THE SCOTT LETTER:
CLOSED-END FUND REPORT

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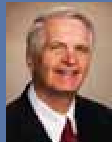
THE SCOTT LETTER is intended to educate global investors about closed-end funds. Closed-end funds can be a valuable and profitable investment tool. To learn about closed-end funds, visit our web site, www.CEFAdvisors.com, and in particular, read our article, *What Are Closed-End Funds*. Feel free to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



– George Cole Scott
Editor-in-Chief

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Cohen & Steers Funds: Closed-End Opportunity Fund and Worldwide Realty Income Fund

Cohen & Steers is a manager of income-oriented equity portfolios specializing in U.S. and international real estate securities, large cap value stocks, listed infrastructure and utilities, and preferred securities. The company also manages alternative investment strategies such as hedged real estate securities portfolios and private real estate multi-manager strategies for qualified investors. Headquartered in New York City, with offices in London, Brussels, Hong Kong and Seattle, Cohen & Steers serves individual and institutional investors through a broad range of investment vehicles.

The firm's passionate belief that dividends provide an important part of an investment's total return and overall diversification has been the foundation for their portfolio strategies. Cohen & Steers believes the growth of assets under management over the past two decades reflects the growing demand for dividend-paying equity investments.

Cohen & Steers Announces Merger of REIT Closed-End Funds

New York, November 24, 2009 – Cohen & Steers Advantage Income Realty Fund, Inc. (NYSE:RLF) and Cohen & Steers Premium Income Fund, Inc. (NYSE:RPF) announced today at the special joint meetings of stockholders that each fund has approved merging with and into Cohen & Steers Quality Income Realty Fund, Inc. (NYSE:RQI). RQI announced that its stockholders approved merging with RLF, RPF and Cohen & Steers Worldwide Realty Income Fund, Inc. (NYSE:RWF).

Stockholders of RQI also approved increasing its number of authorized common shares and converting certain fundamental investment restrictions, including limits on RQI's ability to invest in (i) debt securities issued or guaranteed by real estate companies, (ii) preferred stock or debt securities rated below investment grade or unrated securities of comparable quality and (iii) other investment companies pursuant to the requirements of the Investment Company Act of 1940, as amended, to non-fundamental investment restrictions.

The mergers of RLF and RPF with and into RQI are expected to occur at the close of business on December 18, 2009. RWF's special meeting of stockholders adjourned until 5:00 p.m. EST on Friday, November 27, 2009 to allow additional time to solicit votes in connection with its merger with RQI.

Cohen & Steers Closed-End Opportunity Fund

We interviewed portfolio manager Doug Bond on November 12, 2009.

SL: What are the total assets of FOF as of September 30, 2009 versus its total assets of $458.7 million at the end of 2007?

Bond: On September 30, 2009, assets under management were $342.4 million.

SL: What is the allocation of real estate funds in the portfolio and are the global real estate markets sustainable now?

Bond: On September 30, about 4% of the portfolio was in real estate funds.

Yes, we believe they are sustainable. We are overweight in real estate relative to our benchmark, emphasizing funds with significant exposure to non-U.S. REITs and operating in fast growing economies. FOF owns ING Global Real Estate Fund (NYSE:IGR), the Alpine Global Real Estate Fund (NYSE:AWP) and Nuveen Real Estate, Inc. (AMEX:JRS). AWP is the largest weighting of the three funds.

SL: How well do you think FOF has fulfilled its investment objectives since it was launched in 2006?

Bond: We've stayed true to our objectives of providing clients with investments across many different closed-end fund sectors. There is a focus on income as well as possible capital appreciation. We balance equity and bond closed-end funds in the portfolio. On September 30, FOF was about 60% equity and 40% income.

SL: What are the discounts of the funds in which you invest versus others in the industry?

Bond: As of November 11, 2009, the average discount of closed-end funds owned by FOF was -4.9% versus approximately -3.1% for the industry. At this time, FOF was selling at a discount of 8.3%, about as wide as it had traded all year. Since the holdings in FOF have an average discount of 4.9%, the fund's discount is about 8.8%.

This means the shareholder gets a diversified portfolio of closed-end funds at a 13.7% discount in contrast to the widest discount FOF has ever had, 9.9% as of last June.

Please note that this excludes some of the intraday trading on October 10, 2008 when FOF's estimated discount was in excess of 25%.

As of September 30, 2009, FOF was invested in about 25 different closed-end fund sectors and about 100 closed-end funds.

SL: That is the extraordinary thing about closed-end funds, the inefficiencies available to value-oriented investors, as exemplified by this example. Is it correct to say that unlike many real estate funds, FOF is not leveraged?

Bond: Correct. FOF has no leverage – although we invest in funds that use leverage as part of their investment strategy. In 2008, for most investors, leverage was a swear word that led to all sorts of negative outcomes, even with the cost of borrowing for most closed-end funds relatively low.

Any income benefit was more than offset by the capital depreciation negative of having leverage in your capital structure when your underlying net asset value was declining at a very rapid rate.

As bad as leverage had been in 2008, in early 2009, we felt investors would soon look at leverage in the closed-end fund capital structure as something that actually could be a good thing. This was because it could not only enhance the income stream but also the rate of net asset value or market price appreciation.

SL: You have reduced the large allocation of covered call funds in FOF. Is this because they haven't done well or because they are not providing the expected income?

Bond: We have reduced the size of the allocation of covered call funds because our outlook for equity markets and equity share prices is more constructive. We think funds that are not overwriting their portfolios have the potential to deliver more total return to our shareholders. We have reduced FOF's weighting to the covered call sector, but it is still a significant sector in our portfolio.

We added to the non-levered equity funds and to the levered equity funds. We kept the money in equities but have added to funds that we think can deliver better total returns while also trading at significantly greater discounts than covered call funds.

As of September 30, 2009 FOF held a significant portion of its assets in covered call funds. This allocation has been as high as 17% to 18% of the portfolio.

SL: You realized that the opportunity loss was significant.

Bond: That's right. When the funds over-write calls, they forego some of the total return potential. If you look at the sharp year-to-date recovery in the S&P since March 9 versus how the tax-advantaged funds have done during the same period, that is a dramatic illustration of how a buy-write strategy will generally underperform in an environment where equity prices recover sharply.

The rational for the buy-write strategy is that in three out of four market scenarios it tends to outperform. In markets that are down, flat or even up modestly, a buy-write strategy does well because it may have trouble keeping up in a sharp price recovery. We think this strategy makes sense, while volatility which is still down significantly from 2008, is still at a pretty high level. This should enable most of the covered call funds to sustain their level of sophistication.

SL: Four of your funds are tax-advantaged funds. How important do you think these funds are for the shareholders who might be in lower tax brackets?

Bond: We are not sure that the market necessarily prices the lower anticipated tax rate associated with qualified dividend income into the discount of these closed-end funds. We think there is some value in flowing through the 15% income tax rate (10% for lower tax bracket investors).

In 2007, about 74% of the distributions were considered qualified dividend income. In 2008, about 21% of what we distributed to our shareholders was taxed at the lower tax rate.

SL: Your latest report to shareholders talks of "excess" income. Please explain what this means.

Bond: That says part of that distribution to shareholders is going to be "return of capital".

SL: We hope that it doesn't occur too often. Shareholders don't like getting their investment back as "dividends".

Bond: We get tax reporting from all of the funds that we own. We don't necessarily know until year-end or early January, based on the fund reports, what the breakdown of their distributions are to us. In 2007, approximately 7.8% of shareholder distributions were a return of capital. However, it was a relatively small percentage of the $1.67 that we paid out to shareholders. In 2008, the return of capital was 48% due to market conditions.

Many closed-end funds reduced their dividends in 2008. Thus far in 2009, many companies have cut their dividends. That includes large banks and companies like General Electric, Fanny Mae and Freddie Mac. However, FOF has only reduced its distributions twice since inception.

SL: We want to be sure that our readers and clients understand the differences between dividends and distributions. Please explain.

Bond: For closed-end fund shareholders, it's important to maintain awareness that distributions paid out by closed-end

funds often contain more than ordinary income. The distribution may include some short or long-term capital gains or a return of capital. We annually provide formal summaries of the breakdown of distributions to shareholders.

We distribute estimates of our funds distributions quarterly on our web site (www.cohenandsteers.com).

SL: That was a good overview of the industry.

Cohen & Steers Worldwide Realty Income Fund

We spoke with Tom about Cohen & Steers Worldwide Realty Income Fund (NYSE:RWF) on November 13.

SL: RWF is leveraged close to 50%. Do you think this is a wise strategy, especially since Cohen & Steers will not pay any capital gains on its closed-end funds in 2009?

Bohjalian: As of September 30, RWF was approximately 35% levered. Since you looked at it, the market has improved materially. At the end of 2008 and in the first part of 2009, all of our funds were in a process of deleveraging. Obviously, there was great capital appreciation in the markets. The thing to remember and understand about all of our funds is that we moved from auction rate preferred as our choice of leverage to a credit facility.

We don't expect to add incremental leverage unless we get into the mid-20s leverage range for our funds. We have about a 13% exposure there, our largest country exposure relative to the benchmark. Our other funds are in the mid-30s for leverage.

SL: When do you think there will be a turnaround in the U.S. REIT market, as you have a 50% exposure there?

Bohjalian: We've broken it down into phases. Phase I was the recapitalization, which proceeded to Europe and the U.S. where $20 billion in capital was raised. That phase is done. Balance sheets are in good shape, with material improvement in the capital markets.

An unsecured market is now available, so the REITs have access to multiple sources of capital. That's key to the next phase of the cycle which, we believe, is the acquisition phase.

Phase II will be a requirement for more equity, and we believe that the private markets will recapitalize. That is happening around the world, starting in Asia and is working its way to Europe and ultimately to the U.S.

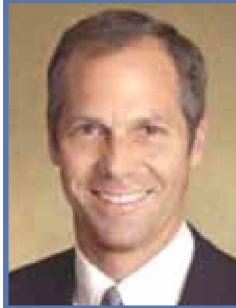
Phase III will be the recovery in fundamentals. One of the challenging things in the last six months is what we call "price discovery". What are the assets worth?

We are starting to see transactions and are getting more comfortable with the range of values. There is now a greater degree of confidence in the capital markets and access to that capital, which will bring opportunities to banks, insurance companies and leveraged private real estate which will accrete to the public companies around the world.

We are also seeing some improvements in the acquisition and fundamental phase. There has been an improvement in the operating metrics for the last three or four quarters.

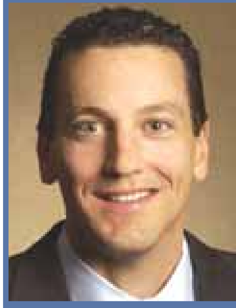
It is our expectation that, by the end of 2010, the fundamentals will be bottoming. However, a few things need to occur first: Real estate is about supply and demand. The ability to develop is non-existent. We will see little or no new supply entering the U.S. This is very different from what we have seen in prior cycles which showed a much better balance on the demand side.

As you recall, from 2001 to 2005, the supply side, while it existed, wasn't particularly robust because the best use of land at that time wasn't an office building but a


Douglas R. Bond

Douglas R. Bond, executive vice president, is the portfolio manager for Cohen & Steers' Closed-End Opportunity Fund (NYSE:FOF). In addition, he also leads the firm's closed-end portfolio consulting effort with Van Kampen Investments for their closed-end unit investment trust products.

Before joining Cohen & Steers in 2004, Doug worked at Merrill Lynch for 23 years. Between 1992 and 2004, he ran their closed-end fund new origination effort and was involved in all closed-end funds underwritten by Merrill Lynch. He also headed Merrill's Private Client Syndicate Group. Mr. Bond has a BA degree from Hamilton College and an MBA from New York University.


Thomas N. Bohjalian

Thomas N. Bohjalian, CFA, senior vice president, is a portfolio manager for Cohen & Steers' U.S. Realty Income portfolios as well as one of the portfolio managers for the firm's Worldwide Realty Income Fund. He has 19 years of investment experience.

Prior to joining the firm in 2002, Tom was a vice president and REIT analyst for five years at AEW Capital Management. Tom has obtained his BS degree and an MBA degree from Northeastern University. He is based in New York.

Total Returns as of October 31, 2009

Fund	Inception	YTD	Average Annualized Returns 1-Year	3-Year	Inception
Cohen & Steers Worldwide Realty Fund (RWF)					
NAV	03/31/05	49.28%	30.64%	-22.61%	-8.68%
Market		78.05%	30.69%	-27.86%	-12.75%
Cohen & Steers Closed-End Opportunity Fund (FOF)					
NAV	11/24/06	39.09%	30.65%	---	-6.24%
Market		29.80%	23.20%	---	-10.03%

condominium tower or an apartment building. We are now very excited because there will be little supply over the next five years. The biggest question is the return of job growth to the demand side of the equation. We think that we won't start to add jobs until the middle of 2010, but it won't be meaningful until 2011.

The public real estate companies have now been able to maintain their occupancy rates much better, because of a combination of lower supply and better operations. Most occupancy levels have been at 90% to 95% and will be able to break the rent cycle much earlier than they have in past years.

Stocks always lead the fundamentals so you can see that values today don't necessarily reflect the fundamentals' view that we believe will happen over the next several years. They are now trading globally around their net asset value. Over the years, these assets are expected to grow.

SL: What aspects of the real estate market do you think most of the strength will come from?

Bohjalian: Ultimately, in real estate cycles, there is a lag effect. You will see the recovery in most categories such as hotels and multi-family units. There will be some negative cashflows for those property types, but they will lead the way out in the recovery in fundamentals.

Office companies will continue to roll down their rents as their leases mature over the next several years. The more cyclical property stocks trade at slightly higher multiple valuations than office or retail companies because the market is already expecting those cashflows to recover first.

SL: Your latest report shows that on June 30 your largest foreign exposure to REITs was in Australia, Japan and the United Kingdom. Please update us.

Bohjalian: We are heavily exposed to Australia (about 13%). This is our largest country exposure relative to the benchmark. The Australian economy never had a recession, because of China which benefitted its commodity business. It was really the first market to recapitalize early.

The REITs in Australia are very focused on their "gearing" or the debt-to-equity ratio. They went through a rights process well over a year ago. Their balance sheets are strong, and the economy never had a recession like the one the U.S. is experiencing now. Both the job and the housing markets will continue to do well. Their REITs have exposure to all of the property types. Rents can rise, and they trade at big discounts to their asset value.

SL: What about Japan?

Bohjalian: We have about 9% exposure, a combination of office and rental properties. Our greatest exposure is to the developers who continue to do well. They trade at extremely large discounts, 25% to 30% to their net asset values. For Japan to do well, the U.S. must also improve and accelerate their export business. The real estate values are cheap despite the fact that the economy has its own challenges, but they have kept their balance sheets in very good shape.

In Japan, the highest quality realty companies are trading at very large discounts to their asset values. We are basically market weight there, taking a market view of their real estate companies.

SL: It is interesting to point out that the only exposure our advisor clients have to Japan and Australia is through RWF. What about your investments in the U.K.?

Bohjalian: We have been underweight the U.K. for the last 12 months but now are roughly at market weight. We are not very excited about their valuations. They did not raise capital through this cycle; their balance sheets are of lower quality and liquidity. If the next phase is acquisitions, balance sheets will have to improve to get through that process.

Today, we have seen the rental market improving, with greater rental velocity and, more importantly, you are starting to see real estate transactions giving us "price discovery" in the U.K.

We have dialed back our weighting in the U.K to reflect what is happening in the transaction market and to be more in line with our internal benchmark. However, we are not placing a very large bet there.

More importantly, we have 50% of the RWF portfolio in North America. The stocks are very reasonably priced, and companies have access to capital. There will be terrific acquisition opportunities over the next several years because the fundamentals there are bottoming.

RWF is approximately 30% invested in U.S. REIT equities and about 20% invested in fixed income. Of the 20%, about 15% is in REIT preferreds and REIT debt.

SL: Now that the merger of RWF into the other funds is complete, RWF will have less of an impact on the foreign markets. Are you going to manage the whole thing?

Bohjalian: The merger will make my job more efficient as I will be overseeing multiple funds. I am part of the team that manages RWF, but each fund has a different manager. This will simplify my job. We will continue to have an international exposure, but the funds will be more oriented to the U.S.

SL: That will disappoint us, as we can find many U.S. REIT funds but few funds that give a large exposure to the foreign markets. We hope that we don't miss the exceptional possibilities in countries like Australia and Japan that you have just pointed out to us. From what you have said, we hope that the improvement in the U.S. will offset the lower allocation to foreign funds.

Bohjalian: There are two exceptional REITs to which we have a large exposure: the Simon Property Group and the Westfield Group. Simon is a U.S. company, and Westfield is Australian. These two are among the world's largest mall owners and are two of the best run public companies in the world. Simon has 95% of its assets in the U.S., and Westfield has about 50% of its assets in Australia, 20% in Europe and 30% in the U.S. They are both leaders in their industry, having strong balance sheets, high quality assets and a strong management team.

These firms will take advantage of the distress of General Growth Properties, which owns one of the largest mall REITs in the U. S. but is bankrupt. There is a high probability that those assets will be divided among many of the public REIT companies, including Simon and possibly Westfield. We like these companies a lot. We are market weight in Westfield relative to the index, with a slight overweight in Simon.

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[**Editor's Note:** Simon Property has hired advisors to explore a possible bid for rival General Growth Properties (GGP) which, according to a recent report in *Financial Times,* is operating under Chapter 11 bankruptcy protection. If Simon decides to bid for GGP's entire mall portfolio, the transaction could be worth between $25 and $30 billion, according to sources familiar with the deal. This might trigger other potential significant bids.

"Risk taking is coming back to the commercial real estate sector, but only for those with liquidity," said Robert Steers, co-chairman of Cohen & Steers. A GGP bid also fuels hopes that the commercial real estate market is poised to recover.]

Bohjalian: There is also a lot of cash available that is earning very little. Much of that may go into both mutual funds and closed-end funds. You could see CEF discounts shrink materially as there is a greater demand for shares of real estate companies as more capital returns to a market that is looking for yield and a fundamental real estate recovery. Closed-end fund values could be going up, and the discounts will start to shrink. We are in Phase II of a three-phase cycle, and we think that the fundamentals will start to improve in the second half of 2010. ■

For more information on FOF and RWF, contact Cohen & Steers at 212-832-3232 or visit their web site at www.cohenandsteers.com.

What to Do for Clients Now and Next Year

With higher tax rates looming, it may be time to consider Roths, GRATs and other ways to lower income taxes.

To read an edited transcript of an October 20 webcast about tax planning, including some opinions about whether to convert traditional IRA's to a Roth, go to www.investmentnews.com and read the interview under "2010 tax planning" for pertinent information about these decisions and what advisors are telling their clients. ■

Portfolio Manager's Review

Closed-End Fund Advisors rebalances the asset allocations for its clients' portfolios at least once a year. This was suspended during the highly volatile market period earlier in 2009. In the last month, however, we have diligently been readjusting our clients' portfolios in order to reduce investment and portfolio risks. The only exceptions have been in portfolios that have large infusions or withdrawals of cash. In these cases, we wait until a later date to complete their allocations.

Some funds have been sold because they have been trading at or near premiums to their net asset values, while others have reached higher or lower percentage allocation levels that need to be reduced or raised. The funds are then placed into other sectors that have better values.

Other funds have been eliminated entirely in order to put the assets into different sectors, such as real estate or global bond funds, where better values are offered and for further diversification. This has been a proven way to both preserve capital and reduce investment risk.

In going over the portfolios, we have found that there were imbalances in most of our four sectors: domestic equity funds, foreign equity funds, real estate funds and domestic and global bond funds. We also hold some cash for further opportunities, and we expect more as the year-end distributions are paid. We prefer to take cash from these distributions so we can control the price we pay for the same or other funds.

We will continue to monitor client portfolios, paying close attention to tax ramifications as we near the end of 2009. ■

George Cole Scott

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