

Fund Interviews

By Capital Link

December 20, 2004

Investing in Closed-End Funds & Exchange Traded Funds - Investment opportunities

Interview with Mr. George Cole Scott
President of Closed-End Fund Advisors



George Cole Scott
President & Sr. Portfolio Manager
Closed-End Fund Advisors



Question: Your firm is a big proponent of global investing. Could you please explain to us

why ETFs and CEFs are more suitable for investing in foreign markets than mutual (open end) funds?

Answer: CEFs and ETFs are more suitable for the foreign markets in many ways: 1.) The fixed capitalization of these funds means that it is impossible to have sudden redemptions of shares of CEFs as can happen to mutual funds when a sudden crisis occurs. 2.) The fact that closed-end funds can trade at discounts to their net asset value gives the shareholders some downside protection in down markets, both global and domestic.

Question: *Sometimes, there are both ETFs and CEFs investing in the same region or pursuing the same objective. So, when it comes to choosing between ETFs and CEFs, what makes you pick one instrument over the other?*

Answer: We first look at the markets or regions where we want to invest. ETFs can sometimes be a better choice when you want the index of a particular region, but we are used to investing in closed-end funds where the manager outperforms his benchmark, so we usually go that route.

Question: *In your global portfolio, do you currently favor bond funds over equity funds?*

Answer: We always favor equity funds over bond funds, but there were special circumstances in 2003 when the US dollar started to weaken. We therefore decided to invest in two Templeton Bond funds both for the cash flows to offset the low returns of money market funds. We purchased them because we wanted to hedge against the falling dollar. The strategy worked beautifully. Now, much of the financial press is focusing on how to hedge the dollar; we think that rising interest rates as well as somewhat higher inflation will make hedging the dollar much more difficult. We have, therefore, been selling some shares of our bond funds.



Question: *Are you focused more on developed or emerging markets?*

Answer: We focus more on the developing markets, particularly those in Asia, Latin America and Central Europe over the slower-growth developing markets.

Question: *Which areas do you see as undervalued or overvalued? Where do you think are the biggest opportunities?*

Answer: After a huge run in the markets we favor—Brazil, Mexico, China, and Australia, this is difficult to answer. We are still in these areas, but are looking into funds in Western Europe, particularly Switzerland and the U.K.

Question: *Does the weakness of the US \$ affect your decision making and how?*

Answer: As we said, we have been hedging the US \$ with bond funds and think that the US dollar is more likely to slowly rise than fall.

Question: *To conclude our interview, what are your top ten holdings and any brief thought on the funds?*

1. Cohen & Steers Total Return Realty Fund
2. Brazil Equity Fund
3. Allied Capital
4. General American Investors
5. Central European & Russia Fund
6. Asia Pacific Fund
7. Templeton Global Income Fund
8. Lazard Global Total Return & Income Fund
9. Latin America Equity Fund
10. Aberdeen Australia Equity Fund

*Closed-End Fund Advisors is a Registered Investment Advisors firm based in Richmond, Virginia and founded in 1989. They manage accounts for individual and institutional investors. For more information on Closed-End Fund Advisors or to subscribe to **The Scottletter Online** visit www.cefadvisors.com or call 800-356-3508*