INVESTMENT TRENDS

Once-Boring Closed-End Muni Bond Funds Now In Demand

(NAPSA)—During the prolonged bull market of the '90s, many investors seemed to believe there was no such thing as risk. Alas, times have changed.

Investors are increasingly seeking more conservative securities and capital preservation. In that search, they are taking a closer look at municipal bond funds, which offer historically strong returns, comparatively little volatility and none of the headaches of taxes. When stocks fall, bonds, historically, go up. Municipal bonds, therefore, may help preserve wealth by potentially delivering positive returns during volatile equity markets. The average annual total return for muni bonds was 6.75 percent over the decade ended May 2002, according to Lipper Inc. As with any investment, past performance is no guarantee of future results.

Short-term interest rates are at 40-year historic lows. Federal Reserve Chairman Alan Greenspan lowered the Fed Funds rate 12 times in 22 months from 6.5 percent to 1.25 percent.

In this environment, investors have been attracted increasingly to closed-end leveraged municipal bond funds. These types of funds have been producing returns better than most. A leveraged fund can produce higher yields through borrowing money to increase its total volume of bonds, therefore earning more interest. Using a

standard leverage of 38 percent, a $100 million leveraged closed-end fund may borrow $61 million in auction-preferred shares and put that extra money into long-term bonds. The return from the bonds is higher than the interest on the debt, therefore producing more tax-exempt income. There is, however, more risk involved in leveraged funds. When rates increase, these funds take a harder hit, but with decreasing rates, the payoff can generally be better than in un-leveraged funds.

"It is important to note that this type of investment should be made for the longer term, at least three years, as a tool to balance a portfolio," says Robert MacIntosh, chief economist and portfolio manager of three closed-end portfolios, as well as manager for nine single-state, open-end tax-exempt funds. "Closed-end bond funds in a portfolio can help to boost returns in a tough market and keep an overall portfolio at a lower level of risk in a hot market. As investors actively reassess their tolerance for risk and seek to rebalance their portfolios, this asset class represents an attractive way to diversify."

Due to solid yields against the backdrop of the current bear market in equities, there have been a record number of offerings. Sixty-six leveraged closed-end funds were launched from January '02 through November '02. This is more than triple the total of leveraged funds introduced during the previous seven years. Huge amounts of money have flowed into these new fund offerings. Eaton Vance raised $1.55 billion in its initial public offering of three closed-end municipal bond funds in August.

In the mid-'80s, Eaton Vance began offering open-end national and state-specific municipal bond funds. Now, with 42 funds, the company offers one of the broadest line-ups of these open-end tax-free bond funds in the industry.

Eaton Vance Corp. is on the New York Stock Exchange under the symbol EV. It and its affiliates manage over $55 billion in assets for more than 70 mutual funds, as well as individual and institutional accounts, including those of corporations, hospitals, retirement plans, universities, foundations and trusts.