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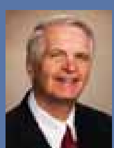
THE SCOTT LETTER is intended to educate global investors about closed-end funds. Closed-end funds can be a valuable and profitable investment tool. To learn about closed-end funds, visit our web site, www.CEFAdvisors.com, and in particular, read our article, *What Are Closed-End Funds*. Feel free to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



– George Cole Scott
Editor-in-Chief

IN THIS ISSUE:

Aberdeen Acquires Credit Suisse Fund Management Arm

Aberdeen Asset Management has become Britain's biggest independent fund manager after a £250 million ($412 million USD) deal to acquire the bulk of the global fund management business of Swiss bank, Credit Suisse, on July 1.

Senior executives also indicated that Aberdeen was on the prowl for further big acquisitions in the current bear market. Included in the deal are The Latin America Equity Fund and The Chile Fund, the subjects of this edition of *The Scott Letter*.

The transaction, won by Aberdeen in an auction run-off against rival Schroders, will see Credit Suisse take a 23.9% stake in the fund manager in return for handing over a large part of its global investors business. Credit Suisse will also take a $600 million Swiss franc charge on its profits in the final quarter of this year.

This is the latest episode in a period of downsizing by Switzerland's troubled banks to coincide with a decision by UBS to off-load a 1.6% holding in The Bank of China – at a 12% discount – to 15 institutional investors. UBS, Europe's biggest casualty in the 17-month-old financial crisis, suffered almost $50 billion of write-downs and will make around $400 million in the current quarter after it was expected to have lost several billion dollars.

"There are a lot of transactions to be done. I've been doing this for more than 20 years, and I've never seen an opportunity like this. The key is to be big enough to go through this bear market and be one of the survivors," said Aberdeen's chief executive, Martin Gilbert.

The global equity strategy of Aberdeen Asset Management is built around a high conviction or "best ideas" approach, designed to allow its Global Equity unit to capitalize on the expertise of its regional equity research teams. For bottom-up stock picking managers like Aberdeen, investing across the globe provides a wealth of opportunities.

Both The Latin America Equity Fund and The Chile Fund had been managed since 2004 by Mathew Hickman of Credit Suisse Asset Management, prior to their acquisition by Aberdeen.

Aberdeen Asset Management

The Global Emerging Market ("GEM") desk of Aberdeen operates from London and Singapore. The London team oversees Latin America, Emerging Europe, the Middle East and Africa. The Singapore office has responsibility for Asia.

Aberdeen's GEM product, therefore, combines the experience of these two teams, yet it operates as one. Each team covers its own area, but the investment managers cross-cover regions.

"We employ a fundamental, bottom-up equity investment style, which we originated in Asia and is characterized by intensive, first-hand research and disciplined company evaluations. Stock ideas drive allocations, not vice versa, leading to high stock and country deviations from index. There is a strong awareness of downside risks and, more importantly, for this asset class of corporate governance.

"In Emerging Markets equities, successful investors have to look at growth at the company level, know whether growth is sustainable and whether the firm treats its shareholders fairly.

"Our house rule is always to meet company management before we invest – and to keep meeting them afterwards. We pay scant attention to benchmarks. If we don't like a company, we won't invest."

- When we look for good quality management, we mean people we can trust, who have a good track record of managing businesses and of maximizing shareholder value.

- We prefer companies with strong, prudent and easy to understand balance sheets.
- We seek out companies that are consistent generators of free cashflow. Free cashflow is what determines the share price, because it supports share buybacks and dividends.
- We view buying a stock as the start of the process, not the end. We visit the companies we hold at least twice a year. Once we find what we believe to be a good company, we invest for the long term.

The Case for Global Emerging Market Equities

The emerging markets represent four-fifths of the world's population, three-quarters of its land-mass, two-thirds of its foreign exchange reserves and half of its GDP. Yet, they account for only 9% of world equity by market capitalization. It's clear that the potential for growth is exceptional over the medium to long-term. Global emerging markets already contribute 61% towards global growth.

Companies in emerging markets have become better managed and more transparent in order to compete for the increased investor cashflow into the region. They have stronger balance sheets, are more profitable and are increasingly committed to maximizing shareholder value.

Diversification Benefits to Your Portfolios

While the emerging markets decoupling from developed markets has been debunked, they play a demonstrably important role in portfolio diversification.

Short-Term Growth Potential

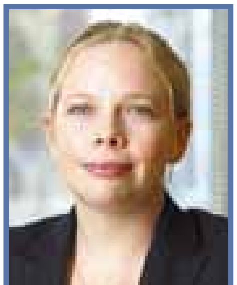
Emerging markets are not immune from global economic concerns, and they have less debt than developed nations. Economic reform has been a great help. The adoption of prudent fiscal and monetary policies by governments has fostered stability and growth.

Emerging markets have stronger economic growth potential than their mature counterparts, supported by a young and growing population, durable consumer spending and a burgeoning middle class.

Global emerging markets will lead, not follow, the recovery. These markets have a much-reduced dependency on developed economies, and exports to other emerging economies are growing. These economies are also seeing increased spending and investment at home, while developed markets need to save more, resulting in muted growth. Emerging Markets have saved in the past and can now move to boost demand.

Attractive Valuations

While emerging markets have rebounded, the long-term outlook remains positive. Global emerging markets were at the end of August 2009, still 40% lower than their peak in October 2007.


Fiona Morrison

Fiona Morrison is a member of Aberdeen's Global Emerging Markets team. She joined Aberdeen in 2005 when Aberdeen acquired Deutsche Asset Management's London and Philadelphia fixed income businesses. Fiona graduated with a BA (Honors) in History from England's Durham University. She is a CFA Charterholder.

We telephoned Ms. Morrison at her London office on August 18, 2009:

SL: How does your team manager style work?

FM: We manage around $15 billion of assets for clients around the world, a significant portion of which is invested in Latin American companies. We have been investing in the emerging markets since 1987.

We have investment teams in all of our markets or regions. We are also planning to open an office in Latin America at the end of 2009.

The investment decisions we make are based on our own proprietary research processes. We do all of our own company research in-house and spend a lot of time meeting managements of the companies we own, covering Latin America, Asia Pacific, Emerging Europe and Africa.

Last year we conducted 1,300 in-house meetings with management. About 230 of those companies were in Latin America. We meet with management to understand the risks and opportunities associated with their businesses.

We are long-term investors with a buy-and-hold strategy. We think it is important to have a long-term investment horizon. We buy great quality companies at the right valuation with a long-term outlook. The process is based on understanding the long-term fundamentals of each company. It is very much a bottom-up process, focusing on the quality of each company.

The investment process is based on three factors: First is the business model. We look at companies we believe have good stable earnings and cash generation, those that can take advantage of the long-term domestic growth story based on a combination of positive demographics and economics.

Second, there must be a strong balance sheet. We look for well capitalized companies that are able to withstand the volatility in emerging markets and have a management team with a good long-term track record of generating shareholder value.

Corporate governance is also very important. We want to be sure that we are satisfied that the companies in which we invest respect the rights of minority investors, understand their needs and manage the companies to the advantage of all investors.

In the emerging markets, especially in Latin America, many companies have powerful controlling shareholders in families or institutions. Therefore, we want to make sure our interests are appropriately aligned.

Unlike many of our competitors, we don't specialize in certain countries or sectors. We have a significant resource that is dedicated to researching emerging markets stocks. We have 35 analysts based in London and Singapore. Every member of the team is intimately involved in analyzing companies and has an interest in the portfolio construction. We think this leads to a better understanding of the universe and are, therefore, able to make much better cross-sector and cross-border choices based on our breadth and depth of experience.

SL: If you have been investing in the emerging markets since 1987, you have followed in the footsteps of Dr. Mark Mobius of Templeton Asset Management. Mark is credited with first coining the term “emerging” rather than the “developing” markets. Are you aware of this fact?

FM: Yes. We also believed that there were opportunities for investors in the emerging markets.

SL: How much assistance in research do you have within your regions?

FM: We have offices in Bangkok, Thailand, Kuala Lumpur, Malaysia and Hong Kong. We also plan to open an office in Sao Paulo, Brazil soon.

We currently do all of our research out of these offices, and we travel quite extensively. Each member of the team makes an average of four emerging market visits a year, including at least two to both the major as well as to the smaller markets in the region, depending on what opportunities we have to meet with managements.

SL: Does Aberdeen manage other regional or single country funds?

FM: Aberdeen advises or sub-advises 10 U.S. closed-end funds ranging from global fixed income and balanced emerging markets to single country and regional equities. In addition to The Latin America Equity Fund (NYSE AMEX: LAQ) and The Chile Fund (NYSE AMEX: CH), we manage four equity funds: Aberdeen Australia Equity Fund (NYSE AMEX: IAF), The First Israel Fund (NYSE AMEX: ISL), The Indonesia Fund (NYSE AMEX: IF) and The Emerging Markets Telecommunications Fund (NYSE AMEX: ETF).

SL: We hope that Aberdeen will consider purchasing or creating other closed-end funds. When will you be able to release a report on these funds? What changes have you made recently to their portfolios?

FM: We have been reviewing the structure and holdings of the two funds we are discussing today: The Latin America Equity Fund and The Chile Fund, since we took over their management on July 1, 2009. We have not done any restructuring yet but have a number of changes in mind to move the portfolios toward our investment approach.

Generally, we have much more concentrated portfolios than these funds. The positions in our funds are generally only those for which we have conviction for the long-term quality and value of the holdings. I expect that we will see between 30-40 positions going forward. We take a minimum 1% position in order to reflect our conviction in those stocks.

The funds will be much less thematic in nature. We really are bottom-up stock pickers; we focus on the quality and value of the companies that we invest in. That really dictates the country and sector positioning we take. We have a great deal of resources to build our portfolios.

[**Editor’s Note:** In the 2008 annual report, The Latin America Equity Fund, with approximately $131.2 million in net assets, listed a total of 37 holdings for an average size of approximately $355,000. The Chile Fund listed fewer holdings. CEFA has been selling our shares in The Chile Fund as we prefer regional and global funds over single country funds.]

SL: How many of your analysts focus exclusively on the Latin America region?

FM: We cross-cover so all of the members of the team look at the different companies within the countries and sectors. We believe the mark of a great quality company is the same across the region and the sectors. Our breadth and depth of research allows us to choose the best quality companies at the most attractive valuations to hold for the long term.

SL: When you are in a region, do you talk exclusively to companies or to local analysts as well?

FM: The basis of all of our country or regional visits is to look at the companies on the ground with a primary focus to talk to the senior managements of our holdings. Secondly, we look for new investment opportunities, and thirdly, we meet other companies within the universe that might be able to provide insights into the business environment.

For example, we not only meet with company managements at their headquarters but also tour their operations. If it is a supermarket company, we visit its local branches. We see as many as 20 companies on a week’s trip to understand the macroeconomic and political environment, trying to find companies that manage their businesses through the economic and political circumstances in which they find themselves. This includes managing effectively through periods of the volatility inherent in emerging markets.

SL: You say that you will concentrate on making larger company investments. Are you more likely to find companies within certain sectors such as oil or other commodities-oriented companies?

FM: We don’t specialize in a particular sector. We look for a company with a domestic focus. In Latin America, we believe long-term growth will come from the development of the domestic market through increases in real wages, employment and consumer spending. We look for companies that we believe are good industries, have great management teams and high standards of corporate governance. For example, Lojas Renner, a department store operator in Brazil, is a company that we believe is of this caliber and provides opportunities for our clients to benefit from a sustainable, long-term growth story.

SL: Does Brazil’s Petrobras oil company fit your criteria? It was the largest holding of LAQ on June 30, 2009.

FM: Petrobras has great reserves and an attractive production profile when you compare it globally with other oil and gas companies. In the case of cyclical externally-driven sectors, like oil and gas and materials, we want to buy companies that are the best in class, like Petrobras as well as Vale, the Brazilian iron ore producer. We don’t take sector views or manage in-line with the benchmark, as we don’t believe this provides any indication of the quality of the company.

SL: Besides the larger countries in the region, such as Argentina, Brazil and Mexico, have you found any of the smaller countries with good investments that fit your criteria?

FM: One country that we like is Chile, one of the most mature markets in Latin America. We like its corporate governance and minority protection. However, in these smaller markets, valuations can be expensive compared to what you can access in Brazil and Mexico.

The strong participation of its pension fund is a double-edged sword because pension funds have done much to improve corporate governance in Chile versus some of the other markets in the region.

SL: Please tell us more about your views on Chile.

FM: We are positive on the Chile market, particularly on the quality of the companies that are available. It's a question of universe and context. In terms of valuation, if we were buying a department store in Chile versus one in Brazil, at the moment you are paying a premium in Chile. So, in a regional fund, where you can make investments across the region into the same quality companies, you would buy the company, assuming the same level of quality.

We believe that The Chile Fund has great opportunities. The universe is much more restricted, so we choose what we think are the best quality companies within the universe available. The restructuring process will apply both to The Chile Fund and The Latin America Equity Fund.

SL: As you know, Chilean exports are booming. Foremost among these are the nation's copper mines, which are more productive than any others in the world. Exports account for 40% of GDP, with commodities making up some three-quarters of total exports. The main destinations for Chilean exports are the Americas (42%) of total exports, Asia (30%) and Europe (24%). Chile has a market-oriented economy characterized by a high level of foreign trade, a reputation for strong financial institutions and sound policies that give it the strongest sovereign bond rating in South America. What are your thoughts on the value of exports to Chile and the economies of the other countries in the region?

FM: For us, it is the companies that we invest in. We don't try to predict commodity prices. We focus instead on companies that can weather full market cycles.

We are concerned about the transparency of Columbia's markets, particularly the cross-holding structures of many of its companies. It is very important to us long-term investors that we have a good understanding of the way a company is structured so that we may be comfortable with investing alongside a controlling shareholder. For that reason, we have struggled to find opportunities in Columbia.

As this market develops and matures, we continue to meet with management of companies so that when we see improvements in corporate governance and proper valuations, we are ready to make an investment decision. We never write-off a market or a country; we just haven't found the right opportunities in Columbia yet.

With a team-based approach and significant resources, ... we [Aberdeen] will be able to find great investment opportunities at attractive valuations.

SL: Please tell us about the banks in the region, particularly in Brazil and Mexico.

FM: The growth in the banks in the region is very much part of the domestic growth story. They have been able to make good returns on equity, and there has been strong growth in lending, particularly to consumers. The population in the region has very low levels of personal debt in comparison to the developed markets.

SL: What is your assessment of the economic situation in Mexico?

FM: Mexico has had a tough time. There have been significant declines in the GDP numbers which are down just over 10% partly due to its proximity to the U.S. and the knock-on effect of the decline in manufacturing and consumption. This has also caused a decline in the level of remittances (from the U.S. in particular). The government has been proactive in infrastructure spending and fiscal stimulus policies, but this has not been able to make up for the external impact.

SL: Have you tracked whether Mexico has been doing anything about trying to increase its exports?

FM: Mexico is looking to develop its domestic economy. There are plans to improve the efficiency of their industries, as well as the infrastructure of the country such as road building and improving port facilities. Obviously, the proximity to the U.S. means that they will always have a great deal of economic relationship with the U.S.

SL: Please now wrap up this very fruitful discussion.

FM: The focus of both Funds is the long-term domestic growth story in Latin America. We think the combination of positive demographics and improving economies will drive domestic and consumer-led growth in most of the major economies in Latin America. We look for well-run, high quality companies that can take advantage of a long-term domestic growth story. With a team-based approach and significant resources, plus the depth and breath of our research capability, we believe that we will be able to find great investment opportunities at attractive valuations.

[**Editor's Note**: The total assets of The Latin America Equity Fund as of August 31, 2009 were $212.4 million USD. The most recent income dividend was $0.44 USD, paid in January 2009.

The Chile Fund announced on September 4, 2009 that it would pay a quarterly dividend of $0.35 USD per share on October 9, 2009 to all shareholders of record as of September 16, 2009.

Until July 1, 2009 when Aberdeen took control over these two funds, Matthew Hickman of Credit Suisse Asset Management was the portfolio manager.]

For more information, Aberdeen Asset Management can be contacted at 1735 Market St., 32nd Fl., Philadelphia, Pa. 19103; or visit www.aberdeen-asset.us. ■

The Latin American Discovery Fund

The Latin American Discovery Fund, Inc. is a non-diversified, closed-end management investment company. Its investment objective is long-term capital appreciation through investments primarily in equity securities of Latin American issuers and by investing, from time to time, in debt securities issued or guaranteed by a Latin American government or governmental entity. The Fund's investment advisor and administrator is Morgan Stanley Investment Management, Inc.; its sub-advisor is Morgan Stanley Investment Management Limited.

The Fund continues to integrate a top-down country allocation and bottom-up stock selection with a growth bias, utilizing a rigorous and fundamental research approach that considers dynamics, valuation and sentiment.

[**Editor's Note:** We had hoped to also interview the portfolio managers of The Latin American Discovery Fund, but it hasn't worked out yet. These two funds are the only regional U.S. closed-end funds covering Latin America.]

A portion of The Latin American Discovery Fund's June 30, 2009 "Letter to Stockholders" follows:

Performance. *For the six months ended June 30, 2009, The Latin American Discovery Fund, Inc. had total returns of 39.88%, based on net asset value and 40.73% based on market value per share (including reinvestment of distributions) compared to its benchmark, the Morgan Stanley Capital International (MSCI) Emerging Markets Latin America Net Index, which returned 45.32%.*

The emerging markets enjoyed a strong rally during the period in review, given a more optimistic outlook on China and quantitative easing in the U.S. Latin America finished the period in review as the best performing region in the emerging markets. Brazil and Chile led regional gains, followed by Columbia. Mexico and Peru lagged regional gains, though both rose over the period.

On a sector basis, energy was a strong performer, followed by information technology, utilities and consumer discretionary. Telecommunications services and industrials were the worst performers.

For the six months ending June 30, 2009, the Fund trailed the Index return. During the period in review, stock selection in Brazil, Chile and Mexico were the primary detractors from relative returns. Our overweight position in Mexico, coupled with our underweight position in Brazil, also detracted from relative returns.

Positive contributors to relative performance came from underweight positions in Argentina, Peru and Chile. Stock selection in Peru was also a positive contributor.

Management Strategies. *The Fund continues to integrate a top-down country allocation and bottom-up stock selection with a growth bias, utilizing a rigorous and fundamental research approach that considers dynamics, valuation and sentiment. We believe that over the longer term, investing in companies in emerging markets with highly visible earnings and increasing returns on capital may deliver outperformance.*

We expect emerging markets to continue to grow relatively faster than their developed counterparts, thus offering, in our view, a compelling combination of stronger growth prospects with attractive valuations. Latin America equities, we believe, still offer attractive value given the solid earnings growth and longer-term fundamentals. With regional economic activity weakening and inflation falling, central banks are likely to continue their easing efforts. Longer term, we believe the secular growth case for the asset class remains intact. Fundamentals in Latin America remain constructive, in our opinion, with debt levels down and international reserves benefiting from the current account surpluses of the past several years.

The portfolio's overweight positions are in Mexico, Panama and Argentina. We are underweight in the rest of the region. On a sector basis, we remain overweight in consumer and financial-related stocks and underweight in commodity-related names, given the compelling relative valuations and earnings visibility. Despite the relative outperformance of commodity names this year, our research continues to support our expectation of further weakness in commodity prices given the slowdown in demand in the developed world.

We expect further downgrades to earnings estimates for cyclical sectors. As a result, we view rallies in commodity sectors as unsustainable. During the period under review, we took advantage of discounts in the Argentine stock market, which fell significantly due to the disruptive political agenda of President Kirchner. Recent elections have increased the prospects of market-friendly policy helping to unlock value in select companies of this under-owned market.

In Brazil, we reduced exposure to select iron ore companies following earlier year outperformance. We remain concerned that volumes outside China will remain weak, and that discount pricing is holding up Chinese volumes. We rebalanced our domestic sector exposure away from positions that have recently outperformed and now trade ahead of medium-term fundamentals into sectors such as homebuilders where earnings visibility is higher.

We are focusing on homebuilders where a government-housing package for the low-end has substantially increased medium-term growth prospects. We added a lending credit card acquirer in Brazil with 54% market share of credit and debit transactions. The industry is a secular growth story in Brazil, as penetration levels remain low. Roughly 20% of personal consumption expenditures are paid via credit cards in Brazil, versus approximately 50% for developed countries.

Sincerely,
Randy Takian, President and Director
The Latin America Discovery Fund ■

Brazil to Control Recent Big Oil Find

A Brazilian government plan for exploring recent deep-water oil discoveries is expected to call for direct state control and would give a key role to state-controlled oil company, Petroleo Brazileiro, SA, better known as Petrobras.

The new plan follows the 2008 discovery off Brazil's coast of giant pools of oil. They are among the largest finds in recent years and could make Brazil into a significant energy exporter. Details leaked recently indicate that Brazil will adopt a strategy common in the Middle East and other oil producing regions, in which companies sign production-sharing deals that give most of the barrels to the host government. The plan appears to favor Petrobras over big oil companies, but analysts say that that could be a mixed blessing for the company.

President Luiz Inácio da Silva has said that the expected windfall could be used to attack poverty and improve education.

Shaping the plan is the belief that drilling in the new deep waters areas, while costly, is essentially a no-risk proposition because of the quality of the oil.

Brazil needs the new state company because Petrobras, though controlled by the government, also has shares that trade on the New York Stock Exchange and in Sao Paulo. That has prevented the government from turning the deep water fields directly over to the company.

Brazil's oil fields are among the most attractive in the world, and oil companies would be hesitant to give up control over investment schedules and technical details. ■

Source: *The Wall Street Journal*

China's Amazing New Bullet Train Leaves America in the Dust

China is building one of the largest infrastructure projects in history: a nationwide high-speed passenger rail network that, once completed in 2020, will be the largest, fastest and most technologically sophisticated in the world.

Creating a rail system in a country of 1.3 billion people guarantees that the scale will be gargantuan. Almost 16,000 miles of new track will have been laid; China will consume about 117 million tons of concrete just to construct the buttresses on which the tracks will be carried.

The trains will run from Beijing to Shanghai in 10 hours at 150 mph average speed (versus 79 mph for Amtrak's Acela). Later, the rail lines will be extended to Guangzhou in southern China. In 2008, passengers in China made 1.4 billion rail journeys, and Chinese officials expect that in a nation already choked with traffic, the figure could easily double over the next decade.

This project is more than a passing historical interest. It is a part and parcel of China's economic rise as a developing nation modernizing at warp speed, catching up with the rich world in some instances.

This will symbolize something more. The massive concrete buttresses that support the tracks over which the trains will run are about 246 feet apart and are lined up one after another as far as the eye can see. China could easily move up plans to double its rail spending when necessary.

This monumental infrastructure build-out has become the centerpiece of China's effort to navigate the global financial crisis and the ensuing recession. Last November, Beijing announced a 2-year, $585 billion stimulus package of about 13% of 2008 GDP. Infrastructure was at its core.

Beijing hopes to pour even more money into bridges, ports and railways that could stimulate growth and – critically – absorb the excess labor that exporters were shedding as their foreign sales shrank more than 20%.

There is no doubt that the acceleration of this massive railroad build-out is playing a key role in China's recovery. The quarter-on-quarter upswing to 7.9% was the fastest the nation has seen since 2003, and it is expected to accelerate.

The other key thing to remember is that China's brand new high speed railway network will be the product of the country's economic system. China has made in the past 30 years a heavy "command and control" component that still exists. The central government holds the key levers of power while the Railroad Ministry sets the plans, state-owned banks lend the money and state-owned companies get the projects rolling. "They plan, they build things and they move fast" is how it is done.

China's stimulus plan has taken some flak for what some critics perceive to be a "buy China" bias to its spending. But when it comes to its rail program, big foreign players claim to be benefiting directly. For instance, Bombardier in Canada got the contract for a signaling system on the network as well as work for 40 high speed trains.

Altogether, it is estimated that foreign companies have won some $10 billion worth of contracts so far, and, in a program that extends to 2020, there's more where that came from, including a contract for IBM to provide the software for the high speed trains. The so-called smart train networks – and the software that run them – can boost on-time performance, expedite maintenance and improve safety.

There is a lot of talk now, as part of President Obama's stimulus plan, to allocate about $8 billion over three years to upgrade the U.S. train system by building new faster lines across the entire nation. Forty states are bidding for these funds.

Maybe, after environmental reviews are finished and eminent domain issues settled, those lines will be built. Meanwhile, IBM opened its new high speed rail innovation center in Beijing this past August. ■

Source: *Fortune Magazine,* August 17, 2009

Berkshire Hathaway Earnings Up Sharply

Warren Buffett's Berkshire Hathaway swung back into the black in the second quarter, helped by gains on derivatives and shares of blue chips such as Goldman Sachs and General Electric that it bought on favorable terms in the midst of the financial crisis.

Berkshire is not a closed-end fund, but it is structured somewhat like one and trades on the New York Stock Exchange as closed-end funds do. They have both class A and the lower-priced class B shares.

After reporting a $1.5 billion loss in the first three months of the year – its first period in the red since 2001 – Berkshire recorded a $3.3 billion profit in the second quarter as investment gains offset a fall in investment earnings of its sprawling portfolio of companies. In the same period of 2008, Berkshire, whose companies range from insurance to construction and confectionary, had a $2.9 billion profit.

This performance was helped by its $37 billion of derivatives contracts relating to the performance of equity indexes in the U.S. and abroad. During the quarter, Mr. Buffett, famous for his ability to drive a hard bargain, shortened the maturity of some of these contracts and lowered the strike price.

Berkshire said it benefited from its spending spree during the financial crisis when several troubled companies agreed to sell shares to bolster their finances and add to their credibility by having the "Sage of Omaha" among their shareholders.

In its regulatory filing, Berkshire revealed that its $17.5 billion investment in preferred shares of such companies as Goldman Sachs, GE, Dow Chemical, Wrigley and Swiss Re would yield $2 billion of dividends and interest payments.

Berkshire's windfall will offset dividend cuts by some of the banks owned by Mr. Buffett. This underscores how the billionaire investor took advantage of the recession and the financial turmoil to buy at attractive prices.

However, Berkshire's empire of directly–owned companies was not immune from the global economic crisis, as it reported a 22% year-on-year drop in operating earnings of $1.8 billion.

As the markets rallied, investors' outlook for Berkshire also turned up. Its shares have gained more than 40% since their March low. Berkshire's bonds have also rallied, outpacing Moody's gauge of Aaa bonds since the ratings downgrade, according to Morningstar.

While Berkshire benefited from the market rally, its diverse holdings (ranging from insurance and energy providers to furniture retailers) have continued to struggle in the economic downturn, said Mr. Buffett. He has repeatedly expressed concerns about the U.S. economy in 2009, based in part on the soft performance of Berkshire companies. ■

Source: *The Wall Street Journal,Financial Times*

[**Editor's Note:** Unlike closed-end funds, Berkshire holds onto its dividends and capital gains. We would like the company to be more transparent in revealing its net asset value more often than once a quarter.]

This editor owns some Berkshire Hathaway B shares.

Emerging Markets Surge As Investors Eye Global Recovery

Emerging stock markets have reached levels last seen before the collapse of Lehman Brothers in the latest sign of investor expectations of improving global growth, according to London sources.

The FTSE All World Emerging Index reached a level seen the week before Lehman's demise that sent markets into a tailspin, dropping almost 48% in five weeks. The index has rallied 90.1% by August 30, 2009, since the October 27, 2008 low.

Strategists said that the ongoing rally was due to a returning belief in "decoupling". This is the theory by which emerging markets will, in the future, be less dependent on the fortunes of the developed markets because they will be able to rely on stronger domestic demand. The term "decoupling" once described the hope that emerging markets could grow without developed markets. Now, it could refer to commodities and economic fundamentals.

However, the strength of the emerging market rally has some worried that it might now have gone too far, too fast. Emerging markets, particularly China, have seen strong demand for recent initial public offerings, many of which have raced higher in the style of the dot.com boom, raising fears another bubble could be forming. Emerging markets have had a stormy and volatile past, rallying and slumping far more violently than the developed world, but believers in "decoupling" say bubble fears are overdone.

"There is the possibility of an incipient asset bubble, particularly with regard to China, but that is not our base case scenario, which is still for them to go higher," said Michael Wang, emerging markets strategist at Morgan Stanley.

"This is different," he added. "Previously, emerging markets were seen as a geared play on developed markets because of their dependence on exports ... lending and credit growth has resumed rapidly, and this is helping drive growth."

Well known to *The Scott Letter* readers, Dr. Mark Mobius, the first to launch an emerging markets closed-end fund, exclusively invests in the emerging markets and reminds us that there are now over 60 emerging market economies. He also believes that the these markets will play a much greater role in the global economy.

Countries such as China and India should emerge as leaders due to their relatively stronger macroeconomic and financial positions, he says. The obvious choice for long-term investors is emerging market equities.

Take Latin America. Granted, countries such as Mexico are more prone to the global downturn than others, but greater interregional trade has offset some of the impact of lower export demand from the U.S., Mobius says.

One of Latin America's attractions is its huge consumer market. The broad rally has led to sharp jumps in particular markets and assets. Recently, on-going inflows into Brazil have led the real to a 10-month high against the dollar. ■

Investors Still Enamoured with Global REITs

At a recent panel on the global real estate investment platform, participants noted that investors still value the benefits of publicly listed real estate securities. One participant stressed the liquidity that REITs have offered since 2007, despite the global slowdown.

The panelists downplayed concerns about the recent rise in the correlation of REITs and the broader markets, agreeing that the REIT market investment proposition still offers powerful diversification for a portfolio.

"Diversification is still the main driver when I talk about REITs and global real estate investing," one analyst said.

Several members of Cohen & Steers Asset Management pointed to global REIT investment as a way to capitalize on growth opportunities in emerging markets. However, the emerging markets still need real estate development to help support their growing business activities. ■

Closed-End Fund Advisors clients hold positions in Cohen & Steers Worldwide Realty Income Fund and Alpine Global Premier Properties Fund. We plan to interview some of these managers soon.

Portfolio Manager's Review

As we recover from the global recession, CEFA has been making some adjustments to our client portfolios in preparation for a possible global bull market. We are also adjusting the asset allocations.

The biggest adjustment has been the selling of H&Q Healthcare Investors, which suddenly dropped its quarterly distribution "until further notice". Its sister fund, H&Q Life Sciences Fund, a smaller holding purchased at better prices, is being held for the moment.

To replace H&Q Healthcare Investors, we have been purchasing Blackrock Health Sciences Fund, which has a better record and a large dividend.

We have also added to The European Equity Fund, another candidate for a future interview, and completed purchases of Petroleum & Resources, an energy fund managed by the Adams Express management, to take advantage of a diversified portfolio of worldwide energy stocks with a good long-term record. All of our shares were purchased below recent prices.

Templeton Emerging Markets Fund, one of our largest holdings and a consistent winner managed by Dr. Mark Mobius, has also been added to portfolios as its discount recently widened.

Although it has been a winner, we have been selling shares of The Chile Fund. Aberdeen Asset Management has a different investment philosophy than Credit Suisse, the former manager. We prefer to hold regional funds like The Latin America Equity Fund and Latin American Discovery Fund rather than single country funds, which are more volatile.

This editor has also been making plans to visit Brazil and Chile after the first of the year to better understand these countries. *The Scott Letter* will report our findings in upcoming issues. ■

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