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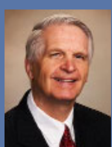
THE SCOTT LETTER is intended to educate global investors about closed-end funds. Closed-end funds can be a valuable and profitable investment tool. To learn about closed-end funds, visit our web site, www.CEFAdvisors.com, and in particular, read our article, *What Are Closed-End Funds*. Feel free to 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

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Latin America Equity Fund: The Best Macro-Economic Conditions in 20 Years

The Latin America Equity Fund (LAQ: AMEX) is a closed-end investment management company, launched in October 1991. Credit Suisse Asset Management, LLC ("CSAM") is the investment manager which also manages seven other closed-end funds, including The Chile Fund (CH:AMEX).

LAQ seeks long-term capital appreciation and invests at least 80% of its net assets in Latin American equity securities, primarily those listed in Argentina, Brazil, Chile and Mexico. LAQ may also invest up to 20% of its net assets in unlisted Latin American equity securities and up to 20% of its net assets in corporate or government debt of Latin American issuers. LAQ's largest holding is Petroleo Brasileiro S.A. (14.2% of LAQ's total assets).

Mathew J. K. Hickman

Founded in 1997, CSAM is part of the institutional and mutual fund asset management arm of Credit Suisse, one of the world's largest financial organizations. As of June 30, 2007, CSAM had $612 billion in assets under management for institutions worldwide.

Mathew J. K. Hickman, Director, specializes in Latin American equities and is the lead portfolio manager for the Fund's assets. He joined LAQ in 2003 from Compass Group Investment Advisors, where he was general manager of the private wealth management division based in Santiago, Chile. Previously, he served as financial advisor in Credit Suisse First Boston's Private Client Services channel. He has been an equity analyst focusing on Latin American telecommunications companies and several Latin American country markets at ABN Amro, Lehman Brothers, Bear Stearns and James Capel. Matthew also served as an equity analyst and member of the management team for the Five Arrows Chile Fund at Rothschild Asset Management. He is assisted in the management of The Latin American Equity Fund by Elias Egnem, who recently joined him from the Celfin, a firm based in Santiago, Chile.

Matthew holds a B.A. in modern languages from Cambridge University and a diploma in corporate finance from the London Business School. He is Chief Investment Officer of The Chile Fund and is fluent in Spanish, Portuguese and French.

During 2006, LAQ declared two dividends totaling $5.43 per share. Taken together, this represents a dividend yield of 17.8%, based on a share price of $30.46 at the beginning of 2006. For 2007, the Fund has declared a dividend of $2.62 per share payable September 14, 2007.

There is also a second Latin American equity fund, The Latin American Discovery Fund (LDF:AMEX), managed by Morgan Stanley. LDF also focuses on Brazil (59.4%) and Mexico (33%) and has a strong investment record. Clients of Closed-End Fund Advisors hold shares in both of these funds.

We interviewed Mr. Hickman on August 29, 2007. He was previously featured in *The Scott Letter* in June 2004.

SL: We have been trying to quantify the recent weaknesses in the world stock markets due to credit issues in terms of Latin America. Can you help us here?

Hickman: Fundamentally, there is little linkage. However, the emerging markets asset class is perceived to be riskier than average. We, therefore, see a decline in the voracious risk appetite in recent years. This is a very difficult thing to pin-down, but fund flows are a good measure. Some forms of outflows from big hedge funds exist, which have no particular business in the emerging markets. They are there chasing returns and yield, but not in any meaningful way.

What everybody fears is that the world's financial system has become more interdependent and complex, introducing structural weaknesses in the world's financial markets. Correlations between supposedly unrelated assets are much higher than the risk models suggest.

Fundamentally, there are two aspects of the subprime fall-out which may impact Latin American stocks. First, are the companies that do business in the U.S. For example, one of our large Mexican holdings, Cemex, sells a great deal of cement to the southern U.S. Cemex may sell less cement if the housing market slows further.

Second, there is the remittance issue as one-third of all Mexicans working in the U.S. are employed in the construction sector, and these Mexicans send a lot of money in remittances to Mexico. This may have a consumption impact in Mexico, but it's not likely. [The Mexico stock market rose 14.1% as of September 7, 2007.]

SL: You have used a "growth at a reasonable price" investment style, but have you made any modifications or changes in it since we last spoke?

Hickman: We have made no significant modifications to our style. There have been changes which have impacted the portfolio construction, principally the tremendous boom in IPO activity in Brazil. About 60 new companies have come to market since 2004, giving us many more attractive investment options. We have had difficulty building sizeable positions because of the strength of market demand.

LAQ has become far more diversified, so the average position size is smaller. The number of off-index positions is larger when a company goes public, as it is unusual to become part of any index at the outset. This has worked well for the portfolio and has been a source of our outperformance. As a result, portfolio construction has more mid-cap names, but that is not a style change.

SL: Tell us about your research. Do you travel to the region often?

Hickman: I think "kicking the tires" is very important. We travel regularly, a minimum of once a year to Brazil and Mexico, and visit Chile twice a year because I manage The Chile Fund. We visit the smaller markets every other year.

There are also conferences here in New York where you can visit with many companies within a short space of time without having to travel. New York is the best place from which to manage a Latin American regional portfolio, as opposed to Miami or London.

We also have acquired a new tool (web-based company-modeling software called Lusight) which helps us to manage our fundamental research process much more efficiently. It is a cross between a data provider and an outsourced analytical tool. We get the time-consuming work of collection, spreading and modeling the data, but we can control the value-added part of the modeling process. For example, if we are modeling America Movil (a mobile telephone operator) and the Lusight model suggests that average revenues per user will increase at 1% a quarter but we think they will increase (revenues) at 2% a quarter, we can plug our own assumptions into the model. It will spit out the numbers based on our assumptions.

This is a very efficient way to perform fundamental portfolio analysis on a large number of companies without having (large) in-house resources.

SL: How much has Latin America changed in the last few years?

Hickman: Not much. It has mostly panned out as expected. Our bullishness was predicated on things that are still in play – a very healthy external environment for most Latin American countries. Global commodity prices have been very firm for a long time. The whole "stronger for longer" thesis is still intact, and the decoupling of the global economy from excessive dependence on the U.S. consumer seems to be playing out.

China has been the motor for (high) commodity prices. This has kept the current account surpluses and trade balances strong with good global growth.

The Latin America Equity Fund, Inc.

Performance as of June 30, 2007

	NAV	Market
Year-to-Date	28.27%	19.00%
1-Year	65.47%	61.65%
3-Year	56.20%	62.42%
5-Year	39.58%	41.46%
10-Year	13.42%	14.16%
SInce Inception (10/30/91)	14.29%	13.42%

Country Allocation (% of Net Assets)

Brazill	60.19%
Mexico	24.92%
Chile	5.36%
Colombia	3.05%
Luxembourg	1.53%
Argentina	1.43%
Venezuela	0.69%
Canada	0.52%
United Kingdom	0.35%
Other	1.96%
Total	100.00%

The U.S. has been mixed, but we have seen some healthy decoupling of the global economy from the U.S. In that respect, not much has changed. The major economies in the region, particularly Mexico and Brazil, continue to pursue orthodox market-based economic policies. There is a good fiscal situation in most countries in the region.

Hugo Chavez

There is political polarization. Mr. Chavez has gradually strengthened his grip on power in Venezuela, moving away from democratic towards totalitarian forms of government.

SL: I see he is on the cover of the July/August issue of *Global Finance.* What is his impact on Brazil and Mexico?

Hickman: People worry about that, but it's not about the Venezuelan stock market. Venezuela is not even in the MSCI Latin America index. [The Caracas stock market declined 24.9% as of September 7, 2007.]

We worry about his efforts to use petrodollars to buy influence in other countries and blow them off course. He was able to buy political support in Bolivia and have an influence in Ecuador as well. There has been an inverse effect where he has tried to get involved in other situations, such as in Peru where he tried to interfere in the election. Mr. Chavez has not been successful in interfering where we care. He didn't try very hard to interfere in Mexico or Brazil, as it would have been tremendously counterproductive.

The biggest question mark is Argentina where he is a destabilizing threat. The press coverage devoted to him is completely out of proportion to his real impact on the region. Chavez is colorful and makes good copy, but his political impact in countries like Brazil and Mexico is much less than people think.

Brazil and Chile

SL: Some of the governments of the region have made great fiscal improvements such as doing a better job of collecting taxes and restraining expenditures. Which countries have done the best at this?

Hickman: They have all done well, but I would highlight Brazil and Chile, as they have written structural primary surpluses into their legislation. In Chile, if the budgeted price of copper is $1.20/pound, the government cannot spend more than that amount. If it exceeds the budget, the government has to, by law, save that money for a rainy day. They also save some of that money offshore in foreign currency to prevent excessive appreciation. This has been a persistent problem for the major exporting countries.

SL: We are confused by the different growth rates for Brazil. Can you help us?

Hickman: Let me first make some comments on the Brazilian growth argument. I think one of the least helpful but highly fashionable investment themes has been this whole BRIC concept (i.e., Brazil, Russia, India and China), which I hate because it puts four countries which are very different into one basket. The only thing they have in common is that they are geographically large countries. People look at China, which is growing at 10% plus, and complain that Brazil is not growing as fast. I think that completely misunderstates the reasons for wanting to invest in Brazil. Growth is only half the equation. Brazil grew at "Chinese" rates in the 1950s, and today is a much more developed economy than China. The problem for Brazil is not growth but macro-economic instability.

What is encouraging is that today Brazil is in the process of creating a stable macro-economic outlook for the first time in three decades. There is plenty of growth potential there, but at the same time, we need to ensure that the roots of macro-economic stability go as deep as possible.

After a period of fairly anemic growth in the 3%-3.5% range, Brazil's economic growth is accelerating to an expected range of 5% in 2007. The growth comes from domestic demand and higher investments which lead to more employment and more stable macro-economic conditions [that] have led to lower real interest rates. This, in turn, has stimulated the long dormant demand for credit in an economy that is incredibly under-leveraged.

For the first time in a generation, large segments of the society now have access to credit. This applies to mortgages, credit cards and personal loans. We suddenly have a stable macro-economic environment with interest rates that have fallen dramatically in the last few years. The base rates are just under 12% with an inflation rate of around 3%. Nominal rates were nearly twice that level a few years ago. In our view, interest rates could fall a lot further. In real terms, interest rates are around 9%, which is still very high by developed world standards. Brazilians think that these interest rates are low!

SL: Your point about the BRIC countries is well taken. However, we see them as the largest economies that strongly impact and drive the rest of the world, including the U.S. Now, tell us about the sugar-based ethanol that has made Brazil energy self-sufficient.

Hickman: Ethanol has been a tremendous success story for the Brazilian government. The program began in the 1970s because Brazil was a big importer of oil. It has discovered much oil in the interim, but the ethanol program has positioned the country as one of the largest potential suppliers of low cost, renewable energy in the world. They have invested in the technology to run cars with ethanol, including "flex-fuel" vehicles. This means that you can drive to the gas station and decide whether to use gasoline or ethanol, based on the price at the pump. Petrobras is committed to making the logistical investments to ensure that Brazil has the potential to export greater quantities of ethanol for the emerging global demand. There is still a great potential for the domestic ethanol market so we think the [energy] companies in which we invest will make money with or without exports.

The Central Bank in Brazil has done a lot to improve its credibility and is running a tight ship. I think there is a lot of room for domestic demand growth so we have structured the portfolio around that view. The monetary history is not good so the Central Bank has had to work hard in recent years to establish credibility which Brazil guards carefully. [As of September 7, 2007, the Brazilian stock market has risen 31.9%, while the Chile market rose 17.4%.]

This is a transparent and efficient way to ensure that they don't live beyond their means and should give them room to maneuver in the future if commodity prices fall. Chile is the classic example of this. Brazil has also enacted similar, although not quite so rigorous, legislation. Mexico is in third place, but we worry that with high oil prices they should have been saving and investing more of the revenue. Pemex, the Mexican national oil company, has been starved for money, so production is declining at a rapid rate.

SL: Chile has high valuations because its stock market has surged more than 31% annually over the past five years, giving some global investors hesitation. Many institutions are underweighted in Chile because the Santiago index has a trailing P/E of 16.1, high for emerging markets. What are your views regarding Chile?

Hickman: Chile has been expensive for a long time. As long as the country continues to show outstanding leadership in managing its economy and Chilean corporations continue to deliver exceptional returns to their shareholders, it is likely to continue to be expensive. I sleep soundly at night with my portfolio in Chile.

Mexico

The election of Mr. Calderon is a great outcome, as he has been able to show that he can get reforms through the Congress more efficiently than his predecessor. After so many years of impasse and the controversial nature of the election, expectations were very low. This has been a positive surprise for the markets because of what he has been able to get done. Everybody is watching closely to see if he will be able to pull off some required reforms. I think that he will get something done, despite low expectations. We have been underweighted in Mexico, and that has proven to be the right bet.

SL: Your annual report also says that much of Latin America has been deleveraging their debt both at the government and corporate levels, and in particular, has reduced the amount of U.S. borrowing so they are less dependent on foreign capital. Has this practice continued in 2007?

Hickman: I have never seen better macro-economic conditions in my professional career, and I have spent 20 years following Latin America. Historically, the problem has been excessive dependence on foreign capital. Brazil is now a net creditor in hard currency. It still has a sizeable domestic debt, but the dynamics are now more manageable.

SL: What policies have been instrumental in bringing about the current surpluses in the region?

Hickman: When you look at present economic conditions and compare the situation today, the main thing that stands out is the exchange rate policy. In the 90's, several countries use this as a tool against inflation to stabilize their economies. The classic example is Argentina which pegged its currency to the [U.S.] dollar. Mexico and Brazil also have had strong currency crawling peg policies.

The big exception is Chile, which tried using exchange rates in the late 1970s, and had a spectacular "bust-up" as a result in 1982. It has followed a floating exchange rate policy since then. Chile is a more open, outward-looking, export-dependent economy that cannot afford to have an overvalued exchange rate. Brazil, and to a lesser extent Argentina, have large domestic economies and could afford to run a strong exchange rate policy longer.

A significant part of our returns in LAQ has been the strength of various Latin American currencies, particularly the Brazilian real.

What has changed is all the countries in the region are now trying to keep their currencies competitively valued in order to ensure they have trade and current account surpluses. There have been significant market pressures to revalue against the dollar as currency has risen dramatically.

We don't think any of these currencies are overvalued. Although the Brazilian currency is less competitively valued, it is still not overvalued because they have such a large trade surplus. The exchange rate position looks pretty good [in Brazil], but we should not expect to see the same sort of currency returns as we have seen in the last three years.

SL: Has the so-called "Novo Mercado" program for corporate governance developed the way you had hoped?

Corporate governance practices in Latin America today are comparable with developed markets

Hickman: "Novo Mercado" is incredibly important. Nearly all of the 80-odd IPO's have issued shares on the Novo Mercado, which means the death of the wide use of non-voting preference shares, a single class of voting shares – one share, one vote. Criteria for corporate governance, audit committees, etc. constitute the best corporate governance practices.

Brazil is a market where historically most of the liquidity has been in the form of preference shares. Minority shareholders have had no legal protection against abusive behavior. This is one reason why Brazil has always been [a cheap market]. Generally speaking, many people overstate the corporate governance risks in Latin American markets. Latin America saw none of the excesses of the U.S. in the late 1990s – no backdating of options, accounting scandals, etc. Corporate governance practices in Latin America today are comparable with developed markets.

SL: I didn't know that was the case except in Chile. Where, in your opinion, is corporate governance the strongest?

Hickman: Chile has a very strong capital markets law that gives minority shareholders good protection. Unlike Brazil, Mexico hasn't the same prevalence of preference shares, although there was a long history of "protecting" Mexican corporations from non-Mexican investment. What is disappointing in Mexico has been a lack of new issue activity in the market. This is probably the result of many factors, including the fact that the economy is controlled by a relatively small group of people, where there has been no need for open capital markets. The best progress has been made in Brazil in this respect.

SL: We are also interested in globalization and its effect on raising living standards around the world. How does that apply to your region?

Hickman: I think that there are two big issues: inflation and employment. When you have high inflation, the first group of people to get hurt are the poor who have no capacity to save. High inflation and interest rates are good if you are a saver, but it kills you if not. In stable economies with low inflation, the primary beneficiaries are low income people. You also have to look at employment trends, which have been pretty good across the region. There is still an unemployment problem as well as an under-employment problem in most countries in the region, but the situation has improved.

Regarding Brazil, one thing that [President] Lula has done, one of the pillars of his election campaign, was "bolsa familia," which is a government hand-out subsidy for low income families. This has had a significant impact on purchasing power and has been tremendously successful for the poor. Bolsa familia was one of the reasons that he was re-elected, a positive for Brazil.

Argentina

SL: Has Argentina rebounded at all, or is it still in a crisis?

Hickman: Argentina has surprised everyone by how it has kept growing at a very high rate over the last two or three years. The GDP growth was 8% for four years in a row, admittedly off a very low base. After the disastrous "corralito," we saw a huge correction at the beginning of the decade with a large contraction in economic activity. We have now returned to pre-crisis levels.

The government has done a number of things well. On the fiscal side, they have been prudent in pursuing a policy of competitive exchange rates leading to good external numbers. Commodity prices, particularly in agriculture, have been strong. We have investments in the oil services and electricity sectors.

We believe their government will ultimately have to allow energy prices to rise to provide incentives for investment. It is an economy that we watch. We always look out for good investments. From a top-down point of view, however, it is not a stable environment. The government does not give us any confidence that their solutions will be market-oriented.

With its hugely distorted energy market, Argentina has a number of structural issues. For instance, what people pay for cooking and heating is a fraction of what it costs to get the natural gas out of the ground and into their houses. There are no incentives for investment. The government's classic old response is to try to control prices by decree and to bully economic agents to do what they want. They have covered up a significant underlying inflation problem and have tried to manipulate the statistics for inflation data. Sooner or later, that will come back and bite them. The only question is when and how. [The Argentina stock market has declined 6.2% as of September 7, 2007.]

Editor's Note: Since speaking with Mr. Hickman, we have found that the economy in Argentina has improved. For instance, unemployment fell below 10% for the first time since 1992. The government is also aiming to bring inflation to single digit by year-end, according to analysts at Deutsche Bank.

Colombia

SL: You have now increased your exposure to Colombia.

Hickman: Colombia is the most exciting of all the markets I follow from a top-down perspective. The country has made tremendous progress under President Uribe, starting with improvements in the security situation. A few years ago, it was a complex and illiquid market with few investment options. These options were a result of cross holding structures put into place to protect against acquisitions.

Now, stock market liquidity has really taken off. There is no reason that Colombia could not be everything that Chile is, and it is twice the size of Chile in population. Unfortunately, the government recently reintroduced capital controls. Until they are lifted, we will not be able to increase our investments which include the financial services business, the cement business and the food and retailing businesses.

It is likely that we may see more offerings of Colombian stocks coming to the market. The biggest problem for investors is the security issue. Nevertheless, Colombia has made huge strides in improving that situation. From the U.S. perspective, it is a drug problem; from the Colombian perspective, it is a guerilla problem that finances itself by protecting the drug industry. They have made a lot of progress with the help of the U.S. military and financial support. Because of these risks, I don't anticipate we will invest there much more. [The Columbian stock market rose 1.1% as of September 7, 2007.]

Summary

SL: Please now summarize your thoughts and give us an assessment of what can go wrong as well.

Hickman: I see external risks:

1. Commodity prices may fall, as China is a risk.
2. Our markets will continue to be sensitive to global growth and the risk appetite of global crossover investors, which is why the subprime problem also affects the emerging markets.
3. With Mr. Chavez around, you have to conclude that the risk of populism is never far from the surface in Latin America, a perennial problem that will be there for as long as poverty persists.

I don't see it changing in the short term but am optimistic that ultimately the Latin American electorates will learn to allow open markets to work freely to provide jobs and to create wealth across the whole social spectrum. This is the only way to keep populism in check in the long run. ■

For more information on The Latin America Equity Fund, call 800-293-1232 or visit www.credit-suisse.com/us.

Financial Services Firms Roll-Out Scores of Foreign Real Estate Funds

Many foreign real estate funds have been coming to market in recent weeks. Charles Schwab has just launched a global real estate mutual fund that is betting on strong rental growth in London office properties, while Wisdom Tree Investments listed a new exchange-traded fund that tracks an index heavily weighted in Australia, Hong Kong and Japan.

This market was pioneered by Sam Lieber of the Alpine mutual funds and also by Cohen & Steers and ING Clarion Investments which have the two closed-end funds, Cohen & Steers Worldwide Realty (RWF:NYSE) and the ING Clarion Global Real Estate Fund (IGR:NYSE). Both funds are held by clients of Closed-End Fund Advisors.

Several new closed-end funds, aimed at more conservative investors, have been launched, including the Alpine Global Real Estate Premier Fund, which raised $2 billion in April. Investors have poured about $6 billion into foreign real estate funds this year.

Most foreign real estate funds have the bulk of their holdings in developed markets like Western Europe, North America and Asia. The Alpine International Real Estate fund has more than half of its assets in 28 countries around the world and is now targeting Brazil because of its expanding economy.

Caution: The values of real estate shares around the world are relatively pricey, following several years of gains., and REITs can vary among countries. Asia is particularly strong and will continue to have good growth. CEFA sticks to managers who have the longest experience in global real estate such as Alpine or Cohen & Steers. ■

Source: The Wall Street Journal

Tri-Continental Corp Declares 3Q Distribution

The Board of Directors of Tri-Continental Corporation (TY-NYSE) declared a third quarter distribution of \$0.755 per share of common stock and \$0.625 per share of preferred stock, payable on September 20, 2007 and October 1, 2007, respectively, to shareholders of record September 11, 2007.

This new distribution policy calls for quarterly distributions equal to 2.75% of net asset value (NAV) on the corporation's common stock at the end of the prior calendar quarter (or approximately 11% annually). This will consist of distributions of income and one or both of net realized capital gains and returns of capital.

Editor's Note: Although we generally favor the above "managed distributions" for closed-end funds, it is important for investors to be aware that it works better for the larger and older funds which have accumulated a large amount of unrealized capital gains so they do not have to distribute a return of capital. Some of the newer funds find it difficult to make the required distributions in weaker markets. Managed distributions are one of the ways for funds to reduce their discounts. As experienced closed-end fund investors know, it is not always the best way to do it, if one wants to use the discounts and leverage to increase returns. ■

Seats Available for Closed-End Fund Forum

Register now for the free Closed-End Fund Forum to be held at the Hyatt Regency in Jersey City on September 26, 2007. The agenda includes leading closed-end fund experts discussing such topics as: (1) the impact of recent market fluctuations on closed-end funds, (2) discount trends and investment opportunities within closed-end fund sectors, and (3) achieving long-term trends using closed-end funds. For the full agenda, visit www.closed-endfunds.com.

Our own John Cole Scott will be attending this forum for Closed-End Fund Advisors. Registration will be closed once seats are filled, so register now! ■

Portfolio Manager's Review

During August, with the continued high volatility in the world markets, we have re-aligned our portfolios into less volatile funds. Until the real estate markets calm down, we are using the Alpine International Real Estate Equity Fund, a no-load mutual fund.

We have also added to the Berkshire Hathaway B shares because the fund has low volatility and little downside risk. These are temporary measures until we have a clearer view of where interest rates and the markets are headed. We have also reduced our exposure to the bond markets, because of the recent turmoil.

There have been opportunities to add to some equity funds in regions of the world little affected by the subprime sell-off. Funds in Asia and Latin America are in this category. We also reduced our positions in Allied Capital, which reached a high just prior to its going ex-dividend.

We are researching more candidates for low volatility investments and anticipate doing so for some time. ■

George Cole Scott

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