounts and for comparison purposes is measured against the S&P 500. The Fixed Income composite contains fully discretionary fixed income accounts and for comparison purposes is measured against the Barclays Aggregate Bond Index. The Global Equity Composite contains fully discretionary Global Equity accounts and for comparison purposes is measured against the MSCI EAFE Index. The Absolute Return 30 composite contains fully discretionary Absolute Return 30 accounts and for comparison purposes is measured against 30% S&P 500/70% 3 Month T-Bill, reweighted monthly. The Limited Duration Fixed Income composite contains fully discretionary Limited Duration Fixed Income accounts and for comparison purposes is measured against the Barclays 1-5 year Corporate Total Return Index. The Durable Income Composite contains fully discretionary Durable Income accounts and for comparison purposes is measured against the Barclays US Corporate High Yield Index.

All returns are shown in US dollars and are net of actual fees. The returns shown include the reinvestment of dividends and other earnings. Accounts may own levered closed-end funds or ETFs and may short ETFs. Past performance may not be indicative of future results. Different types of investments involve varying degrees of risk and there can be no assurances that any specific investment will be profitable. Investors may experience a loss.

RVP claims compliance with the Global Investment Performance Standards (GIPS®).

To receive a complete list and description of RVP's composites and/or a presentation that adheres to the GIPS standards, contact Catherine Goel at (847) 513-6300, or write RVP, 1033 Skokie Blvd, Ste 470 Northbrook, IL 60062, or cgoel@rvpllc.com.