

THE SCOTT LETTER: CLOSED-END FUND REPORT

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A Global View of the Closed-End Fund Industry

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

— George Cole Scott
Editor-in-Chief

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Interview with James Donald, CFA of Lazard Global Total Return & Income Fund

Lazard Global Total Return & Income Fund pursues its total return investment objective through a combination of two separate investment strategies that the investment manager has employed on behalf of private advisory and other accounts: a global equity strategy (since 1989) and an emerging income strategy (since 1995). The Fund was launched on April 28, 2004 at a price of \$20.00 per share and is listed on the New York Stock Exchange under the trading symbol "LGI".

The investment manager first invests substantially all of the Fund's net assets using the global equity strategy; then, to obtain exposure to emerging market currencies, uses the emerging income strategy (limited to 33.3% or less of the Fund's total leveraged assets).

- **Global Equity Strategy:** The Fund will invest in a portfolio of approximately 35 to 45 equity securities of companies (domiciled in those countries that comprise the MSCI World Index) with a market capitalization of \$5 billion or greater at the time of purchase.
- **Emerging Income Strategy:** The Fund will invest in emerging market currencies (primarily by entering into forward currency contracts) or instruments whose value is derived from the performance of an underlying emerging market currency but also may invest in debt obligations, including government, government agency and corporate obligations and structured notes denominated in emerging market currencies.

A forward currency contract is "an agreement between two parties to buy or sell currency at a set price on a future date."

Lazard Asset Management LLC, a Delaware limited liability company, is a subsidiary of Lazard Freres & Co. LLC (LF & Co.) a New York limited liability company with one member, Lazard Group LLC, a Delaware limited liability company. Interests in Lazard Group LLC are held by Lazard Ltd., a Bermuda holding company which trades publicly on the New York Stock Exchange under the symbol "LAZ." These interests are

held by stockholders as well as by current and former managing directors of Lazard Group LLC. Lazard Freres & Co. LLC originated as a partnership in 1848 and became one of the early investment banks. Today, LF & Co., directly or through affiliates, provides financial advisory services to both institutional and private clients regarding investment banking and corporate finance. LF & Co. established Lazard Asset Management

(LAM) as its investment management division and registered with the Securities and Exchange Commission as an investment advisor on May 1, 1970.

The firm offers a range of equity, fixed income and alternative investment products worldwide. It is a multi-product manager, well known in both the institutional and public arenas. LAM is known for its strong global research platform comprised of analysts with international, accounting and finance skills.

Lazard utilizes a relative-value-oriented investment strategy distinguished by an integrated team approach to investing. The investment objective is total return, consisting of capital appreciation and income.

The Fund has implemented a Level Distribution Policy or a stable monthly distri-



James Donald, CFA

bution, subject to approval and oversight of the Fund's board of directors. Under this policy, the Fund intends to make regular monthly distributions at a fixed rate per share of \$0.1042 based on the projected performance of the Fund, which may be adjusted from time to time. If, for any monthly distribution, the net investment income and net realized short-term capital gains were less than the amount of the distribution, the difference will generally be distributed from the Fund's assets.

In addition, in order to make such distributions, the Fund may sell a portion of its investment portfolio at a time when independent investment judgment might not dictate such actions. Since inception through May 31, 2005, the Fund has not returned any capital in order to meet any of its monthly dividend obligations.

Leveraging. The Fund intends to use leverage to invest in currency investments, primarily using currency contracts and by borrowing under a credit facility with its bank, State Street, up to a maximum of 33.3% of the Fund's total leveraged assets. If assets of the Fund decline due to market conditions such that this 33.3% threshold will be exceeded, the leverage will be decreased.

From the issued reports, LGI has two-thirds of its assets invested in large capitalization equities from developed markets, including many stocks whose companies are in the U.S. The other one-third of the Fund is invested in emerging market debt and forward currency contracts.

James Donald, CFA, has been the portfolio manager since inception of LGI on April 28, 2004. He is a Managing Director of Lazard Asset Management LLC and head of the Emerging Markets Group. Prior to joining the Firm in 1996, Mr. Donald worked at Mercury Asset Management in London, which he joined in 1985. In London, he was on the emerging markets team between 1992 and 1996 and worked in the international equity team between 1985 and 1992. Mr. Donald received an HBA from the University of Western Ontario and is fluent in both French and Spanish.

We interviewed Mr. Donald on June 10, 2005. He was joined by **Ben Wulfsohn**,

Vice President and Product Specialist for closed-end funds.

SL: I have been doing these interviews since 1989, and this is the most unusual fund we have interviewed. Our mantra is to educate investors about closed-end funds, as well as to learn more about those funds that we choose for our clients' portfolios. We, therefore, have many questions about how it works.

How closely do you follow your two strategies?

Donald: We are primarily stock pickers and follow our style very closely. We are relative value investors, using two distinct strategies. The first is a relatively concentrated large capitalization global strategy that we have managed throughout the 1990s. Typically, we have returns on equity greater than the MSCI World Index. Price-to-earnings ratios and price-to-cash flow ratios are usually below those of the Index. The second strategy (the leveraged portion of the Fund) is a short duration currency and debt portfolio designed to enhance the income earned by the global equity portfolio.

SL: We see your list of the ten largest holdings of large cap stocks, both in the U.S. and in the foreign arena. Have you had much experience in using these well-known names and wrapping them around the income strategy?

Donald: We have been managing this global equity strategy at Lazard since 1989 and are optimistic about this strategy for the next 5-6 years. The strategy is to choose stocks with relatively strong returns on equity over the last few years whose strength we expect to continue. These stocks are primarily very well known and financially productive companies, which have not appreciated in term of valuations. We think geography is secondary; we choose global multi-nationals with strong cash flows.

The consistent theme is a relatively inexpensive valuation and a consistent return on equity. What is important is how these companies are positioned in a global context. We believe that their managements have the responsibility not just to manage their assets in an effective way but also to efficiently manage their capital.

Top 10 Global Equity Holdings as of May 31, 2005

GlaxoSmithKline PLC ADR
 Microsoft
 Exxon Mobile Corp.
 Johnson & Johnson
 General Electric
 Nokia
 Total SA
 Bank of America Corp.
 Oracle
 HSBC Holdings PLC

Global Equity Portfolio Regional Allocation as of May 31, 2005

North America	42.6%
Europe ex-U.K.	29.2%
U.K.	22.3%
Japan	5.9%

Emerging Market Currency and Debt Portfolio Regional Allocation as of May 31, 2005

The Fund's emerging market currency and debt portfolio was allocated 93.7% in forward currency contracts, and 6.3% in emerging market short-duration Sovereign bonds. The portfolio's average duration was 2.6 months.

Eastern Europe	29.8%
Asia	29.3%
Latin America	11.8%
Africa	11.4%
CIS/Baltics	9.4%
Middle East	8.3%

Total Return (Since Inception) as of May 31, 2005

Market Price	-0.9%
Net Asset Value	+13.4%
MSCI World Index	+8.6%

All returns reflect reinvestment of distributions. Past performance is not indicative, nor a guarantee, of future results; the investment return, market price and net asset value of the Fund fluctuate, so that an investor's share in the Fund when sold may be worth more or less than their original cost. The returns do not reflect the deduction of taxes that a stockholder would pay on the Fund's distributions or on the sale of Fund's shares.

The performance data of the index has been prepared from sources and data that the Investment Manager believes to be reliable, but no representation is made as to its accuracy. The index is unmanaged, has no fees or costs and is not available for investment. The MSCI World index represents market value-weighted average returns of selected securities listed on the stock exchanges of Europe, Australasia, Far East, New Zealand, Canada and the United States.

The Fund's inception date was April; 28, 2004.

SL: As we get into the more complex portion of the portfolio, I will need some help in explaining it to people who don't have the financial background that we have. Have you ever had a problem in explaining how your criteria works?

Donald: Yes, this is why I am pleased to talk to you. Even sophisticated people in the closed-end fund business have trouble understanding what we do.

LGI's equity portfolio is a broadly diversified (into 30+ countries), very high quality, blue-chip oriented strategy. The currency and debt portfolio is similarly diversified, is defensive and has a low historical correlation to the global equity portfolio. This helps reduce the Fund's overall volatility.

SL: As long as investors see you have wide diversification to reduce investment risk, they should feel better about what you do. What kind of research do you have and how many analysts back you up?

Donald: Lazard global research platform spans the world. We have a large number of analysts in multiple global locations including New York, London, Sydney, Tokyo, Frankfurt and Seoul. Our process is very coherent, starting with database screening that our six large sector teams of analysts use to identify stocks within consumer goods, finance, health care, industrials, power, technology, multi-media and telecommunications.

SL: Does that mean you are sector specific and then pick the best stocks to fit the sector?

Donald: Yes. Our quantitative team first identifies undervalued stocks. The next step is accounting validation, taking into account different international accounting conventions, such as hidden assets and liabilities and other factors to ensure that the accounting is an apples-to-apples comparison. Where necessary, we will make adjustments for differences. The third step is fundamental analysis. There, we forecast revenues, margins and returns on equity looking forward.

SL: What do you mean by differences in accounting standards?

Donald: We want to be sure of what type of accounting they are using so we can make adjustments to international stan-

dards. This is so that it will be easy to compare them with the other companies around the world. For example, in Japan, the reserving policies are very liberal so the companies may understate profitability in order to pay less tax. Obviously, it is not an apple-to-apples comparison for companies that are not allowed to make those types of reserves. In some markets, including Japan, the depreciation policy is really a part of a political policy. There, companies are allowed to depreciate very aggressively to artificially depress their profitability. In those cases, we need to make adjustments and reflect a higher and more appropriate profitability.

SL: That seems to be a well thought-out plan. What about the more complicated emerging income strategy?

Donald: The purpose of the emerging income strategy – that is, the short duration currency and debt strategy – is to enhance LGI's yield in a very protective and defensive way. We invest primarily in government (Sovereign) bonds and forward currency contracts and in structured notes and other commercial paper.

There are two steps (in the process). The first decision is what weights do you want to have in various countries in the portfolio; the second, what type of instruments fit our criteria within that country? Should it be through bonds or forward currency contracts?

We begin by looking at the yields of each currency. We use fundamental analysis for what we think the currencies are going to return in the near future. Then, based on what it will yield and the return and volatility of the currency, we determine what weight we want in each currency.

Wulfsohn: There are two strategies within LGI: a global equity strategy and an emerging income strategy. The emerging income strategy invests primarily in two different kinds of investments, forward currency contracts and short duration bonds or structured notes. That is why James is co-mingling his discussion of bonds and the forward currency contracts. We are really trying to do the same thing with both instruments: to access these attractive emerging market yields.

Donald: Yes, we look at these things as being indivisible. For example, how do we want to get exposure in Turkey? Do we want to buy a Turkish Sovereign bond or a Turkish forward currency contract? We decide which provides us with the better risk/return trade off and lower transaction costs.

What we are doing here is putting together a portfolio of currencies where the currency correlations between these emerging market countries is very low. When you diversify into more than 20 currencies, you have a strategy that gives you a pretty decent return for a standard deviation (a measure of volatility) that has historically been below 5%. The portfolio is very well diversified because we don't have more than 8% in a single currency.

It is not simply a bet against the dollar either. The local investor is used to moving their money offshore into hard currencies. They will only be attracted back into their local currency if interest rates are high enough and/or the currency is stabilizing. This strategy currently has a duration of about three months and is typically never more than 12 months. This is an extremely defensive method of generating income which is predictable and is a low risk, low volatility strategy.

SL: That is what we want to hear. But you do use leverage, which may be a concern to some people. What is the leverage today?

Donald: It is typically between a pretty consistent 30% and 33.3%.

SL: The U.S. dollar has strengthened recently versus the euro, as the U.S has raised its interest rates. Would you have a different benefit for your portfolio from a lower dollar or from a higher dollar?

Donald: In 2005, the dollar has been relatively strong. Therefore, a significant portion of the emerging income strategy is sensitive to the euro. As a result, the returns so far this year have been relatively muted.

SL: Have you ever had to liquidate any investments to meet your distribution requirements?

Donald: Since inception of the Fund, we have not been forced to return any capital or to liquidate investments in order to meet the distribution target. A rising

interest rate environment is less of a concern to us as the short duration nature of the emerging income strategy allows us to quickly reinvest at higher yields as rates rise.

SL: We use two of the Franklin/Templeton bond funds for our clients. One invests in the emerging markets, using non-government debt paying just over 7%. The other only uses Sovereign bonds, and for this quality they only pay 5%-6%. I ask this as it seems like your investments in bonds appear to be more towards the latter. Is this correct?

Donald: Yes, we typically invest in Sovereign bonds and limit corporate exposure to 2% in the emerging income strategy.

SL: LGI currently has a discount today of between 8% and 9%. What are your thoughts about this?

Donald: We believe that LGI should not be trading at a discount. In fact, based on our attractive current market yield of 6.7% and our strong outperformance of our NAV return to the MSCI World Index and because we focus on large capitalization, high quality global companies, we think the Fund might even justify a premium.

However, we recognize that the market is currently yield-hungry and is chasing closed-end funds with higher yields such as those that are utilizing covered call strategies. Consequently, closed-end funds with yields in our range are mostly trading at high single-digit to low double-digit discounts. We would like to believe, however, that if the markets rebound and these covered call funds are no longer favored as in an upward moving market, investors will look again to the next best thing in yields, including funds such as LGI.

SL: Is your dividend fixed every quarter, or is it adjusted by your Board?

Donald: It is a fixed monthly payout of about 10.4¢ per share.

SL: Have you always been able to meet your dividend obligation? How has Wall Street reacted to your new way of managing a portfolio?

Donald: Thus far, we have met all of our dividend obligations without any return of capital. It has taken time for Wall Street to understand how we manage our portfolio. A lot of people think LGI is a balanced fund, but it really is a global equity and income fund.

SL: At Closed-End Fund Advisors, we manage discretionary accounts. However, if a stockbroker calls a client to say he has a new fund that pays so much a month, uses leverage, sometimes borrows money and uses forward currency contracts, what do you think the answer will be?

If the client is 75 years old, and concerned about preservation of capital, he may say, "I don't know if I want that one."

Donald: I completely understand. LGI appears to be a very aggressive fund, but, in reality, it is a very defensive fund. We invest in very large, well recognized multinational corporations in our equity portfolio. The currency and debt portfolio is also defensive and historically has had a low correlation to the global equity portfolio, which helps reduce overall volatility.

Let's look at someone like my father who is 76 and has cash, but may be yield-impooverished by low interest rates. The objective of LGI is to achieve high single-digit to low double-digit returns. Hopefully, over time, he can make capital gains as well. This would be very attractive for someone of that age.

SL: What are the potential tax advantages of LGI?

Donald: Typically, all or almost all of the Fund's dividend paying equity stocks

earn qualified dividend income (QDI) and are, therefore, taxed at the lower 15% tax rate. So this portion of the Fund's yield distribution is tax-advantaged. The Fund tells its shareholders at the end of each year what portion of the dividend qualifies for the lower tax rate.

SL: Has the Fund ever considered repurchasing its shares as is the policy of many funds. Can it do so because of the leverage?

Donald: This is an option open to the Fund, subject to board approval. Thus far, the Fund has not repurchased any of its shares.

SL: We usually like to wrap-up the interview with any closing comments that you wish to make.

Donald: We would like to thank our investors for their support. We look forward to continuing to serve their investments needs in the future.

The expense ratio listed in the annual report dated December 31, 2004 was 1.57%, and the portfolio turnover rate was 7%.

For more information, see the company website: (www.LazardNet.com) or contact Lazard Asset Management LLC at 30 Rockefeller Plaza, New York, New York 10112-6300, telephone 1-800-828-5548 or 212-632-6000. ■

The Information provided in this Letter should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any of the securities discussed herein are still in the portfolio or that they were profitable. You should read the Fund's prospectus for a more detailed discussion of the Fund's investment objective, strategies, risks and fees. Statements made in this Letter may be considered forward-looking, including those about the portfolio manager's expectations, strategic objectives and other similar matters. Performance results shown should, under no circumstances, be construed as an indication of future performance. Data, while obtained from sources we believe to be reliable, cannot be guaranteed.

Closed-End Fund Association Presents Forum in September

The Closed-End Fund Association will present its 2005 Closed-End Fund Forum in Dallas on September 12. The Closed-End Fund Forum is being presented as a courtesy by the closed-end fund industry and is designed to help inform

investors about the latest opportunities and trends in closed-end fund investing. The one-day event will be held at the Dallas Sheraton Park Hotel. The meeting will include speakers from Adams Express Company, American Stock Exchange,

Deutsch Asset Management, Lipper, Renaissance Capital Group and others.

Topics discussed will include: What type of client is suitable for closed-end funds? The discount advantage, investment strategies, product presentations from

investment managers. Don Cassidy of Lipper, Inc. will be the keynote speaker. There will also be four fund panels during the afternoon session.

To register or for more information, contact The Closed-End Fund Association via e-mail at cefaconference@cefa.com or via fax (816-413-8999).

Portfolio Manager's Review

During June, we moved our accounts closer to our asset allocation model: 30% U.S. equity funds, 30% foreign equity funds, 20% real estate funds and REITs, and 10% bond funds. We use the remainder for special situations and cash. In the case of two pharmaceutical stocks, Amgen and Pfizer, we sold some shares of these stocks to buy shares in H&Q Healthcare Investors, which holds large positions in these stocks and is now trading at a discount after many years of selling at a premium. HQH is a defensive fund in the sloppy markets we have seen lately. HQH also has a managed distribution plan, which helps attract shareholders.

At the end of the June 2005 quarter, the real estate sector was our weakest allocation. As we have moved away from exposure to individual REITs, except in special situations, our choice had been to use the Cohen & Steers funds, which have been performing well. Because of our global orientation, we prefer global real estate funds. We found the firm launched a new fund, Cohen & Steers Worldwide Realty (RWF) which trades at a premium of over 5%, showing how much demand there is for this sector. We are using another mutual fund, Alpine International Real Estate Fund (EGLRX), which we could buy for no-fee at net asset value. In order to make this change, we sold much of the closed-end Cohen & Steers Real Estate Fund (RFI).

For the foreign sector, we added to Asia Pacific Fund and to The Europe Fund because Europe is the only region in the world to show strength this year. Some of Templeton Emerging Markets Fund was sold, as it was selling at a large premium. We reinvested the proceeds into such funds as Templeton Dragon Fund and continued to buy Lazard Global Total Return &

Income, featured in this issue, and which is now our largest holding.

We now feel that our asset allocation has come closer than it ever has and will only need to be adjusted once a year or so unless a segment gets too far out of line. At this point, we have made the appropriate adjustments. In addition, if a particular fund goes to an excessive premium that we don't think is sustainable, we will first reduce it, and then eliminate it for a fund that has shown a better value. That way we think we can continue to outperform our benchmarks and keep attracting new clients.

Ten Largest Positions

1. Lazard Global Total Return & Income Fund
2. General American Investors
3. Asia Pacific Fund
4. Adams Express Co.
5. Allied Capital Corp.
6. Swiss Helvetia Fund
7. Templeton Dragon Fund
8. Alpine Real Estate International Fund
9. Europe Fund
10. Latin American Equity Fund ■

Lazard Launches New Income Fund

The Lazard World Dividend & Income Fund's Investment objective is total return, consisting of capital appreciation and income. The Fund's net assets are invested in a portfolio of approximately 60-90 world equity securities consisting primarily of the highest dividend-yielding stocks selected from the current holdings of other accounts managed by Lazard. The equity portfolio will be broadly diversified in both developed and emerging market countries and across the capitalization spectrum. The leveraged portion of the Fund invests in a short-term (typical duration below one year) emerging currency and debt strategy. The Fund trades on the NYSE stock exchange as "LOR." This new Fund was launched on June 28, 2005.

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

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