

THE SCOTT LETTER: CLOSED-END FUND REPORT

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A Global View of the Closed-End Fund Industry

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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



India: A Huge Democracy of Diverse Political, Religious and Economic Interests

India's diverse economy encompasses traditional village farming, modern agriculture, handicrafts, a wide range of modern industries and a multitude of services. Services spur economic growth: more than half of India's output uses less than one-third of its labor force. About three-fifths of its work force is in agriculture. Controls on foreign trade and investment have been reduced, and higher limits on foreign direct investment are permitted in a few sectors, such as telecommunications. However, tariff spikes in sensitive categories, such as agriculture and incremental progress on economic reforms, still hinder foreign access to India's vast and growing market.

Privatization of government-owned industries continues to generate political debate and slow needed initiatives. The economy grew more than 7% in the decade since 1997, reducing poverty by about 10%. India achieved 8.5% GDP growth in 2006 and 2007.

India has large numbers of well-educated people skilled in the English language to become a major exporter of software services and software workers. Economic expansion helps New Delhi to make progress in reducing its federal fiscal deficit. However, recent strong growth and easy consumer credit fueled inflation concerns in 2006 and 2007. This has led to a series of central bank interest rate hikes continuing into 2008, slowing credit growth and easing inflation.

India's latest population figures are 1,129,886,154 or 984 people per square mile. The largest cities are Bombay, 18,196,000; New Delhi, 15,048,000; Calcutta, 14,277,000; Chennai (Madras) 6,916,000 and Bangalore, 6,462,000. Chief religions are: Hindu, 81%; Muslim, 13% Christian, 2% and Sikh, 2%. (Sources: Central Intelligence Agency, *World Fact Book*, *World Almanac* and *Book of Facts*, 2008)

The India Fund

The Blackstone Group, Asset Manager

Established in 1990, this marketable "Alternative Asset Management" segment of The Blackstone Group manages different types of funds, including hedge funds and publicly-traded closed-end mutual funds. Assets under management were approximately \$56.6 billion as of March 31, 2008.

The investment objective of The India Fund (IFN:NYSE) is long-term capital appreciation by investing at least 80% of the Fund's total assets in equity securities of Indian companies. The India Fund, Inc. was ranked by Lipper, a Thomson Reuters company, as No. 1 in its Closed-End Equity Fund Performance Analysis Service for the 10-year period ending December 31, 2006 for Emerging Markets Funds.

Its investment manager, Punita Kumar-Sinha, is the senior portfolio manager and chief investment officer for Blackstone Asia Advisors, LLC which includes The India Fund, Inc., The Asia

Tigers Fund, Inc. and The Long-Short Hedge Fund, L.P. She is also a senior managing director of The Blackstone Group L.P. Ms. Kumar-Sinha has managed The India Fund since July 31, 1997, The Asia Tigers Fund since June 30, 1999 and the hedge fund since its inception on December 1, 2006.

Ms. Kumar-Sinha has over 19 years experience in fund management of international and emerging markets. Prior to joining Blackstone, she was a managing director and senior portfolio manager at CIBC World Markets and Oppenheimer Asset Management Inc., where she was also the portfolio manager for The India Fund and The Asia Tigers Fund. Prior to that, she was the portfolio manager on the emerging markets team at Batterymarch, which she joined after four years at Standish



Punita Kumar-Sinha

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Ayer & Wood. At Standish Ayer, she developed country allocation models and strategies as part of the international equity management team as well as researched investments in southeast Asia and other international markets. While at graduate school, Ms. Kumar-Sinha interned at J.P. Morgan Investment Management and at IFC's emerging markets index group. She also spent a year with the Latin American Department of the World Bank.

Ms. Kumar-Sinha has been frequently featured in the media, including *The Financial Times*, *The New York Times*, *The Wall Street Journal*, *Barron's*, *Forbes*, CNN, CNBC, Fox News, Star News and *The Economic Times* (of India). Her many contributions at seminars and conferences have projected the potential prospects of India as an investment destination.

Ms. Kumar-Sinha has a Ph.D. and a Masters in Finance from the Wharton School, University of Pennsylvania. She received her undergraduate degree in chemical engineering from the Indian Institute of Technology, New Delhi. She is also a CFA charter holder and is a member of the CFA Institute, the Boston Security Analysts Society and the Council on Foreign Relations.

We interviewed Ms. Kumar-Sinha by telephone on July 17:

SL: Since India is so large and diverse, isn't it really its own region, a subcontinent rather than a single country?

Kumar-Sinha: The term subcontinent signifies "having a certain geographical or political independence" from the rest of the continent or "a vast and more or less self-contained subdivision of a continent." India, like China, is a country, not a continent.

The term Indian subcontinent is often used geographically because India lies on its own tectonic plate and has many of the geographic features of a continent, contained independently in a subdivision of the Asian continent. India lies in the south of the greater continent of Asia.

SL: What is your personal investment philosophy, and where are your research facilities located?

Kumar-Sinha: We have offices in the U.S., India and Hong Kong. We think both globally and locally and take all inputs into account.

SL: India may be the second fastest growing country in the world after China, but we don't know how much that has changed in this new economic order. What growth forecasts do you see for 2008?

Kumar-Sinha: They are being downgraded in 2008. I have seen forecasts for GDP growth below 7% versus growth of over 9% for 2007. If oil prices, interest rates and inflation stay high, growth could



fall below 7%. China could also slow down to about 8%.

SL: India's economy is now struggling with high interest rates, inflation and infrastructure. How do you think it will be able to solve these problems?

Kumar-Sinha: They are all linked. Inflation is unofficially now above 8% so the government has subsidized fuel, fertilizer and food. As a result, the official numbers do not reflect the full costs. Eventually, they will have to reduce subsidies and increase prices, further increasing inflation.

SL: Some of the other governments in Asia have tried this tactic, by lowering their fuel subsidies to slow down demand and prices. It has worked so far, but, in India, there have been riots in some places.

Kumar-Sinha: Yes, this is also true in countries such as Vietnam, the Philippines,

Indonesia, and even China. However, in China, people don't riot easily. There are inflation concerns across the whole world, though they appear more prevalent in the emerging markets.

SL: It is discouraging that poverty levels have increased so rapidly in India and many other countries. At the other end of the spectrum, we have seen reports and pictures showing that many of the wealthier people are building gated communities.

Kumar-Sinha: Gated communities are not that prevalent yet, although there are a lot of real estate companies involved in planning them. This is a model that has done well in certain countries such as China and the Middle East. They are more like mini-cities which include schools and hospitals providing better access to health care and better sewage and waste disposal services. Because many cities in India tend to get a little disorderly and the traffic gets out of control, I think these gated communities will create a system of order that is preferred by the rich as well as the middle class.

SL: Much of this has been portrayed in Thomas Friedman's book, *The World Is Flat*, in which he wrote about globalization, its opportunities for individual empowerment and its achievements at lifting millions out of poverty as well as telling of its drawbacks. We are also strong advocates of free trade.

As in both China and Russia, there is a new class of wealthy people emerging in India. The poor countries are becoming richer, while the richer ones are becoming poorer.

Treasury Secretary Paulson recently returned from India and said that the country will benefit from an improvement in its investment climate and reduced trade barriers by the financing of its infrastructure. Do you agree with his comments?

Kumar-Sinha: Since 1991, when liberalization began, the tariffs have come down significantly so India is now largely viewed as having a free trade structure. However, some export barriers have been reversed in commodities and other goods due to inflation. This has recently restricted imports.

India, China, Indonesia and many other countries in Asia are experiencing higher inflation. Some of these countries are encouraging the use of more domestic commodities to curb exports. As they grow rapidly, imports may hurt their balance sheets. Many countries prefer to keep goods available in the country that might have otherwise been exported.

SL: We have learned that India's telecom industry is gaining momentum, growing from a market penetration of 2% in 1998 to 18% in 2008. India now is overtaking China as the world's fastest mobile phone market with more than 200 million phone subscribers, including both mobile and fixed lines. The penetration into the highly populated rural areas is more difficult because of poor roads, limited electricity and security threats. Establishment of the mobile phone towers in the hinterland is no easy task with burdensome costs for the tens of thousands of phone towers. Are you aware of these problems?

Kumar-Sinha: Yes, but we are overweight in the telecom sector. We hold Reliance Communications and Bhatia Airtel. There are some risk concerns which include pricing pressures and peaking of the subscription base.

SL: There is recent disappointment over the collapse of the Reliance Communications merger with their South African rival, MTN, due to a family feud. If successful, the merger would have created one of the largest emerging market mobile groups in the world. Do you think this merger and acquisition trend will continue in India?

Kumar-Sinha: Yes, the Indian companies particularly want to acquire commodity resources in Australia, Latin America, Indonesia and Africa. As the economy grows, there is a greater need for resources such as coal and other minerals from countries that are less reliant on those minerals.

SL: Do you think India can meet its fiscal deficit targets with its large spending program?

Kumar-Sinha: Not now. They have exceeded their targets, but the deficits are still negative now because of political uncertainty over the April election. The government has just won a no-confidence

motion by a slim margin, but they want to balance the electorate more than the fiscal deficit. Inflation is high, and the government is bearing much of the subsidy burden, which is unlikely to decline.

SL: Regarding the status of the call centers, which have helped to improve so many Indian lives, have you seen many of these centers shift to other parts of the world?

Kumar-Sinha: We have heard that some American companies are bringing some call centers back home, because the wages in Asia and particularly in India have been going up sharply. Outsourcing is a very competitive business. Some companies will outsource more while some are saying that the benefits are not sufficiently high so why not bring the centers home? However, if the rupee continues to weaken, India's competitiveness will increase in this area.

SL: How are the real estate and construction sectors doing in India?

Kumar-Sinha: Those sectors are negative because of rising interest rates and costs. These conditions are putting the balance sheets of real estate companies under pressure because of a lot of debt.

SL: India has a long history of its caste system. Could you tell us something about this long tradition?

Kumar-Sinha: The caste system is a very old tradition that has been ingrained in the Indian social fabric for centuries and which won't disappear easily. Strangely, the government encourages the caste system by creating quotas for the universities and jobs for the lower castes.

I married my husband from a different community, and, therefore, he was from a different caste. This was socially challenging as marriages between members from different castes aren't that common. I wouldn't say one community was better than the other, but it still mattered that we were from different castes or communities.

Editor's Note: India has a hierarchical social caste system, rather than a fluid system as in the U.S. Within the Indian culture, whether in the north or south, Hindu or Muslim, urban or village, people and groups of people are ranked according to various essential qualities. The highest

priestly castes, the Brahmans, are generally vegetarians and avoid eating meat which they consider to be the product of violence and death. Almost all Indians are associated with castes and are ranked often according to their wealth or power. The system is primarily associated with Hinduism but also exists among other religious groups. Even the Muslims have clear concerns with social hierarchy. Indian Christians also acknowledge and maintain differences in caste.

Source: www.indianchild.com/caste_system_in_india.htm

SL: How is the privatization of government-owned industries progressing?

Kumar-Sinha: We see progression and momentum. There are many more public-private partnerships with the government and the private sector working together. The government tries to deal with environmental aspects of the projects as well as any clearances while the private sector does most of the funding and execution of these partnerships. This new form of partnership has worked more successfully in the current political framework.

SL: How well is India's huge and growing population handling its environmental problems? We know that pollution is rapidly increasing due to many more cars, as in China.

India is becoming a world leader in clean energy, particularly in solar power, biomass and wind farms. Suzlon Energy now has the world's fifth largest wind-turbine sales. Are you aware of these developments?

Kumar-Sinha: I didn't know that India is a world leader in this area. Suzlon is one of the top five global companies in this area to support wind energy. India also has hydro plants, but solar is still in its infancy stage.

SL: The petroleum industry comprises about 15% of your portfolio, but most of your investment choices are in the petroleum marketers because you have to import most of your energy. Is that right?

Kumar-Sinha: Correct. We are underweighted in the petroleum marketers. We own energy and petroleum companies such as Oil and Natural Gas Corp. ("ONGC"), Carin Energy and Reliance Industries.

ONGC is a government-owned exploratory company which gets the full benefit of higher oil prices. Normally, you would have a large exposure to oil companies in the area, but unfortunately, because of government regulations, these companies are not benefiting much.

Editor's Note: The Indian oil marketing companies are projecting that losses will reach the equivalent of about 3% of GDP in the fiscal year ending in March 2009 unless they receive more government help. Losses of around \$100 million for the most recent quarter have been reported by at least one of these companies.

SL: We see that Reliance Industries is nearly 14% of the portfolio, and with two other companies, the three are 27% of the fund's assets. Is that enough diversification to continue the excellent performance you have had?

Kumar-Sinha: That is the nature of the market. Our portfolio is concentrated at the top and then is largely diversified. We also have a number of large holdings beyond the top ten and, therefore, we get very good sector and stock exposure. Reliance, which produces both oil and natural gas, is also the largest company in India in terms of market cap, so almost every institutional investor has a large exposure to it. The natural gas is not yet generating much return for them, but they continue to find new reserves.

SL: We note that you hold a total of 129 stocks in Indian companies. How much have the multiples on your stocks declined in the last year?

Kumar-Sinha: The Street estimates are that the market is trading between 11-12 times earnings now, versus 22x-24x at the peak of the fund price.

Kumar-Sinha: Barbara Pires, our chief compliance officer for The India Fund has just joined us.

SL: Hello Barbara. What is the distribution policy for the Fund, and does it make distributions of capital gains more than once a year?

Pires: On an annual basis, the board of directors will determine if a dividend is payable. Normally it is announced in mid-December and is payable in January. We only have one annual dividend unless we

have what is called a spill-back dividend, which has to be distributed prior to the filing of the Fund's income tax statement. For the last two years, we have had a spill-back dividend, which is usually announced by September 15th and is paid in October.

SL: We see this every year. The dividend – more accurately, a distribution – is paid in the following year but is taxed in the prior year. This has upset some of our clients.

Pires: Our shareholders complain about this also. This can be confusing for the investor.

SL: What is the nature of your share repurchase program, and how does it work? Often a fund will buy-in shares in order to distribute them in-kind. Please clarify how the Fund makes periodic repurchases at net asset value.

Pires: We adopted the interval fund structure for periodic repurchases starting in 2003. The Fund buys-in shares at net asset value, less a repurchase fee of 2%. Prior to that program, we repurchased about a million shares a year in the open market. However, in the late 1990s/early 2000s, when the discount was pretty wide, the board of directors, subject to stockholder approval, recommended a policy whereby the Fund adopted an interval structure to give our shareholders the opportunity to redeem their shares at NAV.

SL: We like the many advantages of the discounts. When a fund goes to a premium, often because of good performance or a high level of distribution, we have to decide whether to sell the shares or ride it out. If we sell the shares of the fund, we usually do not repurchase them until the discount returns, as it inevitably does.

We sometimes substitute a mutual fund with the same manager in these cases, but we prefer to stay with our expertise, closed-end funds.

Pires: As you have been in the industry a long time, you know that there sometimes are pressures for funds to adopt some type of provisions such as open-ending to eliminate the discount. We believe that to open-end The India Fund would not be in the shareholders' best interests.

SL: Yes, if you can sustain your good, long-term investment performance and the

discount doesn't deepen too much to hurt market performance.

Pires: The only problem with the repurchase offer is that it is set by specific SEC rules. When IFN was trading at a premium, which went on for a good 1½ -2 years, we had to send every shareholder a purchase offer, saying that it may not be in their best interests to participate as the Fund was trading at a premium.

This is one of the frustrations of having a policy that is adopted and approved by the shareholders, especially when the small shareholder may not understand what is in his best interests.

SL: That is one reason the Closed-End Fund Association ("CEFA") was formed – to educate investors. Information about this wonderful organization, which reports net assets values and other information valuable to closed-end fund investors, can be found at www.CEFA.com.

We commend you for your low expense ratio of 1.23% at the end of 2007. That is a key factor we consider in choosing a fund, in addition to the discount levels.

Pires: It is fair to say that when the funds were awarded to Blackstone, in 2005, one of the first things Blackstone did was to reduce the management fee which, along with the growth of the assets, would be higher if we kept to the old fee schedule.

SL: We now want to mention some market commentary about the state of the emerging markets.

An analyst at State Street Bank wrote that the developed markets are now cheap compared to their history, but the "emerging markets are still relatively expensive ... the changing appetite for emerging markets may also reflect the perception that the credit crisis has now been eclipsed by a greater threat, namely inflation."

We are not sure that we agree with his entire assessment, as the emerging markets sell-off was sharp as well. IFN's trading range in the last 12 months (to August 1, 2008) ranged from \$71.54/share to \$31.89/share.

Because there has been a recent significant drop in the world oil price – which we hope will continue – the emerging markets should continue to improve.

In a recent article in India's *Economic Times*, you wrote: "It is an uncertain global financial market world. All of the financial markets are waiting to see how oil behaves. The financial markets are becoming very hard to predict."

We agree with your assessment and hope that the sudden drop in the world oil prices will continue because it is hurting so many people in so many countries. Do you agree?

Kumar-Sinha: Yes, that is true.

Editor's Note: The December 2007 annual report shows that IFN distributed both long-term and short-term capital gains with income totaling \$9.61 in 2007.

IFN had a portfolio turnover of 29% and an expense ratio of 1.23% in 2007. The \$2.25 billion fund also repurchased 410,448 of its own shares.

For more information on Blackstone funds and other investments, please call The Blackstone Group at 866-800-8933 or visit www.blackstone.com. ■

The India Fund						Since Mgmt. Change (7/31/97 to 6/30/08)**
NAV Performance Relative to Index Period Ending June 30, 2008						
	Month-to-Date*	Fiscal Year-to-Date*	1-Year*	5-Year**	10-Year**	
India Fund	-18.55%	-40.85%	-9.82%	33.20%	21.98%	17.64%
IFC Investable India [^]	-19.99%	-41.93%	-13.49%	34.33%	17.78%	11.64%
BSE 500 ^{^^}	-20.90%	-44.16%	-13.92%	34.82%	N/A	N/A

*Cumulative return
**Annualized return

The performance of an index is not an exact representation of any particular investment as you cannot invest directly in an index.

[^]The IFC Investable India Index is an unmanaged capitalization-weighted index that tracks 186 Indian stocks. Index returns assume reinvestment of dividends and, unlike Fund returns, do not reflect any fees or expenses.

^{^^}The Bombay Stock Exchange ("BSE") launched the BSE-500 Index on February 1, 1999. The BSE consists of 500 Indian companies representing all 20 major industries. In order for a stock to be included in the Index, the stock must have traded 75% of the trading days in the last three months. Exceptions can be made for extreme reasons such as stock suspension, etc.

Talk of Rise in India's Fuel Prices Comes at a Sensitive Time

India's government recently gave its strongest hint yet that it was prepared to take the politically sensitive step of raising domestic fuel prices as it grapples with the soaring price of oil.

This caused discontent in late June throughout India in the form of widespread protests over food and fuel prices as well as over land use and jobs. Indian citizens, unlike those in China and other totalitarian nations, have long embraced their constitutional right to assemble and have done so with fervor lately in protest over a wide range of issues.

The country's finance minister warned that India needed to start moving its heavily subsidized domestic oil prices in line with global market rates to help avert a

liquidity crisis at state-run oil companies, which are facing losses this year of at least \$50 billion.

"That is not sustainable in terms of pure economics," he said. "India must move to a set of energy prices that is aligned with market prices."

Countries across Asia are wrestling with the burden of ballooning fuel subsidies created by a sudden increase in oil prices to more than \$140 a barrel.

Taiwan, Malaysia and Indonesia have all taken emergency action recently to free up prices or cut subsidy bills. Their goal is to move toward market-determined prices, but in India, the pace of any increase is still under discussion.

The rise in the oil price comes at a highly sensitive time in India which imports more than 70% of its fuel. The subcontinent is struggling to tame inflation to nearly 8% (ahead of a general election in 2009) and is, therefore, reluctant to pass on more costs to consumers.

Analysts expect the government will announce a bail-out package soon for the state-run oil marketing companies that will combine a price rise, increased oil subsidy bonds and possible duty cuts. ■

Source: *Financial Times*

We will pursue the issue of the effect of high fuel prices on Asian countries further in our August 27 interview with The Asia Pacific Fund for the September issue of *The Scott Letter*.

India May Have the Potential to Surpass the U.S. in Clean Energy

India surpassing the U.S. in clean energy may appear unlikely, given that India lacks a real energy or climate-change policy. But, this huge country has been described as "a land of a million energy pathways" and is well-positioned to lead the world in green energy. It can thank, in part, its geological disadvantages: small amounts of oil and modest natural gas.

Amid this *kitcheree* (an Indian stew) of innovations, the one ingredient in short supply is "connectedness". India is a vast

country with at least five alphabets, 23 official languages, and until recently, very poor transportation and communications infrastructure. Its grassroots movements tend to see government as an adversary rather than as a potential partner. Even within the government, innovative ideas developed in one district are often unknown a few hundred miles away.

After 116 years of operating only in North America, the Sierra Club is extending its reach overseas – to India. The first

effort will be a national center for Green Livelihoods. For this, the Sierra Club has established an annual Green Energy and Green Livelihoods Award (a \$100,000 prize has been raised from Indian-American Club members) for the best grassroots effort to create green jobs.

In the spring of 2008, even as an enormous coal-fired plant is scheduled for the port city of Mundra, private companies have electrified dozens of villages using combinations of photovoltaic cells and

LED light bulbs. Advertisements in New Delhi newspapers reminded building owners that solar-heated hot water is now required by law.

Moreover, India gets more of its electricity from wind power than does the United States. India has large coal reserves, but they are riddled with contaminants. (The proposed Mundra plant would be powered by coal imported from Indonesia.) In a fossil-fueled world, India loses out, as it competes with China for access to oil.

India boasts the world's best fit of optimal solar-power collection sites to population centers. It has large areas suit-

able for biomass (fast growing plants that can be converted to energy) and enjoys reasonably good wind resources.

India can also deploy enormous numbers of world-class engineers eager to plunge into renewables and efficiency. It has already created a leading renewable power company in Suzlon, the fifth-largest wind turban manufacturer in the world which exports to the U.S. Indian giants like Reliance Infrastructure, Moser Baer and the Tata Group are also pouring billions of dollars into new energy technologies.

India is considering a proposal to provide electricity to the country's 300,000

off-the-grid villages through a combination of wind, sun and biomass for each cluster of villages. These developments may be small contributions to the huge challenge of providing clean-energy services for hundreds of millions of people who now rely on cow dung and kerosene.

What's missing is a venue to bring it all together. Somewhere among its million energy pathways, India will find the answers necessary to become a world leader in the green energy future. ■

For more information on the Sierra Club's India initiative, visit www.sierraclub.org/india.

Remembering John Templeton

John Marks Templeton, 95, a billionaire investor who had a life-long fascination with science and religion, died in Nassau, Bahamas on July 8, 2008 of pneumonia.

John Templeton was a wonderful mentor who both inspired and illuminated my investment career. He also influenced me in the realm of time management, something very important in business. For Templeton, time was always a thing to be treated as a gift. To me, this is one of his greatest legacies in a rush-rush world. Each client quite rightfully makes claim on a money manager's time. When you were with Templeton, however, you always had a sense that he had more things to do than time to do it, but you also felt that when you were with him, his time was yours. Templeton was very conscious of respecting other people's time, and when he traveled around the world, to ensure that he was prompt, he always set his watch 10 minutes fast. We call this "Templeton time". He used his time effectively, but his life was centered on helping others through understanding of sound money management principles. Meetings with him always began at the designated hour and always ended on schedule. Even in my many telephone calls to him, I was told exactly how much time I had.

His desire to use his time effectively found its logical expression in mutual funds – a means for "every man" to stake a claim in the markets as a way to help fami-

lies of many income levels to achieve wealth and security. Later, he realized that there was a strong place for closed-end funds as well, especially in the emerging markets of the world. His top performing emerging markets fund, the Templeton Emerging Markets Fund managed by Dr. Mark Mobius, is the best example, but there are others with exceptional records.

Mutual funds have a disadvantage in these volatile markets because, if a shareholder wants out, the fund's management must redeem his shares at net asset value by the end of the day. Closed-end fund investors have the advantage of time to carefully monitor their investments, choose limit orders and have the protection of the discount.

John Templeton started his career on Wall Street in 1937 while in his early 20s and went on to create the Templeton family of mutual funds, which grew so well that he could commit much of his fortune to scientific and religious causes. His philanthropies included the \$1 million Templeton Prize for Progress in Religion established in 1972, which annually recognizes one individual for "progress toward research or discoveries about spiritual realities". He told me once that he placed the emphasis on "progress".

During a career that included directorships at banks, businesses and insurance companies as well as educating investors, Templeton also maintained a long associa-

tion with the Presbyterian Church. Raised with a sense of entrepreneurship, he was the son of an enterprising country lawyer and a religious mother. After Yale and establishing his investment business in New York, he became a trustee of Princeton's Theological Seminary for 42 years and served as its chair for 12 years. People connected with this seminary have told me that the endowment he helped raise has made the seminary one of the wealthiest in the U.S.

Sir John Templeton, a naturalized British subject, was knighted by Queen Elizabeth in 1987 for his philanthropic work through the John Templeton Foundation. Founded in 1972, the Foundation worked on the "Big Questions" of science, religion and human purpose. Based outside Philadelphia and now managed by his son, John ("Jack") Templeton, a retired pediatric surgeon, the Foundation supports academic research in fields such as theoretical physics, cosmology, evolutionary biology, cognitive science and social sciences as they relate to love, forgiveness, creativity, purpose and the nature of religious belief. With an endowment of about \$1.5 billion, some \$70 million is given away annually.

"How little we know, how eager to learn" is its motto. Templeton found that the more he gave away, the more he had. He told me once that he double-tithed (20%) to his church.

John Templeton also established Templeton College at Oxford in 1983 because he wanted to advance management studies, revitalize the British economy and, most of all, to help people around the world escape from poverty, famine and disease.

As a pioneer in both financial investment and philanthropy, Sir John Templeton spent a lifetime educating investors and encouraging open-mindedness. He wrote: "If I hadn't sought new paths, I would have been unable to attain so many goals."

Whenever you were with this remarkable man, you felt like you were the most important person in the world to him. He had, indeed, a rare amount of humility in a world of greed.

I first met John Templeton in New York, sitting quietly in his room at the University Club, with the lights off, probably at prayer. When he saw me, he asked if I knew the "Parable of the Talents". When he explained to me that God has given to each of us a particular talent, he immediately made me feel good about my life and where it was going. My newsletter was struggling at the time, but within a decade I purchased an investment advisory firm in California and expanded my life's work in a new direction which has since flourished as I became an investment advisor specializing in closed-end funds.

Afterwards, I kept up with Sir John by telephone and later by visits. I saw him in Richmond once, when he came up from

Nassau to hear his son Jack give a lecture at the Medical College of Virginia on "conjoined twins" and their separation by surgery.

I also visited Sir John several times at his home and office at Lyford Cay, Nassau to interview him for *The Scott Letter* and to learn more about his philanthropic activities. My last visit was in 2001, accompanied by my wife and 87-year-old mother. Sir John, then a widower, had lost his first wife, Judith, the mother of his three children, in a motorbike accident in Bermuda. His second wife, Irene, had died in the late 1990s in Florida. Although he declined my mother's invitation to dinner, we later saw him on the beach. I treasure the photo of them together, arm in arm.

On a more personal note, prior to the last time I traveled to London in 1995, I telephoned Sir John to ask who I could see at the Anglican Diocese. He first suggested that I go to Lambeth Palace, the official residence of the Archbishop of Canterbury. I doubted I could see the Archbishop as easily as Sir John could, so he gave me the name of the Dean of Westminster Abby, whom I contacted. The Dean led me on a private tour of this 5th century abby to see the "Templeton Windows" for which Sir John had raised the money to restore, in typical Templeton fashion.

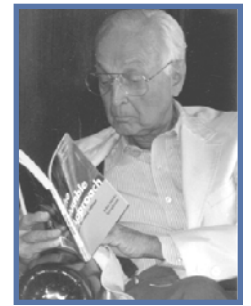
Templeton's investment principles influenced me and millions of other investors. One investment rule that he established was to "buy at the time of

maximum pessimism", such as what we are witnessing now. Due to his strong interest in educating investors, he developed rules and principles, publishing them in his many books, now available from Templeton Foundation Press.

Templeton provided advice on how to invest worldwide when Americans rarely considered foreign investing. When he wanted to devote more time to his Foundation, he sold his Templeton Funds to the Franklin Group of Funds in 1992 for a reported \$913 million. He kept active in his work until about three years ago and died quietly, ready for the next life. He left a legacy that will be long remembered.

For more information about this remarkable man, see the biography, *Global Investing: The Templeton Way* as told to Norman Berryessa and Eric Kirzner, and his 1981 book, *The Humble Approach: Scientists Discover God*. In his book, Templeton asks, "Can science expand our understanding of the Divine?" This and other books can be found at www.templetonfoundation.org.

Memorial services for Sir John Templeton will be held at Princeton University Chapel on November 21, 2008 at 2 p.m.



CEFA Universe Report: Measures of Volatility

In previous issues of *The Scott Letter*, we discussed the undistributed net investment income (UNII), relative UNII, 52-week relative price and 50-day moving average relative price data points of our weekly data service, CEFA's Closed-End Fund Universe. To read these previous articles, visit www.cefadvisors.com/universe.html. In this issue, we will discuss two volatility data points: **standard deviation** and **beta**.

Standard Deviation

For the analysis of investments, *standard deviation can be defined as a statisti-*

cal measure of variability for the investment return in relation to the investment's average return. Standard deviation measures an investment's absolute volatility, or risk. (If your statistics are a little rusty, you can think of standard deviation as measuring how far from the average rate of return a particular rate of return is likely to be.) If a fund has an average return of 15% annualized over the previous five years and a standard deviation of 10, then you can expect a probability of a fund's returns from 5% to 25% over any given year (15% per year ± 10). The greater the standard deviation of an investment, the more vari-

able (or "risky") the average rate of return you can expect to experience.

Historically over the past 20 years, closed-end bond funds have had a standard deviation of 7.56 vs. 15.58 for closed-end equity funds. In the recent credit and real estate crisis, volatility has increased for many income-oriented investments, during which bond funds have been more adversely affected.

For the 12-month period ending June 30, 2008, the average closed-end bond fund had a standard deviation of 9.46 while the average closed-end equity fund had a standard deviation of 12.18. This dramatic

increase in investment volatility caught many income investors off-guard with closed-end bond funds being 62.1% more volatile on average and closed-end equity funds on average being 39.3% less volatile than their long-term historical trend.

We find that in an actively monitored portfolio, the use of CEFs with modest volatility can help lower the entry price and increase the selling price. We often use limit orders to help us control this pricing for our managed account clients.

For our two most conservative models, we look for low relative standard deviation compared to their peers when investing. This can help provide downside protection as well as help to ensure more consistent returns for our clients.

Beta

Beta is a measure of an investment's volatility compared to its appropriate index. For stocks, the index is usually the S&P 500. If the index used for comparison has a similar composition as the underlying investment, beta will calculate the volatility of the investment on a relative basis to its comparable index.

Using beta in investment analysis can help to determine if the volatility of a fund is associated with the underlying investment sector or the choices made by a fund

Portfolio Manager's Review

During June, CEFA focused on conserving the assets of our portfolios. There are many new opportunities, especially with so many stock markets now oversold, and as a result, we found several funds paying out large monthly distributions.

We reduced our exposure to Asia, except for The India Fund, which we are still reassessing as a long-term investment. Much of the cash we raised has been reallocated into Latin American funds. In spite of its good record, we also sold some shares of the Templeton Emerging Markets Income Fund when it traded at a premium, to be repurchased at a later date if the conditions are right. In the meantime, we initiated purchases in several real estate

management team with regards to security selections, portfolio allocations or other investment decisions. There are times when a higher beta would benefit a portfolio, just as there are times when a lower beta would be more beneficial.

Conclusion

In summary, **standard deviation** can be used to look at how reactive or volatile an investment may be on an absolute basis. This enables comparison of one investment's volatility to another, no matter the sector or underlying security type. **Beta**, on the other hand, is a relative volatility measurement, determining if one investment is more or less reactive than its peers or underlying index.

CEFA's Closed-End Fund Universe contains a 26 data points including standard deviation and beta. It is produced weekly in order to give accurate and timely information to our data subscribers. Visit www.cefadvisors.com/universe.html to view a sample report.

One should first consider all data points and establish investment suitability before making any changes to an investment portfolio. For more information about the use of standard deviation or beta in the evaluation of closed-end funds, please contact [John Cole Scott](mailto:John.Cole.Scott@cefadvisors.com) at 800-356-3508, 3536.

and global bond funds selling at substantial discounts.

CEFA has used individual REITs from time to time, but we are eliminating them now because they are not closed-end funds and have been behaving poorly. This real estate sector is now extremely oversold.

Stock markets like this always provide opportunities for experienced investors who can overlook high oil prices, rising inflation and other economic problems to realize that economic recovery always comes when the mood of investors is the darkest. ■

George Cole Scott

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