

THE SCOTT LETTER: CLOSED-END FUND REPORT

Vol. VII, No. 11

A Global View of the Closed-End Fund Industry

November 2007

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:

- Interview with Kheim Do, Portfolio Manager of The Asia Pacific Fund . . . 1
- Chinese Investors Cheer as Rules Are Relaxed . . . 6
- Record Level of BRIC Economy IPOs Offsets Fall . . . 6
- Globalization Raises Living Standards but Asia Still Hungry . . . 6
- Warren Buffet Cautious on China Stocks . . . 7
- Templeton Emerging Markets Announces Year-End Distribution . . . 7
- Portfolio Manager Review 7

Interview with Kheim Do, Portfolio Manager The Asia Pacific Fund

The investment objective of The Asian Pacific Fund (NYSE:APB) is to achieve long-term capital growth by investing in equity securities in the Asia Pacific countries. APB is managed in the Hong Kong office of Baring Asset Management Company Ltd. of London. Portfolio manager Kheim Do has over 30 years of experience in managing equity funds. He joined the Barings' Asian investment team in 1996. Formerly he was the chief investment officer of Citicorp Global Asset Management in Sydney. Kheim was born in Vietnam and received his B.A. (Honours) in Economics from Macquarie University in Sydney.

The Barings Hong Kong office currently manages over U.S. \$17 billion of assets in Asian (ex-Japan) equities. The fundamental approach of the firm prefers quality growth stocks, believing it more prudent to find a stock that has the potential to be re-rated (upgraded) two to three times than a risky small cap stock that could be re-rated up to five to six times.

The firm adopts a "growth at a reasonable price" (GARP) investment philosophy which aims to add value at both the macro (asset allocation/theme selection) and the micro (stock selection) levels.

APB will distribute any net capital gains in excess of net carry loss forward to shareholders near the end of each year. APB may use leverage, but at the end of 2006, the fund did not have any leverage. The Fund divides its region into three sections: North Asia (Hong Kong, China, Korea and Taiwan), Southeast Asia (the ASEAN countries, Singapore, Malaysia, Thailand, Indonesia and Philippines) and South Asia (India).

On October 24, 2007, *The Scott Letter* interviewed Kheim Do, portfolio manager of the Asia Pacific Fund. What follows is the first

of a two-part interview. Here, Mr. Do answers our questions on China and Hong Kong, which comprise 42% of the APB portfolio. The balance of APB portfolio will be addressed in the December edition of *The Scott Letter*.

SL: Have you made any changes in your investment style since our interview in February 2007?

Do: No. Our GARP investment philosophy searches for and invests in stocks which show better-than-expected and sustainable earnings growth at a reasonable price.

SL: President Deng decided in the year 2000 to start China on the road to rapid economic growth, after he saw China lagging

South Korea. He subsequently set goals at that time to fully modernize its economy by year 2020. Was he realistic about attempting to catch up with a more modern and transparent economy such as South Korea?

Do: Realistic? Absolutely. The full modernization of China may take place even faster than the scheduled 2020 date. On a relative basis, Japan, Korea and Taiwan

have already started to feel fierce competition from China, in almost all facets, from advanced industrial manufacturing to renewable energy solutions!

SL: Some of this Letter will cover the impact of rising pollution and related problems, and how this issue is affecting the continued growth and well-being of the People's Republic of China.

According to Professor Earl Drake of Simon Fraser University in Vancouver, B.C. and a former Canadian ambassador to Beijing, "the pollution and ecological damage in China have cost the economy as much as 20% of its gross domestic product in the last 20 years." Professor Drake is currently the senior advisor to the Chinese government on environmental



Kheim Do

issues. Recently, at a World Affairs Council meeting, he stated that because China has the worst environmental degradation in the world, it threatens the health and prosperity of its 1.3 billion people.

Ambassador Drake also said Chinese leaders acknowledge the need to protect the country's environment but have failed to persuade China's free-wheeling provincial powers to balance short-term economic success with an environment sustainable for future generations. He sees a disconnect between what the leaders want to do about reducing pollution and company officials who are more interested in rapid growth at any cost. The Ambassador also said he thought China will make modest progress in reducing pollution by 2020.

How aware are you of this danger to China's ability to continue its high growth? How does this fit into your assessment and allocation of funds into Chinese companies in Hong Kong (which has its own pollution problems at certain times of the year)?

Do: I am not surprised as the poor people want to earn money. When you don't have food, do you really care about pollution? This is a problem, and the scale could be large.

The government has been fully aware of the problem and has done something to control it. This is reflected in many policy statements and actions taken by China's President, Hu Jintao, who was just re-elected to the top position in the 17th National Party Congress. It was comforting to note that he re-emphasized conservation and pollution control as a major policy direction, in addition to "quality and balanced growth," rather than the pursuit of "growth at all costs".

SL: How concerned do you think he personally is about the health and social problems that could result from China's provincial policy of growth at any price?

Do: To illustrate the concern of the government, the inefficient steel and cement plants have been gradually shut down. Power utilities are encouraged to use renewable energy input sources rather than the more polluting coal.

Immigration to densely populated industrial areas such as Shanghai,

Guangdong and Beijing has been discouraged as the cost of living in these cities is too high for low skilled workers. The government also has been embarking on a modernization and industrialization program in Middle China cities (Zhejiang, Jiangsu, Shandong and Chongqing).

In addition, it must be recognized that pollution control is a long-term and continuing problem for all major cities and/or industrial zones in the world. Policies to deal with pollution control are long-term for everybody.

The solutions to pollution control appear to evolve over time, as new technological breakthroughs and new rural/urban development policies are created to deal with them.

Investors in China or Hong Kong only work on a timeframe of 6-12 months, rather than a 5-10 year view. Thus, the long-term implied pollution control costs do not usually get incorporated in their analysis of the Chinese economy and stocks. Nonetheless, analysts are interested in finding good stocks which are involved in the alternative renewable fuel sector, as the latter promises to have strong government backing from a political viewpoint.

SL: Those are good points. We saw the recent award-winning Chinese film, "Still Life," which depicts millions of Chinese people cut off from their families by dislocations caused by the \$25 billion Three Gorges Hydro Project. What is your assessment of this important subject?

Do: All economic developments throughout the world have benefited at the expense of others. This is well documented by how the American Indian natives were displaced in the West when the railways and townships were built.

In the same manner, many industries and people in China are benefiting from the supply of cheap electricity from coal-fired and hydro-electric power plants at the expense of higher pollution and displacement of villages that are next to the rivers and dams. Overall, China has benefited substantially from the modernization of its economy over the past two decades.

SL: Ambassador Drake also suggested that the younger officials are now more familiar with economics and business.

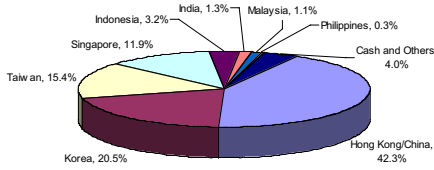
The Asia Pacific Fund
as of September 30, 2007
(reported in USD terms)

Calendar Year Performance*

| | % Change | |
|------|----------|-----------|
| | Fund | Benchmark |
| 2006 | +41.7 | +32.2 |
| 2005 | +19.2 | +21.8 |
| 2004 | +18.9 | +17.6 |
| 2003 | +39.4 | +45.0 |

*Performance source: Barings as of September 30, 2007, NAV per share basis. Data source: Morningstar Rating™ as of September 30, 2007 in Pacific/Asia ex-Japan.

Country Breakdown



Many of this younger generation have lived and studied in Europe and the U.S. Hence, they are more appreciative of the outside world.

Do you think that this better educated, younger generation can transform the way Chinese officials deal with foreign businesses? Can they boost China's political and financial systems as well as deal with such important issues as pollution control and the growing wealth gap?

Do: It will take a long time for China to change because President Hu and Premier Wen are very much in charge. It will be years before we see any real change in the style of the Chinese economy.

Undoubtedly, the younger generation of leaders is expected to be more open and more reform-focused. In China, industrialization and modernization will definitely march on, but more likely at a gradual pace, in a "Chinese way".

China is a vast country with different regional characteristics and cultures. In addition, Chinese provinces do not always share the Central Government's zest for reform or re-structuring.

SL: Because of the powerful 11.5% growth in the third quarter of 2007, inflation is now a problem according to a recent report in *The New York Times* which stated: "China's economic development is still strong enough to keep pushing up prices

around the world for a wide range of things like oil, iron ore and freight shipping.”

The inflation rate has slowed some, but Chinese investors were more skeptical of the latest growth figures, sending the Shanghai stock market down 4.8% on the day the figures were released. They feared the central bank would continue to raise interest rates to limit inflation.

Their annual growth rate in the third quarter, while slightly slower than the 11.9% of the second quarter, is still well ahead of its two leading rivals among high growth Asian nations (India and Vietnam).

Those of us who invest in China are concerned about the overheating of the economy. Some economists worry that inflation may prove to be a persistent problem. The annual growth rate of industrial production accelerated in September to 18.9%. Consumer prices rose 5.6% year-on-year in July compared with only 1.5% a year earlier, much of it from rising food prices.

Do you think the central bank can cool inflation?

Do: On inflation, it is very important to distinguish between the headline rate (+6.50% per annum) and the rate excluding food. The latter is only rising at a rate of 0.9% year-on-year. Food inflation rose at about 16% per annum, caused by a massive rise in pork prices (the most popular meat in China) and vegetable oils. Recently, pork prices have started to fall. We expect that the headline inflation rate will fall towards 4%-4.5% by year-end.

Monetary tightening via higher interest rates in China is not as efficient as that in the U.S. The reason is because the overall rate structure is still very low relative to the nominal GDP growth rate, as the rate of bank lending growth is much more important than the level of interest rates.

The government is trying to slow the economy ahead of the Beijing Olympics next year, fearing that the latter will add quite a bit more to China's GDP in 2008.

However, it does not want to tighten too aggressively because everyone knows that the U.S. economy and the economies of 30 Organization for Economic Co-Operation and Development (OECD)

countries are likely to slow substantially in the coming 6-12 months.

SL: As China's inflation rate slows, we should see lower interest rates. We also have found that China still must import huge amounts of oil. It appears that they have made little effort towards alternative sources of energy to generate electricity. Are you aware of any plans for China towards renewable energy, or are they building nuclear power plants to get away from coal-generating plants?

Do: Yes, China has already built and operates a number of nuclear plants, with an installed capacity estimated to be around 8.8 gigawatts (a unit of power equals to one billion watts) or about 2.3% of total electricity output. By 2020, China may have altogether 40 gigawatts of power [from this source], accounting for 3%-4% of China's total electricity output.

The focus in the coming years is on renewable energy, including power utilities that use more hydro, biomass, wind and solar power. Currently accounting for about 8% of total electricity output, this sector is planned to provide up to 16% of China's total electricity by 2020.

SL: We are glad to hear this, as many of their plans to develop alternative energy sources are not being reported in the U.S. The U.S. seems reluctant to admit that China is on a nuclear track because of its fear of nuclear weapons proliferation.

Readers can read more about alternative energy growth and the progress being made in environmental protection on their web site, www.greenchinaview.com. This site has links to the Green China Energy Program.

Do: Unfortunately, many parts of China do not have electricity yet, especially in the countryside. I haven't experienced shutdowns in the major cities, but power shutdowns are much more frequent in Thailand which is more industrialized than China.

SL: Now, what are your views about any direct correlations between your markets and those in the U.S.? We wonder if it has changed due to the recent credit crunch that has so affected stock markets worldwide.

Do: The Asian economies and equity markets, like other economies and markets around the world, are, to a certain extent, correlated with their counterparts in the U.S. However, that correlation has weakened over the past five years.

The reason is because other OECD economies and their trade relationships in the emerging economies (including China, India, Vietnam, other parts of Asia, Latin America, Eastern Europe, the Middle East and Africa) have been growing at a faster rate than that of the U.S.

We may have up to 2% exposure to the subprime problems as they really only impacted Asia from a "sentiment" viewpoint. Unlike Europe and the U.S., the Asian banks don't issue much commercial paper to fund their loans. The loan/deposit ratio is only about 80%. For every dollar you deposit in the bank, they only loan about 80% in Asia. The credit crunch is, therefore, not a problem for us.

As far as equity markets are concerned, in the month of August when the U.S. subprime debt issue reached its worst point (sending the U.S. Dow Jones and the other OECD stock markets tumbling down), the Chinese equity markets actually reached an all-time high.

Most Asian and emerging markets have recently also reached all-time highs, whereas the markets in the U.S., developed European countries and Japan are still languishing.

This suggests that the equity market de-coupling trend, which started five years ago, is currently accelerating. This can clearly be seen when one compares the performance of the U.S. equity market to that of Asia since mid-August.

Nevertheless, on a day-to-day basis, the complete decoupling has not yet occurred, because global trading funds are quite fast at pricing a down- or up-tick in all equity markets. However, on a long-term basis, the de-coupling is clear.

SL: This issue is very important to us and a reason to continue to invest in economies outside the U.S. We note that there are record numbers of initial public offerings (IPOs) in the emerging markets, including China and Hong Kong, that have offset declines elsewhere. The emerging

markets have also boomed since the U.S. lowered its interest rates. How do you account for this?

Do: One reason is there is only a 3% deposit rate [in China], with bank lending rates about 6.8% compared to a GDP growth rate of about 16.5%.

Hong Kong has the benefit of both a strong domestic economy and a strong China. From the lowest point in the period from August 16, 2007 to the close of October 23, 2007 the Hang Seng Price Index jumped by 51.5%, while the U.S. S&P 500 rose by a mere 10.8%.

Hence, one should not be surprised to see a correction in the Hang Seng from time to time. This shows a clear trend of outperformance by Asia and further proof of de-coupling. Thus, the Hang Seng Index, thanks to its Chinese share constituents, is expected to continue to rise in the coming 6-12 month period.

It is interesting to note that half of the Hang Seng Index represents new Chinese companies, so Hong Kong is no longer dependent on the property market, which is now only about 10% of its economy.

Editor's Note: We are happy to hear that. We have checked to see what Mark Mobius had to say about a possible correction in the Hong Kong/Chinese stock market. Mobius wrote on October 16, 2007 that he did not see any financial crisis in China, but "it is important to note that some form of correction in the Chinese stock market cannot be ruled out as the market is currently trading at excessive valuations and has experienced rapid price appreciation."

Mobius is a value investor, while Khiem follows a growth style. Each of these managers has told *The Scott Letter* that they take advantage of market weaknesses to re-adjust their portfolios and find better prices. We do the same when opportunities arise.

SL: What can you tell us about China allowing, for the first time, its citizens to invest individually in Hong Kong? Won't this make the Hong Kong stock market more volatile because of the inexperience of these investors?

Do: The relaxation of this constraint, which encourages domestic Chinese

investors to invest in Chinese stocks listed in Hong Kong and other blue chips is [allowed] via approved pooled fund vehicles, the latter being managed by experienced portfolio managers trained in the West. This is very good news for investors in funds such as The Asia Pacific Fund.

Over the past two years, our Fund has built a large exposure to quality, well-managed and strongly growing Chinese companies listed on the Hong Kong exchanges. China's offshore investment relaxation policy significantly boosted the value of APB's Chinese holdings.

We see this as a great long-term positive driver to liquidity in the Hong Kong market, not a threat in terms of volatility.

Let's face it, our team here has "seen a lot" in terms of high volatility. We've been through it, and are used to living, dealing and managing day-to-day volatility, after going through the 1987, 1993, 1997-98, 1999-2000, 2002-2003 volatile periods.

We pay more attention to and spend more time predicting and analyzing earnings growth, rather than economic growth numbers. One cannot make money on getting the GDP numbers right!

Our earnings growth forecasts have been reasonably accurate, as our disciplined and frequent company visit trips to individual Asian countries point to the fact that China is most likely to surprise on the upside (earnings growth of 25%-30% in 2007-08), whereas Korea and Taiwan are more susceptible to the downside (earnings growth of 10% and 15%, respectively).

SL: The thoroughness of your research tells a good story. All of our growth portfolios hold APB shares, and CEFA is tempted to take some of the profits because of their sharp rise. When we do, the stock makes a new high! Do you think we are overly cautious?

Do: We are glad that you held shares in our Asia Pacific Fund and that you have, hopefully, made handsome profits!

SL: Yes, APB is our largest holding, and we have done very well with it.

Do: Our own strategic view is that Asia, similar to other emerging markets, has been and is expected to be re-rated in the next 2-3 years, whereas the OECD

developed markets are expected to continue to be de-rated.

Superior and sustainable self-funding growth is the key to the Asian and emerging re-rating story, a story that is not totally priced in as yet.

SL: A year ago, the IMF world economic forecasts were based on an assumption that oil would average \$75.50 a barrel in 2007. How does your region take to the long-term possibility of \$90+ oil?

Do: The world – developed and emerging – has been able to live quite happily in the past 10 years, when oil prices quadrupled from USD \$20-\$85 per barrel.

I do not think that crossing USD \$90 per barrel means much to world growth. The U.S. economy, one of the most oil-dependent economies in the world, is expected to slow down for other reasons than oil. Oil at USD \$90+ will provide another excuse for the U.S. consumer to spend a little less at Home Depot or Wal-Mart, but this possibility will not send them into hibernation for 12 months. Some countries in Asia, such as Korea, Taiwan and Thailand, may feel it, but it will not totally derail their growth trends.

Editor's Note: With crude oil closing in on \$100 a barrel, shortages and price spikes are sparking economic and social tensions from Beijing to Tehran, according to a report in the *The Wall Street Journal*. Because of this, China has just announced a 10% increase in domestic gasoline and diesel prices to dampen demand.

SL: What can you tell us about the new Sovereign Wealth Funds (SWFs) coming from rich countries in the Middle East, Russia and China? These funds already control trillions of dollars in assets and are expected to see massive growth over the years as they hand billions of dollars to asset managers. Morgan Stanley pegs the size of this market at \$2.5 trillion today, and estimates say it could be \$12 trillion by year 2015. These new funds include the China Investment Co. or CIC. According to a recent report, government-run pools of cash that have been surging lately because of recent high oil prices.

Our source says that SWFs have traditionally invested conservatively in local government bonds and U.S. Treasuries, but

that is now changing as some are investing in global equity, global fixed income and even hedge and private equity funds.

Do you have any concerns about a lack of transparency and potential influence of these huge funds? The IMF is concerned about them because their size could adversely move markets.

Do: China's and other surplus nations' sovereign funds, in our opinion, are excellent investment vehicles which are set up to grow the wealth for their countries long-term. They are not trading funds but are investing for the long-term. They look for real assets first, such as buying natural resources, a bank or a technology company or may even become involved in running a corporation. They are more conservative than the pension funds and are a great alternative to the current system of investing their hard-earned monies in low-yielding U.S., European or Japanese bonds.

One should not be afraid of the sovereign wealth funds as they are very long-term investors, unlike the hedge funds in the U.S. I do not subscribe to the view that any one player in the world is big enough to cause a massive disruption or volatility to liquid financial markets including the Euro, Yen or USD, or any global bond or equity market for long. A few days perhaps but not longer.

SL: That is a fair enough assessment, and we highly respect your opinion.

Editor's Note: China has \$200 billion in these funds, a small part of the \$2-\$3 trillion already estimated to be invested in them worldwide. However, the U.S. Treasury is worried about a possible global backlash against cross-border investments and a surge of protectionism. It urges a minimalist approach with voluntary "best practices" codes. The issue of sovereign wealth funds also dominated a recent meeting of finance ministers from the Group of Seven. They issued a statement saying the IMF and the World Bank should examine the issues of the fund's structure, accountability and transparency. The SEC has also showed some concern.

SL: When the Fed cut interest rates in September and October 2007, this weakened our dollar further. Has this had much effect on Hong Kong whose economy is

tied to our dollar? The weaker U.S. dollar is given as another reason for the surging world oil prices.

Do: When the Fed cut interest rates, that action was a gift to the Hong Kong market because this economy is already very strong. That is why the Hong Kong market took off.

Indeed, there is an increasing perception in the market that the U.S. dollar will no longer retain the status of the world's currency in 5 or 10 years' time. Economic imbalances in the U.S. will take time to remedy. To-date, the U.S. dollar has borne a lot of that corrective process.

Hence, this will move global investors (including central banks which hold massive amounts of U.S. dollars) to other currencies and hard assets, including gold, resources (agricultural, energy, minerals, etc.) and equities.

SL: What impact will the coming August Olympics have on China's growth? After the Games are concluded, do you see any possibility of a let-down which has occurred after previous Games?

Do: The post-Olympics let-down period will undoubtedly happen, but it may only last for a month or two because afterwards we will have the Shanghai International Expo. The industrialization and modernization process will then get back into full gear, driving domestic demand in China for many more years to come. An enormous amount of money will be spent in tourism in 2008 because of the Olympics.

With a GDP per capita of only about \$2,000 per year, China is still a poor country, despite the high wealth accumulation being made by entrepreneurs.

SL: What about the controversy regarding safety-related concerns over Chinese-produced products being exported to the U.S. such as pet food, toothpaste, tires and seafood? How do you think China will be able to restore our confidence in their export products?

Do: One thing that China can do well is to fix things in a fast and efficient manner. The "quality" issue has attracted the top government's attention. Hence, I have little concern that U.S. and European consumers will walk away from Chinese-made prod-

ucts for very long. Besides, who in the world can produce the quantity and offer the value proposition that Chinese manufacturers and distributors can?

SL: What about the population growth, with its one-child-per-family policy, won't this slow down the economy eventually? How will the country keep growing if they are not replacing themselves?

Do: I think that the working population will peak in about 10 or 15 years, and after that they will encounter old age problems like those now found in Japan and Italy.

In conclusion, we remain very positive on Asia as we believe the re-rating of this fabulous, long-term economic and earnings growth story, led by China, is not yet complete.

Not every money manager is massively overweighted in China and Asia at present. In fact, if anything, based on a recent survey of positioning of global emerging markets fund managers, they remain, on the average, underweighted in both China and Asia. Hence, the Asian re-rating story appears to have further to go.

In the shorter term, we believe that the subprime debt and ensuing credit crunch is a U.S. and European problem, not an Asian one. The world is "myopic" in selling Asia whenever this kind of bad news becomes public. Asia is a net lender to the world, rather than a net borrower. Thus, whenever Asia gets sold-off on this news, it has tended to offer smart investors a great buying opportunity. ■

The Asia Pacific Fund will be announcing its annual capital gains distribution by year-end. The Fund has had a share repurchase in previous years but has said they have no plans to repurchase shares at this time. APB had a rights offering in 2003. The expense ratio (inclusive of interest on leverage) for the fiscal year ending March 31, 2007 was 1.78%. APB traded at a discount of -11.0% on November 2, 2007.

More information on APB can be found on its web site, www.asiapacificfund.com or by calling 1-888-427-4272.

Note: Clients and family members of Closed-End Fund Advisors hold shares of The Asia Pacific Fund.

Chinese Investors Cheer as Rules Are Relaxed

China will, for the first time, allow its private citizens to invest individually in the Hong Kong stock market. Regarding this, potential investors swamped the Bank of China Tiajen to participate.

Anticipating investment money to flow from the mainland, Hong Kong stock prices rose to record highs. Implementation of the pilot program has slowed since the announcement, however, because of concerns that capital outflows from mainland China might destabilize Hong Kong and domestic stock markets.

Chinese companies' stock prices in Hong Kong are significantly lower, based on price/earnings ratios, than stock prices for the same companies on mainland exchanges.

The government's own investment managers are also spreading their wings. In order to fund an investment management company to oversee its \$1.3 trillion in foreign exchange reserves, the Ministry of Finance sold Yuan \$600 billion (USD \$79 billion) in special treasury bonds in late August 2007 and has since invested the proceeds in the equity markets. China

historically invests its foreign exchange reserves in U.S. Treasuries but has reduced its purchases, in hopes of achieving higher returns through other investments.

Chinese companies are taking advantage of relaxing financial restrictions to raise money through corporate bond issuance. In the past, issuances required the backing of a state-owned bank, effectively turning them into low-risk government-backed bonds. Under new guidelines, some companies are allowed to issue bonds without bank guarantees.

Source: *Global Finance*

Record Level of BRIC Economy IPOs Offsets Fall

Recent record levels of initial public offerings in emerging economies have partially offset declines elsewhere and helped support the global new issues market in the third quarter of 2007, according to a report by Ernst & Young.

Nearly half of the \$57 billion raised globally by IPOs in the third quarter of 2007 was by companies in the so-called BRIC countries (Brazil, Russia, India and China), which produced a record 118 IPOs.

The Asia Pacific – led by China and Hong Kong – had the lion's share in terms of both the number of IPOs completed and the total capital raised. [This shows that the emerging markets are driving global economic growth.]

Investor sentiment for emerging market assets has been exuberant after the September 2007 Fed interest rate cut, in

spite of the global credit squeeze and ongoing stock market uncertainty. Adding to frenetic activity in the primary markets, there have been sharp rallies in many stock markets, including those in China, Hong Kong and India.

In contrast to the rising activity in emerging markets, the number of IPOs in the developed markets have declined because of uncertainties caused by the credit squeeze.

A good case may be made for India, whose high economic growth continues. For April-June 2007 quarter, GDP growth was 9.3% – up marginally from the previous quarter's growth of 9.1%, and for the full fiscal year, the economy grew at 9.4% (versus 8.5% in 2006), propelled by the manufacturing sector output growing 10% from April to June 2007. This is despite the

backdrop of the tightening monetary environment. Manufactured growth, at a nine-month high, was driven by India's consumer boom.

Over 90% of retail sales in India are through unorganized, single owner stores, but organized, branded retailing is growing 35% annually. Growth momentum like this is expected to continue, and demand for power is expected to soar. The power grid said it will invest \$44 billion in expansion of the national distribution grid to transmit 37,000 megawatts of electricity by 2012, up from the current 14,000 megawatts. The grid launched a domestic IPO in September 2007 to raise around \$750 million – the issue was more than 60 times oversubscribed. ■

Source: *Financial Times, Global Finance*

Globalization Raises Living Standards but Asia Still Hungry

The Asia Pacific region's rapid economic growth has helped cut extreme poverty but has less of an impact on addressing widespread hunger and infant mortality, according to a report released by the Asian Development Bank and U.N. agencies. Most countries in the region are on track to reduce poverty by half, attain universal education and achieve gender parity in the next eight years. Although the region's poverty rate of about

17% is higher than in Latin America and the Caribbean, Asia Pacific countries are making much faster progress in eliminating poverty, thanks to economic growth.

"Based on the \$1-a-day measure, the region as a whole is on track, due in part to rapid economic growth in many countries, most recently in China," the Bank said.

The report also noted that the region is making very slow progress in addressing child mortality and nutrition, improving

maternal health and providing safe drinking water and sanitation.

The report also warned that environmental problems such as land degradation, desertification, flooding and pollution in urban areas could push more people into poverty. Half of the 641 million people in Asia are surviving on less than \$1 a day and live in areas under environmental stress such as flood and disaster prone regions or urban slums.

The future for China may be much better. The Chinese Academy of Sciences (CAS) forecasts that China could eradicate poverty by 2050, when the Communist giant would emerge as a “moderately” developed country where 1.3 billion

Chinese may live with a minimum monthly income of USD \$1,300, have an average life expectancy of more than 80 years (presently 72.8 years) and have social services available to all. ■

Source: Asia Pulse Pty, Ltd

Warren Buffet Cautious on China Stocks

Warren Buffet has warned investors to be cautious about China stocks after big gains in the country’s benchmarks in 2007. Buffet, chief executive officer of Berkshire Hathaway (NYSE: BRKA, BRKB), was visiting a BRK subsidiary in northeastern China and spoke to reporters.

“We never buy stocks when we see prices soaring,” he said. “People should be cautious when they see prices rising.”

Mr. Buffett recently sold his stake in PetroChina Co., the largest Chinese oil and

gas producer. He said his decision was based “100%” on price considerations, rather than the company’s ties to Sudan.

Mr. Buffett acquired the shares during the PetroChina’s H-Share IPO in March 2007, when he paid HK \$1.28 each for the shares. The stock closed on October 24, 2007 at HK \$19.40. Mr. Buffett said he was doubtful that he could find another stock like PetroChina. ■

Source: Dow Jones Newswires

Templeton Emerging Markets Fund Announces Year-End Distributions

Templeton Emerging Markets Fund (NYSE: EMF) announced a year-end distribution of net investment income of \$0.2625 per share, short-term capital gains distribution of \$0.3575 per share and long-

term gains distribution of \$1.4202 per share. This will be payable on November 16, 2007 to shareholders of record as of November 2, 2007. EMF is heavily invested in Asia. ■

Portfolio Manager’s Review

In October, we upgraded the quality of the bond funds in the global hybrid income portfolios. Sales were made in those funds.

Positions in Cohen & Steers Closed-End Opportunity Fund were added to smaller accounts, such as IRAs, for more diversification and monthly income distributions. Purchases of Cohen & Steers Worldwide Realty Income Fund have been increased in support of our renewed emphasis on global over domestic real estate funds. It is particularly important to time these purchases and to pay close attention to their ex-dividend dates.

Shares were added to our sole REIT, DiamondRock Hospitality Co., because of market weakness in this sector in early

October. This was a good move as the stock has recovered nicely.

Where positions exceeded our allocation strategies, some profits were taken. This included some shares of The Asia Pacific Fund, Central European & Russia Fund (on higher oil prices) and Templeton Emerging Markets Income Fund. To eliminate redundancy, positions in the Cohen & Steers Quality Income Fund were sold.

In November, your editor-in-chief will attend the CFA Institute conference on “Asset and Risk Allocation Strategies” in Philadelphia. We will report on this conference in the December edition of *The Scott Letter*. ■

George Cole Scott

Disclaimer: None of the information contained herein should be construed as an offer to buy or sell securities or as recommendations. Performance results shown should, under no circumstances, be construed as an indication of future performance. Data, while obtained from sources we believe to be reliable, cannot be guaranteed.

Use or reproduction of any or all of The Scott Letter: Closed-End Fund Report requires written permission from Closed-End Fund Advisors. All rights reserved.

GEORGE COLE SCOTT
Founder and Editor-in-Chief
Portfolio Manager

LESLIE JANE DANIELS
Copy Editor

JOHN COLE SCOTT
Circulation Manager

MAMIE WOO MCNEAL
Production Editor

The Scott Letter Online
is published by

Closed-End Fund Advisors
Global Investment Counsel
P. O. Box 1100
Richmond, Virginia 23218
(800) 356-3508
www.CEFAdvisors.com

Currently offering managed portfolios
with the following objectives:

Global Hybrid Income
Globally Diversified Growth & Income
Globally Diversified Growth
International & REIT

