SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549


Investment Company Release #32537

Request for Hearing on the Application by Advent/Claymore Enhanced Growth & Income Fund for an order under §17(b) of the Investment Company Act exempting a proposed in-kind repurchase offer from §17(a) of the Act so that the Fund's Affiliated stockholders may participate.

Hearing Requested by Robert H. Daniels, shareholder of The Advent/Claymore Enhanced Growth & Income Fund

Please send copies of all notices, orders and communications in connection with this matter to:

Robert H. Daniels

Tel: 
Fax 
E-mail: 
The Fund's Application

The Advent/Claymore Enhanced Growth & Income Fund, a closed-end investment company listed on the New York Exchange (ticker "LCM"), has applied for an order exempting a proposed "in-kind" repurchase offer from §17(a) of the Investment Company Act so that "affiliated" shareholders\(^1\) may participate. The Fund proposes to tender for 32.5% of its 13,603,025 outstanding shares at 98% of net asset value per share, and to pay for them “in-kind” using portfolio securities. According to LCM’s fourth amended and restated application, filed on March 24, 2017, payment would be made with a pro rata distribution of cash (8% of managed assets) and various “Distributable Securities” (57% of managed assets), with further adjustment to avoid distributing fractional shares of stock or less than par denominations of bonds.

The Nature of My Interest and the Reason for My Request

I am the beneficial owner of 500 LCM shares held in a personal brokerage account at Charles Schwab & Co. The Fund proposes to buy back shares at 98% of NAV – a premium over the market price – but the terms for making payment in-kind seem designed to discourage individual investors, such as myself, from participating. More broadly, since about 40% of my personal and retirement portfolio is invested in closed-end funds other than LCM, I am concerned lest this sort of "in-kind" repurchase offer become an expedient way to cash out the institutional investors and activist hedge funds whose holdings now act as a check on overly complacent or self-interested fund managers.

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\(^1\) LCM's application names four §2(a)(3)(A) "affiliates": Bulldog Investors, Western Investment, Saba Capital and RiverNorth Capital. These well-known activist investors, which together own 31.15% of LCM, seek to profit by targeting closed-end funds trading at significant discounts to net asset value.
The Issues for Hearing: Summary

There is reason to believe that granting the exemption would permit the Fund to buy out a few large dissident shareholders at prices above market on terms that make it impractical for smaller individual shareholders to participate. Such unfair discrimination against smaller holders would violate §§17(b), 23(c)(2) and (c)(3) of the Investment Company Act of 1940 regulating share repurchases by closed-end funds. It is also contrary to the policy expressed in §1(b)(2) of the Act, that funds be managed in the interest of all classes of security holders, rather just their advisers or other affiliates.

LCM proposes to pay 98% of net asset value to repurchase a limited number (32.5%) of its shares - shares that currently (4/10/17) trade at only 90.9% of NAV. This sort of offer pits holders against each other. If the offer is over-subscribed, acceptance will be pro-rated, and only a fraction of each participant's tendered shares will be bought at the favorable price. "The slices are bigger if fewer people share the pie." If the terms of an offer deter some investors from participating, this raises the fraction of shares accepted from those holders who are able to participate. Large holders that can readily liquidate the securities they receive from an in-kind distribution will net close to 98% of NAV for their shares, while smaller shareholders are trapped and can only exit at the discounted market price. This not only favors some holders over others, but also allows the fund to retain more assets and generate more advisory fees, since the size of the offer can be tailored to fit what those large investors own.

Issue 1: The hearing should consider whether the application masks the real reason exemption is sought.

LCM's fourth amended and restated application asserts (p. 10) that "no Affiliated Shareholder has had, nor will have, any influence on the
determination of the terms for the In-Kind Repurchase Offer”. But footnote 10 to the financial statement in the Fund’s 2016 Annual Report (filed 1/6/2017) tells a very different story:

“The commencement of the potential Tender Offer is pursuant to an Agreement between the Fund and Western Investment LLC and certain associated parties (‘Western’), and a separate Standstill Agreement between Advent Capital Management, LLC, as investment manager of the Fund, and Bulldog Investors, LLC and certain associated parties Bulldog”). Pursuant to the Agreement between the Fund and Western, Western has agreed to tender all Shares of the Fund owned by it in the Tender Offer and to be bound by certain "standstill" covenants through July 22, 2021 with respect to the Fund and Advent Claymore Convertible Securities and Income Fund (NYSE: AVK) and Advent Claymore Convertible Securities and Income Fund II (NYSE: AGC) (the "Other Advent Closed-End Funds").

“In addition, Western agreed, among other things, to withdraw its shareholder proposal and trustee nominations for the 2016 annual meeting of shareholders of the Fund and the Other Advent Closed-End Funds. The Fund has been advised that Western will file a copy of the Standstill Agreement with the Securities and Exchange Commission as an exhibit to its Schedule 13D. Pursuant to the Standstill Agreement between the Fund and Bulldog, Bulldog has agreed to tender all Shares of the Fund owned by it in the Tender Offer and to be bound by certain "standstill" covenants through July 22, 2021 with respect to the Fund and the Other Advent Closed-End Funds.2

In other words, LCM’s “affiliated” investment adviser agreed to have the Fund make this in-kind tender offer in order to deflect a pending proxy fight with two “affiliated” activists. It beggars belief to think that a party entering into a negotiated standstill agreement has “no influence” on the consideration it receives. “Section 17(a) was designed primarily to

2 The LCM- Western Contract is Exhibit 99-1 to Schedule 13D Amendment 4, as filed by Western Investment on July 25, 2016. The Advent-Bulldog contract has not yet been located.
prohibit a purchase or sale transaction when a party to the transaction has both the ability and the pecuniary incentive to influence the actions of the investment company.”

**Issue 2: The hearing should consider whether LCM’s portfolio is appropriate for a pro-rata distribution in-kind.**

LCM is a “go anywhere” fund. As of January 31, 2017 (per Form N-Q filed 3/27/17) total investments valued at $179.1 million were leveraged with $50.9 million of liabilities, so net assets came to $128.2 million. Of these total, only $11.7 million was invested in common stock, with a further $11.4 million in convertible preferred shares. The bulk of the portfolio was made up of $89.7 million in convertible bonds from over one hundred different issuers, with another $50.1 million in corporate bonds from a hundred more issuers. As of January 31, according to the fund’s website, 65.2% of its investments were in the US and 34.8% were international: the annual report had named 26 countries.

The Fund appears to recognize that its holdings are poorly suited for an in-kind distribution. On December 19 it amended last August’s application, saying it would only distribute 71% of “managed assets”: securities, not otherwise restricted, that were listed or traded in the US or five other countries. A second amendment this March cut back even

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4 Restricted securities (144A or 4(a)(2)) made up $34.3 million, or about 20% of total assets. As for credit quality, 13.4% came in at BBB or better, 43.7% were BB or below, and the remaining 43% were “Not Rated”.

further. All securities not eligible for settlement through Depository Trust are now excluded, leaving only 57% of “managed assets” for distribution. Even this may well be too high. The most recent amendment on March 24 stated, as a condition to any Order, that:

“The securities distributed to shareholders pursuant to the In-Kind Repurchase Offer will be limited to securities that are traded on a public securities market or for which quoted bid and asked prices are available.” (p. 14)

Yet LCM’s Form N-Q filed March 27 lists only the common stock, the preferreds and $15.1 million of cash equivalents as “Level 1” securities, those valued using quoted prices. It reports “Level 2” values for all the bonds: “quoted prices in inactive markets or other significant observable inputs.” Are these prices “available”? As the Commission recently noted in adopting liquidity rules for open-end funds:

“Dealers do not necessarily purport to provide quotations for securities that reflect their current market values. Some dealers may provide only “indications of interest,” i.e., non-firm expressions of interest to trade that do not constitute quotations or “accommodation quotes.... We also note that evaluated prices provided by pricing services are not, by themselves, readily available market quotations.”

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6 Note 1 to the Form N-Q explains that the convertible and corporate bonds “are valued by independent pricing providers who employ matrix pricing models utilizing various inputs such as market prices, broker quotes, prices of securities with comparable maturities and qualities, and closing prices of corresponding underlying securities.”

Closed-end funds can invest in less liquid securities than open-end funds, which must stand ready to meet requests for redemption. Indeed, that is an advantage of the closed-end format: fund shares have a degree of liquidity (though often at a discount) which the underlying investments may lack. But distributing a pro-rata partial slice of a highly diverse portfolio consisting mainly of thinly traded debt does not “enhance” investors’ liquidity, as the Application claims (p. 7); rather, it detracts.\(^8\)

**Issue 3: The hearing should consider whether the terms proposed for in-kind payment make it unreasonably difficult for individual investors to participate.**

Trading odd lots of securities can be difficult and expensive. The Application explains that:

“[H]olding odd lots and/or fractional securities in its investment portfolio could be detrimental to Applicant and its post In-Kind Repurchase Offer shareholders, as brokerage commissions on equities and transaction costs on convertible and other fixed

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\(^8\) The Application also says that “Certain of the Fund’s portfolio holdings may trade in markets that offer limited liquidity or that feature a limited number of trading counterparties. Selling such securities could negatively affect the market value of the portfolio securities. In addition, if Applicant announced a cash tender offer market participants would be aware that Applicant would be required to sell portfolio securities to raise cash to finance a cash tender offer, and as a result Applicant may be unable to obtain favorable pricing for the securities it would seek to sell or would be required to liquidate only its most liquid positions.” (p. 7, emphasis added.) If this is the case, then some of the securities might instead be best valued as Level 3: Significant Unobservable Inputs. See p. 4-8 in PWC’s Accounting Guide to Fair Value Measurements online at [http://www.pwc.com/us/en/cfodirect/assets/pdf/accounting-guides/pwc-fair-value-measurement-2015.pdf](http://www.pwc.com/us/en/cfodirect/assets/pdf/accounting-guides/pwc-fair-value-measurement-2015.pdf)
income securities are typically higher for transactions in securities that are not traded in round lots." (p. 11)

Accordingly, LCM plans to "round down or up the aggregate amount of each portfolio security eligible to be distributed to ensure that the Fund will continue to hold the nearest round lot amount of each portfolio security." Holders who tender will not be treated so well. Fractions will be rounded off, but the basic unit for paying in kind will be "a full share in the case of stocks" and a single bond "typically a par amount of $1,000 or $2,000", and in place of fractions, LCM "will distribute a higher pro-rata percentage of other Distributable Securities, selected by lot" (p. 4).

The §17(a) exemptive orders that are offered as precedent did not work this way. Those funds paid in-kind with tradeable round lots and cashed out odd lots. For example, the Singapore Fund's 2012 offer said:

"The Fund will pay you in cash with respect to each Portfolio Security as to which you would receive an Odd Lot, or a distribution of fewer than 1,000 shares of that Portfolio Security. Due to the large size of the conventional minimum trading threshold in Singapore, the Fund expects that all participating stockholders will receive at least some cash with respect to each Portfolio Security allocated in the Offer. The Fund expects that any Small Tenderer who tenders fewer than 2,500 Shares would be allocated fewer than 1,000 shares with respect to each of the Portfolio Securities. Accordingly, if you are a Small Tenderer, you will not receive Portfolio Securities and will receive solely cash in exchange for your Shares in the Offer." 9

LCM's plan ignores differences in the ability of investors to receive in-kind redemptions. As the Commission pointed out in its Liquidity Management Release, retail investors "may not be operationally equipped to receive in-kind redemptions", and "some shareholders are generally unable or unwilling to receive in-kind redemptions".10

9 Offer to Repurchase, page 2 of Exhibit 99(A)(1)(i) to Form SC TO-I, filed 2/14/2012.
10 Investment Company Liquidity Risk Management Program, supra, n. 7 at pp. 240 and 241
Consider, for example, what a small investor owning 1,000 shares could expect if they decide to tender? A very rough estimate puts their *pro rata* share at $\frac{1}{12,500}$ of each "Distributable Security." Applying this to the portfolio in the most recent Form N-Q filing, they would get:

- **BMS**: 1 share
- **CTL**: 2 shares
- **GM**: 2 shares
- **VZ**: 1 share
- **WFC**: 1 share

and *maybe* 1 share of Lazard Ltd. and 1 in Koninklijke Philips NV, if these foreign shares clear through the Depositary Trust Co. From the list of convertible preferreds, our investor would receive:

- 2 Anthem Inc. 5.25%
- 1 Arconic Inc. 5.38%
- 1 Hess Corp. 8%
- 1 Stericycle 5.25%
- 1 Frontier Communications 11.13%

Sadly, our investor would not be entitled to a single whole bond.

An "affiliate", such as Saba Capital, which owns 1,340,954 shares of LCM, would get about 10% of each portfolio holding: mainly round lots topped off by an odd lot, not single shares or individual bonds. In contrast, most of what our investor would get through proration would be the right to receive fractional pieces of more than one hundred stocks and bonds. LCM proposes to eliminate these fractions by rounding some up to full shares or whole bonds, using "other Distributable Securities, selected by lot". For a small investor, being paid in-kind means getting a scattering of single shares, awkward to hold and costly to sell, together with tickets in an ill-defined lottery with "full shares" and single junk bonds as prizes.

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11 1,000 shares divided by 13,603,000 total, adjusted for 98% of NAV, and for the fact that "Distributable Securities" and cash are only 65% of total assets, and further adjusted for the use of "Non-Distributable Securities" to pay down debt and maintain 28% leverage.

12 LCM's largest bond position per Form N-Q is 2,142 par $1,000 Weatherford International 5.88% convertibles due 7/1/21. To get one whole bond would require tendering about 6,000 LCM shares.
Conclusion

I respectfully request that the Commission order a hearing in this matter, and that the application of the Advent/Claymore Enhanced Growth & Income Fund for exemption from ICA §17(a) be denied.

Dated: April 10, 2017

Robert H. Daniels
CERTIFICATE OF SERVICE

I, Robert H. Daniels, certify as follows:
I am a member in good standing of the State Bar of California, Bar # 55567.
I hereby certify that on April 11, 2017, I served the attached:

**Request for Hearing** on the Application by the Advent/Claymore Enhanced Growth & Income Fund for an order under §17(b) of the Investment Company Act exempting a proposed in-kind repurchase offer from §17(a) of the Act so as to permit Affiliated stockholders to participate (ICA Release #32537, File No. 812-14686)
on applicant the Advent/Claymore Enhanced Growth & Income Fund by sending a copy of the same by Priority Mail to:

Edward K. Delk, Secretary
Advent/Claymore Enhanced Growth & Income Fund
1271 Avenue of the Americas 45th Floor
New York, NY 10020

with copies of the same by first class mail to:

Philip H. Harris, Esq.
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and to:

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Dated April 11, 2017
San Francisco, California

[Signature]
Robert H. Daniels
Cal Bar # 55567