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THE SCOTT LETTER is intended to educate global investors about closed-end funds. Closed-end funds can be a valuable and profitable investment tool. To learn about closed-end funds, visit our web site, www.CEFAdvisors.com, and in particular, read our article, *What Are Closed-End Funds*. Feel free to forward this newsletter to anyone who you believe could benefit from information on closed-end funds or global portfolios.

– George Cole Scott
Editor-in-Chief

IN THIS ISSUE:

Asia Pacific Fund Continues to Roll: Exclusive Interview with Its Portfolio Manager, Khiem Do

The investment objective of The Asia Pacific Fund (APB-NYSE) is to achieve long-term growth in equity securities in the Asia Pacific countries. APB is managed by Baring Asset Management Company ("BAM") Ltd. of London from its Hong Kong office. The portfolio manager is Khiem Do, head of its Asian investment team since 1997. Previously, Khiem worked for Citicorp Global Asset Management in Sydney, Australia where he was the Chief Investment Officer.

Khiem, who was born in Vietnam, received his BA (Honors) in Economics from Macquarie University in Sydney. He continues the strategy employed by his predecessor, James Squire, who managed the portfolio for eight years.

Khiem Do

BAM has about USD $3.6 billion of assets under management in Asia (ex-Japan) as of March 31, 2006. The firm adopts a growth-at-a-reasonable-price, known as GARP, investment philosophy which aims to add value at both the macro (asset allocation/theme selection) and micro (stock selection) levels.

APB will distribute any net capital gains in excess of net carry loss forward to shareholders. BAM believes it is easier to find a company that has the potential to be re-rated when it trades at a 5x-7x price/earnings ratio than it is to find a company that is to be re-rated when it trades at 22x-28x P/E. APB is allowed to use leverage, and at the end of March 2006, the portfolio was leveraged by about 9%, which may be increased if stocks sell down.

The Asia Pacific Fund divides its region into three sections: North Asia (Hong Kong, China and Taiwan), South East Asia (the ASEAN countries of Indonesia, Philippines, Malaysia, Singapore and Thailand) and South Asia (India). The Fund is measured against the MSCI All Countries Far East Index (ex-Japan).

We interviewed Mr. Do on April 15, 2006.

SL: What growth figures do you expect for your region this year?

Do: We forecast growth at about 7%. It will be another solid year and may be about as strong as 2005.

SL: What economies have been driving your portfolio the fastest?

Do: The driver obviously is China. The resurgence of the Japanese economy is also a bonus for the whole Asian Pacific region.

SL: Are there any changes in your investment strategies since last year?

Do: There are always changes, depending on the relative valuations and earnings profiles of our markets and stocks. In 2005, we were overweighted in Korea; now we are overweighted in China.

SL: Do you mean mainland China or Hong Kong?

Do: The Fund invests in Chinese shares listed on the Hong Kong Exchange: the "H" shares and the "Red Chips." We don't separate China because the Chinese companies in which the Fund invests are listed in Hong Kong, and secondly, because almost all Hong Kong companies have a business exposure in China.

SL: A year ago, you told us that Asia was being "re-rated" to a higher level of multiples. Would you refresh us on how that works and is it continuing?

Do: By re-rating, we mean an increase in the price-earnings or the price-to-book ratios. Over the past three months, the average price/earnings ratio has increased to about a 13x P/E ratio, from about 12x at the end of last year.

We expected that the re-rating would continue because (growth) in the region is expected to be strong and valuations in Asia were very cheap. We also believed that Asian currencies were undervalued, and we thought that overseas investors would continue to buy Asian equities on the basis that Asian markets offer growth, cheap equity valuations and undervalued currencies. All of the above have boosted the valuation of Asian markets over the past 12 months.

SL: How much time do you spend traveling?

Do: I spend much of my time in China because of our focus there. In addition, we visit a number of companies from the region in Hong Kong for business updates.

SL: Your portfolio is leveraged as much as 9%, which is unusual for closed-end funds. Have you made any changes?

Do: The Fund continues to be leveraged because we hold a positive view on Asian economies and stock markets. This creates value for the fund.

SL: How much does it cost to borrow the money?

Do: APB borrows at Libor (short-term) rates which are rolled over periodically.

SL: Is the revaluation of the Chinese currency still a big issue?

Do: Yes, the currency (the Renminbi) is still undervalued because the Chinese government wants to remain competitive in exports. Under pressure from the U.S. government, they had to revalue it, but they did this gradually. As a result, the currency has appreciated only about 3.3% against the U.S. dollar since July of last year.

SL: Asian equities recently reached 16-year highs whch deepens concerns that stretched valuations, rising interest rates and a possible waning appetite of foreign investors could end the region's prolonged bull market. Do these concerns worry you at all, or are the valuations still reasonable?

Do: Asian markets have risen strongly [so] valuations are no longer at bargain levels. However, from a global viewpoint, they continue to trade at a discount to the developed markets' valuations. We believe that the bullish trend in Asian equities remains intact.

SL: You have also said that you buy stocks when the investment sentiment is poor. Have you found that kind of sentiment to initiate buying some bargains in the last 12 months?

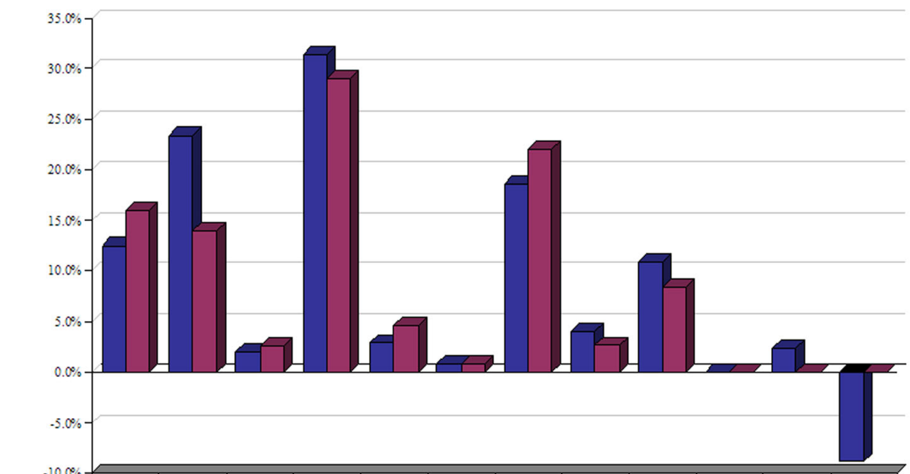
Do: Yes, at the beginning of last year, Korea was not an attractive market, but Barings found that it was very cheap so we recognized the growth potential. In 2005, we were overweighted in Korea. This market rose about 50% so the first leg of the re-rating of that market has taken place.

As we were positioned correctly, we took some profits in Korea early in 2006 and shifted the funds to China, which was one of the cheapest markets in Asia. It was trading at about 10x P/E. The Chinese market (the MSCI-China Index) has risen about 25% over the past few months.

SL: Your annual report shows that in 2005 your Korean holdings were 37% of the total. As you know, Korea historically has an incredible record of growth and integration into the high-tech modern economies. It is now a part of the trillion

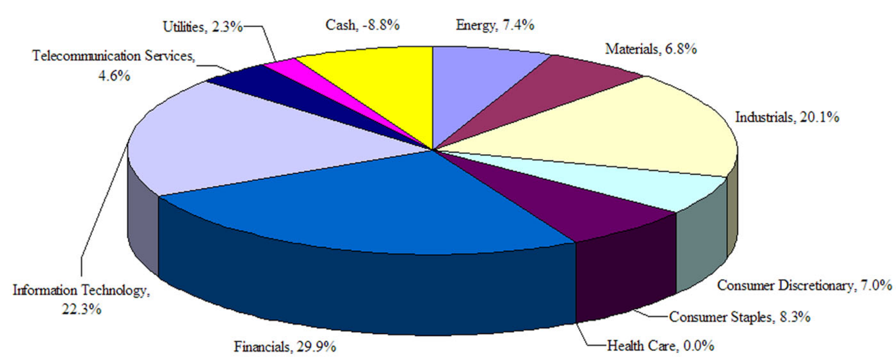
Asia Pacific Fund
as of March 31, 2006

Country Breakdown:
Segment Definition: MSCI EJF (Gross) Country – Hong Kong Sep.



	Hong Kong	China	Indonesia	Korea (Republic of) - South	Malaysia	Philippines	Taiwan	Thailand	Singapore	Pakistan	India	Cash
APB	12.5%	23.4%	2.0%	31.4%	2.9%	0.8%	18.6%	4.1%	10.9%	0.0%	2.3%	-8.8%
Benchmark	16.0%	13.9%	2.6%	29.0%	4.6%	0.8%	22.0%	2.7%	8.4%	0.0%	0.0%	0.0%

Sector Breakdown
Segment Definition: MSCI AC FEF x Japan Gross (Sector)



dollar club of world economies because of close government business ties. Please explain.

Do: The largest buyers of Korean exports are the U.S. and China, but there has been a domestic recovery. Korea had a credit card problem a few years ago; this meant that there was not much money [available] for household goods or mortgages. The problem is now fixed, and lending has increased, aiding recovery.[1]

SL: In 2005, the government of Korea proposed labor reform legislation and a corporate pension scheme for more flexibility in the labor market. What progress has been made to equalize income distribution?

Do: They have introduced new taxes, including one on property, to bring more equality in income distribution, especially in the luxury end of the market. Property prices in the capital city of Seoul cooled down somewhat, but, as household income grows, the luxury property end will also benefit. Hence, the government can only cool it down to a certain extent.

SL: Regarding Hong Kong, we understand that the SAR, the special relationship with mainland China, has worked out well. In your view, how well have these trade ties worked out for "one country, two systems?"

Do: The trading relationships between Hong Kong and China have always been very strong because all of the manufacturing activity was outsourced to the Shenzhen and Guangzhou regions of China in the early 1980s. Recently, the Chinese government has tried to expand those trade relationships further by introducing free-trade zones between the southern China and Hong Kong.

In addition, the Chinese government encourages tourism from China into Hong Kong, which has helped the Hong Kong economy. Rather than coming in tour groups, the Chinese can now come individually and have more money to spend. They used to be able to bring 1000 yuan (USD 121) on one trip but now can spend as much as 8000 yuan (USD $1,000) in Hong Kong. And even more in the future!

SL: That's how prosperous China has become. When you travel around China, are you aware of this prosperity, particularly outside of the large cities?

Do: Yes, prosperity has spread as the government is very keen in modernizing the whole of China. More and more new highways and new cities are being built, which will continue as this is the main objective of China's new 5-year plan to develop the rural areas in the central and western (provinces) of China.

SL: When I was in China in 1997, I saw most of the growth on the coast. Is that still true?

Do: Yes. The government is trying to "roll-out" the successful development and modernization of the eastern seaboard to central and western China in the coming years.

SL: Many Asian governments have implemented legislation to allow real estate investment trusts to be formed. What can you tell us about this, and do you invest in any of them?

Do: The Singaporean government was the first to do that, followed by Hong Kong.

The Hong Kong REIT sector is growing fast. We had some investments in REITs but have sold them because the environment is not favorable now. They are interest-rate sensitive, and interest rates around the world are rising. The Hong Kong dollar is pegged to the U.S. dollar, so the [environment] is currently not favorable. Most Hong Kong REITs (with the exception of Link REITs) have not performed well, so we have been avoiding them. At some point, we will look at them again but not purchased yet.

SL: That surprises us because in the U.S., REITs are still booming in spite of the rise in interest rates, especially in shopping centers. We also see strong growth in the foreign REITs, in spite of rising interest rates worldwide. Any comments?

Do: That is an interesting point because I thought the U.S. REITs were performing poorly. In the Asian context, the trick is to invest in the companies which will launch a "hot" REIT.

SL: We hope you will find some opportunities. We have also learned that China has been cleaning up Beijing because of the coming 2008 Olympics, but elsewhere there doesn't seem to be much progress. They have been replacing bicycles with automobiles, which has increased pollution in many of their cities. We note that Beijing has been trying to increase its share of global travel and tourism spending, which is expected to grow an average of 8.7% a year between 2007 and 2016, according to Reuters, Beijing. The government is now advertising the Olympics in the U.S. on a web site, www.DiscoverChinaForever.com. The National Tourist Office is urging tourists to come to China on non-stop flights. China must be working to reduce their pollution for this event, don't you think?

Do: Any comment about governments being able to fix their pollution problem is not correct in China or anywhere. The big cities of the world are becoming more polluted, particularly as a city attracts more immigrants. Space and facilities cannot increase fast enough, so pollution increases. The pollution in Beijing has not been eradicated altogether because, like the rest of China, there are more cars, coal-fired power plants and factories so the pollution is likely to worsen. It doesn't matter whether it is Shanghai, London or New York. No successful city in the world has been able to effectively reduce pollution through time.

SL: Regarding this, we found www.GreenChinaView.com. This web site aims to "introduce and keep non-Chinese people informed about Chinese environmental subjects." They are collecting information about China and, simultaneously researching, which are the main interests of non-Chinese people regarding this country's environment. The group is deeply aware of how China will influence the world's environment in the near future. They see China as a member of the developed countries and one of the first of three world economic leaders. The main interest

> ***The art of living is always to make a good thing out of a bad thing.***
>
> – E.F. Schumacher (1911-1977)
> Economist

is in rural development, considering the huge importance of the countryside as 70% of the people live there.[2]

Do: Yes, all city dwellers are concerned about pollution. However, it doesn't matter where you are. Once a city becomes successful, I am afraid that pollution becomes a bigger problem.

SL: My answer is that a city is not successful if pollution isn't controlled. There is more evidence of governments putting better environmental controls on cars, trucks and power plants, in spite of some opposition from industry. Hong Kong is also polluted, isn't it?

Do: The pollution here is mostly from autos, and perhaps some of the air pollution comes in from the southern provinces of China, where the Hong Kong manufacturing and multi-national corporations operate.

SL: My next question is about banking, real estate, industrials and IT companies which are the heaviest part of your Hong Kong portfolio . What are your comments?

Do: We hold some property companies, but they are developers and property rental companies. We also hold some banks as well as a number of industrial companies whose headquarters are in Hong Kong and their factories in China.

SL: We now move onto Taiwan, which I visited once. As you know, they have prospered under their Democratic Progressive Party, but the dominant political as well as economic issue still is their relationship with China and the possible re-unification. How does that affect the economic forecasts for this nation?

Do: There still is a question mark on the cross-strait link between Taiwan and China which, unfortunately, hasn't been resolved yet, as the Taiwanese government is reluctant to be part of China. However, underneath the political wrangling, the business relationships between Taiwan and China continue to grow strongly.

SL: Has the trend for privatization of banks and industrial firms continued in Taiwan?

Do: So far the effort for privatization has been very gradual and not very successful.

SL: Is the trade surplus between Taiwan and China still growing?

Do: Yes, because the Taiwanese companies are still moving their production facilities across the border to China.

SL: We also see that excess inventories, higher interest rates and high oil prices which have affected the Taiwan economy. Has any of this dampened consumption or GDP growth?

Do: GDP growth in 2006 will be about 4% to 4½% – not great but not bad either. Low-end manufacturing has been outsourced to China. The export earnings have been a plus for Taiwan. The service and [some of] the manufacturing industries are still supported by China.

SL: Our research shows that the 70% of the economy is in the service sector. How has this affected your investment choices in Taiwan?

Do: We focus on the technology companies and have some property companies which hold much land as those assets are undervalued. That is one way to play the property market in Taiwan.

SL: Your third largest sector is Singapore which has become one of the world's most prosperous countries and has one of the busiest ports, with the highest per capita income in the world. It is also an open, corruption-free environment. Has the government been able to establish a new growth path that will be external to the business cycle?

Do: Singapore has always been proactive in creating new industries, including inviting the fund management industry to set up there. They also have established an excellent engineering services center for airplane/ship maintenance and, with tax incentives, have invited medical and healthcare companies to locate in Singapore.

SL: What investment opportunities have you found there?

Do: We are focused on service industries including engineering. The Fund also holds an exposure to the Singapore Stock Exchange, which is quite vibrant. It has been encouraging small Chinese companies to list on it. The large ones list on the Hong Kong Stock Exchange or on their domestic A-share market. We have investments in property developers. There are also many companies which pay high dividends as many of its companies are cash-up and prepared to pay out more in dividends.

SL: That's important as a way to bring more capital into stock markets – the quest for yield. Our closed-end fund investors are into this game. The funds which do the best at narrowing their discounts to net asset value are those which pay out the most. Unfortunately, if they pay a return of capital, they may be in trouble and could have to cut their distributions as many bond funds have had to do. We haven't seen any evidence that the Asia Pacific Fund has this problem.

SL: What is Singapore doing about high oil prices?

Do: The Singaporean economy has a high current account surplus and can manage. The high oil prices have only effected smaller countries such as The Philippines or Thailand, but not Singapore, Korea, Taiwan, Hong Kong or China.

SL: Malaysia, which is 4% of the portfolio, was hard hit by the IT slowdown earlier in this century, but has rebounded with a 4.1% increase in 2002 and a 7% growth rate in 2004. Its growth has slowed to 5% in 2005. What is your assessment?

Do: Malaysia benefits from high oil prices as it is a net exporter. Also, the economy has done well with its palm oil and rubber exports. Malaysia continues to be modernized. Its growth rate should be 5%-6% per annum on average, but in some years, it could rise to 7%-8%.

SL: What industries are the most profitable?

The greatest results in life are usually attained by simple means and the exercise of ordinary qualities. These may, for the most part, be summed in these two – common sense and perseverance.

– Owen Feltham (circa 1602-1668)
Writer

Do: The services and the export industries.

SL: We have found that this economy remains dependent for its growth on the export destinations of the U.S., China and Japan. They are key sources of foreign investment. How has this factor affected your investment decisions?

Do: We are not driven solely by the macro-economic picture in our stock selection. Stock selection in Malaysia, similar to elsewhere in the region, is based on the fundamentals of the particular stock relative to its industry, valuation and so on. In Malaysia, we have some investments in banks, properties and infrastructure. This is the result of bottom-up decisions, not macro-driven events.

SL: Any further comments on Malaysia?

Do: Over the past few months, the currency (the Ringgit) has been strengthening as the Chinese currency became more flexible. It rose by 2%-3% this year against the U.S. dollar. We expect to see more appreciation this year.

SL: We have learned that Thailand is the only southeastern Asian country never to have been taken over by a European power. The tsunami, severe drought, high oil prices and slower tourism have all weakened consumer confidence there. On the other hand, they seem to be recovering. How do those factors apply to your investments there?

Do: We are interested in Thailand because it is has been one of the cheapest markets over the last six months. There was the negative impact of the "tsunami event" plus terrorism in the south, bird flu and political uncertainties, creating a poor [investment] sentiment in Thailand.

SL: Do you presently have any investments in Indonesia?

Do: Yes, currently about 2% of the portfolio is in Indonesia. We hold a telecom company and a bank. We believe that interest rates have peaked, and the potential fall in interest rates will be very beneficial for earnings growth there over the next 12 to 18 months.

SL: You only had about 2% of your holdings in India last year. Have you missed opportunities in this fast-growing economy?

Do: Yes, India has been a great market, but its strong earnings growth is very expensively priced, which doesn't fit our "growth-at-a–reasonable-price" philosophy. We have taken a prudent approach towards investing India as a result.

SL: To wrap-up, we have some concerns about the Asian stock markets, which have recently been hitting multi-year highs. For instance, there are fears of a sudden correction, and we have found not many reasons for further high rates of growth. The Hong Kong Hang Sang Index has risen 11.4% as of April 21, 2006. Some of this concern is related to what our Federal Reserve will do about interest rates? What is your assessment?

Do: Our global economics group is forecasting that the Fed is close to a pause. High oil prices are certainly making headlines in the press but are not a real economic threat unless they rise to and stay at USD $100 a barrel. Last year, oil prices rose from $30 to $60 dollars. This didn't affect growth or cause an inflation problem. The core inflation rate in the U.S. is only 1.8%. So, inflation has not been a big issue to-date. People talk about rising oil prices, but this has not really impacted global or regional economic fundamentals. A larger proportion of the consumer budget is spent on services, not oil-related products.

SL: I hope you are right. We have seen the price of APB stock make daily new highs. My final question is how long do you see such a high rate of growth in your region continuing?

Do: The rate of global and regional growth is likely to remain strong. And yet, the region is only trading at 13x P/E. We still believe that Asian markets are cheap. If we want to reduce the portfolio risk, we would buy more stable companies with a lower P/E ratio, but at the moment that's not our focus. We don't see why we should become defensive yet. As I said, growth around the world has been accelerating, rather than declining.

SL: What concluding remarks do you have?

Do: We expect the economic growth rate of China to remain strong in the coming years, driving the rest of the region. Although Asian markets have been re-rated over the last 12 months, they are still quite cheap relative to the rest of the world. In addition, we continue to see a lot of liquidity coming into the region.

Asian companies also have been paying more in dividends and are becoming more prudent about what to do with their free cash flow. This is something we welcome. We remain bullish.[3] ■

Notes

[1]South Korea's stock exchange continues to advance despite regulators' determination to revise tax agreements that protect foreign shareholders. The authorities have launched several tax probes related to the hefty profits its foreigners have earned recently. The large foreign shareholders worry about having to pay the same amount of tax as domestic investors as a result. A revision of the tax treaty could discourage foreigners, particularly hedge funds and private equity players from buying large stakes in South Korean companies. A spokesman at the Finance Ministry said that the revisions are intended to "prevent treaty shopping and tax evasion by foreign funds. Source: *The Wall Street Journal*

[2]We have seen many recent improvements regarding cleaner air in many cities we have visited, both here and abroad. There is much concern about public health issues now because of pollution. In China, the government has been making steady progress in cleaning up its water resources and air quality. Over the past 20 years China's economic explosion has created an ecological implosion of air pollution caused by coal burning and a growing army of cars. The livelihood of rural residents as well as the newly rich has been threatened. Their booming growth has come at a cost to the environment, so in the 1980s, the Chinese government began introducing environmental laws with the assistance of NGOs and multilateral aid agencies to counteract these problems. The new priorities are indicated in the "tenth Five-Year Plan (FYP) for 2001-05,

which was the "greenest" the government has ever passed. The objectives – set at $85 billion – were nearly met. This included urban wastewater treatment, reforestation, expansion of nature reserves, increases in the use of natural gas and major investments in cleaning up major lakes and rivers, among other initiatives. There has been a major shift toward giving priority to the environment and to public representation.

The central government has welcomed the proliferation of independent green groups and encouraged government agencies to help support national environmental protection goals and policies in an attempt to keep local governments and industries in check. Over the past decade, environmental NGOs have been increasing their impact on policy by working with – or not against – the government. The success in expanding the capacity and visibility of Chinese environmentalists has brought its citizens and government together. Source: Worldwatch Institute: State of The World, 2006, www.WorldWatch.org.

[3]Editor's Note: As an aside, we note that Communist-ruled Vietnam, with a youthful population of 82 million, is Asia's second-fastest growing economy, right behind China. Vietnam has a tiny stock market, and recent inflows of foreign money, in spite of a recent corruption scandal, has created a speculative frenzy for its 36 listed stocks, These stocks trade at over 21x P/E and have a total capitalization of only USD $1.8 billion. The market is now overdue for a correction, as it has risen 94% this year. Therefore, the valuations are now too high now for the Asia Pacific Fund's strict GARP criteria.

Vietnam is in the Asia Pacific Fund's region. The Vietnamese authorities are becoming more proactive in seeking foreign direct investment by accelerating privatizations. According to a recent report in *The Financial Times*, there are some reasons for long-term optimism for the Vietnamese stock markets.

> ***Stick with the optimists.***
> ***It's going to be tough enough, even if they're right.***
>
> – James Reston (1900-1995)
> Journalist

Portfolio Manager's Review

During April, we reduced our cash position slightly. We increased our holdings in Central Securities Fund. We added to the real estate sector through additional exposure to Cohen and Steers Worldwide Realty Fund, which we will continue to do on weakness. This high performing fund now trades close to a premium to its net asset value; after its ex-dividend date, there should be new opportunities. We also added to our new REIT, Diamondrock Hospitality. In the global bond fund sector, we have been adding to Templeton Emerging Markets Income Fund, one of two of our global bond funds because they have been acting well.

On the sell side, because we want to have less exposure to mutual funds, we sold some of the shares of Alpine International Real Estate Fund and Cohen & Steers Realty Shares Fund. We have nearly eliminated Lazard Global Total Return & Income Fund, because of its high volatility and uneven performance.

Overall, the portfolios are doing very well, and we are optimistic that, with careful fund selection and diversified asset allocation, we will be able to continue to outperform our indicies. ■

George Cole Scott

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