

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.



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Seeing Russia on the Trans-Siberian Express: A Spiritual Journey - Searching for “The Russian Soul”

This report was inspired by my trip across Russia this summer accompanied by a Russian-American, Anatoly Mikutin, who lives in Richmond. His knowledge of the Russian language was indispensable for this trip, as few Russians speak English well, although the younger generation is now quite proficient in English.

Our mission was to learn about Russia and its people as well as its economy. We first called it a “spiritual journey” but, in reality, it evolved into an attempt to learn as much as we could about Russia and what might be called “the Russian soul”. We found that church attendance since the Soviet period has grown dramatically as more churches (mostly Russian Orthodox) are now being built in Russia than in any other country. We did, however, visit a Lutheran and Armenian Church in St. Petersburg.

Arriving on July 20, we visited eight cities, traveling on six trains, including the famous Trans-Siberian Rail, stopping in eight cities on a 27-day, 6,500-mile journey from St. Petersburg to the city of Vladivostok on the Pacific Ocean. We traveled the high-speed rail from St. Petersburg to Moscow in four hours.

After St. Petersburg, we visited Moscow and in Siberia, Yakaterinburg, Novosibirsk, Irkutsk, Listvyanka on Lake Baikal, and Vladivostok. We also took a day trip to Tula, south of Moscow, to visit Leo Tolstoy’s house.

Russia, which spans nine time zones, is divided into two parts. West of the Ural Mountains is European Russia (about one-third of the country), while Siberia lies east of the Ural Mountains to the Pacific Ocean. We were surprised how green Siberia was with much of the world experiencing drought conditions.

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Investment Adventures in Emerging Markets: The Russian Evolution by Mark Mobius



An interesting development in Russia’s evolution is the return of Vladimir Putin to the presidency after a 4-year hiatus. Russia has also evolved a great deal as an investment destination in the past two decades and holds great potential, although there is still more work to be done to open the markets and instill investor confidence.

Russia is the largest country in the world in terms of land mass (17 million sq. km), covers

nine time zones and boasts a rich and ancient history, abundant natural resources and a resilient and well-educated population. The literacy rate is near 100%, and there are more than 1,000 institutions of secondary education attended by more than 8 million students.

Russia has often been characterized by its harsh climate, and its economy has weathered equally harsh challenges throughout its history. From an economic standpoint, the past two decades have been characterized by periods of growth and crisis leading to progressive steps forward – then back.

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Seeing Russia on the Trans-Siberian Express (continued from page 1)

In Moscow on July 26, 2012, we interviewed representatives of The Templeton Russia and East European Fund, managed by Mark Mobius.

Templeton Russia and East European Fund, Inc.

Launched in 1995, the Fund seeks long-term capital appreciation. Under normal market conditions, it invests at least 80% of its net assets in investments that are tied economically to Russia and East European countries. On March 31, 2012, the Fund had current assets of \$102,226,064.

Economic and Market Review

Russia's gross domestic product ("GDP") grew at an estimated 4.3% in 2011, in-line with a revised 4.3% in 2010. Private consumption and agriculture were key contributors to economic growth. Inflation declined from 9.5% year-over-year in March 2011 to 6.1% in December and 3.7% at period-end.

In December, with easing inflation, economic growth slowed to less than the forecasted 4%. The Central Bank of Russia ("CBR") cut its interest rate to 8.0%. Additionally, the CBR raised its overnight deposit interest rate to 4.0%.

In January, Fitch Ratings cut the outlook on Russia's long-term foreign and

local currency issuer default ratings to stable from positive, while affirming the BBB rating, due to a weak global outlook.

Prime Minister Vladimir Putin won the presidential election on March 4, 2012 with more than 60% of the votes.

The euro-zone financial minister's approval of a second financial Greek bailout package and the European Central Bank's issuance of three-year loans at 1% to the region's banks worth more than 529 billion euros (approximately \$700 billion USD) eased the credit crunch and contained the debt crisis. This further supported the markets.

Furthermore, U.S. Federal Reserve Board Chairman, Ben Bernanke's comments that continued accommodative monetary policies are needed to help lower the U.S. unemployment rate and news that the European Union might increase its bailout fund provided investors with additional reasons to remain positive.

Performance Overview

For the 10-year period ending March 31, 2012, TRF had total returns of +190.22% in market price terms and a +312.96% in net asset value returns. The three largest sectors of the Fund are invested in metals and mining, commercial banks, and road and rail shares.

Besides investing in Russian companies, we hold one energy position in Kazakhstan as well as two positions in Egypt, which are a part of Russian companies. A pharmaceutical company in Hungary is the only European stock held during the current period.

We interviewed Alexey Llin at the Moscow office on July 26, 2012.

SL: What is your investment background, Alexey?

Llin: I was born in Moscow, and after graduation I joined Unicredit Bank as a European bank corporate credit analyst studying higher economics. Then for three years, I joined PriceWaterhouseCooper's audit department. My chief client was the oil company, Gazprom, and later I worked for a small hedge fund before joining Franklin/Templeton.

Artem Litinof has also trained at Pricewaterhouse Coopers and covers other segments of the economy.

SL: Why is TRF so small?

Llin: The Fund had assets of \$500 million, but it was reduced in size because of a large distribution in 2008.

SL: That occurs when a closed-end fund takes a large amount of capital gains. However, shareholders can choose to reinvest in new shares to maintain their holdings. How does Russia handle its government deficits?

Llin: The government deficits are not high, about 10% now.

SL: How is the ruble doing now?

Llin: It is down about 8% since the beginning of the year but is now about \$32 USD to the ruble.

SL: Why do you have 6% in cash? Most of the funds we hold are fully invested.

Llin: We are very cautious about the situation in Europe.

SL: Everybody is. Is Mark as cautious as you are now?

Llin: Mark is optimistic.

SL: We agree with his philosophy that the optimists win, and everybody else follows behind. His excellent investment record comes from the genius of Sir John Templeton.



George Cole Scott at The Winter Palace, St. Petersburg

Llin: We looking for cheap stocks, but few are available now.

SL: Looking for bargains is the Templeton way. Doesn't the world oil price have to be above \$100 a barrel to make the government budget?

Llin: The world [Brent] price is \$104 USD so there is no discomfort now, but the projections show we will have a 10% deficit.

[Editor's Note: Llin then startled us by saying that the ruble could be adjusted to counteract the deficit. That's Russia! We then discussed the liquefied natural gas ("LNG") gas industry.]

SL: What have you learned about the LNG industry and Ukraine's plans to find natural [shale] gas?

Llin: There is one company that is planning to build a LNG pipeline and terminal across Russia in order to provide gas directly to China.

SL: We are also interested in Russia's attitude towards preserving the environment. What are your thoughts about efforts to improve the environment?

Llin: I think that our environmental laws are quite friendly. For instance, our coal has a low sulphur content.

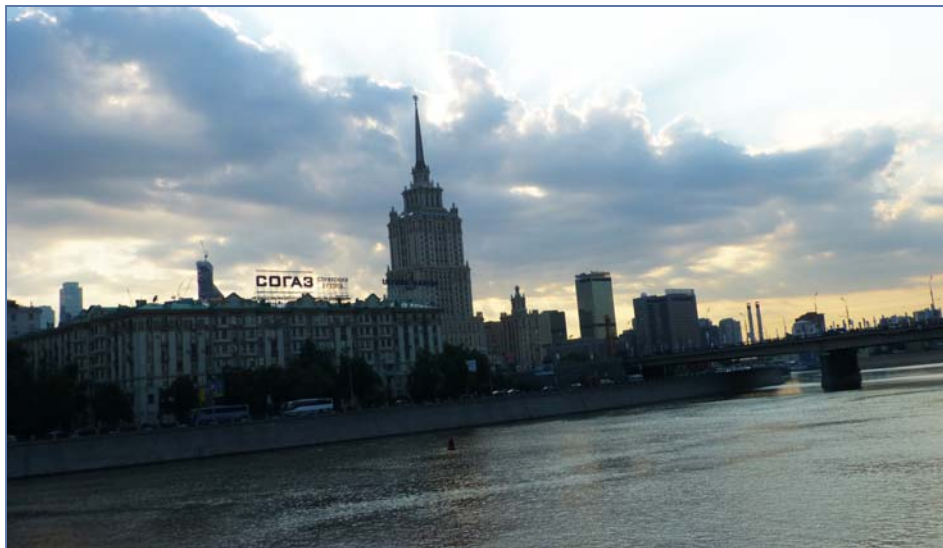
SL: We have deeper concerns. An example is the pollution that is coming from the paper company located at the bottom of Lake Baikal in Siberia. Letting the company, which employs 2,000 people, go would mean there would be no other jobs.

Llin: We do not own shares in this paper company.

SL: That's fine, but the waste is polluting the pristine lake. What do you think should be done about the waste?

Llin: Good question. They have a big shareholder, and his major concern is what would happen if they shut down.

SL: For the record, Lake Baikal is one of the wonders of the world. The 5,300-foot deep lake is the oldest and deepest freshwater lake in the world and curves for nearly 400 miles through southeastern Siberia, north of the Mongolian border. It lies in a cleft where Asia is literally splitting apart to form the beginnings of a future ocean, according to geologists.



Looking Across the Moscow River at Sunset

They say Baikal today shows what the seaboards of North America, Africa and Europe looked like as they began to separate millions of years ago. The lake has another 4-mile-thick layer of sediment further down. It's cold, oxygen-rich waters team with bizarre life-forms. One of these is the seal's favorite food: the golomyanka, a pink, partly transparent fish which gives birth to live young. Geologists estimate that Lake Baikal formed about 20-25 million years ago, during the Mesozoic period. Lake Baikal offers vistas of unmatched beauty. The mountains are still a haven for wild animals, and the small villages are outposts of tranquility and self-reliance.

The BBC has just reported that the United Nations may remove Baikal from the World Heritage list because of its pollution. Ecologists say the paper mill affects more than 50% of Baikal's ecosystem as it spews thousands of tons of dioxins and other harmful by-products into the lake. The plant's director says that the plant has a unique 4-stage cleaning system of wastewater cleaning facilities. Despite this, the plant was closed in 2008 for over a year. After Mr. Putin visited there in 2009, he declared Baikal to be "in good condition" and approved keeping the plant open. (Source: BBC News. Science & Environment).

Do you know much about Russia's mining of rare earth minerals?

Llin: Yes, but there are only a few companies that mine it. We don't export it, but do export titanium that comes from it.

SL: Mark Mobius thinks that the oil prices will continue to rise. That is good for Russia, but bad for the non-producers.

Llin: That's true, but we now use natural gas to propel vehicles.

SL: That's good. Where does most of the pollution here come from?

Llin: From cars, but there are pollution standards. However, there are still a lot of old cars and trucks that pollute the air.

[Editor's Note: This was confirmed by a telephone call to Mark Mobius who told us that there is no evidence that any of Moscow's pollution comes from the nearby power plants which were closed years ago.]

SL: As committed environmentalists, we will continue to follow the progress of the government to reduce pollution of all kinds. I am glad to hear that they are trying to make some progress in this effort. Thank you for your time. ■

Disclaimer: George Cole Scott owns a small position in TRF, but CEFA is waiting for Mobius to invest more of the Fund's assets in Eastern European before investing in more shares.

Investment Adventures in Emerging Markets (continued from page 1)

While it's easy to criticize political missteps, there are reasons to be positive about Russia's economy and finances. In the first quarter of 2012, Russia was the only BRIC nation (the emerging economies of Brazil, Russia, India and China) to experience acceleration in gross domestic product ("GDP") growth from the prior quarter (to 4.9% from 4.8%). Russia also boasts enviably low amounts of leverage in its economy. Its debt-to-GDP ratio was 8.7% in 2011 and domestic credit as a percentage of credit was 8.7% in 2011. Domestic credit as a percentage of GDP was 45.9%. It also has coffers of \$500 billion USD in foreign reserves and is a global producer of many commodities including energy and precious metals.

Russia's economy could be moving into another evolutionary stage as it just became the 156th member of the World Trade Organization ("WTO"). There will likely be some short-term adjustments (e.g., the removal of tariffs and subsidies in certain industries), but this may bring some potential long-term support in expanding trade, foreign investment and economic growth.

According to World Bank estimates, joining the WTO could boost Russia's GDP through 2012 to 11% above what it would be without membership. Its people could benefit from increased wages and improved standards of living as a result.

Oil's Handcuffs on Russia's Economy

Energy is, of course, extremely important to Russia, representing about three-quarters of its exports. Russia is the largest producer of crude oil, churning some 10 million barrels per day. This represents about 12% of the world's oil. Russia also holds the world's largest natural gas reserves and second largest coal reserves. The major export destinations include the European Union (taking in nearly half of its exports), China and Turkey.

While Putin has pledged to diversify Russia's economy and draft budgets less reliant on oil tax revenues, Russia's future is still largely dependent on oil prices.

Volatility in the price of oil, therefore, also contributes to volatility in the Russian stock market.

Higher prices don't necessarily help oil companies, and at the same time, low prices don't necessarily hurt them. With higher oil prices, Russian oil companies often bear the burden of more taxes. Companies prefer steady or perhaps slightly rising prices, rather than drastic fluctuations. We look for opportunities across the energy sector, including companies that engage in exploration, production, refining and marketing.

Turmoil in Europe (and the prospect of slower growth elsewhere in 2012) contributed to oil price declines this spring and summer, but our team doesn't anticipate a dramatic fall in oil prices.

Many individual companies in Russia have been able to prosper regardless of the dips, because the cost of commodity production there is so low that each company can still continue to capture profits. We believe the worst case oil price scenario could already be priced into the valuations of Russian oil companies.

Of course, if there is a severe depression in Europe or the U.S., it would likely have a negative price impact, not just on oil but also on other commodities – but we don't think that will happen in the near-term.

Longer term, we think the greater possibility is an uptick in commodity inflation, as central banks have been engaging in easy monetary policies to stimulate growth and provide liquidity. This could be very supportive to the Russian market, as long as inflation doesn't spiral out of control.

Russia's Stock Market and Investment Climate

In the first half of this year, Russia's market suffered from negative investor sentiment. Much Western capital took flight, and local investors lost confidence too. The problem is a lot of uncertainty about what a new Putin presidential term means for the country.

Some believe the Putin government is discouraging private sector growth and the economy will move even more towards a state-controlled economy than it already is. On the other hand, there are those who say foreign investment is being encouraged through various government mechanisms. The jury is still out.

As value investors, this has meant that we could pick up shares at bargain prices. In our view, Russia appears to be one of the most attractive markets in emerging Europe from a valuation standpoint, with an average market price to earnings ("PE") ratio of about five in the first half of 2012.

To attract more foreign capital and instill confidence, planned reforms would affect new listings, including English-language reporting of quarterly reports and efforts to move toward a more traditional security and cash settlement trade transaction process.

We are looking for opportunities in the energy sector, e.g., shipping and consumer goods and services. Rail container shipping is an area where we should see growth aided by increasing consumer demand, a potential improvements in the global macro-economy and development of the country's Europe-Asia transit potential.

Increased privatization efforts in this and other areas in Russia should help further stimulate investment. Russia's efforts to build a high-tech center outside Moscow (akin to the "Silicon Valley" in the U.S.) are also an interesting enterprise that bears watching.

No matter what the future holds, Russia – and its people – have proven resilient time and again. I look forward to the next stage of Russia's economic evolution. ■

Source: Mobius.blog.franklintempleton.com

Russia's Failure to Protect Freedom of Religion

Has Russia truly changed its ways on human rights? Certainly its new law restricting public protests fuels grave and widespread concerns. Moreover, religious freedoms here haven't changed much yet. As the United States faces decisions about its former Cold War foe, this assessment should provoke serious discussion.

Russia as just joined the World Trade Organization ("WTO"). To reap trade benefits, the U.S. would have to exempt Russia from trade restrictions of the 1974 Jackson-Vanik Amendment, due to past restrictions on emigration during the Soviet period.

[Editor's Note: The Jackson-Vanik Amendment was a set of restrictions adopted in 1974 that was designed to compel the Soviet Union to allow emigration of its Jewish population. Since the early 1990s, successive U.S. administrations have granted annual waivers of its terms. Now, keeping the law on the books would put the U.S. in violation of WTO

rules and allow Russia to penalize American companies.]

WTO membership will further bind Russia and Vladimir Putin to a global regime of rules and laws, and more importantly, open opportunities for U.S. companies. These are important goals, but there hasn't been much progress in getting Jackson-Vanik repealed.

In June, the House Ways and Means Committee held a hearing to grant Russia permanent normal trade relations (PNTR) status, but progress has been slow. U.S. exporters looking to improve their access to the Russian market will be the primary beneficiaries, but some lawmakers have concerns, including human rights, market access to agricultural goods and others. Failure to repeal this law would just give Russia free reign to punish U.S. companies.

Over the past decade, the Kremlin has exploited legitimate security about violent religious extremes by restricting the rights

of non-violent religious minority members.

Members of religious groups, including those among the country's 16-20 million Muslims, can be persecuted simply for alleging the truth or the superiority of their beliefs. The authorities have raided their homes and places of worship because they view certain groups as threats to the country's religious and cultural identity. This violates Russia's human rights commitments.

The U.S. Congress must maintain the Jackson-Vanik actions to address these concerns and allow it to advance. This bill would impose U.S. visa bans or freeze bank assets of publically named Russian officials who are implicated in abusing human rights and religious freedoms.

Before Russia enters the WTO, the United States needs to impress upon the Kremlin – and the world – that religious freedoms matter. ■

Source: *The Moscow Times*

The Other Russia: Discontent Grows in the Hinterlands by Mikhael Dmitriev and Daniel Treisman

The Kremlin is on the defensive. With their roving camps, human chains and white ribbons, the anti-government protesters in Moscow's streets have shaken the politics in the Putin era. Yet the urban activists constitute at most a tiny fraction of the Russian population, a few hundred thousand in a country of 143 million. How much support can this political vanguard garner from the quiet majority that lives outside Moscow and St. Petersburg?

Few observers – either in Russia's metropolises or abroad – seem to understand this group very well. The stereotype of provincial Russian is a politically apathetic conformist, resentful of pampered Muscovites who are socially conservative, generally Pro-Putin.

Now, a more nuanced picture of the Russian mainstream is beginning to emerge. Between March and May, the Moscow-based Center for Strategic Research ("CSR") recently conducted 62

focus groups with residents of 16 Russian regions across the country. The standard size was 10 individuals.

For comparison, one group consisted of Muscovites who had participated in recent protests. Discussion leaders asked the participants who varied in age, gender, education and social and economic status, about their political values, policy concerns and assessments of current and potential leaders.

According to the monthly survey conducted in March 2012 by the respected Lavada Center, 52% of Russians opposed the demonstrations, compared with 32% that supported them. Only 8% said they would march in one.

Of the population surveyed, 59% accepted the results of the parliamentary elections, whereas only 21% wanted the government to annul them and call new elections.

The surveys make current and accurate data available on a constant basis. The results of the nationwide polls are based on a representative sample of 1,600 over-18's from over 30 sampling points across 45 regions of the Russian Federation. These polls are similar to the Gallup Polls that I worked while in college.

Still, Russians exhibit a desire for change, although we also witnessed that their lives are improving. We saw them on trains and at tourist spots, where they were enjoying family leisure time.

In Moscow, the crowds rallied behind abstract concepts, such as fairness and democracy, but much of the country is fiercely non-ideological, according to the authors, and care far more about local issues. They are most concerned with the state's dwindling ability to provide essential services such as health care, education, housing, personal security and effective courts.

Russia is a country with 39 million pensioners and 18 million war veterans, disabled people and other recipients of state benefits; hence, demands for a robust welfare state are not surprising. What is striking – and new – is the depth of skepticism among ordinary Russians that national politicians can provide health care, education and other services.

The focus-group participants did not see it linked to specific cases and practical actions. A 46 year-old male said, “We need to get rid of all these corrupt networks right away. But what can one say about a global struggle when you can’t drive because the road is full of potholes?” Indeed, the erosion of support for Putin, Prime Minister Dmitry Medvedev and their party, United Russia, is almost as significant among provincial Russians as among the big city elites.

The polls suggest that Russia hungers for non-ideological problem solvers. They see the ideal candidate as a man in his 40’s, with administrative experience, a record of concrete achievements and a precise, feasible program that addresses issues most important to voters.

Since the end of Communist rule, Russian politics has been defined by the relationship between “new” and “old” Russia. The first is made up of modernizing metropolises and resource-rich outposts, and the second was comprised of the lagging provinces.

Economically, much of Russia remains dependent on government transfers. Nine of the country’s 83 regions together produce more than half the country’s GDP. The rest limp along. After the outbreak of the global financial crisis (2007-2010), annual federal transfers to the regions and extra-budgetary funds, such as pension and social insurance funds, leapt from 5.7% to 9.2% of GDP – an increase of \$58 billion.

The tandem of Medvedev and Putin was conceived in part to bridge the gap between the two Russias through a division of labor: Medvedev with iPhone in hand was supposed to bond with the liberal modernizers, whereas Putin with his earthy aphorisms, jibes at the West – driving across Siberia in a Lada (Russian) car or

riding horses bare-chested to tap into the culture of the provinces.

The CSR groups suggest that something fundamental is changing. Russians no longer seem impressed by promises to redistribute the country’s oil wealth. At the same time, Russians realize that repairing the state will take more than just throwing money at problems and that giving more funds to corrupt and inefficient bureaucrats may make things worse. Suspicion of the West was one area in which Putin’s rhetoric struck a chord with the focus groups.

To succeed, presidential candidates from the ranks of the urban elite have to show that they understand the needs and fears of the provinces. Still, their impatience with nationalist and leftist slogans is consistent with other changes underway and not just among the metropolitan elite.

Such a value shift would be Russia’s third since 1991. First, came the burst of enthusiasm for Western-style democracy and the markets after the collapse of the Soviet Union. Then, reacting to the chaotic changes of the 1990s, Russians began to show a preference for centralization, hierarchy and state control. Disappointment with Putin’s ineffective and corrupt top-down governance is now pushing Russia back toward a desire for more open and less intrusive leadership.

This is revealed in the opinion polls. Since 2000, the percentage of respondents who said political opposition is necessary in Russia has risen from 47% to 72%, and when asked whether the president and the government should “more tightly control the economy and political life” or “give people freedom to go about their business as long as they do not violate the law,” the polls revealed that 48% chose the second option, up from 33% in 2001.

The proportion favoring tighter control dipped from 53% to 35%. This shift in public opinion is a part of Russia’s economic modernization and has spread broadly throughout population.

Poverty levels declined dramatically, and a technological revolution has also occurred. Russian use of cell phones already far surpasses those in France, Japan and the United States.

Today, 60% of households have personal computers, up from 46% just six years ago. Russians also enjoy unprecedented access to debit cards and ATMs. Twenty-two percent (22%) of household consumption is now financed by loans from banks, compared to only 15% in 2011. Russia has become a genuine consumer society, and retail stores are popping up in small, remote cities. No longer solely preoccupied by the need to feed and clothe their families, individuals now care more about environmental protection, gender equality, freedom of expression and political participation.

The Putin team has already lost the urban middle class, and Medvedev’s demotion from president suggests that Putin recognizes this fact. Among other things, Putin will raise pensions and wages for doctors and teachers and is providing bonuses for mothers who give birth to a third child. In January 2012, he doubled military salaries.

With United Russia’s popularity sinking, efforts by Putin’s team to suppress protests have backfired or simply failed, despite his harsher responses to the demonstrators, arresting more people and increasing fines. These methods have seemed to enrage the opposition rather than intimidate it.

The authors suggest that the most effective way for Putin’s government to short-circuit rising discontent is to make the state more responsive and efficient. Russia has twice as many doctors per capita than the United States, but its infant mortality rate is 40% higher. Their secondary schools have one teacher per eight pupils, compared with one per 14 in the United States, yet less than one-third of Russians think their children or grandchildren can get a good education. Half say they cannot.

If the Russian state is to be built in a more efficient, less corrupt form, the initiative will have to come from below, from the small set of mayors whose achievements have won them local support. Despite numerous obstacles, three groups have organized to defend the rights of car owners, publicized environmental hazards,

blocked unpopular development projects and assisted victims of state brutality.

Surprisingly, an impressive range of local quality-of-life initiatives have emerged over the past few years, including volunteers to fight forest fires and amateur preservationists picketing a proposed skyscraper project in St. Petersburg. In return, an impressive range of local reforms have emerged under the current leadership.

For the moment, however, the volatile stand-off continues. In Moscow, post-modern protestors devise even more inventive ways to dramatize their resistance, and each week more administration insiders become socially isolated.

Outside the big cities, irritation smolders while serious economic deterioration could galvanize other Russians into action. Demonstrations on a national scale would encourage prominent figures in business, the media and even law enforcement to distance themselves from the Kremlin. These elites would see a change in leadership as their best hope for survival.

Barring an economic downturn or major mistakes, the decay is likely to be slower, but it will take the skills of current leaders to manage day-to-day challenges. Although not yet on the side of the middle class urbanites, today the Russia is just barely content to tolerate the status quo. ■

Source: *Foreign Affairs*, September 2012

About the Authors

Mikhail Dmitriev is President of the Moscow Center for Strategic Research. He was First Deputy Minister of Economic Development and Trade (2000-2004) in the Russian government, First Deputy Minister of Labor and Social Development (1997-1998), and a member of the Russian Parliament (1990-1993).

Daniel Treisman is Professor of Political Science at The University of California, Los Angeles, and author of *The Return: Russia's Journey from Gorbachev to Medvedev*.

An Asia-Pacific Growth Agenda

In September, Russia hosted a week-long Asia Pacific Economic Cooperation (“APEC”) summit for the first time in the city of Vladivostok. This means that this city will be the epicenter of business and politics among the 21 nations in the Pacific rim, including the United States. APEC is a platform for leaders to discuss the most pressing global and regional problems.

I stayed in a hotel filled with Asian tourists from South Korea, China and Thailand. Some came to shop in the department stores to buy luxury goods at bargain prices.

The agenda for this conference is to show how integration contributes to economic development, “giving a positive signal to businesses,” according to what President Vladimir Putin wants to do at this important conference.

Putin views this dynamic region as most important for the successful future of Russia as well as for the development of Siberia and the far east. He also is hoping to expand LNG sales to energy-starved Japan and is building a new \$13 billion shipping terminal in Vladivostok as well as upgrading the decaying infrastructure of this strategically located city. His summit will once again demonstrate to the world that “Russia is a nation of broad opportunities, ready to join forces with our neighbors to advance our common goals.”

I ended my journey in Vladivostok, observing the many Chinese workers helping to put a new face on this decaying city which has spent more than \$20 billion to upgrade its infrastructure, including a new airport, hundreds of miles of rebuilt roads and three new bridges.

With this conference, Putin wants to end Russia’s long history of mistrust with its Asian neighbors, and we wish him well.

I flew to Seattle on September 15 on Korean Air, concluding this 27-day trip across Russia. I learned much about this fascinating country and its people, and plan to return with my wife. ■

News Update

Secretary of State Hillary Clinton, who attended the conference, pledged in early September that the United States would soon lift Cold War era trade sanctions on Russia, but she did not address the human rights legislation in Congress that has so far stalled passage. This has infuriated the Kremlin and will become an unexpected issue in the American presidential race.

Clinton said that she welcomed Russia’s accession to the WTO in August but said the U.S. must normalize trade relations so that American businesses can reap the benefits of Russia’s membership, including lower tariffs for American products. That effort, however, is still entangled

in legislation that would punish Russian officials accused of abusing human rights. That has raised doubts that any agreement on lifting the Jackson-Vanik provisions before the November election, although the human rights bill has support in both houses of Congress. Putin and other Russian officials have vehemently opposed changing the bill to normalize free trade and warned of reciprocal measures, if it is enacted into law.

The Obama administration had tensions with Russia in 2012 over Putin’s re-election, the protest that followed and the government’s crackdown on opponents. Clinton also discussed with Putin issues surrounding Syria, efforts to halt Iran’s nuclear program and other issues. Only modest agreements on noncontentious issues such as a memorandum of understanding on scientific cooperation and rescue operations in Antarctica have been reached. Two statements encouraging exchanges of regional trade delegations and establishing national parks on either side of the Bering Strait have been issued.

Clinton said: “We are grateful for this and other opportunities to work more closely with Russia on areas of common concern that will deliver benefits to the people of both of our nations.”

Portfolio Managers' Reviews

“Neither Washington’s woes nor Europe’s mess have dented investor’ confidence”, writes *Barron’s* in early September. The recent strength of the world stock markets must be telling us a basic truth: Investor confidence is returning. The Federal Reserve’s latest bond buying initiative (\$40 billion a month) aims to buoy asset values by keeping interest rates low, driving funds to seek higher returns and encourages more home buying.

Closed-end funds, particularly those invested in the foreign debt markets and in the health-care sector, have been strong, narrowing the discounts after continuing to pay out good distributions to their shareholders for many months. We value buying assets at a discount to their net asset values (NAV), but now our job of finding good values is harder.

In May and June, two of our funds offered shareholders an opportunity to tender some of their shares for cash. The first was Alpine Premier Properties (NYSE:AWP) which was followed by The Asia Tiger Fund (NYSE:GRR). GRR is committed to doing a buyback every six months. Although this is an excellent way to hedge your portfolio in these uncertain markets, it can create short-term capital gains. That is what is driving stocks higher in this yield-hungry world of continuing low interest rates. As total return investors, we look for combinations of income/capital gains and diversification to reduce investment risks.

Normally to replace an overvalued position with an undervalue fund, we follow the Templeton rule: “First, find a fund that is selling at a better price before selling the overvalued position.” We like to keep cash on-hand when the markets are high in order to take advantage of better values when they arise.

As of September 21, the average equity closed-end funds trades at a -5.09% discount to NAV, shows a total yield of

6.4% and has a year-to-date market price total return of +17.7%. During this same time period, the average bond closed-end fund trades at a +3.01% premium to NAV and shows a total yield of 6.2%, with a year-to-date market price total return of +14.7%, according to our weekly [Closed-End Fund Universe](#) data.

For our clients with taxable accounts we have been actively swapping their tax-free municipal bond exposure. In the past five weeks we have sold, bought and sold or “swapped” funds three separate times. We continue to look for funds with reasonable premiums or small discounts that are also over-earning their dividend pay-outs with both UNII positive trends and a positive earnings growth trend.

We have added to our global equity-income exposure with Eaton Vance Tax Advantaged Dividend Income (NYSE:ETG) and Wells Fargo Adv Global Dividend Opportunity (NYSE:EOD). For growth-oriented accounts, we have added some exposure to Templeton Dragon fund (NYSE:TDF), which has been trading at a wider than normal discount to NAV.

After George returned from his trip to Russia, a country highly dependent on high oil prices to make its budget, we researched energy holdings. A favorite is Petroleum and Resources (NYSE:PEO) whose value has gone up on higher world oil prices than we expected, so we will lighten up on these shares. The same company manages our largest holding, Adams Express (NYSE:ADX), which is making new highs lately because its well-diversified portfolio is invested in the right sectors and holds a large position in Apple stock.

Investing in a winning stock like Apple in a diversified fund spreads the risk over a billion dollar portfolio. We continue to work hard to find new opportunities. ■

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