Global Investor Spotlight

The Mexico Fund:
A Volatile but Promising Play on Recovery

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What if they gave a drug war and nobody came?

In a way, that's what's happening with the Mexican economy. It is true that the ongoing drug war in Mexico is brutal, prolonged, and increasingly vicious. But the violence is largely confined to just three of Mexico's states. It has not derailed the Mexican economy as a whole - most of which is driven by economic activity elsewhere in the country, such as manufacturing, telecommunications and energy.

Indeed, we are witnessing a solid cyclical recovery of the Mexican economy, with solid financials coming in since the end of the 3rd quarter of 2009, asserts Jose Luis Gomez Pimienta, portfolio of the Mexico Fund, a closed-end growth fund that invests in publicly traded companies listed on the Mexican Stock Exchange.

Economics

Cyclically speaking, the Mexican economy is a lot like the American economy, only more so. Much of the Mexican economy is driven by exports to the United States - over 80 percent of its export market. When the American economy catches fever, it's said, the Mexican economy catches pneumonia. That was certainly true in the most recent downturn: But Mexican upswings can happen faster than the American markets. In these times, the volatility inherent in the Mexican stock market actually works for the investor. GDP growth in 2010 went to 5 percent - roughly twice the growth of the U.S. economy. And earnings went along with it.

Mexico Fund Performance

Fund performance numbers reflect the volatility and market sensitivity of the fund. Shares fell nearly 50 percent among the carnage of 2008

- then gained 54 percent in 2009, and another 42 percent in 2010, as a stabilizing American economy ramped up import orders.

Despite the reemerging growth numbers being posted by the Mexican economy you can still buy Mexican shares at startlingly attractive prices: The current trailing-twelve-month P/E ratio for the Mexico Fund (TMF - NYSE) is currently hovering around three - or about half the price of the American stock market at its all-time lowest, on a P/E basis. The fund also trades at about a ten percent discount to its NAV, so you're getting it that much cheaper, although the simple fact that a fund trades at a discount is no guarantee of investment results.

Risks

Investing in Mexico has its risks. A sudden devaluation of the peso, for example, would severely hurt American investors invested in peso-denominated investments. And the security situation in some parts of Mexico is worrisome, and no doubt discourages investment in the country. However, Mexico has come a long way in stabilizing its currency over the last decade, under the watchful eye of the International Monetary Fund, which intervened to stabilize the peso in 1998. And while the violent drug wars in the northern states are certainly something Mexico must deal with, Mexico is a much bigger country than those troubled states. Mexico is troubled by the violence. But Mexico is not defined by it.

Outlook

With an expense ratio of just 1.47 percent, the fund comes modestly priced compared to other actively managed funds that concentrate in the Mexican market. Meanwhile, The Mexico Fund provides meaningful diversification benefit against Chinese and European stocks markets. Going forward, the Mexican economy will also benefit from rapidly emerging economies in Brazil and Peru. All told, the Mexico Fund is a compelling option for risk-tolerant investors seeking a play a North American recovery. ■

Betting on the Middle Class - The Asia Pacific Fund

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The global recovery is proceeding apace - and its center of gravity is in the East. The rapidly emerging economic global economic juggernaut is China, which is still posting growth rates in the double digits. Just as significantly, the Chinese economy is dragging a number of smaller economies in the region along with it. Singapore, Taiwan, The Republic of Korea, Thailand and India are all posting strong growth rates and solid corporate profits to go with them.

The Tiger Comes Forth

The story of the century has nothing to do with terrorism or tsunamis. The real story of the century is the emergence of the Asian middle class. Consider: Just 30 years ago, 84 percent percent of the Chinese people lived in abject poverty - defined as the wage equivalent of $1.25 per day or less. By 2005, The Chinese economy, through a massive modernization and urbanization campaign, reduced their national poverty rate to less than 16 percent. The resultant growth of the Chinese middle class has a spillover effect all over Asia: As 3 billion Asian families become more affluent, they generate an increasing demand for consumer goods. The Chinese, for example, now buy more cars than Americans do, while Asians all over the continent have an insatiable consumer demand for everything from cosmetics to cell phones to houses.

The Asia Pacific Fund (NYSE - APB) seeks to get in front of Asian consumer demand to reap some of the gains in the Asian economy. Investing in a wide range of countries from India east to the Philippines, the fund looks for opportunities where there is rising wealth, favorable demographics, and a stable, mature government. For the most part, Asia is still fitting the bill.

The momentum is still going with Asian stocks. Low interest rates on sovereign debt, coupled with increasing inflation, is driving investors out of bonds into equities. Yes, the fund took it on the chin in 2008, losing more than half its value. The fund rebounded fast

in 2009 and 2010, however, with dollar-denominated investment returns of 62 percent and 15 percent, respectively. So far in 2011, the fund continues to rise, with investors enjoying a return of ___ percent through ___ 2011.

Portfolio

China, including, represents the largest single portion of the portfolio as of the end of the first quarter of 2011, with 27 percent of fund assets represented. The others include South Korea (30 percent), Taiwan (14 percent), Hong Kong (11 percent) and India (5 percent). The fund maintains smaller stakes in Singapore, Malaysia and Sri Lanka, though there has been some unrest in the latter country in recent years. A further 12 percent of the portfolio is spread out among the rest of the Association of South East Asian Nations bloc, or ASEAN. The fund does not invest in Japan, so those seeking a complete Asian portfolio may wish to consider allocating a portion of their invested assets with a Japan-focused fund, such as the Japan Equity Fund.

Looking at the portfolio by sector, the fund is heavily weighted toward financials, at 25 percent of the portfolio. The reason: Record low interest rates must rise eventually, and that will benefit financial sector. Other holdings reflect a largely cyclical bias, concentrating on information technology (20 percent of the portfolio), industrials (18 percent) and the inflation-resistant materials category (14 percent). The fund's 11 percent stake in consumer discretionary items represents a significant play on the continued growth of the middle class and the broad expansion of wealth throughout Asia. The fund's largest holding: Samsung Electronics, with 4.31 percent of the portfolio as of 3/30/11.

Risks

All investing involves risks. The fund's management is carefully monitoring the costs of crude oil - which ultimately powers the Asian manufacturing base - and food prices, which have increased sharply in the last year. Even with recent increases in per household wealth, energy and food still represent significant demands on the average household budget throughout much of Asia. And money spent on rice is money that cannot be spent on microwave ovens, televisions, cars, and the other trappings of middle class life that we take for granted here in the West. All eyes are on the Chinese and Indian central banks, too, as they work to bring their soaring economies in for a "soft landing." The Chinese central bank, especially, has taken some steps recently to tighten monetary policy and restrain growth.

Outlook

The fund's management plans to retain their long-term growth bias for the time being. While they expect that the strong economic growth will, in fact, moderate in the coming months, there's no need to circle the wagons. The fund maintains a cash cushion of just 1 percent. Management's bullish sentiment is rooted in a combination of favorable long-term demographics, a trend toward liberalization and lots of headroom for expansion in the ranks of the middle class. Market cycles come and go. But these engines driving future economic growth in Asia - and in the long run, equity prices - aren't going away any time soon. ■