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CLOSED-END FUND REPORT

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THE SCOTT LETTER is intended to educate global investors about closed-end funds. Closed-end funds can be a valuable and profitable investment tool. To learn about closed-end funds, visit our web site, www.CEFAdvisors.com, and in particular, read our article, What Are Closed-End Funds.

Feel free to forward this newsletter to anyone who you believe could benefit from information on closed-end funds or global portfolios.

– George Cole Scott, Editor-in-Chief

– John Cole Scott, Contributing Author

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The Asia Tigers Fund Invests in Eight Countries in the China Region

Aberdeen Asset Management, Inc. is the wholly-owned U.S. subsidiary of Aberdeen Asset Management PLC, one of the world's largest asset managers. The firm is a member of the widely used index FTSE 100 and has more than 1,900 staff members across 31 offices in 23 countries.

Aberdeen's U.S. closed-end funds provide access to the world's emerging markets, specific regions and particular countries. Each fund benefits from Aberdeen's diligent company research process and disciplined portfolio construction. In addition to ranking as one of the largest pure stand-alone asset management houses investing in the Asian Pacific region, Aberdeen Group is the largest manager of emerging market closed-end funds offered around the world in both value and number.[1] Aberdeen now has offices across the Asian Pacific region: Shanghai, Hong Kong, Tokyo, Kuala Lumpur, Taiwan, Bangkok and Sydney/Melbourne.

The Asia Tigers Fund (NYSE:GRR) is team-managed and makes no distinction between portfolio managers and research analysts. Aberdeen's investment professionals conduct extensive due diligence on companies via direct visits with company management.

The Fund pays annual distributions. On December 14, 2011, they declared a cash distribution of $3.16 per share of common stock on January 31, 2012 to shareholders of record on December 27, 2011.

It has a periodic repurchase policy to repurchase its shares at semi-annual intervals 14 days prior to the last Friday of the Fund's first and third quarters in which the Fund must receive repurchase requests submitted by stockholders in response to the most recent offer. The offers may be suspended or postponed under certain circumstances, as provided in Rule 23c-3.

Aberdeen assumed management for the Fund from Blackstone in mid-December 2011, and since has been re-aligning its assets to fit their buy-and-hold strategy. As a result, it will be more concentrated in 40-50 stocks.

The largest concentration of holdings as of September 2012 is invested in financials (43.52%), information technology (15.2%), and industrials (12.0%). Complete sector allocation and other financial information are available in the semi-annual report on the Fund's web site, www.aberdeengrr.com.

The portfolio is currently invested in equities in nine countries: Hong Kong (23.1%), Singapore (21.1%), India (15.1%), Taiwan (7.4%), China (6.8%), Korea (5.7%), Thailand (5.2%), Malaysia (3.6%), Philippines (3.2%), Indonesia (1.5%) and several U.K. companies (7.3%) that focus their business primarily in Asia.

Aberdeen has had a relatively interesting period during the course of 2012, keeping abreast with the very volatile markets not only in the Asian region but also with the global capital flows.

The net asset value of the Fund since January 2012 has increased about 3.4% versus its benchmark, up about 2.9%. The Fund has been relatively risk-averse during this period and has been impacted by developments in the slow markets of the Asian/Pacific region. Its management has also tracked the political environment of the Euro region, particularly Greece, Spain and the U.S. market.

The portfolio has been positioned for a defensive take-on prospects going forward. Much of the business within the region is driven by interregional trade and consumption among the expanding middle classes. This is less than the exports to the developed world that are impacted by the technology and consumer sentiment. Most of the Fund's exposure is driven by domestic forces within the Asian Pacific region rather than outside.

The top ten positions in the Fund are relatively stable, have been in the Fund for a long time and are invested in the macro-economy. The positions reflect strong, healthy business models and balance sheets that buffer GRR against financial shocks. Most of the stocks are light on debt because of conscious decisions made by the Fund's management that don't change with the market cycle in the region.

We interviewed Adrian Lim, Senior Portfolio Manager, Aberdeen Asian Equity Team, and Fund Manager for The Asia Tigers Fund, Inc. and The India Fund, Inc. Adrian also later answered some questions about his management of the Indian Fund portfolio.

We caught Adrian on the streets of Manhattan on the afternoon of October 29, 2012 during Hurricane Sandy because he couldn't get a signal at his hotel. He was ducking into alleys from time to time because of the rain and wind. This is the first time I have ever interviewed a fund manager in a hurricane.


Adrian Lim

ADRIAN LIM, Senior Portfolio Manager, Aberdeen Asian Equity Team and Fund Manager for The Asia Tigers Fund, Inc. (NYSE:GRR) and The India Fund, Inc. (NYSE:IFN)

Lim joined Aberdeen at the end of 2011 from Murray Johnstone International, a Glasgow-based independent financial advisor that was purchased by Aberdeen in 2000. Previously with Arthur Andersen, he advised clients on mergers and acquisitions in South East Asia and moved from private equity to the Asian equities team in July 2003. He holds a BAcc from Nanyang Technological University, Singapore and is a CFA charterholder.

SL: How long have you been in the business and how old are you?

Lim: I am 42 and have been in the business for 12 years.

SL: How does your investment philosophy differ from your last employer?

Lim: I didn't manage securities as I was in the private equity business for about eight years before moving to Murray Johnstone. My experience with equities has only been with Aberdeen.

There has been much volatility and fluctuation in 2012, but the Fund and its benchmarks have been in less volatile markets than in the previous 5-month period. These companies have posted stable, quality numbers since December 2011. The half-year results were relatively good in contrast to expectations.

Volatility may continue; the companies should generate good cashflows in this uncertain period. China is a big and complicated market, and its slowdown may lead to a soft landing. There are signs that the bubbles have been pricked within the local economy, which may last for the next 3-4 quarters.

The economic contraction will be dramatic across the region, but GDP remains strong and resilient. Rising prices indicate a healthy demand, and we expect our companies to be effective in fighting costs. Food prices remain an issue, but we think that most of the costs will be passed on to the consumers. Although we expect a moderate slowdown, the regional markets are relatively stable.

[**Editor's Note:** The gross domestic product (GDP) in China expanded 7.40 % in the third quarter, as reported by the National Bureau of Statistics of China.]

SL: Let's start with China. Mark Mobius of Franklin Templeton recently said that China's growth rate will continue to grow in 2012, as Beijing transforms its growth model. Do you think that China's slowdown has bottomed out?

Lim: The Chinese economy remains strong and consumption healthy, but China has contracted its growth and will bottom out within the next 2-3 quarters or so. The weak sectors are in the infrastructure, commodities and energy spaces. These sectors may weaken before strengthening, so it is a mixed bag.

Most governments in the Asian Pacific area may trim their interest rates to make sure growth is not impinged, while keeping an eye on inflation across the markets. Fiscal stimulus is possible as most of the governments have hard currency reserves. Corporate fundamentals remain strong with a low debt-to-equity ratio compared to historical levels. The price/earnings ratios for the region are about 10%-15% below historical averages. The GDP growth of the companies we invest in is favorable.

SL: It seems that since you are managing a $50 million fund, you have to pick what you consider to be the best companies in each of these countries. Isn't that right?

Lim: Yes. We tend to have concentrated positions and try not to prejudice our preferences by finding one company that does the best in what it does instead of buying the top 2-3 companies in a particular sector or market.

SL: We will first take a macro view of the eight countries in Asia that you follow and then ask you about sectors and companies. You said that the markets you invest in are still reasonable, but the chart you have shows that the price/earnings ratios for stocks in the Asian Pacific region are no longer cheap. Would you elaborate on that?

Lim: They are not cheap, but we still see volatility with some downward revision. If you look at the valuations after the third quarter, the pricing has gone up. Fundamentally the valuations that remain are within the long-term average but are not as cheap as they were six months ago.

SL: You have 23.1% of the portfolio invested in Hong Kong and only have one oil company in mainland China. What are your favorite holdings in Hong Kong, and why did you choose them?

Lim: We don't really look at it from a sector perspective, but we are overweight on consumer staples. We find that within the Hong Kong space, we have holdings like ASM Pacific Technology and Hang Lung Properties (a premium company in real estate development that takes us to a variety of sectors and has a very strong ability to position itself throughout the property cycle). Therefore, we can get a decent land bank accumulation strategy during both strong and weak times to develop and price that well into a market. It does its business very well and is one of the best stocks we hold in the Hong Kong space.

SL: How is the Hong Kong market doing in such a vital economy?

Lim: Some of it has been shocked within the mainland Chinese system, so we have to be very selective about the stocks in Hong Kong. Sun Hung Kai Properties' performance has been weak, but we are comfortable with our 3-5 year perspective so we are building our positions in it now.

SL: Your other large holdings are in Singapore (21.1%). Please tell us about that economy and some of the companies you invest in there.

Lim: The Singapore companies are quite interesting not because of the Singapore economy itself, but as a lot of the holdings have decent footprints. Our largest position is in Overseas Chinese Banking Corp., one of the three banks we hold. It has a regional franchise and depending on how you measure it, about 30%-40% of its income comes from Malaysia Island.

SL: In South Korea (5.7%), Seoul is described as a "city of the future that has risen from a third-world backwater to a textile Mecca of superstar artists and architects to become one of the most prosperous high tech places in the world."

Lim: That is interesting. Seoul is a beautiful city to visit; its technology and infrastructure are pretty strong. However, finding stocks that are attractively priced and have good policies is difficult there. For example, Korea Telecom has a lot of technology but is not as profitable as its counterpart in Taiwan, because it requires so much investment into the Korean technology structure that it doesn't have the return of capital that shareholders want. Seoul is a shining example of a modern city but is not that good of a place to invest in stocks.

SL: Why are your only Korean investments in Samsung and a small retailer?

Lim: We like Samsung because of its good managers and because it is a very strong cash generator in the cyclical technology industry. They are able to do that by keeping out some of its weaker competitors. It is now giving Apple a run for its money. Samsung has good product development, and the others aren't as effective as Samsung is.

[**Editor's Note:** As the battle for dominance in the smartphone and tablet computer market intensifies, Samsung is pushing ahead with plans to start mass production of displays using plastic rather than glass, a move that will make the mobile devices unbreakable, lighter and bendable. (Source: *The Wall Street Journal)*]

SL: Why aren't the others as effective as Samsung?

Lim: If you look at the Korean components within the benchmark, a lot of the companies aren't in technology but are in heavy industries like shipping, steel and banking. The steel companies have a lot of leverage and debt so we stay away from them.

We can find Asian banks that fit. The Korean banks are either regional or national. The regional banks are quite focused but are not promising or as dynamic as the national banks which do what is good for the state but are not always good for shareholders.

SL: Has Taiwan (6.8%) been able to diversify its economy further?

[**Editor's Note:** A report in *Global Finance* says economic forces in Taiwan are improving for companies seeking new markets in China, but they are aware of mainland China's high production of semiconductors and telecommunication products.

Taiwan is good in technology and banks as well, but we don't like the banks because it is a very competitive environment and a lot of them have political affiliations. They do a lot of servicing for the state; the technology companies do a

The Asia Tigers Fund, Inc.
Total Return as of September 30, 2012*

NAV	Cumulative	Annualized	Market price	Cumulative	Annualized
Since inception (November 1993)	112.1%	4.1%	Since inception	79.1%	3.1%
Ten years	273.9%	14.1%	Ten years	283.2%	14.4%
Five years	-14.2%	-3.0%	Five years	-14.0%	-3.0%
Three years	17.6%	5.6%	Three years	10.1%	3.3%
One year	17.8%		One year	16.7%	

*Past performance is no guarantee of future results. Investment returns and prncipal value will fluctuate and shares, when sold, may be worth more or less than original cost. Current performance may be lower or higher than the performance data quoted. All return data assumes reinvestment of all dividend and capital gain distributions. The Fund is subject to investment risk, including the possible loss of principal. Returns for periods less than one year are not annualized.

Top 10 Equity Holdings (%)

Oversea-Chinese Banking Corporation, Ltd.	5.9%
Taiwan Semiconductor Manufacturing Company, Ltd.	5.0%
Jardine Strategic Holdings, Ltd.	4.9%
Housing Development Finance Corporation, Ltd.	4.4%
Swire Pacific, Ltd.	4.4%
China Mobile, Ltd.	3.9%
Singapore Technologies Engineering, Ltd.	3.7%
Standard Chartered PLC	3.6%
City Development, Ltd	3.5%
Infosys, Ltd	3.5%
Total	42.8%

Holdings are subject to change and are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities shown.

Sector Allocation (%)

Financials	43.5%	Energy	5.7%
Technology	15.2%	Basic Materials	4.9%
Industrials	12.0%	Consumer (Cyclical)	2.8%
Communications	9.2%	Health Care	0.9%
Consumer (Non-Cyclical)	5.8%		

decent job but are in a quite competitive industry with slim margins, so we don't feel comfortable using shareholders capital for these business models.]

Thailand (5.4%) has had an up-and-down history in the last 25 years.

Lim: Thailand has some very interesting small cap companies. We like to focus on one or two holdings which have strong positions in the economy and are resilient. Thailand has had a volatile history, but we like PTT Exploration & Production, an oil and gas company, irrespective of the country's fortunes. We gravitate toward business models that do well in difficult times.

SL: Your only other holding in Thailand besides PTT is Siam Cement. Are there any other opportunities besides this company?

Lim: I think Siam has a very strong market position in the cement industry, and it does a very good job of managing its production efficiency and capacity rollout without too much debt. There are other materials companies in Thailand which are government linked, but we find that these companies are quite bureaucratic.

SL: Malaysia (3.6%) sits on the Malay Peninsula above Singapore. How are they doing now?

Lim: Malaysia has had a good year, but as in Thailand, we pick stocks which are politically indifferent to who is in power. These companies tend to do well because they are genuine on what they offer their customers. We like two banks and British American Tobacco, both of which are well managed.

SL: In the Philippines (3.2%), we notice that you only have two stocks, a bank and a real estate developer. Do you think things are improving enough there so you might increase your holdings?

Lim: I don't think so. It is a difficult environment which largely has family-owned businesses. A lot of that money goes into real estate with family assistance. We own the premier real estate property developer in Manila, Ayala Land, which is a family-owned company that we have known well for many years. It is difficult to find a company of the quality of Ayala Land.

SL: What about Indonesia, your smallest country allocation with 1.5% weighting. Aren't they doing better now?

Lim: We look for companies with resilience. Indonesia is very sensitive to commodity prices, but it is cyclical. They had a very good run when commodity prices were strong, but it has tapered off since the momentum has declined. Within that space, domestic consumption is very healthy. PT Unilever Indonesia is the strongest company and has a good brand which has been around Indonesia for decades.

We have taken profits in Indonesia because of how well the market has done over the last two years.

[**Editor's Note:** The world's growing appetite for cheap palm oil, heavily used for cooking oil worldwide, is destroying rain forests and amplifying climate change. Flames devoured the trees, smoke fills the air and the red apes have nowhere to go. The fires are set intentionally to clear the land for planting oil palm trees whose fruit yields palm oil, a component of biofuels, cosmetics and food.

The British-Dutch consumer foods giant Unilever, the biggest buyer of palm oil in the world, has pledged to purchase all of its palm oil from traceable, sustainable sources by April 2020. Palm oil exports bring Indonesia and neighboring Malaysia $40 billion a year. Brazil and Cameroon are also ramping up efforts to get in on the Palm oil boom. (Source: *Scientific American,* December 2012)]

India:
The Growth Engine of the World

Aberdeen assumed responsibility to manage The India Fund (NYSE:IFN) in December 2011 but has been active in the Indian sub-continent and throughout Asia since 1985. The Fund had assets of $103 billion as of September 21, 2011. Investments in India were 13.4% of The Asia Tiger Fund on April 30.

We did not interview Lim for IFN but have included a portion of the "Report of The Investment Manager" for the period ending June 30, 2012.

India is the third largest economy in the world, is consumption-driven, and only China is growing faster than India. The macro economic challenges in the India market gives us an opportunity to pick up stocks that are lass favored but well priced.

Aberdeen believes in holding companies that have resilient business models and avoid volatility or cyclical risk. A substantial portion of its assets is invested in consumer discretionary and staples because of India's rising middle class.

The sustained level of middle class growth continues to expand, and savings rates remain high. The demographics show the population is still very young which should drive consumption and demand over the next 20-30 years.

We seldom have more than 25% invested in any one sector in the domestic market. The financial stocks are invested in companies with strong franchises and a steady capital management structure.

There is the high impact of slowing global trade, even though India is a relatively insulated market. Its GDP is growing 5%-6% in 2012 versus the 7%-8% in the last 24 months or so, despite taking a hit from slowing regional trade.

SL: Is the Indian market now overpriced?

Lim: The Indian markets are not cheap if you compare them against South Korea or Thailand. Over the last decade or so, the Indian markets have always been priced at a premium over the average emerging market.

Given its historical valuations, we think that the current levels of valuations are within its long-term range. It's certainly more expensive than it used to be three months back, but we are trying to build this fund with a long-term perspective in mind.

SL: Is this a good time to invest in India?

Lim: First of all, by sticking to our investment strategy, we do not fall victim to market fads. We never say "now" is the time to invest. We only invest when we feel that valuations are attractive and the outlook is solid. India is a very promising market and is one of our favorite markets.

With over 1.3 billion residents, India is the second-most populous nation in the world and has the world's third largest economy, with a GDP of around 4.8% this year, so we are dealing with an extremely large economy. At the same time, we see opportunities in India that we don't see in other developed economies now.

In Europe, for example, we are seeing growth rates of zero or below, so the Indian economy offers us as investors some very attractive opportunities. On top of all this, the Indian stock market has seen robust growth, up over 20% this year,[2] so Indian equities are very attractive. We've always liked Indian stocks. Right now, there are some great companies in India, many of which have been performing well.

SL: What is the sector breakdown for India in GRR?

Lim: In terms of sector breakdown, consumers (both discretionary and staples) make up a substantial portion of the Fund's allocation (about 26%). When we compare this to the benchmark[3] which has these allocations at about 17%-18%, we appear to be overweight.

We are in an overweight position because of our belief that the Indian middle class will continue to drive consumption of consumer products that will last for the next two or three generations. Our present positions will benefit from this growth. We are slightly underweight in financials compared to the benchmark by about 24%, versus a benchmark allocation for financials of around 29%.

Currently, there is a political shift as P. Chidambaram was recently re-appointed as India's Minister of Finance. Since the financials are also our largest sector allocation, we believe the policies of Palaniappan Chidambaram will greatly benefit the Indian financial sector, as they have in the past. Our stock selections in all sectors are based on our fundamental belief in first-hand proprietary research. We find stocks that have strong balance sheets and a steady capital management structure.

SL: Is there a stock or sector in India that you are deliberately avoiding or keeping underweight?

Lim: We have a minimal sector allocation to energy because there is a lot of uncertainty about government regulation in that sector. For example, one of the things that the Minister of Finance has done in an effort to balance India's budget deficit is to allow hikes in selected fuel categories. This has alleviated some of the fiscal pressures of balancing the budget, but in this case, as the government becomes increasingly involved, we try to keep our exposure to energy low, about 1.7%. ■

Performance Report on The India Fund for the First Half of 2012 (condensed)

The Fund's NAV total return for the six month period ended June 30, 2012 was +7.5%, underperforming the benchmark MSCI India Index by 1.1%. In terms of overall relative performance, financials and consumer discretionary detracted, whereas consumer staples added to the value of the Fund.

We view the quality of the companies in which we invest to be of the utmost importance over the long term. While we are benchmark-aware, we are not benchmark-driven. We do not equate the quality of a company with either market capitalization or index membership. As such, indices do not serve as a starting point for portfolio construction, and we are comfortable taking positions that differ from the benchmark.

Outlook

The recent power outage in India highlights its woefully deficient utility sector and on a wider scale, the state of its infrastructure. We hope the incident will prove a call for much needed reform. The government's commitment is crucial since the central bank is constrained by persistent inflation that, in our view, is likely to worsen on the back of a weak rupee and late monsoon. We do not expect change to happen overnight. Minister of Finance Chidambaram is well regarded but faces an uphill task in reviving growth, while fighting political opposition that has so far hampered pro-business restructuring.

Thankfully, Indian companies are used to such adversity, and we believe the corporate sector remains vibrant. We are stockpickers and find Indian corporate among the most resilient in Asia. The best of these, in our view, continue to thrive and consolidate their positions in spite of the tough economic climate and bureaucratic setbacks.

We will continue to focus on what we believe to be good quality firms with robust balance sheets, sound management teams and long-term growth prospects – a practice that has sustained us through volatile times.

Source: The "Outlook" was published in the semi-annual report for the India Fund for the first six month period of 2012.

End Notes

[1]Fund Consultants LLC, March 2012. Based on analysis of emerging market closed-end funds offered in multiple jurisdictions as of December 31, 2011; data provided by Morningstar Inc. Closed-end funds are defined as investment companies that are (1) listed on a recognized exchange, (2) possess fixed share capital and (3) were formed via subscriptions from the public via an open offer or placement. Criteria for inclusion in the emerging markets category is based on the World Bank's definition of emerging countries as measured by lower and middle income per capita. Criteria for fund inclusion is (1) at least 75% of gross assets invested in emerging markets and (2) funds with under 25% exposure to Asian developed markets.

[2]Bloomberg, MSCI Index, November 7, 2012.

[3]The MSCI India Index is a free-float weighted equity index. It was developed with a base value of 100 as of December 31, 1992.

Disclaimer: Clients and family members of Closed-End Fund Advisors hold shares in the Asia Tigers Fund. The firm will wait 72 hours after the date of this interview's release before making any additional purchases or sales in the Fund.

Money is like love;
it kills slowly and painfully the one who withholds it and enlivens the other who turns it on his fellow man.

– Kahil Gibran

Breaking the Fiscal Gridlock

Warner says a bipartisan deal is needed to avoid fiscal cliff

By John Reid Blackwell, *Richmond Times-Dispatch*

Any deal to avoid the "fiscal cliff" will require a bipartisan effort, and both entitlement reform and higher taxes must be on the table, Senator Mark Warner (D-Va.) said on November 30, 2012.

Anybody who believes there is going to be a Republican-only or Democrat-only solution isn't dealing in reality," Warner told those attending the third annual Virginia Economic Summit.

Warner believes Congress will avoid the heaviest cuts in defense spending, which could hit Virginia's (and other state economies) especially hard. Yet he predicted there will be some additional defense cuts above the $480 billion over 10 years that has already been "baked into" the Budget Control Act. The automatic spending cuts, or "sequestration," scheduled to go into effect early next year would roughly double that figure.

"We will not do sequestration," Warner told about 550 business people and government officials attending the event. He said defense cuts in a final deal would likely be somewhere between the two amounts.

Also speaking at the Summit was Mark Vitner, a senior economist with Wells Fargo, who said the U.S. economy will have a "very slow start" in 2013 because businesses and consumers remain so uncertain about the impact of the fiscal cliff. Yet economic data suggest the economy has enough momentum to avoid a recession, even though some federal budget cuts and tax increases seem certain to happen, he said.

Warner said entitlement reform – changes to programs such as Medicare and Social Security – along with higher tax rates on top earners should be part of the solution.

"Those of us who have been doing well are going to see the amount of revenue that we pay to the government go up," he said. "That is just going to be a fact of life."

Warner said he believes that new revenue from higher tax rates should go exclusively to a debt-reduction fund, not new spending programs.

"I wish we could change this debate into something almost akin to a war bond drive where everybody was paying a little bit – those of us at the top paying a little more – but we use these funds toward a debt-reduction approach," Warner said.

"I actually think we could change this debate into a crusade where every American would be willing to participate and both parties could find a way out of this," he said. ■

Investors Like How the BRICs Stack Up

China is growing again and is affecting other markets in the BRIC countries.

The world's second largest economy, China, is showing nascent signs of a pick-up in growth, which is starting to trickle through to markets in the rest of the so-called BRICS – Brazil, Russia and India. Some investors are waging that these countries stand to reap substantial economic benefits from faster growth in China due to close trade ties within the group.

China said its trade surplus widened in October as export growth accelerated. Also, a preliminary gauge of China's manufacturing activity showed the first expansion in 13 months, reinforcing evidence of a turnaround for the Chinese economy. The measure of nationwide manufacturing activity rose to 50.4 in November compared with 49.5 in October, HSBC Holdings said. A reading above 50 indicates growth from the previous month while a reading below that level indicates contraction.

This encouraging news improves China's outlook as well as the outlook for the other BRIC countries, which will continue to account for the largest share of total emerging market ("EM") spending, with about 55% coming from China, followed by India (20%), Brazil (3%) and Russia (2%).

Despite the global pattern that has impacted economic growth in the first half of 2012, Franklin Templeton's Mark Mobius doesn't think the BRIC countries have hit a brick wall.

"Emerging countries can find it hard to sustain high per capita growth rates beyond a certain point since benefits from technology, low labor costs and easy productivity gains run out before the accumulation of technological capital permits a transition to a higher-wage, higher productivity economic model," he wrote.

Mobius is not convinced that this argument holds muster for BRIC economies, or emerging markets as a whole. Led by rising demand for Chinese stocks and bonds, BRIC markets have outperformed their emerging market peers. Over the last three months, the MSCI BRIC index has returned 5.8% compared with the broader MCSI EM index's 4.9% as of November 9.

While there is no widely followed bond market gauge exclusively for BRICs, investors have been pouring into BRIC-focused bond funds. These funds posted inflows for five weeks in a row as of November 7, the first time that has happened in 2012. Since September, investors have added $40.64 million to these funds, according to EPFR Global.

In the first eight months of this year, mutual funds registered outflows of $217.5 million. Investors say Brazilian and Russian local debt as well as the Chinese yuan, Indian rupee and Russian ruble are attractive for these investments.

Yields on local currency bonds in August 2012 were as high as 8% on 15-year bonds, and demand for these bonds is expected to jump when they become eligible for clearance through Euroclear, an international settlement system. Easier settlement of bonds is the latest sign that investors continue to embrace the Russian state's strong role in its economy. In 2003, ratings firms deemed Russia investment grade, meaning it has a low probability of default.

Until early 2012, BRIC countries have been favored among many emerging market investors since 2003, when Goldman Sachs Asset Management Chairman Jim O'Neill coined the term. Over the past decade, these countries posted booming growth, drawing mainstream investors to emerging markets.

Early in 2002, the BRICs were feeling the brunt of pessimism over global growth. Now, some investors say they are shifting assets in search of cheap valuations and higher yields than those offered in developed markets. At the same time, many say they see BRICs as a safer alternative to smaller emerging markets like Indonesia.

BRICs are still vulnerable to broad selloffs at times when investors are "risk-off." Some investors say their recent performance could quickly evaporate as the deadline approaches to avoid the "fiscal cliff" of rising taxes and budget cuts.

Given the risks, it doesn't always make sense for investors to focus on BRICs as they have become increasingly comfortable with non-BRIC markets such as Mexico and Turkey, which offer high yields for bond fund investors.

"There's been a realization that BRIC countries are not always the right place to be," as their rate of growth is surpassed by smaller emerging markets. For example, Russia's economy slowed to just 2.9% in the third quarter from 4% in the previous quarter. Despite this assessment, some investors say BRICs look cheap following their shoddy performance for much of 2012. For instance, the Brazilian stock market plummeted nearly 10% in July but has bounced up 7.8% since then.

The Brazilian real fell between March and June as the country's central bank intervened to weaken the currency and cut interest rates. "Now expectations are for the central bank to pause and for the real to stabilize," says Nick Robinson, head of Brazilian equities at Aberdeen Asset Management. Since September, Robinson has boosted the exposure of the $8 billion Aberdeen Emerging Markets Fund to Brazilian stocks to about 17% from about 10%.

Morgan Harting, senior portfolio asset manager of Alliance-Bernstein Holding L.P. which oversees investments worth about $420 billion, says "the combination of faster growth on China and a Federal Reserve committed to monetary easing make it unlikely that the BRICs will suffer another setback soon."

However, Dr. Mobius says some deceleration in China's growth rate is inevitable, with a peaking workforce and a slowdown in the transfer from an agricultural to an industrial labor workforce.

In contrast, India's government has implemented necessary infrastructure projects so that its economy has proved adept at generating growth recently without a heavy investment and has a better ratio of growth-to-capital spending than China.

Russia, like China, may see its working class decline, but its middle class could swell as wealth from commodity exports could filter through the economy.

Russia has underdeveloped financial structures, consumer debt levels are low, and recent GDP growth has been strong. Oil accounts for a bulk of its exports and a considerable portion of its federal budget revenues, and although an oil price crash is unlikely, the government has announced ambitious economic reforms aimed at addressing the country's dependence on commodity exports. Russia's recent entry into the World Trade Organization could supply a similar growth catalyst as it did for China in 2001.

Of the four BRIC countries, Mobius thinks Brazil gives investors the most concerns. Its GDP growth has been below that of India and China, the country has high taxes, a relatively high minimum wage compared to its peers and potential troublesome pension and benefit entitlements for public sector workers. However, the government has addressed some of these challenges, and there is a renewed appetite for privatization. Domestic consumption could advance, supported by a young and dynamic population, powering diversification in its economy.

The BRICs are by no means the totality of emerging markets. Columbia, Indonesia, Vietnam, Egypt, Turkey, South Africa and other African nations have youthful, low cost labor and abundant natural resources. This could propel rapid economic growth that could potentially help offset a growth shortfall as the BRICs mature and reduce the impact to the more established emerging economies from slowing growth and demand in the developed countries.

Mobius believes that the BRIC countries aren't hitting a growth brick wall, but if the emerging markets continue to achieve strong economic growth, he concludes that the BRIC countries will have to scale a few obstacles. (Source: *The Wall Street Journal, Global Finance,* Mobiusblog.com)

Commodities Boom Sees Africa Outpace Global Growth

African economic growth is outpacing the global average for the first time, according to a World Bank Report, with such sub-Saharan countries as Sierra Leone, Niger, and Angola leading the pack amid increasing mining exports.

The report predicts sub-Saharan economies will grow on average 4.9% in 2012, up slightly from 4.8% in 2011. Sierra Leone will grow by 25% in 2012, driven by iron ore shipments. The World Bank estimates FDI in the region will hit $31 billion this year, rising to nearly $49 billion by 2014. However, it warns the outlook may change, depending on the prospects in the U.S., the eurozone and China.

The International Finance Corp, the World Bank's private sector lending arm, plans to invest at least $4.3 billion in sub-Saharan Africa in 2013, up from this year's record $4 billion. Much of the funds will be invested in the energy and transportation sectors. The IFC indicates the focus on these sectors is driven by the need to eliminate economic bottlenecks caused by deficient infrastructure, in order to boost competitiveness and support long-term growth. (Source: *Global Finance,* November 2012)

Portfolio Managers' Reviews

There may be some fiscal contraction in 2013, but it should not cause a U.S. recession once a bi-partisan agreement is reached. This will be followed by rapid money growth, record low mortgage rates, lower gasoline prices, a weaker dollar and a better job market as business spending grows. The economy should then be less susceptible to shocks and reversals. We expect continued modest growth in 2013 as the economy continues to recover.

U.S. gross domestic product growth in 2013 may be 50% higher than consensus forecasts. The S&P 500 index may climb for the fifth year in a row, and higher stock prices should come from higher price-earnings valuations rather than from earnings growth.

However, due to uncertainties over the U.S. fiscal situation, we realigned our portfolios by decreasing the size of one long-time holding and substituted it with another classic 1929 closed-end fund. We also reduced our real estate funds and purchased more global bond funds for lower volatility.

On the bright side, the global trade winds are now blowing toward America again: There has been a reversal of the "outsourcing" of jobs overseas due to high shipping costs that have helped to shift jobs from low wage countries to the richer ones. American workers are also more skilled than many foreign counterparts, and productivity improvements have lowered production costs.

Companies such as General Electric have moved their plants from China to Kentucky and Whirlpool to Ohio. Amana and Levi Straus have followed, while Otis Elevator has moved their manufacturing from Mexico to South Carolina.

Closed-end bond funds, both taxable and municipal, had been trading at historical highs compared to their net asset values. This caused us to be more active than usual in swapping funds with strong financials or sustainable distributions for similar peer funds that show better price-to-NAV levels.

Although these funds are a small part of CEFA's sustainable assets, we see big risks in the current municipal bond CEF levels. Going into December, many of these funds had maintained distribution levels while lower earnings were being reported, and the UNII or cushion of income was showing a gradual loss. In early December, 24% of national municipal closed-end funds reduced their pay-out levels by an average of 6%. For more information and an in-depth report, go to our blog: www.cef-blog.com.

In our Foundation/Balanced and Conservative investment models, we raised between 15% and 50% cash for clients before and after the U.S. elections. Recently we used the cash to buy a preferred equity fund that has a good discount and strong earnings

As of December 7, 2012, the average equity closed-end fund has a discount of -7.1%, while the average bond CEF has an average premium of +0.2%. Both fund groups are trading about -1.5% to -2.5% lower than their 90-day average discounts. Their market prices are are roughly 50% between their 52-week low and high; both indicators show CEFs have pulled back to more reasonable levels. This makes them more fairly valued than in recent months.

Closed-end funds are still attractive when properly analyzed as they provide access to some of the best managers in the world while giving shareholders the benefits of permanent capital, no redemption pressure risk and daily liquidity.

We will interviewing the portfolio managers of Adams Express Co. in our January/February 2013 issue of *The Scott Letter*. John and George plan to attend their annual meeting in March. ■

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