

# THE SCOTT LETTER: CLOSED-END FUND REPORT

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*A Global View of the Closed-End Fund Industry*

July/August 2011

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](http://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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## The Asia Pacific Fund

Launched in May 1987, the Asia Pacific Fund (NYSE:APB) is a diversified, closed-end management investment company. Its holdings consist of investments in equity securities of companies in the Asia Pacific region and is managed by Khiem Do of Baring Asset Management (Asia) Limited.

Khiem has 33 years of investment experience and is responsible for a number of specific Asian portfolios and all multi-asset portfolios for Asian clients. In 2006, he was a member of the Strategic Policy Group, the company's global macro research and asset allocation team. Khiem was head of the Asia Pacific Specialist Investment Team from 1997 through 2006 and has been a co-manager of the Baring China Absolute return (long-short hedge fund) since July 2004. He works with a team of senior portfolio managers and analysts located at the London headquarters.

Khiem joined Baring Asset Management in 1996 from Citicorp Global Asset Management in Sydney, where he was Australian Chief Investment Officer and chair of the Australian Asset Allocation Committee.

Khiem's prior experience includes seven years at Bankers Trust Australia and seven years at Equitilink Australia, Ltd. He received his B.A. in Economics (with Honors) from Macquarie University in Australia and was designated an Associate member of the Securities Institute of Australia (the Australian CFA equivalent) in 1979. He is fluent in English, Vietnamese and French.

The country breakdown of the \$142.7 million fund on March 31, 2011 shows China at 27.15%, followed by Korea, 24.2%; Taiwan, 13.9%; the Small ASEAN bloc, 9.5%; Hong Kong, 7.7%; India, 6.7%; Singapore, 5.7%; Malaysia, 2.7% and Sri Lanka, 1.3%. APB has a 3-star Morningstar rating.

The year-to-date investment index performance as of July 15, 2011 for the major International Stock Indexes was:

Shanghai Composite .....	+0.80%
Hong Kong Hang Seng .....	-3.74%
Bombay Sensex .....	-1.57%
Singapore Straits Times .....	-2.13%
South Korea Kospi .....	-1.61%
Taiwan Weighted .....	-2.00%

We interviewed Khiem by telephone in Hong Kong on June 23, 2011. He gave us a thorough review and told us of his concerns about the Asian economies.

**SL:** According to the OECD, the world's leading economies are set to expand at a more moderate pace in the months ahead. Do you agree?

**Do:** Yes, as we see slower growth but no hard landing. The consensus is for a lower forecast for the Asian economies resulting from 18 months of monetary tightening (via higher interest rates, excess liquidity withdrawals or higher exchange rates) and weaker growth in the U.S. and Europe. We expect that China and India in the second half of 2011 will grow 1.5% to 2% lower than in the last 12 months. However, the probability of a recession in Asia is extremely unlikely now.

We believe the Chinese government can manage a soft landing in its domestic economy, as it has done with ease many times in the past. Longer term, they are trying to steer growth towards consumption and reduce the economy's dependence on general investment, infrastructure spending, property building and construction.

Will China achieve its goal? Yes, but gradually over the next 10, not 3 years.

**SL:** The 12-month stock market performance for the major Asian economies in which APB is invested for the period ending March 31, 2011 was the highest in Thailand (43.7%) followed by Korea (31.5%), Malaysia



Khiem Do

(31.0%), Indonesia (28.1%), Philippines (25.3%), Singapore (22.9%), Taiwan (22.2%), Hong Kong (19.8%) and China (9.6%). India and Vietnam lagged with 9.5% and 6.9%, respectively.

The 12-month growth figures were excellent, but why do you think your investments in China lagged the performance of the other countries' stock markets in your region for the past 12 months?

**Do:** The Chinese equity market has been sluggish over the past 12 months because the central bank, The People's Bank of China (PBOC) has been tightening monetary policy and withdrawing excess liquidity from its banking system.

**SL:** The private sector plays a vital role in raising living standards and moving the Chinese economy towards consumption at home rather than just exporting abroad. However, China has announced that inflation in May hit a 3-year high of 5.5% as industrial expansion exceeded expectations. Does this forecast buttress those who see an economic crash in China and how significant is inflation on slowing growth?

**Do:** A crash is most unlikely, but inflation was 5.5%. The core inflation rate in China is much lower (2.5%), but total inflation is expected to get worse and hit 6% in June, which is a "headline" number that includes food and energy prices. This inflation rate is deemed "volatile" by the U.S. Federal Reserve and is excluded from the more closely followed "core" inflation measure.

We also believe that China's economy will slow from a pace of 9.5%-10.5% over the past 12 months to a more sustainable and less inflationary pace of 8.5%-9.5% in the coming 12-18 months. A number of Chinese economists see a "hard landing of the Chinese economy" when the real GDP growth annual rate is at or below 8%.

This is ludicrous! China is now the second largest economy in the world. If it were to grow at 8%, we believe that is still a very respectable rate of growth.

**SL:** That is true, but their stock markets didn't reflect that growth. Recently China has had social turmoil and labor unrest, and their officials are concerned about labor shortages and rising wages in the low-end manufacturing sector. This has caused

some managers to move some production to lower cost countries such as Vietnam. Do you think that this will slow the country's growth rate?

**Do:** Not really. The social unrest has been primarily caused by the divide between the ultra-rich and the very poor, unfair distribution of wealth in property dealings in rural communities, rising food prices and abuse of political power by the leaders in the small provinces.

Regarding the impact of slowing export growth and the loss of competitiveness in the labor-intensive industries, this has been a trend that has been going on over the past decade and is one that we think will continue. Displaced low-skilled and low-pay workers appeared to have found new employment opportunities in the booming services sector and construction industry.

**SL:** That's good, but our research finds trade imbalances have developed in China and may not have been corrected by their reliance on cheap exports and growing domestic consumption. Have there been any improvements in this situation?

**Do:** Yes, some correction has already taken place. China no longer has very cheap labor; this has moved to Vietnam, Pakistan and other countries. The strategy has been to focus on exporting higher value-added goods in the auto, chemical, engineering, technology and other manufacturing sectors, rather than selling cheap clothes and shoes.

**SL:** That's good as many Americans may be tired of getting cheap goods in favor of those that are of better quality, although we find that Wal-Mart shoppers like the low prices for goods from the cheaper nations.

**[Editor's Note:** China is still rising – but so are India, Vietnam, South Korea, Taiwan and Indonesia – according to *The Wall Street Journal*. (Each of these countries is represented in the APB portfolio.) They are vibrant, growing powers. Today, Asia looks like an emerging multi-polar region that no single country, however large and dynamic, can hope to control, which fits America's interests. Through it all, it appears that the U.S. will be swimming with, rather than against, the tides of history.]

Asia Pacific Fund (As of March 31, 2011)		
Performance		
% Change	Fund	MSCI Index
1 Month	-1.3%	-1.3%
3 Months	+12.1%	+8.9%
Year-to-Date	+5.3%	+3.7%
1 Year	+36.4%	+31.2%
Annualized Performance		
% Change	Fund	MSCI Index
3-Years	+2.8%	+4.2%
5-Years	+11.7%	+11.7%
10-Years	+13.8%	+13.7%
Since Inception	+10.2%	+10.0%

We see that India is also an important and the second-fastest growing nation in the world (7.5%-8.0%). It is one country that I would like to revisit, but business confidence is sagging there. The new government in Delhi is paralyzed by a series of corruption scandals. We are also cautious on investing in India, except through funds like APB. Do you see much hope for improvement?

**Do:** India is second to China in terms of its phenomenal economic development and growth over the past decade. As a result, to reflect this development more appropriately in our benchmark index, we have decided to switch from the old "MSCI AC Far East ex-Japan index" (which does not include India) to the "MSCI AC Asia ex-Japan index" (which includes India). This took effect on April 1, 2010.

As a result, we have been increasing our exposure to India over the past 12 months but remain underweight, based on our concern that the central bank of India has been "behind the curve" in terms of tightening monetary policy, given mounting domestic inflationary pressures.

India continues to face serious headline and core inflation headwinds, caused by a lack of skilled labor and a severe lack of investment in infrastructure and other industries, including power, factories, food, etc. That's why they always seem to encounter capacity constraints and bottlenecks when its economy grows more than 8% per annum.

Equity valuations in India (similarly in other markets in Asia and emerging markets) are becoming more reasonable,

but they are not very cheap yet. Therefore, we are retaining our underweight stance.

**SL:** There are concerns about rising inflation in other parts of Asia that are a part of your portfolio, including Taiwan, Vietnam and Indonesia, despite the excellent investment performance of these countries in the last 12 months. Their central banks have been tightening monetary policies, usually not a positive sign for the equity markets. There are also external economic factors as well as a continuation of negative cyclical developments that explain the weakness in these markets.

**Do:** Yes, and during the second half of 2010, the Asian markets were more expensive than the other world markets. This is why these markets were sold down recently in favor of the U.S. markets. The Asian equity markets' performance year-to-date has been disappointing as global investors have been avoiding equity risk in general, preferring safety in bonds or even zero-earning cash.

Is inflation a factor in our region now? Yes, but the larger negatives such as the debt and slowdown in other nations are a much bigger factor than the inflation issue.

Why? The reasons include a renewed fear of the Greek debt crisis, concern over the "double-dip" scenario in the U.S. economy, worries that the termination of QE2 means some liquidation of "carry trades" [ones that involves borrowing in U.S. dollars to invest in Asian and other emerging markets equities], concern over the "hard landing" scenario in China as a result of monetary and property tightening measures, worries of higher interest rates almost everywhere in the rest of Asia and in the emerging markets where there were relatively "expensive" valuations versus the U.S. in the second half of last year.

**SL:** Wow, you have given us a laundry list of reasons not to be in these stock markets. We need to quantify many of your assertions.

The Greek debt crisis is far from over, but the European finance ministers on June 25 staved off an immediate Greek default by agreeing to release a vital installment of financial aid to Athens, while delaying a deal on a second large rescue for Greece, possibly until September. On July 11, it

was announced that top E.U. policymakers have called a meeting to discuss a second bailout package as Europe continues to struggle with a contentious issue.

They ask how Greece's private sector creditors will share the burden when the second aid package is doled out?

We also think that the likelihood of a so-called "double dip" recession is very unlikely, unless the U.S. government defaults on its debt ceiling, which is considered unlikely, now or later.

**Do:** The good news is that Asian markets are now quite cheap and are grossly oversold and "unloved". They are trading on a P/E of 10.9x based on the next 12 months' earnings and are expected to grow by +15%. In addition, the corporate and government balance sheets in the region are reasonably healthy as their demographic profile is relatively young. These factors are likely to enhance the sustainability of strong growth in real and nominal terms in Asia.

**SL:** Let's hope that APB has the cash to take advantage of this weakness. Your sector breakdown shows that financials are the largest sector in the APB portfolio, (26.2%) followed by industrials, information technology and consumer discretionary stocks. Which sectors do you think will perform best in 2011 and 2012?

**Do:** Despite the Fund's relatively large exposure in financials, we have been underweight in this sector (compared to the MSCI AC Asia ex-Japan benchmark). In the other sectors, we have been overweight in industrials and consumer discretionary stocks and underweight in technology. These four sectors are all either growth or cyclically oriented. Longer term, we believe that the best performing sectors will include consumer discretionary, health care, industrials and consumer electronics (software and hardware).

**SL:** What countries are in the ASEAN bloc?

**Do:** The ASEAN bloc is a "convenient" way to group the smaller markets in the ASEAN region into one sector umbrella. Included are Indonesia (5.6% of Fund's NAV), Thailand (1.7%) and the Philippines (1%). We have been exposed to these markets over the past 10 years and longer.

**SL:** The Sri Lanka market has been your best performer, gaining 63.0% for the fiscal year ending March 31, 2011, followed by Thailand (43.7%) and Korea (31.5%). Will you continue to increase your ASEAN holdings?

**Do:** We first invested in Sri Lanka in 2010, about a year after the civil war ended. The "peace dividend" and the "catching-up" phenomenon to a modern industrialized era have been the positive key drivers for this equity market. Our one investment in Sri Lanka (a bank) has performed well over the past 12 months.

We may add more stocks into Sri Lanka as well as to countries between Vietnam, Laos and Pakistan.

**SL:** That sounds like you are joining Mark Mobius in finding growth in the so-called "frontier markets." However, you must be aware that these are riskier and largely more illiquid markets than you are used to investing in.

How long before you think your portfolio will start to improve its investment performance?

**Do:** Our team and I will continue to work hard to pick the "multiple-baggers" for our investors. However, in the more mature markets of Korea, Taiwan or India, this will be a bit more challenging, as their stocks are well covered by sell-side and buy-side analysts.

**SL:** How is the Korea economy doing?

**Do:** Korea remains very competitive against Japan and has also benefited greatly from the boom in China and elsewhere in Asia and the growing emerging markets. In addition, it has famous brands, including Samsung, LG, Hyundai and Kia Motors. Lastly, Korea also has a very well-established industrial base, among which some of the largest oil and gas tankers in the world have been manufactured at an efficiently low price.

**SL:** The Hong Kong stock market has taken hits in new issues recently, raising doubts over the continued strength of initial public offerings. How significant is this development?

**Do:** I think Hong Kong will remain a very active exchange for many companies from China and the rest of the world. Indeed, external concerns which you

mentioned previously have had a negative impact on the performance of IPOs in Hong Kong. Also, in hindsight, there has been too much supply of new IPOs in versus demand. Partly, this was aimed to beat the summer holiday season which starts in June and lasts through August.

Hong Kong is also becoming quite international in terms of attracting IPOs from all over the world (Samsonite, Prada, etc.). Net, net, we think Hong Kong will continue to represent an attractive exchange for new stock listings.

**SL:** Where else in Asia has there been much IPO activity?

**Do:** Korea and India have been active with quite a few deals, but the IPO activity has been quiet in Singapore. Nothing anywhere else compares to Hong Kong.

**SL:** We agree that the Asian markets are “quite cheap”. Our focus is to invest in funds holding companies with healthy balance sheets and where there are rising middle classes.

We are impressed that you have an excellent long-term record of picking winners over the years which we expect you will be able to continue to do.

**Do:** Thank you. Our strong and experienced team of senior portfolio managers and analysts know their markets and stocks well. They are prepared to stick their necks out and recommend “high conviction” investment ideas to the team. Over the past 12 months, we have had tremendous success with our stock-picking in Korea, Taiwan and the small markets of the ASEAN bloc.

**SL:** That goes along with your excellent long term record. Regarding corporate governance, you have had a long-standing policy of paying annual distributions, but you have not paid out anything since 2008. This is part of our hesitation in adding more shares of APB to our portfolios.

**Do:** The Fund has not paid a dividend over the last two years because it has been carrying accounting losses in the portfolio.

**SL:** That’s understood. The problem we have is that closed-end fund investors are used to having cash returns from realized capital gains and income. All of the closed-end funds we follow have usually

been able to pay out something each year, even with the difficult periods since 2008.

Do you look for more dividend-paying stocks? There are plenty of them in the Hong Kong, Korea and Taiwan markets. Do you ever hold some cash or invest in high yielding securities in order to pay out some form of dividends to your shareholders? We also hope that APB will again be able to pay out capital gains when the portfolio resumes its high growth again, which we are confident will happen. These are the kind of questions we will ask you at the November conference in New York.

This is why our clients and readers buy closed-end funds. They like having higher dividends than those paid by mutual funds because of better stock-picking and a lack of constant redemption pressure that mutual funds have as well as lower expenses. And some of the closed-end funds we invest in can generate higher distributions when they use moderate leverage.

I was led to my specialty in closed-end funds because of my long background as a closed-end fund board member. I have also been a consultant for funds both in the U.S. and Canada.

CEFA holds positions in other closed-end funds investing in the Asian region, such as the Templeton Dragon Fund (TDF), which pays distributions each year, but it only invests in stocks in China, Hong Kong and Taiwan.

We hope you will be able to take some profits when you can so you can resume your distribution payments. You might also ask your board if it will fit their mandate to hold some cash at various times, both for investment opportunities and to generate some form of distributions.

Your investment performance in 2006, 2007 and 2008 enabled APB to pay out good distributions, which we hope will continue as the world economic climate improves.

We like your diversification around the region, especially into such fast growing countries such as Sri Lanka.

Your expense ratio (without loan interest expense) for the period ending March 31, 2011 was higher than in recent years,

although it declined some from the comparable figure for the March 2010 period.

The net assets of APB were valued at \$135,076,377 on March 31, 2011 versus \$248,531,764 in March 2007. The comparable expense ratios were 1.52% and 1.68% in 2007 and 2008, respectively, when the portfolio was growing rapidly. The discount on July 15 was -10.4%, and your 52-week market return was +25.3%.

A share repurchase program is also a way to achieve a no-risk, higher return despite the fact that it reduces the size of the Fund.

**Do:** We duly note your comments and your readers’ wishes.

**SL:** Your 2010 annual report notes that “while we remain positive in the long-term growth profile on China, India and Indonesia, we have decided to place more emphasis on the global economic recovery theme.”

**Do:** We believe the correction in Asian markets over the past nine months presents long-term investors with another excellent buying opportunity.

**SL:** We look forward to renewed growth in your region and the world.

One of your favorite countries, South Korea, has just been awarded the 2018 Winter Olympics, beating out Germany and France, which brings the winter games to Asia for only the third time in history.

It is also important that the U.S. soon ratify its free trade agreement with South Korea (as well as other nations). This will increase both imports and exports on both sides. Sir John Templeton once told me that free trade “helps everybody”.

Your public relations manager in New York, Patricia Baronowski, has invited you to attend the next closed-end fund conference there on November 9. We hope that your London managers will see the value of sending you to tell the story of APB. Often these meetings bring over the senior managers from the home offices. ■

For further information about APB, please call 1-888-424-2722 or visit their web site, [www.asiapacificfund.com](http://www.asiapacificfund.com).

Clients and family members of Closed-End Fund Advisors hold shares in the Asia Pacific Fund.

## Inflation Threatens the Recovery. Or Does It?

Over the past two years, emerging markets – most notably China, India and Brazil – have been cast as saviors of the global economy. They have also appeared seemingly immune to the problems of subprime debt or massive government deficits that have plagued the developed world.

Instead, they have battled valiantly to restore global growth and, in the process, have assumed a new status in the worldwide economic hierarchy.

Now, new cracks are beginning to appear in the facades of China, India, Brazil and other leading emerging markets. The specter of inflation threatens to undermine these countries' hard won reputations for economic discipline and erode their international competitiveness. There is growing concern that increasing inflation in emerging markets could also affect the developed world and destabilize the nascent global economic recovery.

"Global inflation has doubled over the past year, from about 2% to more than 4%, and in many countries. It has risen to levels well above those targeted by central banks," explains Tom Mayor, chief economist at Deutsche Bank. "The problem for now is centered in emerging market economies, but not exclusively so. Inflation pressures are beginning to spill over into industrial countries as well.

### Behind the Numbers

While fuel prices – most obviously oil – are important in emerging markets, given that their growth is more energy intensive in developed countries, it is incorrect to assume that inflation is being driven mainly by higher energy costs.

"Most leading emerging market countries, such as China and India, subsidize fuel prices significantly so they are not inflationary," says Maarten-Jan Bakkum, global emerging markets equity strategist at ING Investment Management.

Instead, inflation in China, India and Brazil is being driven by two components. The first is food prices. "Food prices are hugely important for emerging markets," explains Marco Annunziata, chief econo-

mist at General Electric. "Often food represents more than a third of the consumer basket used to calculate CPI, reflecting where a large portion of wages are spent."

Although food prices have risen sharply in many emerging markets, some observers believe their impact on inflation will be relatively short-lived.

"Food prices in India will fall as supply adjusts to changes in demand. As the shift from grain and lentils toward dairy and fresh produce is reflected [in supply patterns], food prices can be expected to fall, although there will be a lag", says Bakkum. In the short term, that fall could be reinforced if the monsoon in India is good, as is expected."

The second factor driving inflation is the growth of the emerging markets themselves, which is pushing core inflation higher. "In China, for example, it has risen from close to zero to 3%," Annunziata says. "So, even without food, there's a growing structural problem that reflects growing housing costs and a general increase in the price of goods".

In India, for example, the structural challenges facing the economy are acute and show little signs of lessening. The growth in India has made finding capable people a significant challenge at every level. That shortage results from deep rooted problems related to education and is driving wage inflation, which impacts everything.

Authorities in China have taken some welcomed steps by withdrawing liquidity and normalizing monetary conditions in the post-crisis period, but real interest rates in China remain negative. Hence, money continues to leave deposit accounts and seek returns in real estate or equities. Similarly, investment in India has fallen "as it is easier in the current rate environment to make money in the debt market than through direct investment."

Not all emerging market countries will be affected by increasing inflation in the same way. China is addressing its problems with sufficient vigor to be able to maintain competitive pricing and may only experi-

ence a brief reduction in competitiveness as a result of wage inflation.

Moreover, businesses in India, such as call centers and software developers, maintain competitive pricing by depending on wage arbitrage for their competitive advantage. Increasingly, their companies want to expand their sales within India to tap its huge domestic market. Therefore, any loss of competitiveness resulting from inflation could prove relatively unimportant.

### The Spillover Effect

For developing countries, the long term impact of higher inflation in emerging markets could be profound. The biggest topic on everyone's mind is that higher prices are really here to stay.

"The change is significant given the experience of recent decades", says ING's Bakkum. "For a long time, emerging markets such as China exported deflation of 2%-3% a year, allowing developing countries to offset domestic inflation and to grow faster than they otherwise would without creating inflationary pressures. Now, emerging markets have begun to export inflation of around 1% a year."

Over the short term, the impact on developed markets will be limited. Developed countries currently have high unemployment and are deleveraging. So for at least the next five years, inflation is unlikely to take off, but at some point in the future, it could prove a problem.

According to Annunziata, those who focus on the implications of what he describes as "an inflection point" in the price of goods produced in major emerging markets run the risk of ignoring changes taking place in the global economy."

"The rise of emerging markets means that they now represent close to half of the global economy in terms of production and more than that in terms of growth.

However, more important in the future will be emerging markets as a source of demand," he says. The deflationary impact of emerging markets is waning. Their ability to absorb price rises without setting off an inflationary spiral will be crucial." (Source: Global Finance, June 2011) ■

## Portfolio Manager's Review

Both George and John Cole have been diligent in making changes to our clients' portfolios during the last few months after the global markets weakened.

For our growth oriented accounts, we re-adjusted our portfolios into out-performing funds. Sales reduced some of our overpriced funds. When the markets recovered, we sold shares where the allocations were higher than we thought necessary and saved some cash for future buying opportunities. If we think that there will be a longer-term down swing, we will concentrate our investments in global debt funds that have held up well in all markets and are paying high distributions.

We have recently chosen Bancroft Fund Ltd. (BCV) as a good example of a "fund for all seasons". For four decades, BCV has provided shareholders with a professionally managed, fully diversified portfolio comprised primarily of convertible securities. Its management believes convertible securities have the "potential to provide total returns that are competitive with those of equities while providing higher income [with an annual yield of 2.9%] and low volatility." BCV's annual report concludes, "We believe that this fund has been successful in meeting that goal."

We like the fact that BCV is one of the few closed-end funds with a strong (22%) institutional ownership and that it provides steady cash returns without much volatility. The Fund also has large exposure to the energy and semiconductor industries (12.8%), top performing sectors in 2011.

Our strategy is to add to holdings right after the Fund goes ex-dividend. BCV was fluctuating between \$16.90 and \$17.10 per share. We were able to buy a large number of shares between these prices. The closing price as we go to press on July 15 was \$17.28. BCV was trading at a 13.3% discount to its net asset value at that time.

For our income-oriented accounts, we sold our entire position in Highland Credit

Strategies (HCF), a senior loan fund that announced an 11% dividend cut. We plan to add exposure to this sector once the NAV has stabilized on future pull-backs. We exited the Blackrock Muni-Holdings Quality II Fund (MUE) as it was selling at a significant premium to its recent historical levels.

Putnam Master Intermediate Income Fund (PIM) was also sold in early June while it traded at a premium. We also reduced our holdings in John Hancock Tax Advantaged Dividend Income Fund (HTD) because it performed poorly compared to its peers.

To increase our equity income exposure, we added to Lazard Global Total Return Fund (LGI), Alpine Global Premier Fund (AWP) and First Trust Enhanced Equity Fund (FFA).

After the forced tender on H&Q Life Sciences Investors (HQL), we sold most of our shares because we thought the discount would widen and later added it in many accounts when the markets pulled-back.

Blackrock Enhanced Capital & Income Fund (CII) cut their dividend by 25%, so we added it to our Hybrid Income accounts at better prices.

These changes follow our investment philosophy of selling when things look overpriced or exhibit increased risk for a dividend cut, and buying on market pull-backs or investor overreaction.

This is how we think a portfolio should be managed, with diligent and patient investing.

*The Scott Letter* welcomes letters to the editor on any aspect of this *Letter* or any issue about closed-end funds. Please send your comments/questions to us via e-mail ([cefa@CEFAadvisors.com](mailto:cefa@CEFAadvisors.com)) or mail to the address shown on the right. ■

*George Cole Scott*  
*John Cole Scott*

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