The Scott Letter:
CLOSED-END FUND REPORT ©

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Morgan Grenfell SMALLCap Fund

Morgan Grenfell SMALLCap Fund (MGC-7 3/4-NYSE) is a new (May,1987-$10 per share issue price) diversified fund seeking capital appreciation through investments in companies with market capitalizations of $50 million to $500 million. The adviser is a subsidiary of London-based Morgan Grenfell Group, PLC.

The Fund targets investments in the early stages of their life cycles; the strategy is similar to **H & Q Healthcare Investors**, a fund which also has small cap investments designed for long-term appreciation (see SL Jan.,1989). Like H&Q, its dividend distribution is expected to be minimal; capital gains generated through investment in emerging growth stocks are its thrust.

25% Return

We interviewed Robert Kern, President of MGC in December; he has a background as a mechanical engineer and was employed by General Electric prior to joining Chase Manhatten Bank's investment department in 1965. There, he was manager of its special growth fund which achieved a compound annual growth rate of 25% for the 1975-85 period with no down years. In September, 1986, Kern and his team joined Morgan Grenfell Capital Management in New York.

Kern is very positive regarding the future for smaller growth companies and sees MGC as the best way to invest in them. He sees a potential compound annual rate of return of at least 15% over the longer term and believes the historic higher rates of return achieved by investing in smaller companies will continue in the foreseeable future. He thinks his fund will outperform large cap investments by a minimum of two percentage points.

He also sees his approach to small company investing as unique:

"Others like Chuck Royce specialize in the small company sector, but he uses a value approach. Charles Allmon, manager of Growth Stock Outlook Trust, was the first to raise money for a small growth company closed-end fund, but he decided not to invest most of the money raised, and I don't know if he will ever get into the market." Kern therefore sees his Fund as the leader in emerging growth stock investing.

Narrowing The Field

How does Kern find his investments? He begins with an investment universe of 1800 companies in the U.S. and narrows the field to 500 stocks to be monitored and followed closely by his team of five analyst/portfolio managers who specialize by economic sector. From this group, the Fund makes investments in 50 to 60 companies which they know well. In order to get a better feel for them, time is spent out of the office visiting managements and discussing business strategies.

"Fundamental investment research is the foundation of the product," says Kern, talking like an engineer. "When you make an investment in a company, the background of both economic sector and industries within those sectors allows you to make higher quality investment decisions."

Regarding MGC portfolio emphasis, Consumer Stocks represented the heaviest sector (29%) at the end of 1988. This sector includes such names as A.T. Cross (ATXA), Land's End (LE), and Trans World Music (TWMC). Technology (24%) ranked second and includes a number of high quality companies with superior growth prospects: Linear Technology (LLTC), Morino (MRNO), and Network Equipment Technologies (NETX). Other sectors covered are Healthcare (Datascope), Capital Goods

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Bancroft Convertible Fund Survives Takeover Attempts

Bancroft Convertible Fund (BCV-17 7/8-ASE-7.8% yield), the first pure convertible fund(80% convertible securities) was founded in 1971 when it raised $50 million with twin objectives of income and capital appreciation. Since then it has survived numerous takeover attempts; the latest ended with it buying 28% of its shares back from an overseas group, Zico Investment Holdings. A rights offering has just been completed to bring the Fund back to its former level.

A second convertible Fund--**Ellsworth Convertible Growth and Income Fund**(ECV-7 1/4-ASE)-was launched by BCV management in June of 1986 with much the same structure and the use of other techniques to increase return such as option writing. It also has the ability to purchase restricted and foreign securities. However, neither of these strategies has been utilized. Ellsworth Convertible roughly mirrors its sister fund,both are managed by Davis-Dinsmore Management Co. We interviewed Ronald and Tom Dinsmore in December:

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SMALLCap (Cont.from page 1)

(Goulds Pumps), Transportation(Alaska Air), Credit Sensitive (Home Federal S&L), Process Industries (Gaylord Container), Energy (Diamond Shamrock R&M) and Service Companies (Celluar Communications).

How was Morgon Grenfell initially structured? From its net proceeds of $9.275 per share, plus $3.6 borrowed from the adviser, it invested $50 million at inception. Making the full amount available for investment is done by newer funds more frequently, but does run up the expense ratio (4.32% for the first year).

Double Every Five Years

How has this Fund performed? After the market decline in 1987, the NAV dropped to a low of $5.76, but has since outperformed the indexes by a wide margin as small cap stocks came back into favor. Kern is optimistic this trend will continue; his objective is to double the Fund's assets every five years.

What about recent performance? In 1988, the net asset value rose to $8.86, an increase of 18.9% over 1987 vs. 11.8% (without dividends reinvested) for the Dow Jones Industrials, and 12.4% for the S&P 500 Index, a significant achievement.

A dividend reinvestment plan is available; we think shareholders should always use these plans to build-up their equity in closed-end funds. Management should also consider buying in shares at a discount, a good use of available funds. MGC also plans to vote on whether to open-end in 1994; a vote of 75% is required for this conversion.

Kern stressed that each of his managers has a significant stake in the Fund, a factor he thinks should be important to both current and potential investors.

SUMMARY AND CONCLUSION:

For an investor interested in small-cap investing, MGC appears to be one of the best ways to participate, especially if you think these stocks will outperform those of the larger companies. Remember, it is a new fund but one whose management has a superior long-term record. On January 13, it sold at a discount of 13.12%. We are adding it to our recommended list. For more information contact MGC at 885 Third Avenue, New York, N.Y. 10022-4802 or call 1-800-227-5720.

Bancroft (Cont.from page 1)

SL: What do you mean by a "pure" convertible fund?

RD: We invest at least 80% in convertible securities and have done so over the years. Other convertible funds have a portion in convertible securities, but may hold common stocks and other securities. We also have higher rated bonds in the portfolio than many funds. We have a small percentage in common stocks, which we converted from the bonds as we don't buy them initially.

Because of our recently completed rights offering, the Bancroft portfolio now is 60% convertible bonds, 9% convertible preferred, 16% U.S. Treasuries, 13% in cash and the balance in common stock. We are looking for new convertible investments.

SL: Do you have a minimum rating?

RD: Yes, but we also buy unrated bonds so we won't have a fixed limitation. When I was President of Moody's Funds they didn't really want to rate bonds. But the issuers want them rated. We knew that there were a lot of convertibles out there that really are not rated. So we set some of our own parameters. We do have some limitations, therefore, but not specified by ratings. I just wanted to make that clear.

Dinsmore went on to say that he has a bias towards investment grade securities and that he knows of only one other fund with higher quality bonds in their portfolios than either Bancroft or Ellsworth. He puts serious limits on exposure to any single "B" issues he buys.

SL: What indexes do you use to measure performance?

RD: There are about five now. The average rating on the Goldman 500 Index is about single B minus. We look at them all but tend to use the Lipper Index most often as it is the most widely read. We also seem to come out better with that one.

SL: What about your bias towards the convertible market and the sectors within it?

RD: As a general rule we follow the convertible market as a whole, not to be an industry player. If you are a follower of Modern Portfolio Theory and put 20% into different industries, you're going to get killed; there just aren't enough convertibles available. We make an equity decision and then buy the senior security. The only one we know of who does the opposite is Howard Marks of TCW Convertible Securities; he is a very good convertible man.

SL: What about your performance?

RD: We have looked at the other convertible funds for the last five years and do not know of a single fund that has outperformed us. **The Phoenix Fund** came the closest to our performance, and we have been in the top five among convertible funds every year.

SL: Commendable. Lets turn to the ZICO deal. Tell me about it?

(Ed.note: ZICO Investment Holdings, the latest of many adversaries after Bancroft tried unsuccessfully to take the Fund over in 1987)

RD: It didn't matter whether it was Bancroft or any other fund. They were trying to pyramid funds in a way that was illegal in the U.S. but is legal in Europe. Their purpose was to destroy Bancroft. They laundered Rands from South Africa, converting them to dollars, and then made a bid for 51% of the Fund at a premium to net asset value. They offered such a high price because they wanted a U.S. portfolio for other purposes. They thought they could pyramid this to obtain additional funds to get it out from under the 40 Act(Investment Co. Act of 1940 regulating Investment Companies) and turn it into a leveraged buyout fund. But we defeated them and tendered to buy back their stock as well as shares from other stockholders. We estimate they lost between $3 to 4 million over the deal.

SL: Why did you make the rights offering for Bancroft and how did you do it?

RD: We did it to bring the Fund back up to $50 million from the $38 million it was after we bought back the ZICO stock. To do it, we observed that **Castle Convertible Fund** did a 1:1 offering, but thought this would be far too dilutive. So we did 1:2 (1 share for each 2 rights held) so we would have less dilution. At this rate we felt we could maintain the $1.40 dividend. Shareholders were also offered the privilege of subscribing to any shares not acquired by exercise of the offering, which many did. The subscription price of $17.32 per share was below the market price of $20 5/8(and a NAV of $22.98) at the commencement of the offering.

RD: ZICO was not the first group after us - there were others.

SL: Who else?

Carl Ichan, Morley Thompson and Marvin Warner. Ichan wanted to convert the Fund into his stock exchange firm but he backed off. Marvin Warner, first hit us about ten years ago. He had destroyed some Savings and Loans in Ohio and Florida, but he failed to get BCV. Morley Thompson of Baldwin United tried but when Baldwin went bankrupt they had to sell their 25% interest.

CLOSED-END STOCK FUNDS

Following is a weekly listing of publicly traded closed-end investment trusts. The funds invest in diversified portfolios of common stock (Diversified Funds) or concentrate in one or a few industry groups (Specialized Funds). The plus or minus before the difference indicates whether the fund trades at a premium or discount to its net asset value. The convertible funds are invested in preferred stock or bonds that are convertible into common stock. Shown is the unaudited net asset value (NAV) of each company's shares as of **January 13, 1989.**

22 Diversified Common Stock Funds

	Sym.	Stock Exchg.	N.A. Value	Stock Price	% Diff.
Adams Express	ADX	NYSE	16.43	14⅝	- 10.99
Baker Fentress	BKF	NYSE	24.31	19⅜	- 20.30
Blue Chip Value	BLU	NYSE	7.35	6¼	- 14.97
Clemente-Gbl	CLM	NYSE	b 8.87	7⅝	- 14.04
Gemini II Cap	GMI	NYSE	17.38	13⅝	- 21.61
Gemini II Inc	GMI+	NYSE	9.39	12⅝	+ 34.45
Gen'l Amer Inv	GAM	NYSE	17.38	14¼	- 18.01
Global Gr Cap	GGF	NYSE	8.86	7½	- 15.35
Global Gr Inc	GGF+	NYSE	9.35	9⅝	+ 2.94
GSO Trust	GSO	NYSE	9.61	9¼	- 3.76
Lehman Corp	LEM	NYSE	14.66	11⅞	- 19.00
Liberty All-Star	USA	NYSE	8.44	7⅛	- 15.50
Niagara Share	NGS	NYSE	15.08	12¼	- 18.77
Nich Ap Gr Eq	GEF	NYSE	8.98	7⅜	- 17.87
Quest Value Cap	KFV	NYSE	12.33	8⅞	- 28.02
Quest Value Inc	KFV+	NYSE	11.72	10¾	- 8.28
Royce Value	RVT	NYSE	9.39	8⅝	- 8.15
Schafer Value	SAT	NYSE	9.45	8¼	- 12.70
Source Cap	SOR	NYSE	37.79	37¼	- 1.43
Tri-Continental	TY	NYSE	23.90	20	- 16.32
Worldwd Value	VLU	NYSE	19.77	16¾	- 16.28
Zweig Fund	ZF	NYSE	10.17	10¼	- 0.79

48 Specialized Equity and Convertible Funds

	Sym.	Stock Exchg.	N.A. Value	Stock Price	% Diff.
1st Australia	FAI	AMEX	10.86	7⅞	- 27.49
1st Iberian	IBF	AMEX	9.49	7⅞	- 17.02
Amer Cap Cv	ACS	NYSE	22.37	22⅛	- 1.10
ASA Ltd.	ASA	NYSE	bc 53.48	38⅝	- 27⅞
Asia Pacific	APB	NYSE	9.38	6⅞	- 26.71
BGR Prec Mtls	BPTT	TOR	be 11.99	9	- 24.94
Bancroft CV	BCV	AMEX	20.48	17⅞	- 12.72
Bergstrom Capital	BEM	AMEX	g 51.07	48⅝	- 4.79
Brazil Fund	BZF	NYSE	12.83	8⅜	- 34.72
CNV Hldg. Cap	CNV	NYSE	9.05	4⅜	- 51.66
CNV Hldg. Inc	CNV+	NYSE	9.38	11⅝	+ 23.93
Castle CV	CVF	AMEX	21.34	19¼	- 9.79
CenFdCanada	CEF	AMEX	b 5.63	4⅞	- 13.41
Cent Sec	CET	AMEX	11.74	9½	- 19.08
Couns Tandem	CTF	NYSE	8.68	6⅞	- 20.79
Cypress Fund	WJR	AMEX	8.81	6⅞	- 21.96
Duff Phelps Util	DNP	NYSE	7.76	8⅛	+ 4.70
Ellsworth Cv	ECF	AMEX	8.37	7¼	- 13.38
Engex	EGX	AMEX	11.87	8⅝	- 27.34
Fin News Comp	FIF	NYSE	16.99	15½	- 8.77
First Fin Fund	FF	NYSE	8.88	7¼	- 18.30
France Fund	FRN	NYSE	11.70	10	- 14.53
Gabelli Equity	GAB	NYSE	11.65	10¼	- 12.02
Germany Fund	GER	NYSE	8.23	7½	- 8.87
H & Q Health	HQH	NYSE	7.96	6½	- 18.34
Ham Cap	HU	AMEX	9.79	9	- 8.07
Ham Ut. Pfd.	HUT	AMEX	48.42	46¼	- 4.48
Helvetia Fund	SWZ	NYSE	10.89	10	- 8.17
India Fund	IAF	NYSE	12.37	10	- 19.16
Italy Fund	ITA	NYSE	10.02	8⅛	- 18.91
Korea Fund	KF	NYSE	16.15	26⅝	+ 64.86
Malaysia Fund	MF	NYSE	9.40	8¼	- 12.23
Mexico Fund	MXF	NYSE	b 7.76	5½	- 29.12
MG Sm. Cap	MGC	NYSE	8.92	7¾	- 13.12
Patriot Prem Div	PDF	NYSE	8.95	9⅜	+ 4.75
Petrol & Res	PEO	NYSE	25.54	22¼	- 12.88
Pilgrim Reg.	PBS	NYSE	9.54	7⅝	- 20.87
Rl Estate Sec Inc	RIF	AMEX	8.83	9	+ 1.93
Reg Finl/Shs	BNC	AMEX	7.79	6⅜	- 18.16
Scandinavia Fd.	SCF	AMEX	8.58	6¼	- 27.16
Scudder New Asia	SAF	NYSE	12.24	9½	- 22.39
Spain Fund	SNF	NYSE	11.70	10¾	- 9.12
TCW Cv Sec	CVT	NYSE	b 8.13	7¾	- 4.67
Taiwan Fund	TWN	AMEX	b 24.74	38⅞	+ 57.13
Templeton E Mkt	EMF	AMEX	9.64	8½	- 11.83
Templeton Value	TVF	AMEX	9.31	8⅞	- 4.67
Thai Fund	TTF	NYSE	10.88	15½	+ 42.46
Utd. Kingdom Fd.	UKM	NYSE	11.26	9½	- 15.63
Z-Seven	ZSE	PAC	d 13.24	15¼	+ 15.18

2 Flexible Portfolio Funds

	Sym.	Stock Exchg.	N.A. Value	Stock Price	% Diff.
Amer All Seasons	FUND	OTC	6.53	6½	+ 17.54
Zweig Total Return	ZTR	NYSE	9.24	9¼	+ 0.11

(a) - Ex-Dividend. (b) - As of close December 8. (c) - Translated at Commercial Rand exch. rate. (d) After tax charge of $3.14. (e) - In Canadian Dollars. (g) Formerly Claremont Capital. (z) - Not available.

Source: Investment Company Institute.

97 CLOSED-END BOND FUNDS

Following are shares of closed-end (fixed number of outstanding shares) investment companies with diversivied portfolios of bonds. Shown is the unaudited net asset value (NAV) of each company's shares as of **January 13, 1989.**

	Sym.	N/A Value	Stock Price	% Diff.	Div. Paid	% Yld.
ACM Gov Inc	ACG	10.53	10¾	+ 2.09	$1.26	11.70
ACM Govt Oppor	AOF	9.17	9⅛	- 0.49	$1.01	11.01
ACM Govt Secur	GSF	10.55	10⅝	+ 0.71	$1.26	11.90
ACM Govt Spectrum	SI	a 8.92	9⅛	+ 2.30	$1.01	11.20
ACM Managed Inco	AMF	a 9.22	9	- 2.39	z	z
AMEV Secs	AMV	10.18	10¼	+ 0.69	$1.08	10.54
Am Cap Bd	ACB	b 20.68	20	- 3.29	$2.44	12.20
Am Cap Inc	ACD	a 9.02	9¼	+ 2.55	$1.41	15.24
Am Gov Inc Fd	AGF	6.99	7¾	+ 10.87	$0.87	11.20
Amer Govt Portf	AAF	8.94	9⅝	+ 7.66	$1.06	11.00
Blackstone Inc. Tr	BKT	d 8.88	9½	+ 6.98	$1.10	11.70
Blackstone Target	BTT	9.45	9⅝	+ 1.85	$1.00	10.40
Bunker Hill Inc.	BHL	17.36	16⅜	- 5.67	$1.87	11.41
Cigna High Inc	HIS	9.21	9½	+ 3.15	$1.26	13.10
Circle Inc Shrs (OTC)	CINS	d 11.95	12¼	+ 2.51	z	z
CNA Inc Shares	CNN	11.24	11½	+ 2.31	$1.24	10.90
Colonial Int High Inc	CIF	9.34	9¼	- 0.96	$1.20	13.00
Comstock Ptr	CPF	9.81	9⅝	- 1.89	$0.76	8.00
Current Inc Shrs	CUR	e 11.92	11⅛	- 6.67	$1.12	10.01
DWitter Gov Inc	GVT	9.19	9	- 2.07	$0.92	10.20
1838 Bd-Deb Trad	BDF	d 19.39	18	- 7.17	$1.86	10.30
Dreyfus Strat Gov	DSI	11.09	11⅛	+ 0.32	$1.20	10.90
Excelsior Inc	EIS	16.74	15¼	- 8.90	$1.44	9.50
FBoston Inc	FBF	8.64	8⅜	- 3.07	$0.90	10.90
FBoston Strat	FBI	10.95	11	+ 0.46	$1.32	12.10
Flexible Bond Tr	FLX	9.28	10	+ 7.76	z	z
Ft Dear Inc	FTD	14.81	14⅜	- 2.94	$1.36	9.50
J Hancock Inc	JHS	15.32	14½	- 5.35	$1.53	10.60
J Hancock Invest	JHI	20.57	20⅛	- 2.16	$2.04	10.00
Hatteras Inc S	HAT	a 15.98	15¼	- 4.57	$1.56	10.10
Hi Inc Adv Tr	YLD	9.01	9⅛	+ 1.28	$1.20	13.20
Hi Inc Adv II	YLT	9.27	9⅛	- 1.56	$1.20	13.20
Hi Yld Inc Fd	MIN	9.02	9⅛	+ 1.16	$1.05	11.50
High Yld Plus	HYP	9.16	8⅞	- 3.11	$1.14	12.80
INA Investments	IIS	17.73	17	- 4.12	$1.75	10.20
Ind Square (OTC)	ISIS	16.53	16	- 3.21	z	z
Intercapital Inc	ICB	19.31	20⅜	+ 5.52	$2.10	10.30
Kemper Hi Inc	KHI	a 10.72	12	+ 11.94	$1.38	11.50
Kemper Intrgov	KGT	a 9.15	9½	+ 3.83	$1.00	10.50
Lincoln Natl DP	LND	27.00	24⅛	- 10.65	$2.31	9.60
Lomas Mtge Sec Fd	LSF	11.13	12	+ 7.82	i $1.15	9.50
MFS Gov Mkts Inc	MGF	a 9.10	10	+ 9.89	$1.18	11.90
MFS Inc & Opp	MFO	9.68	10⅛	+ 4.60	$1.20	11.70
MFS Intrmed Inc	MIN	a 9.16	9¼	+ 0.98	$1.05	11.50
MFS Multimkt Inc	MMT	a 9.00	9⅞	+ 9.72	$1.23	12.50
MFS Multimkt Ttl R	MFT	9.28	9	- 3.02	$0.84	9.30
Montgomery St	MTS	18.34	17¾	- 3.22	$1.88	10.04
M Omaha Int Shs	MUO	13.60	13⅞	+ 2.02	$1.39	10.00
New Amer High Inc	HYB	a 8.50	10	+ 17.65	$1.44	14.40
Oppenheimer Multi	OGT	a 9.22	9¾	+ 5.75	i $0.98	10.10
Oppenheimer Multi-Sectr	OMS	a 11.06	10⅞	- 1.67	$1.16	10.70
Pac Am Inc Shrs	PAI	b 15.20	14¾	2.96	$1.58	10.80
Prospect St Hi Inco	PHY	9.14	10⅛	+ 10.78	i $0.81	8.00
Pru Inter Inco	PIF	d 9.15	9	- 1.64	$1.02	11.30
Pru Strat Inc	PSF	d 8.93	8⅞	- 0.62	$1.05	11.84
Putnam Int Govt	PGT	9.32	9⅛	- 2.09	$1.01	10.90
Putnam Mstr Inc	PIM	9.43	9¼	- 1.91	$1.03	11.30
Putnam Mstr Int	PMT	9.28	9	- 3.02	$1.10	11.70
Putnam Premier	PPT	9.09	9¼	+ 1.76	$1.14	12.20
RAC Income Fund	RMF	11.12	12	+ 7.91	z	z
State Mut Sec	SMS	10.72	10⅝	- 0.89	$1.13	10.60
Transamerica Inc	TAI	22.36	21¾	- 2.73	$2.36	10.70
US F.& G. Pacholder	PHF	18.38	17½	- 4.79	z	z
USLIFE Income Fund	UIF	9.67	8⅞	8.22	$0.92	10.50
Vestaur Secur	VES	13.53	12¾	- 5.77	$1.22	9.60

Convertible Bond Funds

	Sym.	N/A Value	Stock Price	% Diff.	Div. Paid	% Yld.
Lincoln Natl CV	LNV	13.57	11⅞	- 12.49	$0.99	8.30
Putnam High Income	PCF	8.42	7⅞	- 6.47	$0.85	10.80

International Bond Funds

	Sym.	N/A Value	Stock Price	% Diff.	Div. Paid	% Yld.
Fst Australia Prime	FAX	c 10.76	9³/₁₆	- 14.61	$1.10	11.90
Global Govt	GOV	8.82	9½	+ 7.71	$1.20	12.60
Global Income Plus	GLI	9.42	10⅛	+ 7.48	i $1.44	14.40
Global Yield Fnd	PGY	9.45	9¾	+ 3.17	$1.58	16.40
Klein Benson Aus	KBA	11.01	10¾	- 2.36	$1.20	11.40
Templeton Global Gov Inc	TGG	9.21	10	+ 8.58	z	z
Templeton Global	GIM	9.06	9½	+ 4.86	$0.96	10.10
World Inc Fund	WOI	ac 9.70	9⅞	+ 1.80	$1.18	12.01

Municipal Bond Funds

	Sym.	N/A Value	Stock Price	% Diff.	Div. Paid	% Yld.
Allstate Income Opp.	AMO	9.44	10⅛	+ 7.26	$0.60	5.90
Allstate Muni Inc	ALM	10.23	10⅜	+ 1.42	$0.78	7.50
Allstate Muni II	ALT	9.81	9⅞	+ 0.66	$0.73	7.39
Colonial Muni	CMU	9.03	10	+ 10.74	$0.79	8.10
Dreyfus Cal Muni Inc	DCM	c 9.33	10⅛	+ 8.52	i $0.60	5.90
Dreyfus Muni Inc	DMF	c 9.42	10	+ 6.16	i $0.66	6.40
Dreyfus N.Y. Muni	DNM	c 9.28	10	+ 7.76	$0.60	5.90
Dreyfus Strat. Mu	LEO	a 9.84	10¼	+ 4.17	$0.78	7.40
Kemper Muni Inc	KTF	a 11.25	12	+ 6.67	i $0.72	5.90
MFS Muni Inc. Tr.	MFM	a 9.22	9⅞	+ 7.10	$0.76	7.70
Muni Insured Fd	MIF	c 9.98	10	+ 0.20	$0.77	7.70
MuniVest Fund	MVF	a 9.46	9⅞	+ 4.39	$0.62	6.30
NY Tax Exempt	XTX	ac 9.92	9⅝	- 2.97	$0.62	6.40
Nuv Cal Muni Inc	NCM	a 11.58	11⅝	+ 0.39	$0.80	6.90
Nuv Cal Muni Val	NCA	a 9.87	10	+ 1.32	$0.67	6.80
Nuv Muni Inc	NMI	ac 11.48	11⅛	- 0.48	$0.83	7.30
Nuv Muni Val	NUV	a 9.94	9⅞	- 0.65	$0.71	7.20
Nuv NY Muni Inc	NNM	ac 11.48	11⅛	- 3.09	$0.80	7.00
Nuv NY Muni Val	NNY	a 10.02	10	- 0.20	$0.68	6.70
Nuv Prem Inc	NPT	a 14.34	14⅝	+ 1.99	$1.04	7.20
Van Kampen M Ca Muni	VKC	c 9.28	9¾	+ 5.06	$0.50	5.10
Van Kampen Mer Muni	VMT	a 9.44	10	- 5.93	$0.71	7.10

Note: These figures are reported from sources believed to be reliable but are not guaranteed. Yields are annualized from reported capital gains and income. (a) Ex-dividend. (b) Fully diluted. (c) Trades on the AMEX. (d) As of Jan. 6. (i) initial dividend. (z) Not available. Source: Lipper Analytical Services and ADP.

TEN NEW ISSUES

American Government Term Trust, December 20, 1988, 6,000,000 shs. of common at $10 per share via Piper Jaffray. **BT International 500 Index Fund,** 10,000,000 shs. of common of which 8,000,000 will be offered in the U.S. $10 per share via Merrill Lynch. **Dreyfus Principal Plus,** December 14, 1988, 10,000,000 shs. $10 per share via Shearson Lehman. **The Europe 1992 Fund,** 3,500,000 shs. at $10 per share via Prudential Bache. **The Finland Fund,** 5,000,000 shs. $12 per share via First Boston. **Gabelli Total Return Communications Fund,** December 6, 1988, 6,000,000 shs. at $10 per share in late Feb. via Drexel Burnum. **Government Premium Income Fund,** 6,000,000 shs. at $10 per share via Prudential Bache. **PCL Diversified Fund,** 3,000,000 shs. at $7 per share via Mckinley Allsopp, B. C. Christopher and Investment Corp. of Va. **Putnam Managed Municiple Income Trust,** December 22, 1988, 10,000,000 shs. at $10 per share via Prudential Bache. **TCW High Yield Fund,** 10,000,000 shs. at $12 per share via Kidder Peabody.

Source: Investment Dealers' Digest, January 16, 1989. If you wish a prospectus on any of these issues, please call George Scott at Anderson & Strudwick. 1-800-476-2100.

So, we self-tendered for it in 1982 at 98% of net asset value; we got 920,000 shares at $20 a share.

Bancroft and Ellsworth have since put "every anti-takeover provision that is legal" into their charters. It's amazing that the Fund's performance has been so good with all these adversaries - and we wonder how well they could have done without them.

Since the completion of the recent self-tender, an investor named Robert Green of Miami has purchased 6.6% of BCV shares. Green got most of his stock through the rights offering and the oversubscription privilege; he has indicated he may buy more. We'll follow this development in future issues.

To prevent a wider discount, management has structured the Ellsworth Fund to buy back the dividend in new shares when the discount is over 15%. Last year its dividend was distributed, but this year 110,000 shares were bought at an average price of $7 3/4 by the custodian bank. Management reports that this was done too quickly and was therefore expensive.

Figures supplied by Bancroft (unaudited) show a total return for the five years ending December 31, 1988, of +73.9% and +266.5% for the ten year period. During the same period, 28 convertible funds rated by Lipper Analytical Services were +61.73% for five years and +299.38% for the ten-year period with dividends reinvested. Ellsworth ended the calendar year up 14.2% versus a gain of 13.27% for the Lipper Funds.

SUMMARY AND CONCLUSION:

One gets the idea that the Dinsmores really understand the convertible market but have spent so much time and shareholders' money fighting-off adversaries that it is difficult to know what may happen next. Expense ratios for the Bancroft Fund have been high (over 2%) but hopefully will be reduced. Its discount is 12.72%, but we are withholding our recommendation until we analyze other convertible funds. Candidates are **American Capital Convertible, Castle Convertible,** and **TCW Convertible Securities.** We will analyze Ellsworth Convertible Growth and Income Fund more thoroughly at a later date. For more information, Bancroft and Ellsworth are at 56 Pine St., New York, N.Y.10005. Telephone (212)269-9236.

Investment News & Notes

Clemente Global Growth Fund (CLM)--again rejected the tender offer by the Grace-Pickens Group for a majority holding at $8.00 per share. The board urges shareholders to retain their shares. A federal judge has also enjoined the tender based in part on a SEC probe into the Grace-Pickens purchase of the stock. If the SEC finds that the Group has acted illegally as an investment company or made improper disclosures, it may not be able to complete the tender offer or operate the Fund if it succeeds. CLM said it expects to have a motion from the judge prior to the expiration of the tender offer Feb.3. We recommended CLM last month at 6 3/4, but cannot justify purchase at the current 7 1/2 trading price. We urge shareholders to vote with management, which has done a good job of outperforming the indexes (see table below).

Liberty Mutual Insurance Co. has raised its stake in **Liberty All-Star Fund**(USA), a 70% owned affiliate, to 12.15%. It is also reported that the CNA Financial Corp. oup has sold its 5.79% stake for $7.50 a share on January 11, possibly to Liberty Mutual. For more background on this story, see our January issue.

Schafer Value Trust (SAT)--In early 1988, an investor group led by Jack Rizica of Brookline, Mass., acquired at least 350,000 shares or more than 3 percent of the Fund. He earlier proposed that management open-end it and has mailed proxy solicitations hoping to remove four of the six directors, replacing them with some of his own. In the meantime, SAT is buying in its shares at a discount of 10% or greater up to 3,000,000 shares and reports it has completed a substantial amount of this purchase. We would hold the stock unless the discount narrows to less than 5%.

Book Selection

Investing in Convertible Securities, by John P. Calamos; Longman Financial Services, 520 N.Dearborn St., Chicago, Ill. 60610; 250 pages; $24.95. The author specializes in convertible securities and manages convertible portfolios for institutions and individuals. This is a comprehensive reference guide for the sophisticated investor and financial professional. It explains what convertible securities are and how to evaluate them as well as estimate the risks and rewards of an offering. Integrating convertibles into a portfolio and hedging with convertible securities are also explained.

Letter From The Editor

You have probably noticed in the last few months that we have seen more and more hostile take-over activity in the closed-end fund industry. Our position has been to stay as neutral as we can, with a slight bias towards the industry, and to report the facts as we see them.

I have visited the managements of 20 funds within the past 12 months and will continue to do so as this is the best way to analyze them. For the most part, managers are doing a good job for their shareholders, but in some cases there may be a need for change.

Because of the ramifications of take-over activity for the survival of the closed-end fund industry, I hope to use my 14 year experience as a fund board member to continue to report and evaluate for your benefit. This activity is accelerating. Hostile raiders' chances of success appear to be small because so many defenses are now available to funds, but you never really know for sure. The story of how Bancroft Convertible Fund deterred so many adversaries ought to give fund managers some comfort.

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An investor in closed-end funds has a real advantage over mutual fund investors; why pay net asset value or a premium of as much as ten percent when you can buy your fund at a discount? Besides, expenses are a lot lower and the manager doesn't have to worry about redemptions. When you are deciding about your investments, consider the following as a guide:

1. Study the investment record of the fund for as long a period as possible. If it is a new fund, look at the record of the manager prior to his joining the fund.

Continued On Page 6

Rankings of Closed-End Funds in Scott Letter Equity Portfolio by NAV Performance for 1988

(adjusted for reinvestment of dividends and capital gains)

1. Templeton Emerging Markets	+29.20%
2. Gabelli Equity Trust	+28.0 %
3. Royce Value Trust	+22.78%
4. Schafer Value Trust	+17.81%
Dow Jones Industrial Average	+16.21%
5. Baker Fentress & Co.	+15.72%
Lipper General Equity Fund Average	+14.47%
6. Clemente Global Growth Fund	+14.37%
7. General American Investors	+13.83%
8. Adams Express Co.	+13.50%
9. H & Q Healthcare Investors	+ 8.11%
10. Convertible Holdings (Capital Shares)	+ 2.35%
11. The Helvetia Fund	-10.94%

Source: Management of the above funds. Figures are subject to adjustment.

2. Pay more attention to income and capital gains distributions - total return of the fund - than any promises of "a tax-free return of capital" which may not be in the shareholders' best interests.

3. A strong share buy-back program is more important than paying out ten percent of net asset value to narrow the discount. Although more and more funds are utilizing these strategies and discounts may narrow, we still think there will be many opportunities to take advantage of market inefficiencies. We will report them to you as we find them.

4. Do not buy into a fund just because of the discount, which may be covering up a poor record of high expenses or other problems; consider all the other factors and then look at the discount for timing once you have made your decision. Wide discounts may remain so or widen further. This is especially true for the foreign funds.

5. When you do invest, plan to hold on for three to five years or more. You are hiring a money manager, and, if he does a good job, you should stick with him. Again, plan on weeding-out your weaker funds over the years and add to the better ones when discounts widen.

Next month we will feature **Source Capital** and a bond fund. In the meantime, invest carefully and tell your friends about us. We'll be happy to send them a free copy. If you haven't already, we hope you'll join our growing list of subscribers today.

Yours sincerely,

George Cole Scott

George Cole Scott

Back Issues Now Available

Back issues are now $10.00 each, ($8.00 each to Scott Letter subscribers). Prepaid orders only please; make your checks out to Cole Publications, Inc., Box K-132, Richmond, VA.23288. The previous two issues will continue to be free each month.

BACK ISSUES AVAILABLE

Month	Subject
April	Closed-end and Mutual Funds Compared; History of Investment Trusts.
May	General American Investors; Convertible Holdings (Capital Shares).
June	Adams Express; Baker Fentress.
July	Gabelli Equity Trust; Mass Mutual Corporate Investors.
August	Clemente Global Growth Fund; Helvetia("Switzerland") Fund.
Sept.	How We Pick Funds; Baker Fentress.
Oct.	Schafer Value Trust; Royce Value Trust.
Nov.	Templeton Emerging Markets; Quest For Value Dual Funds.
Dec.	Cypress Fund; Funds With Deep Discounts.
Jan.	Liberty All-Star Equity Fund; H&Q Health Care Investors.

SCOTT LETTER MODEL PORTFOLIO

	Date First Recommended	Price When Recommended	Price 1/13/89	(Div'd. Dist. Paid)	1988-89 Total Return (Incl. Div'd.)	Approx. Size	1987 % Expense Ratio
Convertible Holdings (CNV) Capital Shares* 3.	May, 1988	4⅞	4⅜	$ 0	-10.25%	$243 M	0.83%
General American Investors Investors (GAM)	May, 1988	14¼	14¼	$1.98	+13.89%	287 M	1.19%
Adams Express Co.* (ADX)	June, 1988	15¼	14⅝	$1.84	+ 8.18%	427 M	0.48%
Baker Fentress (BKF)	June, 1988	20	19⅜	$1.65	+ 5.13%	378 M	0.49%
Gabelli Equity Trust (GAB)*	July, 1988	9⅞	10¼	$ .60	+ 9.87%	429 M	1.24%
Helvetia Fund (SWZ)	Aug., 1988	10	9⅝	$ .02	- 3.75%	99 M	1.85%
Royce Value Trust (RVT)	Oct., 1988	8¾	8¾	$ .51	+ 5.83%	111 M	1.15%
Schafer Value Trust (SAT)	Oct., 1988	7⅜	8¼	$ .26	+11.86%	92 M	1.39%
Templeton Emerging Markets EMF)	Nov., 1988	8⅛	8½	$ .32	+ 8.55%	119 M	1.67%
Clemente Global Growth (CLM)	Dec., 1988	6¾	7⅝	0	0	51 M	2.94%
H & Q Health Care (HQH)	Dec., 1988	5¾	6½	0	+13.0 %	43 M	1.95%
					+ 5.52%		

*George Cole Scott and/or his family hold shares in this security.

NOTES: 1 – Tabulated year-end figures December 31, 1987. 2 – Foreign funds have higher expense; they average 2-3%. 3 – Year-end August 31, 1988.

INCOME PORTFOLIO

John Hancock Investors (JHI)	June, 1988	$21	20⅛	$1.06	+ 88%	$145 M	.70%
Quest For Value ($1.00 Pfd.) (KFV+)	Nov. 1988	10⅝	10¾	$0.21	+3.57%	366 M	.77%
					+2.23%		

Note: Mass Mutual Investors Trust has been deleted due to difficulty in obtaining NAV; it remains on hold.

George Cole Scott has been an investment broker since 1969 and a free-lance writer since 1965. He became interested in closed-end funds in 1976, when he joined the board of Bergstrom Capital, a closed-end fund based in Seattle. Since that time he has specialized in this form of investment for his clients.

The Scott Letter , a monthly publication, available at $70 for six months, $110 a year, $125 foreign (free to clients) reprints $10.00 each ($8.00 to subscribers). Please make your checks payable to Cole Publications, Inc.