

Edgar Filing: Clough Global Equity Fund - Form N-CSR

Clough Global Equity Fund  
Form N-CSR  
June 08, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-21712

Clough Global Equity Fund  
(Exact name of registrant as specified in charter)

1290 Broadway, Suite 1100, Denver, Colorado  
(Address of principal executive offices)

80203  
(Zip code)

Erin E. Douglas, Secretary

Clough Global Equity Fund

1290 Broadway, Suite 1100

Denver, Colorado 80203  
(Name and address of agent for service)

Registrant's telephone number, including area code: 303-623-2577

Date of fiscal year end: March 31

Date of reporting period: March 31, 2007

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Item 1. **Reports to Stockholders.**

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**SHAREHOLDER LETTER**

March 31, 2007

To Our Shareholders:

The underlying value of the Clough Global Equity Fund, defined as the change in net asset value adjusted for reinvested distributions over the period, rose 2.0% during the year ending March 31, 2007. During this period, the Fund distributed \$1.95 per share. The market price of the shares closed March 31, 2007 at \$20.13, selling at a 9.2% discount to the Fund's net asset value of \$22.17.

As of March 31, 2007 the Fund had approximately 80% of its assets in equities, including modest positions in exchange traded funds, with the balance of assets primarily invested in yield oriented securities. Within our equity holdings, slightly more than half the Fund's investments are in firms located outside of the United States. The Fund's fixed income portfolio exposure included US government and agency bonds and a modest position in Australian government bonds. The Fund also had smaller positions in asset-backed and corporate fixed income securities. Outside the US, our equity investments continue to be concentrated in Asian markets, as well as in the global energy and financial sectors. These investments are described in greater detail below.

As noted in the prospectus, we use a highly focused thematic approach to managing the Fund. Our themes are global in scope and largely focused on shortages or non-U.S. markets where rapid gains in profitability are occurring. Our current investment themes are somewhat more diversified than they have been in the past and the following commentary lists them roughly in the order of their importance to the current portfolio. Our major themes at the moment are energy, growth in Asia and Brazil and growth in global finance and wealth management. In addition, the Fund has smaller thematic exposure to precious metals, health care and selectively, technology.

Energy stocks for the most part have stagnated for nearly a year but many, such as global service leaders like Schlumberger Corp., and the oil and gas producers, are acting well again. Emotionally laced arguments over the possibility global oil production is peaking continue to swirl in the media, but the world's crude supply demand balance is once again visibly tightening. Demand has risen more than 1.1 million barrels per day over the past year despite warm winters in North America and Europe, and production estimates for many producers have continued to decline, reflecting delays and cost overruns in the efforts to develop new fields. Asian demand for oil and gas has not flinched and global inventories are being worked down. A recent Wall Street Journal article described the rapid production decline in Mexico's Cantrell field, North America's largest. Saudi Arabia operates twice as many rigs as it did two years ago yet struggles to increase production. These observations support our belief that companies with long lived oil and gas reserves in politically safe areas are cheap, and in fact, rare commodities. We have also buttressed our oil and gas holdings with investments in specialized uranium producers. Nuclear energy is reemerging and long term uranium supplies are also limited.

Several Wall Street analysts have noted that if the offshore drillers, which are holdings of the Fund, ever paid out their excess earnings in dividends, the stocks could rise significantly. This has already happened to the stocks of gas pipeline and shipping companies once they reorganized as dividend paying master trusts. The offshore rig stocks sell at 6-7 times 2008 earnings and offer visibility out to 2010-2011. Much of the remainder of the world's energy infrastructure is well beyond its design life and will have to be replaced if needed supplies are to emerge, so we continue to seek strong, diversified companies in the sector.

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Our Asian and Latin American themes are based on the fact that American consumers are being slowed by high debt loads but consumers in Asia and Latin America are underleveraged and beginning to catch on to the possibilities of leveraged consumption. In addition the infrastructure boom in most emerging nations appears to be just getting underway. For that reason we think a lengthy slowdown in the U.S. will have little impact on growth abroad. In both developed and emerging markets outside the U.S. we continue to find a good combination of value and growth. Our Asian property and consumer themes seem to be working. Property values in Asia have not inflated anywhere near the extent they have in North America or Europe and interest rates are low. Downtown vacancy rates in Seoul, Korea are 2% and interest rates are declining. Taiwan appears to be a particularly cheap market with a 4% yield in a strong currency and offers world class technology companies capable of benefiting from a Microsoft Vista based PC cycle. We are also investing in Indonesia and Malaysia, both of which should benefit from global commodities cycles and proximity to China.

Our investments in Brazilian banks have also come back to life after a long correction. Private banking is a growth industry as that economy develops its first credit card and mortgage cycles. We are searching for more investments in Brazil and have added Brazilian homebuilding stocks to the portfolio. Liquidity will continue to build in Brazil, which boasts not only a large, vibrant economy and a fast growing middle class, but declining interest rates.

In the financial sector, the global wealth management business generates double digit growth, and the companies sell at very modest P/E ratios. We see opportunity in high dividend paying stocks like Citigroup, UBS Corp. and Barclay's PLC, all of which also have wealth management or broker dealer exposure. In the pure broker-dealer sector, we have recently added Merrill Lynch & Co. and Morgan Stanley in the portfolio.

The Fund has positions in precious and industrial metals stocks despite a likely U.S. economic slowdown. A highly indebted U.S. economy is entering what is likely to be a chronic period of lower spending. Debt limits the extent to which interest rates can rise, and we think will likely lead the Fed to reduce interest rates later in 2007. In the meantime, dollar buying by exporting nations to limit the rise of their currencies further inflates global liquidity. Those dollars are not only used to buy U.S. securities, but they serve as reserves for debt expansion in the exporting countries. Securities held by the U.S. Federal Reserve for non-U.S. accounts rose 37% over the past twelve months, a number some might take as a sign of excess liquidity. That supports our contention a U.S. slowdown is unlikely to have much effect elsewhere, particularly in emerging Asia where nations are evolving their own consumer economies and far more viable banking systems. Despite persistent predictions of economic slowing in China and the rest of Asia, growth has continued to power ahead.

The rapid rise in global credit is supporting demand for precious and industrial metals. The Fund's holdings in the gold and silver trusts are complemented by exposure to the two rarest of all metals, platinum and palladium, via a holding in the leading producer. The recent Supreme Court ruling ordering the EPA to reconsider its refusal to regulate greenhouse gas emissions adds to political pressure to limit emissions for new cars and trucks. That is sure to increase demand for platinum and palladium. Few companies are exposed to these metals and their capitalizations are small, adding to their upside potential. The coming platinum based ETF likely will only intensify demand for this rare metal.

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The Fund has technology and media exposure, largely in selective Internet stocks where we see value for the first time, and more selectively in the computer and semiconductor industries, such as Qualcomm, a major beneficiary of the wireless telephone migration to 3G and EBay, which has developed several side car businesses that augment its traditional Internet auction business.

As the sub-prime mortgage implosion continues to slow credit growth, borrowing and spending will likely slow and sooner or later the Fed will be reducing interest rates. Timing that event is difficult. However the economy will enter the coming decline with a substantially higher debt load and the next cycle, it appears, will be more difficult to catalyze. The Fed began cutting interest rates in January of 2001 but it was late 2003 before the cuts began to help the economy. It took a 1% Fed Funds rate to do that and we think rates could ultimately decline even further in this cycle.

We have continued to use short positions in consumer based financial and durables stocks and put spreads on market indexes like the S&P 500 and Russell 2000 to protect the Fund during periods of volatility like the present. These hedges helped sustain the Fund's value during the sell-offs, but hold it back a bit when the market advances strongly. Nevertheless we think it is good insurance and allows us to hold large long positions in our major themes. A G7 slowdown would be a financial market bullish event in our view since growth in China, other Asian countries, and Brazil would be even more attractive as a destination for the world's investment flows. It would also support metals demand.

Our investments in the Japanese economic revival have not been profitable for some time and recent weakness by the banking and brokerage stocks in that market could be a signal that good performance by that market is a ways off. We have thus reduced the Fund's exposure to Japan. Our fundamental view has not changed and we continue to believe that market offers tremendous opportunity for industry consolidation and value, but that theme has been stagnant for the better part of a year, and that has been a drag on the Fund's performance. Japan needs a catalyst to remerge as a leading market. Nevertheless it is a highly liquid market and the Fund is flexible enough to allow us to become more aggressive once it is apparent that market will reflect the value we see there. In the meantime we can find many stocks in Asia that offer equal value and appear far more timely.

We thank you for investing in the Clough Global Equity Fund and invite you to visit [www.cloughglobal.com](http://www.cloughglobal.com) for updates. If you have questions about your investment, please call 1-877-256-8445.

Sincerely,

Charles I. Clough, Jr.  
Chairman and CEO of Clough Capital Partners, L.P.

Clough Capital Partners, L.P. is a Boston-based investment management firm that has approximately \$3.1 billion under management. For equities, the firm uses a global and theme-based investment approach based on identifying chronic shortages and growth opportunities. For fixed-income, Clough believes changing economic fundamentals help reveal potential global credit market opportunities based primarily on flow of capital into or out of a country. Clough was founded in 2000 by Chuck Clough and partners James Canty and Eric Brock. These three are the portfolio managers for the Clough Global Equity Fund.

**PORTFOLIO ALLOCATION**

March 31, 2007

**Asset Type (As a percentage of total investments)**

Common Stocks	76.22 %
Government & Agency Obligations	8.37 %
Corporate Bonds	4.58 %
Exchange Traded Funds	4.07 %
Asset/Mortgage - Backed Securities	3.00 %
Short-Term Investments	1.53 %
Options Purchased	1.34 %
Preferred Stocks	0.61 %
Closed-End Funds	0.28 %

**Global Breakdown (As a percentage of total investments)**

United States	57.26 %
Japan	10.91 %
Brazil	3.82 %
China	3.45 %
Hong Kong	3.29 %
South Korea	3.26 %
Bermuda	2.97 %
Switzerland	2.11 %
Canada	1.97 %
Australia	1.84 %
Great Britain	1.77 %
Israel	1.55 %
Thailand	1.04 %
Malaysia	0.91 %
Taiwan	0.91 %
France	0.84 %
Vietnam	0.48 %
Singapore	0.43 %
Indonesia	0.36 %
Mexico	0.30 %
Chile	0.23 %
Columbia	0.14 %
Panama	0.06 %
Russia	0.04 %
Argentina	0.03 %
Phillipines	0.03 %



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Trustees and Shareholders of  
Clough Global Equity Fund:

We have audited the accompanying statement of assets and liabilities of Clough Global Equity Fund (the Fund), including the statement of investments, as of March 31, 2007, and the related statement of operations for the year then ended, the statements of changes in net assets for the year then ended and the period from April 27, 2005 (commencement of operations) to March 31, 2006, and the financial highlights for the periods presented. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of March 31, 2007, by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Clough Global Equity Fund as of March 31, 2007, the results of its operations for the year then ended, the changes in its net assets for the year then ended and the period from April 27, 2005 (commencement of operations) to March 31, 2006, and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America.

Denver, Colorado  
May 22, 2007

## STATEMENT OF INVESTMENTS

March 31, 2007

	Shares	Value
<b>COMMON STOCK 114.48%</b>		
<b>Consumer/Retail 7.72%</b>		
ASKUL Corp.	48,100	\$ 912,284
Coinmach Service Class A	200,000	2,122,000
Daimaru Inc.	247,100	3,201,983
DSW Inc. (a)	56,309	2,376,803
eBay, Inc. (a)	112,900	3,742,635
The Gap, Inc.	47,000	808,870
Honeys Co. Ltd.	26,700	1,218,992
Hyundai Department Store Co. Ltd.	15,700	1,318,346
Isetan Co. Ltd.	91,000	1,586,940
Jardine Matheson Holdings Ltd.	58,400	1,232,240
Jardine Strategic Holdings Ltd.	47,000	601,600
Lotte Shopping Co. Ltd.	3,100	1,090,668
Point Inc.	31,700	2,014,876
Regal Hotels International Holdings Ltd.	7,040,500	621,737
Seven & I Holdings Co. Ltd.	50,500	1,538,484
Staples Inc.	74,800	1,932,832
Takashimaya Co. Ltd.	121,000	1,489,910
Toppan Forms Company Ltd.	137,600	1,749,192
Yamada Denki Co. Ltd.	10,500	978,361
		30,538,753
<b>Energy 24.63%</b>		
<b>Alternative Energy Technologies 2.75%</b>		
Evergreen Solar, Inc. (a)	247,700	2,415,075
First Solar, Inc. (a)	16,900	878,969
JA Solar Holdings Co. Ltd. - ADR (a)	26,600	481,194
Sunpower Corp. (a)	81,553	3,710,661
Suntech Power Holdings Co. Ltd. - ADR (a)	98,200	3,398,702
		10,884,601
<b>Coal 0.02%</b>		
Evergreen Energy Inc. (a)	12,800	84,096
<b>Exploration &amp; Production 7.56%</b>		
Anadarko Petroleum Corp.		