SN VALUATION
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Eaton Vance Risk-Managed Diversified Equity Income Fund (ETJ)

Overview 740MM market cap. Annual dividend yield at 1.5% distributed on a monthly basis. (The fund released $0.12 in dividend and $1.02 as tax return of capital. Tax return of capital is a non-taxable redemption, where investors recoup their investment. As such, the displayed dividend yield on some finance websites is misleading at 10%.) P/B at 0.88. Closed end equity fund. Inception July 2007.

The closed end fund purchases primarily US based dividend paying stocks, and buys put option/writes covered call option, to mitigate losses in a downturn; like an insurance. In Dec. 2012, the portfolio held 80 positions. 2012 was market by a rally in early 2012, with a downturn due to Greece, then rallied after the QE in Sept. Then, there was concerns over the US sequestration and fiscal cliff. The fund underperformed the market, realizing a 5.42% gain versus 16% for the S&P 500. The main detractors were the options, which are rolled on a periodic basis as they expire. The CBOE Buy Write Index realized a 5.2% return. This means, the option strategy, which was meant for a downturn in the market has detracted double digits from the portfolio. This is not a mere insurance. This is essentially a long/short fund, with the short on the index.

The S&P 500 on Dec. 31 2012 was at 1426.19. The Puts ranged in the 1360 price maturing within January, so these are 1 month rolls. The Call options written were at the 1450 price range. They both were purchased/written at $4.7MM, or a monthly 0.5% of the $840MM in assets. Cumulatively, the fund lost a net $32MM or 4% off their options strategy. The written call generates positive payment if the market doesn't exceed the exercise price, so it is also bearish. Seems the options strategy are doubled down on a downturn, which doesn't sound good for 2013, with the 20% YTD for S&P.

The fund generates $19MM in income, or a 2.2% return off the $840MM in assets. Advisor fee is $8.8MM, or a 1% of asset managed fee. So, this fund generates $10MM on an annual basis, of which $9MM was distributed to shareholders, or a scantly 1.4% dividend distribution.

However, the stock investments appreciated $50MM, or a 7% improvement.

Assessment The fund has 3 moving parts – net operational cash flow, realized/unrealized investments gain/loss, unrealized/realized options gain/loss. Operational cash flow will be $10MM annually, so the 1% dividend payment is ensured. However, the total return will always be hurt by the options in a bull market, and the losses will be minimized in a downturn. Not a great value proposition, since most investors are gains focused, rather than capital preservation. Even retirees care about generating money, rather than protecting money. This fund has rallied about 13% since the beginning of the year, trailing the S&P index. We see no merit in this fund, for a 1% dividend payout while waiting for a downturn in the market.

SN Valuation FIG Portfolio

As of 2013-08-08

Buy

Name	Ticker	Market Price*	Entry Price	Date	Gain/(Loss)
Premier Financial	PFBI	12.36	12.61	08/07/2013	-1.98%

Average Total Return -1.98%

Follow

Name	Ticker	Market Price*	Entry Price	Date	Gain/(Loss)

*Intraday Market Price