Published by
Closed-End Fund Advisors

THE SCOTT LETTER:
CLOSED-END FUND REPORT

Vol. XII, No. 3 | *A Global View of the Closed-End Fund Industry* | May/June 2012

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

– John Cole Scott, Contributing Author

IN THIS ISSUE:

- Petroleum & Resources Expects to Generate Solid Returns for Investors 1
- Russia's Economic Profile 2012 6
- Closed-End Fund Basics: What Makes Discounts Narrow? 8
- Book Reviews 9
- Alpine Global Premier Properties Commences Tender Offer 9
- Closed-End Fund Data Service: Expanded Coverage and User-Friendly Interface 9
- Portfolio Managers' Reviews 10

Petroleum & Resources Expects to Generate Solid Returns for Investors

Petroleum & Resources Corp. (PEO) is a conservative equity investment fund investing in energy and natural resources companies. The Baltimore-based fund expects to generate solid returns comparing favorably to its benchmarks.

Investments are made with an eye towards protecting shareholders' original investment while generating dividends and capital gains. PEO has traded on the New York Stock Exchange since 1929 and has paid dividends continuously since 1934.

PEO is one of few internally managed closed-end funds, meaning expenses are not incurred for an outside investment advisor. The Fund has a low portfolio turnover, keeping expenses low, which can increase shareholder returns.

The Board of Directors voted on December 8, 2011 to extend its share repurchase program. They have authorized repurchases of up to 5% of the outstanding shares of the Corporation's common stock through December 31, 2012. Purchases will be made in the open market when the shares are trading at a discount of at least 6.5% and market conditions warrant. The discount on May 29, 2012 was 13.6%.

We have urged both Adams Express and Petroleum & Resources to continue this important program that is beneficial to all shareholders.

The Board of Directors declared an interim dividend of $0.10 per share, payable June 1, 2012 to stockholders of record May 14, 2012. Performance for the three months ending March 31, 2012 with reinvested dividends and capital gains was 5.0% versus 4.8% for the Dow Jones U.S. Oil and Gas Index. The total return of Petroleum & Resources market value to March 31, 2012 was 6.6%, with net capital gains of $0.57 a share.

Doug Ober

Nancy Prue

We interviewed Douglas Ober, Chairman and Portfolio Manager who has managed PEO for over 24 years, and just elected President Nancy J.F. Prue. Nancy has been on the investment team since 2005 and served as Vice President since 2009. Both she and Doug are supported by research analysts looking for investments offering long-term earnings growth at a reasonable price.

The April *Fortune* magazine article has an interview with Daniel Yergin, the preeminent energy expert of our times. In 2011, Yergin wrote the definitive book, *The Quest: Energy, Security, and the Remaking of the Modern World,* from which we will quote during the interview.

The ten largest portfolio holdings in PEO on March 31, 2012 were Exxon Mobil; Chevron Corp.; Schlumberger, Ltd.; Occidental Petroleum Corp; ConocoPhillips; Anadarko Petroleum Corp.; National Oilwell Varco, Inc.; Dow Chemical Co.; Noble Energy, Inc.; and Freeport-McMoRan Copper & Gold Inc. These holdings represent 53.3% of the portfolio.

We telephoned Doug and Nancy on April 27, 2012:

SL: We see that Exxon's quarterly profits weren't up to expectations.

Ober: The earnings were $0.08 lower than Street expectations. Exxon earned $2 a share on lower natural gas prices. They significantly under-produced the target by about 45,000 barrels a day, due to interruptions in West Africa, and had weaker chemical operations.

Prue: Exxon doesn't manage just for quarterly earnings as this large company has bigger projects. The disappointment was due to low gas prices. They bought XTO for its shale gas knowledge, expertise and personnel. While that purchase has impacted earnings in the short term, longer term rewards are anticipated.

SL: What do you think are the defining features of Exxon and Chevron?

Ober and Prue: They are somewhere between 39% and 40% of the industry, both here and worldwide. Both companies are well diversified and represent a large portion of our benchmark index. These stocks provide a good yield and have lower commodity sensitivity than a pure exploration and production company. Chevron also offers a growing production profile.

In order to maintain/increase its reserves and production, Exxon must continually search for and develop new sources of oil and gas. The easy fields have been found so they now have to take more risk and partner with less desirable firms, requiring huge amounts of capital.

SL: What is your 2012 outlook for oil prices?

Ober and Prue: Oil prices will trade around Middle East events and the world economy. European turmoil will continue to affect the price. Gas prices will remain under pressure until current inventories are worked down. Expect the oil price to stay in the $95 to $105 range just to cover costs.

Prue: Near term, with European uncertainty, there is always a catalyst that will drive prices higher as well as possible supply disruptions, unless Europe really implodes. Israel and Iran will get through this, but in a supply and demand model, you have issues.

SL: In early May, oil prices tumbled to $90 a barrel, their lowest levels since February 2012. This was partly spurred by weaker-than-expected U.S. employment numbers and lower global oil demand.

[**Editor's Note:** Credit Suisse published a report examining the effect of oil prices on equities and economics. They argue that Brent Oil will need to hit a record high of $150 a barrel in 2012 before it would cut into economic growth. On March 23, 2012, Brent was trading at about $124. After studying option prices, NYSE exchange-traded fund sponsor Factor Advisors recently gave West Texas Intermediate (WTI) crude a 30% chance of reaching $150 in 2012 and the same bearish odds, saying it will retreat to its 2011 low of about $75. The most obvious driver of the bullish scenario is a possible U.S. or Israeli attack on Iran. (Source: *International Investor*)]

Dr. Yergin lists U.S. power sources as follows: Coal, once almost 55%, is now about 40%; natural gas is next, at 23% and rising; nuclear power is 20%; hydro, 7% and wind almost 2%. Over the decades, oil has been squeezed down from over 15% to just 1%. He says increased nuclear power would have very little impact on oil unless accompanied by widespread adoption of electric cars that plug into the electric grid. Both wind and solar have to prove themselves on a systemic scale.

"The fuel mix choices," he says "are determined by constraints and endowments of region and geography. Thus, over 80% of Brazil's electricity is hydro [and increasing by the addition of many new hydroelectric powered dams]. These choices are also shaped by technology, economics, availability and the three P's: policy, politics and public opinion."

He adds that "coal, nuclear and natural gas will remain dominant for at least another two decades. As one looks further out, renewable fuels will grow, and the mix becomes less clear – and much more subject to contention (Source: Yergin, Chapter 20 "Fuel Choice", *The Quest*).

Will natural gas crowd out wind and solar? "The good news is that the basic starting point for the electric power industry is diversification. You don't know what the future will hold, so it is smart to have a diversified portfolio that includes wind and solar."

Will they have a hard time storing all of the gas?

Prue: Yes. Natural gas storage is at record levels. There are concerns that injections for the next heating season will be limited. Gas drilling has also declined, creating a glut, putting downward pressure on prices.

SL: Where will liquid natural gas (LNG) exports go? Will they be sent overseas?

Ober: Asia has been its largest market because Japan now relies heavily on oil and natural gas imports since shutting down their nuclear plants. Demand is also strong in China, which intends to double its gas usage between now and 2015. Europe is not importing any natural gas from us.

SL: Why aren't there more foreign energy companies in the PEO portfolio?

Ober: We have owned many foreign oil and oil service companies, but they haven't performed as well as the U.S. companies. We own Royal Dutch Shell, Schlumberger and Seadrill. All of these companies operate worldwide.

SL: Are you aware of other energy funds like PEO?

Ober: Blackrock has a closed-end energy fund, and there are some Master Limited Partnerships (MLPs) in the broad-based energy sector. Some of the large firms such as Fidelity and Franklin/Templeton are in this sector, and there are a few global natural resource and oil service funds. Most of these are open-end mutual funds [MLPs structured as closed-end funds]. Many are in basic materials as well as energy. We compare ourselves to these funds both in performance and structure, but they aren't really good peers.

SL: Which countries do you think are doing the best and cleanest job of oil production?

Ober: Brazil is the most conscious of the environment. Russia and China are behind them.

SL: We praise Brazil and China is working on it, but Russia has made little progress in cleaning up their dirty coal-fired plants. We were shocked to learn that there is a coal-fired power plant right in downtown Moscow!

The financial press has had many articles on the role of oil speculators. Dr. Yergin defines them as people "who are trying to hedge their positions." There has to be somebody willing to bet the other way. Those who think the price is going lower must be willing to take the other side of the trade. Therefore, they play a very important role in the overall energy trading business, generating more liquid markets.

SL: What are your views?

Ober: Speculators play a very important role in setting oil prices on the commodity futures exchanges. They are willing to take the other side. Other speculators who fit the definition are those who we generally think of trading for financial gain.

SL: This is a widely misunderstood issue. For example, Sierra Club criticizes Richmond-based Dominion Resources' plans to export liquefied natural gas through its Maryland terminal which, if approved, will be the first large-scale gas exporting terminal in the United States. They say that this could harm the Chesapeake Bay and the Maryland coast. Dominion counters by saying that the plant will minimize environmental damage.

Ober: The LNG project they are referencing is located at Cove Point, Maryland. There is a large import facility there that may convert to an export facility. I am not sure that there would be significant environmental issues such as contamination.

Prue: Significant LNG exports require large investments in liquefaction facilities [estimated to be as much as $12 billion each] as well as the certainty of natural gas supplies at budgeted prices. Export of LNG is in the very early stages. Economic and environmental concerns will continue to be raised as the build-out continues.

SL: That is an important development. In previous interviews we have asked you about the hydraulic fracturing process to extract natural gas that has been credited with providing many jobs, but many still consider it a health risk. We note that other countries, Ukraine for one, are now considering drilling for natural gas in their shale areas.

Dr. Yergin sees deep sea oil drilling as helping to unearth abundant supplies of both oil and gas. He says: "We call it the great revival of the North American oil industry. This is a turnaround not just for North America's oil supply but also has global impact. It's certainly the biggest development in the world oil market of this century." He thinks that natural gas will crowd out wind and solar.

"The hard-to-reach shale formations tapped by the controversial extraction process has pushed domestic oil and gas output to its highest level since 1988. And to meet that demand, the oil giants (such as Exxon) are building and expanding Gulf Coast refineries, the first major investments in such facilities in four decades" (Source: Dr. Yergin, *Fortune,* April 30, 2012).

SL: We are interested in how many developing countries are building new nuclear reactors. The World Nuclear Association reports that 60 reactors are currently under construction globally, with 163 more on order or planned. In the United States, some 30 new reactors have been proposed. Do you think that many nuclear plants can be built?

Ober: It takes between 10 and 15 years to build a nuclear plant, while a natural gas plant can be completed much quicker (nine months to a year). It may also be cheaper to convert the coal plants to gas instead. However, we need more power, and this has to include nuclear plants. Some of the existing plants are 30-40 years old, and many of them are rusting with radioactive water coming out, raising red flags.

SL: That is a serious concern. We support the development of safe nuclear power plants if it is possible in this environment.

For the first time, the U.S. may be shipping more gasoline, diesel and jet fuel overseas than any other export, according to U.S. census data. This trend is significant because for decades we have relied on fuel imports to meet demand. However, we are not yet close to energy independence and remain the world's largest importer of crude oil, although the volume of exports is rising. This allows refiners to sell fuel to rapidly growing economies such as Latin America and Asia.

Do you think that we will ever become energy independent?

Ober: I don't see energy independence in the near future. We have been exporting refined petroleum products, including gasoline and diesel and heating oil for the first time since the 1950s. We still have to import oil, which is refined and sent back overseas. We are producing much more natural gas here, and there is a possibility of more LNG exports.

Prue: There is a big question about logistics. We are significantly increasing oil production, but the infrastructure to move oil from the producing fields to the refineries is still developing. Until that occurs, the refineries that source crude from outside the U.S. are disadvantaged. That is one reason the refineries on the East Coast were shutting down.

SL: We will stay on top of that topic because of its importance.

Another controversial topic is coal. We hear much about the so-called "clean coal" which is being heavily promoted on television. What do you think we can do to reconcile coal and carbon?

Prue: Clean coal technology seeks to reduce harsh environmental effects by using multiple technologies to contain emissions. Significant advancements have been made by the coal companies in reducing harmful emissions. Coal is still the primary power generation source and will remain an important piece of our energy supply.

SL: That's true, but the coal industry isn't yet ready to admit that they are contributing to major health problems.

Prue: All fossil fuels emit carbons. Coal emits more than gas, but clean coal has reduced emissions.

SL: As you know, there have been many concerns about this.

[**Editor's Note:** There is some good news. Sierra Club's "Beyond Coal Campaign" has closed the 99th and 100th coal-fired power plants around the country. Two Chicago plants were the dirtiest coal-fired power plants in the nation. They contributed to asthma attacks, respiratory illnesses and other health problems.

The Chicago plants will be closed by 2014, and six more later, bringing the total to 106 which means that 162 tons of carbon dioxide will no longer worsen climate change. Environmentalists see these advances as only part of the solution to help bring what could be over 50,000 megawatts of solar and wind energy to power 11 million homes, providing new jobs to almost 180,000 people. For more information, visit The American Wind Energy Association's web site, www.awea.org.]

Virginia Business magazine asks, "Will coal be sidetracked? Long-time state industry faces new challenges." Their comprehensive cover story says that one billion tons of coal is extracted annually in the U.S., but Virginia's production is in the middle of a two-decade decline because of depressed prices due to the natural gas surplus.

Virginia is running out of available, easily accessible coal seams and now produces less than half of its all-time high (1990) of 46.6 million tons, while lower-cost surface mines in the western states have doubled their output, siphoning off business from this area where most of the mining occurs underground.

The EPA has just also announced the first-ever limits on carbon dioxide emissions for new coal. They face strong opposition in Congress, but this may be a defining issue for all of us. If natural gas prices rise again, how will that affect coal production?

Prue: If gas prices go back up to $2.50, some coal will come back, and at $3.50 you will see a lot more. Recent switching from coal to gas is price-driven. If gas prices rebound or demand increases or production declines, coal offers an economic alternative.

SL: Our view is to keep the price of natural gas as low as possible for the benefit of mankind. The EPA sees "a bullet to the coal industry as providing a shot in the arm for natural gas".

On the subject of renewable energy, Dr. Yergin says "renewables are a key solution to the triple challenges of energy supply." China has recognized its importance, and Russia and other nations may follow.

"President Obama is the first President who has invested his administration in remaking the energy system and driving it toward a renewable foundation. The nation that leads the world in creating new energy sources will be the nation that leads the 21st century global economy" (Source: Yergin, *The Quest*).

Many companies and investors now see renewables as a large part of the huge global energy market, but Dominion Power has been criticized for relying too heavily on fossil fuels at the expense of renewables. The utility argues that electricity demand will increase by nearly 30% in 2026 (Source: *The Richmond Times-Dispatch*).

Petroleum & Resources Corp.
Performance Data as of 12/31/2011

	1 Year	3 Year*	5 Year*	10 Year*
Petroleum & Resources Net Asset Value	0.3%	15.4%	3.9%	9.4%
Lipper Global Natural Resources Funds Index	-16.4%	15.9%	0.7%	11.8%
Dow Jones U.S. Oil & Gas Index†	4.1%	13.5%	4.8%	11.6%
Dow Jones U.S. Basic Materials Index†	-14.7%	23.0%	4.0%	7.8%
S&P 500 Index†	2.1%	14.1%	-0.3%	2.9%
Petroleum & Resources Market Price	-2.3%	15.1%	2.6%	8.4%

*Annualized

†Market indices do not include expenses and transaction costs, which are deducted from Fund and Lipper returns.

Prue: Renewable fuels will continue to grow in importance for power generation supplies. Future renewable tax credits will be one factor in potential growth. Even though fossil fuels, including natural gas and coal, will remain the largest suppliers, current low gas prices are providing a cleaner power source than coal while renewables are in their infancy.

SL: Dr. Yergin writes that "The growing power needs of developing nations like China and India will boost renewables. China needs as much power as it can get.... In the past five years, it has doubled its power infrastructure, investing $50 billion a year. Both China and India need coal and nuclear power. They are also using solar and wind generation because energy is so crucial to growth. Renewable energy is an inexhaustible and environmental friendly source of power."

How do you think the mix has changed?

Prue: Some states have mandated a certain percent of renewable fuels which, as a percentage of the total, will continue to grow. Rising fossil fuel prices trigger interest in renewable energy. The tax credits and mandates also facilitate development.

When fossil fuels decline and budgets are stretched, alternatives to fossil fuels may play a less prominent role. Fossil fuels will survive, and alternatives will grow. However, it is difficult [for us] to find and invest in a pure play in financially strong renewable energy stocks.

SL: That is true, but batteries for electric cars are also on the list. They are not strictly renewable in the same way but fall within the same framework. Yergin thinks that they could be counted as renewable if the electricity by which they are recharged is wind or solar.

Ober: Another issue is "rare earth" minerals that are used in manufacture of batteries coming out of China. We have one holding in the business, Molycorp, which produces several of the rare earth oxides in Nevada.

China has been very restrictive on the amount of rare earths that can be exported. This issue has come up periodically when you talk about battery technology and the wind turbine field. Once again, you have one segment of the world's economy playing off another segment. China has been the producer of 90% of the rare earths available for the battery and the wind turbine markets.

SL: Now, what portfolio changes have you made for the PEO portfolio in the first quarter?

Ober: We added Seadrill and other stocks because we think the outlook for deep water activity is a very good one. The Gulf of Mexico has also come back significantly so we repurchased Transocean again at much lower prices, after its significant correction. This oil service company runs international deep water oil rigs. Both Seadrill and Transocean have good futures.

We have been making shifts in the portfolio in part to recognize the low price of natural gas and how that has been impacting some of the gas focused exploration and production companies. We are in some names that have started moving more into either the natural gas liquids or into actual oil production as we are trying to reflect in PEO what we see as the intermediate term future of the energy business.

SL: Is Brazil in your future?

Ober: The issue in Brazil is that they want to have all of the oil rigs built and owned in Brazil. We have a good play on Brazil with National Oilwell Varco which supplies a lot of the equipment on each rig. The Brazilian government mandated that the rigs drilling in Brazil have to be built in Brazil, but the equipment doesn't necessarily have to be built in Brazil.

Some firms have opened Brazilian production companies so the rigs can be produced in Brazil. While we have some play on Brazil, we were looking more to West Africa and Mozambique in Southeast Africa. The oil company, Anadarko, is another of our holdings. They told us about huge natural gas finds off Mozambique, one of the biggest in the world. One foreign oil company is working with Russia to explore offshore drilling in the Arctic Ocean.

SL: Yes, we looked this up and found that Norway's Statoil and Russia's Rosneft have agreed on an Arctic venture that could rapidly increase their oil and gas reserves. It is in the Barents Sea, north of the Russian continent.

I am nervous about that because in 1963, I served on the icebreaker, "Northwind" in the Baring Sea. It is difficult to know what will happen in an oil spill. You may not know that there are no weather changes in the Arctic, unlike Antarctica which has storms due to rugged land mass. The Arctic north of Alaska is virtually a desert and is quite shallow.

Ober: I didn't know that. I am nervous about it also, but I know that anything they do is going to require heavy duty, very expensive deepwater drilling platforms.

SL: The Barents Sea is much deeper than the Baring Sea that lies just north of Pt. Barrow, Alaska. We were doing oceanographic work along the Siberian coast in an area that Captain Cook tried to reach in 1779 while looking for the fabled Northwest Passage.

Please tell us about any management changes you have made in the last year?

Ober: Nancy is now the president of the corporation and has more administrative responsibilities. We also hired a junior analyst, primarily for Petroleum. Nancy is working with Tyler Rowe and Mike Kijesky on the oil service business. Mike will be covering Canadian gas companies and some of the smaller exploration and production companies.

SL: Now we would like to address some corporate governance issues. Your new distribution program has been very well received by Adams Express shareholders who have recently driven the shares to near new highs. Is PEO going to do it as well?

Ober: We have not made any decision on a distribution commitment yet for PEO. We talk about it but haven't reached any conclusions. Does it make sense for this portfolio, which is in a far more volatile segment of the investment world than a broad-based fund? We have to consider both energy and stock prices to see if we can sustain a 6%, 7% or 8% distribution in a volatile industry.

SL: Many oil companies pay good dividends.

Ober: That's true for the big integrated companies, which are roughly a third of our portfolio, but another 25% is invested in companies that don't pay out much.

SL: What about capital gains?

Ober: They are absolutely part of the picture. We have had times where there were some tremendous opportunities for generating capital gains, and we have paid some huge capital gains over the years. We have to conclude what a reasonable level would be and what expectations shareholders have before we can decide on a distribution commitment.

SL: Wouldn't it have been a good idea, while the stock markets in early May were high, for both Adams and PEO to buy back their shares? This is important because there is no investment risk in doing this versus the risks of buying companies?

Ober: We continue to consider share repurchases and have been doing some work recently on evaluating them in both funds. Lately, we have been focusing a little more on PEO. Regarding distributions, it is possible to layer in some share repurchases.

We are going through the analysis right now and haven't made any decisions yet. It is certainly on the radar screen. We haven't thrown out the possibility with Adams either and weigh all of the opportunities on a daily basis.

SL: We are glad to hear that you are more responsive to what many of your shareholders think is a desirable course of action. We hope that you will keep talking about it and eventually take some action.

Do you have any more thoughts on the corporate governance area?

Ober: What about you, Nancy?

Prue: I think we have covered most of it. We may have opportunities for natural gas, if it can be exported with LNG. Right now, it can't be exported unless it is a product. We will see how that affects all of the world markets.

SL: You have made that clear in this interview. It is an important issue that we will continue to follow. It is hard to believe all of the many changes that have occurred in the energy business this year. We are still trying to keep up with all of it.

Prue: You might be interested to know that the U.S. Department of Energy puts out a weekly update on its web site (www.doe.gov) that has information on energy issues if you want to look at it.

Ober: I also highly recommend Exxon's annual strategy piece that they put out in which they talk about where they see the energy business going in the next 25 years. BP tells us where the reservoirs are and where they see energy production coming and going. Seeing the flow of natural gas around the world is fascinating.

SL: We will check them out as following the energy business is a continuing interest. You are in a very exciting industry, and it looks like you have a good portfolio to take advantage of the opportunities there. Thanks to both of you for your generous time. ■

Disclosure: Closed-End Fund Advisors, its clients, family members and/or principals currently hold shares in Adams Express Company and Petroleum & Resources Corp.

Russia's Economic Profile 2012

My Russian-American friend, Anatoly Mikutin, and I are planning a visit this summer to Moscow and other cities of the Federation. To prepare for this, we interviewed Mark Mobius, well known to *Scott Letter* readers, to learn more about the Russian economy and his views on the oil and gas business.

Russia is the fourth of the so-called BRIC countries (Brazil, Russia, India and China). Russia is the only "old" power that "is misplaced as a rising power" in contrast to the other BRIC countries. President Medvedev calls his country "chronically backward,"with "chronic corruption" that eats away at its potential. He is concerned that Russia has failed to diversify its economy and suffers from growing authoritarianism.

The latest Transparency International (TI) ratings on Russia moved the country up from 154 to 143, but it is still rated lower than the other 180 countries the service rates. TI uses the degree of bribery as the basis for their annual ratings.

There have been significant changes in Russia since the collapse of the Soviet Union, moving it from a globally isolated, centrally planned economy to an open, more market-based and globally integrated one.

Russia has enormous energy reserves, a geography that spans 11 time zones and remains a major world force. President Putin's leadership has engaged in serious efforts to regain its old power and prestige, producing what the Russian people desire – stability, order, prosperity and return of Russia to the world stage. He could do that, thanks to Russia's huge oil and gas wealth.

During Putin's years from 2000 to 2008, gross domestic product (GDP) growth was one of the highest in the world, averaging 11.2% per annum, but it has recently slowed down to 4.6%. There is now a genuine middle class. Russia not only paid off its IMF debt from the 1998 financial crisis ahead of schedule but has also enjoyed a budget surplus with over $500 billion in foreign currency reserves. The income tax rate is a low 15%.

This 10-year growth has brought an improved standard of living for the average Russian citizen and economic stability that Russia had not experienced in at least a decade. It is also arguably a factor in the boldness with which the Putin leadership has reasserted Russia's status as a world power, challenging the United States, Europe and other former Soviet states in economic and national security areas.

The protection of property rights is still weak, and the private sector remains subject to heavy state interference. Russian industry is primarily split between globally competitive commodity producers and other less competitive heavy industries that remain dependent on the Russian domestic market.

[**Editor's Note:** In 2009, Russia became the world's largest exporter of natural gas, the second largest exporter of oil and the third largest exporter of steel and aluminum.]

The reliance on commodity exports makes Russia vulnerable to boom and bust cycles that follow highly volatile swings in global commodity prices. The government since 2007 has embarked on an ambitious program to reduce this dependency and to build up its high technology sectors. These efforts have shown few results so far.

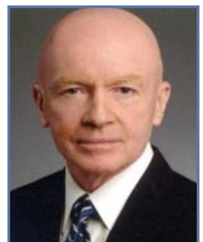
High oil prices buoyed Russian growth in the first quarter of 2011. In the spring of 2012, the drop in world oil prices was due to reduced world tensions and increased supplies for crude oil, which may cause problems for Russia if it continues.

Russia's long term challenges include a shrinking workforce, a high level of corruption, difficulty in accessing capital for smaller non-energy companies and poor infrastructure in need of large investments (Sources: Stuart Eisenstat: "The Future of The Jews," Indexmundi.com/Russia and CRS Report for Congress, May 2008).

We telephoned Mark on April 30, 2012. He was joined by two Russian analysts: Gennady Zhilyaev who is responsible for equity research of Russian companies and Alexei Llin who covers oil and gas companies. Both are a part of Franklin/Templeton's global emerging markets team and help Mark run the Russia Fund and the Eastern European Fund.

SL: Mark, I have read your delightful "Little Book of Emerging Markets". I really like the importance you give to global privatizations and how they can bring huge opportunities to help transform markets such as Russia.

Is there any possibility that Franklin will bring out some closed-end funds for these markets?


Mark Mobius

Mobius: We have three open-ended funds in the frontier markets, and we now run an Africa fund. We manage over $1.1 billion in our Templeton Frontier Markets Fund, so I don't see any need for a closed-end fund, although that could happen.

SL: Let's hope so. I want to ask Franklin's senior management about that when I am in California. We want to know why they seem to have given up on a closed-end fund format that Sir John Templeton used so successfully.

The virtues of that format are beneficial to shareholders because it is a wiser move in the more volatile emerging markets that you invest in. Your Templeton Emerging Markets Fund (NYSE:EMF), which is undervalued right now, pioneered the genre in 1987 when the emerging markets weren't really understood. We may be adding EMF to our portfolios once the European crisis subsides.

Before we get started, you need to know that I am an environmentalist concerned about the health of the planet. The world is finally coming around to taking some action but not nearly enough yet to make it sustainable. Some of my views will color my questions.

First, we are aware that Russia is far too dependent on the oil and gas industries, and have been disappointed that the efforts to diversify have been slow.

We also note that popular support for Vladimir Putin has been dropping lately, and some see this as a possible crisis before he finishes his six year presidential term.

Could you tell us what the priority of diversifying Russia's economy is.

Mobius: It is a high priority for Putin, and there is some improvement.

SL: We look forward to seeing the evidence when we are there.

[**Editor's Note:** We have read that some of the popular support for Putin's government is eroding, and some say that Russia could see a full-blown political crisis before he finishes his six-year presidential term. We also see that the dissent is continuing (Source: *Wall Street Journal*).]

With a population of about 143 million, Russia has a demographic crisis that will limit its influence, despite its petro-power. What do you think about this?

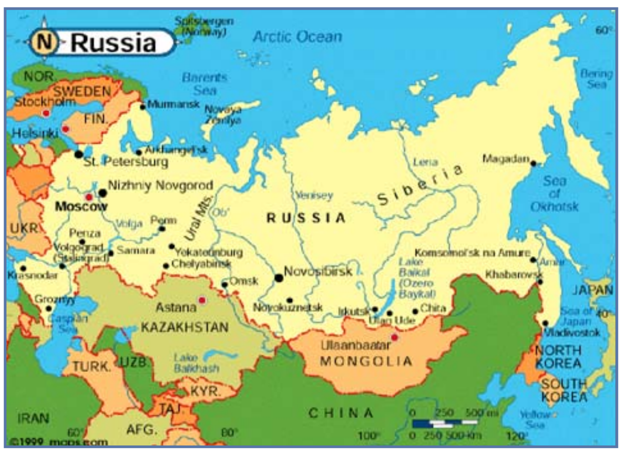
Zhilyaev: Since Russia is the largest country in the world by size, a population decline is a very serious issue.

SL: We have found that the problem is so severe that Russia's population in the next 50 years could be under 75 million. If the right steps are taken, that could easily change. The average life span is now low. For a Russian male, it is less than 60 years, the lowest in the industrial world.

What can you tell us about the quality of life in Russia? We hope that it isn't all dependent on higher oil and gas revenue.

Zhilyaev: It is improving because we have increases from oil revenue as well as in other parts of the economy compared to ten years ago. They have also increased pensions in both the government and private sectors. Unemployment is around 6% and declining, while the inflation rate (6.9% in 2010) is now the lowest it has ever been in Russia.

SL: That is good to hear. The latest figures available (2010) show Russian exports were $376.7 billion, composed mostly of petroleum and petroleum products, natural gas, woods and wood products, chemicals, minerals, timber, furs, and metals.



Still, they are much too dependent on producing revenue from oil and gas based on a continuance of higher prices. All economies are cyclical and vulnerable to downturns in commodity prices, including oil. Mark, do you agree with that assessment.

Mobius: Our view is that oil prices will continue to trend upwards due to high demand from China and India. Saudi Arabia and Indonesia are also consuming more of their own oil, with Indonesia now having to import oil.

Llin: Russia's dependence on natural resources is a large part of the federal budget. The present oil prices of $117 per barrel needs to be higher in the next few years.

SL: Despite all of the optimism about higher oil prices, it is a commodity that has had an erratic history in the last century. We hope it will all work out, but there are many concerns. A continued lack of a diversified economy that is too dependent on natural resources could be a sign of weakness. Isn't a diversified economy a strong economy?

Mobius: There is diversification in Russia. They depend on the military side of industry. As in America, many developments come out of the military/industrial complex, including high tech things such as satellites and airplanes, and they realize the value of this. Russia has supplied Boeing with titanium, and there are a lot of high tech industries going on. They now have a higher per capita income because of many high paying jobs in this sector. Oil and gas will remain important, but Russia also has large amounts of other minerals such as coal, nickel and palladium.

Putin is interested in diversifying the economy as it is getting more expensive to find and produce oil. They have to go deeper, and drilling is riskier and more expensive now.

Governments around the world are also becoming more intolerant to pollution, and they also want a bigger share of the profits. This can sometimes result in lower production, as is happening in Argentina and Venezuela. All of this makes oil more and more expensive.

SL: That is more reason to diversify. You may be right about higher oil prices, but the fact remains that dependence on rising commodity prices can backfire. Look at Chile and other commodity-dependent nations that are suffering now.

High energy prices can slow down global growth, but it also encourages alternative forms of energy. In this environment, can we rely on higher demands for energy from China and India, both of which have growth issues?

Mobius: There is continuing demand from China, India and other emerging countries because the demand for oil from the all of these producing countries grows at higher consumption levels each year. However, many governments around the world are becoming intolerant to pollution; yet they still want a bigger share of the profits to satisfy domestic demand for oil. Argentina has now taken over their national oil company that has resulted in lower production and fewer reserves. This is an example of how higher prices can occur.

About half of Russia's exports is natural gas. Russia supplies 40% of Europe's natural gas. There is also the possibility of shale gas from Ukraine.

SL: Yes, and that is a good sign. Ukraine plans to auction rights to as much as 70% of production at two natural gas deposits as it seeks to cut reliance on Russian imports. Exxon Mobil and Royal Dutch Shell are among the companies searching for gas in Ukraine, which has Europe's fourth largest deposits of conventional gas, shale, gas and other hydrocarbons (Source: Bloomberg).

Llin: Russia also exports coal as well as natural gas to Europe.

SL: That brings up another question. How seriously is the air quality in Moscow affected by coal emissions?

Llin: Moscow has dirty air, but it is the same situation in most other cities worldwide.

SL: Your answer surprises me. I have traveled to 43 countries. I lived in London in the 1960s, which was then a very dirty city because they used coal to generate electricity. Now that they are off it, London is one of the cleanest cities in the world. There are dirty cities that are affecting the health of their citizens, but many others have cleaned up their acts and are richer for it. We hope that Russia will realize the value of this soon.

Mobius: The government is very concerned about these emissions in Moscow.

SL: Good! We will be looking for evidence of their concerns. Remember Mark, when I once asked you about the pollution in China, you said that they are working on it because it is a health issue and an expensive one at that. How does that apply to Russia?

Mobius: Not all of Moscow is polluted. In the northwest and southwest, the air quality is pretty high because they are not near any industries. The problem with Moscow is that you have power plants in the heart of the city by the Kremlin and the Moscow River.

SL: Until a concerted effort is made by governments, history shows that little gets done. The U.S. has been making a great deal of progress in cleaning up its environment.

What are the figures on how power is generated in Russia? Do they have many hydroelectric plants like in Brazil?

Llin: Over 60% of the plants are gas-fired now, and 25% are nuclear. Yes, they want to add more gas-fired power plants. Hydroelectric plants are also increasing slightly, mostly in eastern Russia.

SL: That certainly is good news, and we will pursue this further.

Now, I want to tell you just why I am so interested in Russia. First, I am a descendent of the family of John Ledyard, the American traveler who explored the world, including Russia, in the 18th century. He was arrested by Catherine the Great at Yakutsk in Siberia in 1788 because he was on his way to Alaska without a visa. The Russians were suspicious of him so they banished him to Poland.

If he had been able to cross Russia and the Pacific to America, Ledyard had planned to walk across North America to visit Thomas Jefferson in Virginia. This was 15 years before the Lewis and Clark expedition (1804-1805). Just think what that would have done to speed up American history if Ledyard had succeeded.

I also had a Russian grandmother, an anti-Bolshevik, who fled in 1921 and met my grandfather in Europe. They married, and he brought her and her family back to Princeton, New Jersey where I grew up. So, as a teenager, I was exposed to Russian culture. I have wanted to visit Russia ever since, and I hope that my dreams will be fulfilled this year. ■

[**Editor's Note:** Dr. Mobius asked more about this curious traveler so I told him that after being arrested in Yakutsk, Ledyard signed with the English (1788) as the first of many explorers to cross the continent of Africa, despite the odds against succeeding. Unfortunately, he took an overdose of a medicine in Cairo and died there at the age of 39. The English thought the Nile and the Niger were connected. If he could cross most of the continent of Russia, he probably could also cross Africa.

While on a State Department trip with my mother in 1978, I traveled to Timbuktu in Mali, West Africa and sailed on the Niger River to honor Ledyard.

For copies of the many books about John Ledyard, go to www.Amazon.com.]

Closed-End Fund Basics: What Makes Discounts Narrow?

Closed-End fund investors are a strange breed. They are constantly looking to buy funds at a steep discount to their net asset values. They buy into these funds precisely because of their NAV discounts, and then they do nothing but complain about the substantial discount to NAV – the reason they bought the fund in the first place!

Naturally, existing shareholders do benefit from a tightening of discounts relative to NAV, all things being equal.

When NAV is flat, tightening discounts can help you eke out a modest gain. When NAV is rising, attracting buyers, and the NAV is tightening, it's like strapping a rocket booster to your returns.

So, what causes a discount to narrow? The simple view is that discounts narrow for the same basic reason they open up in the first place. The law of supply and demand goes to work on closed-end fund shares, the way it does with any other commodity.

With closed-end funds, the number of shares is finite. This means that every buyer has to convince every seller to sell, with a decent, competitive offer. Sellers meanwhile sell to the highest bidders. The losers either up their bids to get shares – forcing discounts to narrow – or they exit the market, yielding to higher bidders.

When buyers want to buy more shares than sellers want to sell, discounts narrow, and the fund may even sell at a premium (to its NAV). When sellers want to dump more shares than buyers want to buy, then premiums fall and discounts widen.

All this action happens quite independently from the actions of the fund managers, buying and selling securities for the underlying fund's portfolio.

It's no different than real estate. House prices can rise and fall, based on the number of houses people are looking to sell versus buy (an auction market), even though rents may remain constant. ■

Source: www.globalinvestorspotlight.com

Book Reviews

The two books listed below pivot about the person of Vladimire Putin, the most important and influential Russian politician of the past and perhaps another decade as well.

Vladimir Putin and Russian Stagecraft by Allan C. Lynch (Potomac Books)

The Return: Russia's Journey from Gorbachev to Medvedev by Daniel Treisman (Simon & Schuster)

Lynch's slim tome is a standard biographical treatment, rich in detail about Putin's pre-political life, though it does hew more to a positive "domestic" interpretation of Putin (stability, economic recovery and international respect) versus the less appreciative "international" view.

Treisman's history aims for a bit more historical context, explicating the post-Soviet experience from 1989 to the present day. Yet, this is still mainly a book about Putin and his rise. The first 80 or so pages focus on the Gorbachev-Yeltsin era, while the next 300 pages cover the last dozen years under Putin and Medvedev. Deeply informed by the author's extensive time in country and his broadly cast net of interviews and research (there are 100 pages of footnotes), this is a balanced and detailed historical and Kremlinological account that is sympathetic to (and reasonably optimistic about) the rapidly modernizing Russia's with its many growing pains. At the same time Treisman is deeply unsympathetic to jingoistic and simplistic views of Russia, which he answers with an even-handed assessment of both past and present. Plus, it's just a good read.

These reviews were provided by *Russian Life,* published in Vermont. For more information, visit their web site, www.Russianlife.com. ■

[**Editor's Note:** We have a copy of Professor Treisman's book and found it very helpful in our research. Copies of these books are also available in many libraries.]

Alpine Global Premier Properties Fund Commences Tender Offer

Alpine Global Premier Properties Fund (NYSE:AWP) announced that it is commencing a tender offer to purchase for cash up to 21,489,143 shares (representing approximately 20%) of its common stock at a price equal to 95% of the net asset value per share. The price will be determined on the expiration of the offer on June 15, 2012, unless extended.

If the number of shares properly tendered and not withdrawn exceeds the maximum amount of the offer, the Fund will purchase shares from tendering shareholders on a prorata basis. There is no assurance that the Fund will purchase all of the tendered shares.

None of the Fund, its Board, its investment advisors and/or the information agent is making any recommendation to shareholders as to whether to tender or refrain from tendering their shares onto the offer.

Shareholders, together with their tax and financial advisors, are solely responsible for determining how many shares they will tender, if any, for the purchase of the Fund.

Closed-End Fund Advisors plans to pursue this tender offer for all of our clients. If any client wishes not to tender his shares, please let us know as soon as possible. More information is available by calling 806-745-0267 (toll free). ■

Closed-End Fund Universe Data Service: Expanded Coverage and User-Friendly Interface

Closed-End Fund Advisors, now in its 5th year of producing a weekly data service, designed an expanded version in both PDF and spreadsheet (XLS) file formats. It has expanded its 26 data points to more than 50 that are covered each week in its CEF universe.

The firm has implemented an in-house team of professionals to self-source all data internally as opposed to relying on outside sources, as it did in the past.

The benefits of the service are:

1. Access to data on every U.S. listed closed-end fund.

2. Access to historical data dating back to 2008.

3. Peer group averages for each data point for comparison purposes.

This service will offer both formats (PDF and XLS) as the inability to import/export the data has been the primary objection of subscribers over the years.

Future improvements include:

1. Access to our newly developed closed-end fund specific press release archive.

2. Coverage of closed-end funds organized as business development companies.

3. Numerous charts and graphs covering many of the closed-end fund data points.

The price for the service is unchanged at $595 per year, less than $11.50 per week. For a *risk-free, 14-day trial* of the data service, visit www.CEFuniverse.com.

The cost is low compared to other data offerings in the industry. The reason is because we designed this data service to help Closed-End Fund Advisors manage its client portfolios and to cover the closed-end fund universe from a research and educational perspective.

We hope that our improved data service will be helpful for investment advisors, traders and other investors. ■

Portfolio Managers' Reviews

Despite regional reports from the Philadelphia Fed (negative) and the New York Empire State Index (robust), *Barron's* sees mixed signals. "We were overdue for a correction when the Dow reached 13,300 in March. We've got it full throttle," *Barron's* wrote in late May.

However, the U.S. economy keeps improving. The financial sector tanked after the J.P. Morgan disaster but, as contrarians, we are looking for better values and higher stock prices in this slowly evolving Bull market.

This is one reason why. Businesses are spending 4% more on research and development (R&D) in 2012, and another $285 billion in development of new materials and products. This more than offsets a small decline in R&D as well as spending from government, academia and non-profits, according to *The Kiplinger Letter.*

Kiplinger also sees GDP growth in 2012 of +2.3%, up from 1.7% in 2011. Inflation remains a modest 2% after hitting 3% in 2011. Consumer confidence also continues to improve with cheaper gasoline and moderate job gains.

Sure, there are fresh worries over Spain as their U.K. customers pulled their funds on May 19, and the bad debts held by Spanish banks rose to a 71-year high. We can survive these worries. The U.S, economy is really in better shape than many think it is.

The stock markets will recover as they always have. For some perspective, George has been investing in the stock market for over 60 years. He bought his first shares of stock in 1952 with savings from chores, and since then he has held a long-term view as markets go up and down but always somehow end up at higher levels. This is something everyone in the stock markets should never forget.

Growth-Oriented Accounts: In early April, we added Franklin/Templeton Frontier Markets Fund, an open-ended fund managed by Mark Mobius, to our global equity accounts. One closed-end fund, Morgan Stanley's Frontier Market Fund, unfortunately, will be voting to become open-ended, taking away the advantage of the discount.

We also added to Bancroft Convertible Fund and Asia Tiger Fund, managed by Aberdeen Asset Management, the same firm that manages our long-time holding Latin American Equity Fund. For these purchases, we sold some shares of The Asia Pacific Fund that invests in the same region. We think this is a good way to achieve alpha!

Income/Conservative Accounts: We planned to reduce the risks for our bond exposure in a rising rate environment, which we think will happen on 2013 (ahead of Bernanke's 2014 expectation) so we purchased Proshares Short 20+ Years Treasury ETF. We also added to Keating Capital in many accounts as it was trading at a deep discount between its quarterly NAV updates and it still held a significant amount of cash to invest.

Hybrid Model Accounts: We bought Aries Capital, a business development company (BDC) closed-end fund that has both a strong balance sheet and a good management history. The distribution yield is well above 9% annualized and is a good choice for capital appreciation. We also added to Wells Fargo Advantage Global Dividend Opportunity Fund, beefing it up because of its 30% exposure to Italy and England. It sports a 4% discount and a 13%+ distribution yield for income-oriented investors.

Conservative Diversified Model Accounts: We reduced our cash position in this model and added some broad market exposure during May's market weakness. One candidate was First Trust Specialty Finance Fund which invests in BDC closed-end funds and has a very attractive yield. ■

George Cole Scott

John Cole Scott

GEORGE COLE SCOTT
Founder and Editor-in-Chief
Portfolio Manager

JOHN COLE SCOTT
Contributing Author
Portfolio Manager

LESLIE JANE DANIELS
Copy Editor

MAMIE WOO MCNEAL
Production Editor

The Scott Letter Online
is published by

Closed-End Fund Advisors
Global Investment Counsel
7204 Glen Forest Avenue, Suite 105
Richmond, Virginia 23226
(804) 288-2482
www.CEFAdvisors.com

Currently offering managed portfolios with the following objectives:

International Equity
Globally Diversified Growth
Hybrid Income
Growth & Income
Foundation/Balanced
Conservative Diversified

CLOSED-END FUND ADVISORS