



CITY OF LONDON
Investment Group PLC

**Statement on Corporate Governance and
Voting Policy for Closed-End Funds**

Sixth Edition, June 2007

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I. Introduction

As a departure, you will find through this document some examples of what we would consider poor Corporate Governance. These are shown in italics throughout this document.

1. The Purpose of This Document

This is the sixth edition of City of London’s “Statement on Corporate Governance and Voting Policy for Closed-End Funds.” Our intention in publishing this statement, the first of which was published in 1999, is to identify the current “best practices” in the corporate governance of closed-end funds. The topic is integral to our investment process because of our belief that a closed-end fund with poor corporate governance will generally trade at a wide discount over time. This statement is addressed to Boards, Managers, Shareholders, and the Professional community. It is hoped this document will promote comment and discussion.

2. About City of London

City of London Investment Management Company Limited invests primarily in closed-end funds that themselves invest in emerging markets. The firm was established in 1991, having grown out of a brokerage that specialized in closed-end funds. At the time of this printing, City of London has three offices, London, Coatesville (our U.S. office just outside Philadelphia), and Singapore. We access the emerging markets fund universe from our three offices, which research and identify closed-end fund securities that trade in stock markets around the globe.

3. Our Approach to Corporate Governance

The following statements outline our views on the importance of corporate governance and voting.

3.1 Emerging Markets Closed-End Funds

The closed-end fund industry is a global phenomenon. In addition to the traditional developed markets of the United States and the United Kingdom, many emerging stock markets and regulatory agencies have encouraged the development of domestic closed-end fund industries, with the result that closed-end emerging markets funds are traded in more than twenty markets worldwide. This statement should be read recognizing that the industry’s state of development varies from country to country, and that the applicability of some of the views expressed will differ accordingly.

3.2 The Importance of Voting

City of London values its vote as an asset and as such will normally exercise its right to vote; if we abstain from voting, it will generally be as a result of a conscious decision. Because City of London does not generally seek a direct role in Fund affairs, the starting point for the voting policy is to vote ‘For’ Board proposals. That said, City of London will nevertheless generally vote ‘Against’ proposals that conflict with the tenets and beliefs set out below.

City of London will review each Board/Fund proposal/resolution individually, on its merits. Further, City of London will consider approaches from Boards and their advisors suggesting reasons why we should deviate from our normal voting policy.

A shareholder’s vote is his voice. It is one of the few times of the year that a shareholder is able to make his views known in a formal setting. City of London does not believe in ‘voting with its feet’, and merely selling the shares of funds that have unresponsive Boards. City of London believes it is more desirable to work with Boards and Managers to improve shareholder value, and the firm uses shareholder voting rights accordingly.

3.3 The Importance of Corporate Governance

Corporate governance is, as is implicit from the term, the manner by which the control and direction of a corporation is determined and the relations between the relevant parties—the Board, the Shareholders and the Manager—are safeguarded. In Shareholder terms, this means delivering competitive long-term financial returns measured against a relevant benchmark.

In closed-end funds, understanding the nuances of the relationship between the Board, the Shareholders and the Manager is fundamental to improving the return to Shareholders. In order to promote the long-term survival of the closed-end fund industry it is vital that Managers are committed to best practice in corporate governance.

3.4 Underlying Concepts and Policy

City of London believes that good corporate governance encourages a more accountable and focused Board which, in turn, leads to increased Shareholder value and aids the performance of the shares relative to their underlying net asset value—i.e., narrows, and keeps narrow, the discount.

City of London does not, as a general matter, proactively involve itself in the governance of Funds in which its clients are invested. Involvement in corporate governance issues is generally limited to those situations in which City of London sees either the potential for a tangible financial benefit to, or cost for, Shareholders. Indeed, City of London would generally support a Board that attempts to ‘do the right thing’.

Within City of London, decision-making on corporate governance issues, in the broader sense, is a collective process involving the Investment Management Teams in City of London’s three offices. Exceptions to a policy or changes to a decision are always considered on a case by case basis using a collegial approach.

3.5 Socially Responsible Investing

City of London invests in closed-end funds, which in turn invest in shares of emerging markets companies. These funds trade in more than twenty markets worldwide. Because we invest in closed-end funds, the issues over which we have the most influence are those directly related to the corporate governance of those funds. That is the primary focus of this Statement, and the aspect over which we have the most direct influence.

We have opportunities to communicate our clients’ concerns regarding environmental and social issues to the Boards of the closed-end funds in which we invest, and to the Managers of those funds. To the extent that we learn that particular issues are important to our clients, we will undertake to ensure that the Boards with whom we interact become aware of those concerns.

A particular challenge is translating broad objectives into specific actions. While we can communicate client concerns at high levels, determining the extent to which investment decisions are taken with these considerations in mind is not always clear.

II. Ideal Relationship

City of London’s views are best illustrated by the concept of the “Eternal Triangle” — a partnership between Shareholders, the Board and the Manager.

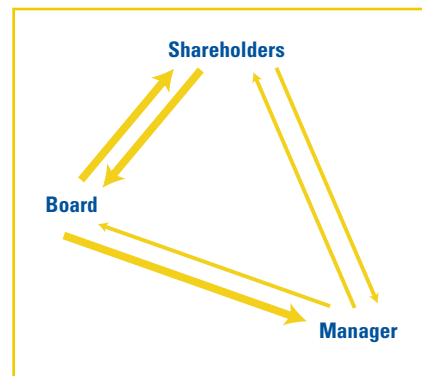
Ideal Relationship

The Eternal Triangle – 1

Such an approach:

- Reinforces Shareholder ownership of the Fund
- Emphasises the need for Board Independence
- Focuses on the Board as quasi-trustee
- Distances the Manager from corporate control

Too often Funds exhibit features of poor Corporate Governance, best illustrated by:

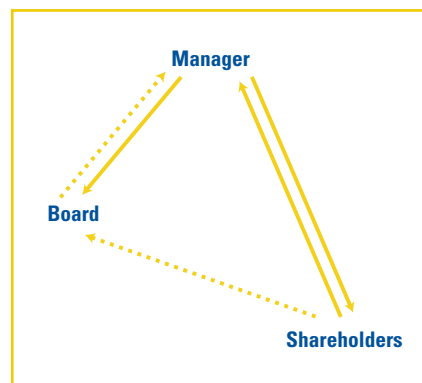


Historic Relationship

The Eternal Triangle – 2

Such features include:

- Manager ownership of the Fund implied
- Manager's name often prefixes Fund
- Manager's representatives are generally on the Board
- Manager's representative is generally Chairman
- Manager implicitly controls the future of the Fund



III. The Board

1. Role of the Board

1.1 Physical Safekeeping

City of London is aware that Boards normally 'contract out' the physical safekeeping of securities to a recognised global custodian and believes that problems in this area are relatively rare. Problems that do occur are usually a result of direct fraud or malpractice.

1.2 Financial Safekeeping

The Board's primary role is to ensure that the Manager operates within the Fund's investment remit and that Shareholders receive the rewards engendered by the Manager's efforts. Consistent failure in either of these areas should leave the Board with two principal options: the removal of the Manager; or the liquidation of the Fund.

2. Composition of the Board

2.1 Structure

The position is sometimes advanced that the experience, knowledge and expertise brought to the Boardroom by parties related to the Manager are invaluable. City of London believes this argu-

ment is flawed. A representative from the Manager should routinely be invited to attend Board meetings, but should not possess the automatic right to attend. This allows the Board to communicate more fully and productively with the Manager as there can be less of a confrontational/personal nature to criticism leveled directly at the management team.

The Manager is, after all, employed by the Fund, and as such is answerable to the officers of the Fund – the Directors. There are certain times when a Board’s discussions should not be known to the Manager, e.g., when performance or remuneration is being debated or when the Manager’s position is being discussed.

2.2 Period of tenure

Shareholders must have the opportunity to express their discontent with the performance of a Director or the Board as a whole. Shareholders should have the ability to vote and effectively remove a director without having to run a competing candidate in opposition.

Assuming a three-year tenure, one would expect that there would be at least one Director seeking re-election every year. If a Director serves more than three terms then his views may have become entrenched. The regular addition of new Board members encourages both the development of fresh ideas and the regular questioning of existing opinions.

2.3 Experience/Qualifications

Certain Boards place restrictions on Directors that go so far as to prescribe nationality.

When a Board is recruiting a new Board Member to a closed-end fund Board, perhaps the most important selection criteria is the relevant experience and understanding of closed-end funds. This experience is preferable to knowledge of the country or region in which the fund invests. The latter is the responsibility of the manager, contracted by the Board and being paid to supply this skill.

Simply disclosing a name, age and number of board positions held is insufficient to enable Shareholders to make an informed decision.

A Board has an obligation to its Shareholders to provide sufficient information regarding its proposed slate of new Board members. As a general rule, Directors should not start a new term in office if they have been retired from active employment for more than five years. City of London believes that the skills and contribution of a Director outside this criterion may be too far removed from current business practices or thinking to allow them to truly add value to the Board over the long term.

2.4 Board Remuneration

City of London believes the best way of achieving the proper alignment of interests is by remunerating Directors, to the extent permitted by applicable law, in shares. Either through shares purchased in the market or by issuing new shares at the higher of net asset value per share or the prevailing mid-market price. At the very least, stock should comprise half of a Director’s remuneration. This has the virtue of encouraging Directors to be conscious of the discount. It also ensures that a Director’s personal financial circumstances are directly linked to the long-term success of the Fund.

City of London believes that, if the above policy were applied, it would generally be inappropriate for a Director to dispose of such shareholding whilst a Director. However, City of London acknowledges that a Director’s personal circumstances may occasion the need for a disposal.

2.5 Chairman's Pay

The role of the Chairman is crucial to good corporate governance and the responsibilities of the role have evolved significantly in recent years. He/she is expected to take responsibility for director appraisals, board succession planning and regular assessment of the investment manager. It is only right and proper that the Chairman should be adequately rewarded for this added responsibility, and is vital to attract an individual of the highest caliber.

3. Definition of Independence

From our perspective an Independent Director would not be considered as such if he or she was also considered Independent on another 140+ Boards on which they served on the same complex, which believe it or not is a true example.

The independence of the Board and individual Directors is a crucial requirement for providing effective corporate governance in a closed-end fund. Independence has many differing, and often opposing, definitions. However, consensus generally emerges on when a Director is not independent. For a Director to have the trust and support of Shareholders he must not only be independent, but must also be seen to be independent.

Last year we were asked to vote for a new Director of a Fund where all we were told was that he was retired, had been an executive of a large Fund complex, and his age.

In the absence of evidence to the contrary, City of London's initial premise is that a Director is independent. However, City of London believes that any Director who falls within one of the following categories is not independent:

- current directors, officers and other personnel of the Manager or its affiliates, and their relatives;
- former directors, officers and other personnel of the Manager or its affiliates (within the previous 5 years);
- individuals with an on-going financial link to the Manager or its affiliates or the Fund;
- representatives of a Shareholder with a significant holding in the Fund;
- any individual currently or previously associated with a firm that currently has, or during the past five years has had, a material business or other financial relationship with services to the Fund, the Manager or an affiliate of the Manager group that was material to the individual;
- individuals whose independence may be compromised by service on multiple Boards of funds with the same Manager (i.e., complex) or its affiliates, or;
- individuals with cross-directorships with executives of the Fund, the Manager or Manager's affiliates, or similar arrangements.

We expect that any person appointed to a Fund Board will have been selected by a committee of other independent, non-executive directors. We also believe that a Director should hold a maximum of 3-4 Board positions if in full-time employment, and 5-6 if retired.

IV. The Board and Shareholders

1. Communication with Shareholders

Good Shareholder/Board communication leads to effective control and direction of the Fund.

1.1 Contact with the Board

The Chairman should be readily contactable and the Manager should not act as an obstructive sentry to Shareholders wishing to contact him. The Chairman should be available to deal with Shareholder requests and be a conduit for Shareholders' views. In addition, the Chairman should give a prompt, reasoned response to Shareholders' questions.

Institutional shareholders such as City of London abhor surprises resulting from poor shareholder communication. Boards should consult with shareholders on such matters as changes to the manager, benchmark, investment guidelines and discount control measures.

1.2 Regulation FD (Fair Disclosure)

In the US, Regulation FD (Fair Disclosure) provides that when an issuer discloses material nonpublic information to holders of the issuer's securities, who may trade on the basis of that information, it must publicly disclose the information. In the case of an intentional disclosure, public disclosure must be simultaneous. For an unintentional disclosure, the public disclosure must be made promptly.

Regulation FD does not prohibit Directors or Managers from answering questions. Where the information has been disclosed in the past, a question should be answered directly. Where a question touches on an important topic which has been hitherto undisclosed, it should be answered via a public disclosure. The intent of Regulation FD was clearly not to provide a shield for a Board to avoid accountability to Shareholders.

1.3 Shareholder Meetings

Before the Meeting

The Annual General Meeting should be publicised well in advance. The finalised agenda should be circulated prior to the meeting, including a detailed description of the motions to allow Shareholders to cast an informed vote. Consideration should be given to the practicalities of the slow and inefficient distribution of materials by custodians. While the Board will no doubt be advised as to an appropriate timetable, they must take responsibility for the final decision. Similarly, while they might delegate various duties to third parties (such as the distribution of proxy materials) they cannot eschew their responsibility of ensuring their satisfactory performance.

Suitable procedures must be in place to allow Shareholders to vote in person or by proxy. The use of votes cast by third parties in the absence of shareholder instructions (e.g., the Broker vote, as occurs in the US) is a questionable practice. Boards should not allow such votes to thwart the intent of Shareholders who are interested enough in their investment to register their vote. The use of the Broker vote was created to facilitate a quorum for ordinary business; it seems however that it can be also used against the wishes of voting shareholders. There have, over the past few years, been examples of Boards using the Broker non-vote against those that have taken the time to vote. In the end, Boards who undertake this type of "Protectionism" invariably fail. In the end they are held accountable by shareholders.

If a Board puts a resolution to shareholders, in particular large institutional shareholders, they should make the effort to meet and explain their views if they seriously expect shareholders to vote in favour of the resolution. For example, if a Board wishes shareholders to relinquish their

pre-emptive rights they should meet large shareholders to argue their case, it being City of London's opinion that by so doing the interests of smaller shareholders would be protected too.

If a meeting is to be adjourned, as much notice as possible should be given and the reconvened meeting should be well publicised.

At the Meeting

The agenda should be strictly adhered to.

To the extent possible, City of London will not permit its proxy to be used to approve motions raised under 'Any Other Business' where Shareholders are not given time to make considered judgements.

The Board should announce the results of the shareholder vote. This should disclose the number of votes cast 'For', 'Against' and 'Abstentions'. Most jurisdictions manage to do this at the shareholder meeting but there are certain noticeable exceptions. There is no valid reason why this should not be possible.

After the Meeting

A public announcement should be made as soon as possible after the meeting declaring the results and disclosing the voting pattern. The most efficient distribution media for this is via the newswires and recognised news services.

In our opinion it is not sufficient to wait for the next (possibly semi-annual) document to be produced by the Fund.

Where Shareholders have voted approving a motion or a resolution, the Board should take steps, and be seen to take steps, to implement their wishes.

1.4 General Communication

To the extent permitted by applicable law, Boards should take responsibility for ensuring that major Shareholders automatically receive all annual and interim reports and copies of other major announcements directly.

In most jurisdictions the Board is required to notify Shareholders and the market of significant events, such as when a company repurchases its own shares. However, the US only requires notification to the regulators. This is unacceptable; timely, market disclosure of all relevant facts (e.g. number of shares repurchased, when, and price paid, as well as the accretion to NAV) is necessary for evidencing the transparent nature of Board actions, and for calculating the actual investment performance of the Manager.

City of London believes that Boards should inform Shareholders as soon as practicable of any material change in any relevant aspect related to the Investment Manager, such as resignations, change of fund manager, etc. To the extent permitted by applicable law, Boards should also contact Shareholders to gather their opinions with regards to sensitive issues like change of Investment Manager and change or granting of sub-advisory contracts in advance of presenting the facts in the proxy forms to be voted at annual or extraordinary Shareholders meetings. Clear disclosure of the benefits for Shareholders should also be made public.

1.5 Directors' Responsibility

Directors have a legal obligation to look after the interests of all Shareholders. However, the Board can only be expected to act as directed by Shareholders. This tenet is central to the role of the Board and must underpin all their decisions and actions. If Shareholders do not vote they cannot complain when their views are not taken into account.

When communicating actions / timetables to shareholders, the Board is signaling an intent to carry out a course of action. In the event amendments are made to previously announced proposals, information should be communicated in a timely manner via a press release detailing the new course of action or amended timetable explaining clearly why a change or delay has occurred.

2. The Board/Shareholder Contract

A Board in promoting a new Fund enters into a contract with Shareholders, the terms of which are both explicitly stated in the prospectus and implied through asking Shareholders to acquire shares initially at net asset value (in reality a premium after including transaction costs.)

2.1 Awareness of the Discount - an implied term

When a Fund is launched a Board implicitly promises Shareholders that net asset value is a fair market price for the shares. A Board is therefore under an obligation to monitor the Fund's discount, particularly if it persists at a significant level for a "substantial period of time". The failure by a Board to address the emergence of a persistent discount is a breach of the implicit Board/Shareholder contract.

It is the Boards responsibility to manage the discount to NAV and to implement effective discount control measures when the discount is persistently wide. Such measures can only enhance shareholder value. When a Board introduces discount control measures and the market's perception is that the Board will honour its commitment, the result leads to significant narrowing with discount volatility constrained within a fairly tight range.

2.2 Rights Offerings and Issues

There have been a number of recent examples of rights offerings in the U.S. where shares have been offered at a significant discount to shares already priced at a significant discount. Here we take exception on two levels:

- 1) It would seem to us that it would be beneficial both to the Fund and to its Shareholders that securities should be repurchased at a significant discount (i.e., the "surplus" of shares should be reduced rather than increased).*
- 2) How can Independent Directors determine that such an erosion of value (in both NAV and share price) of shareholder value be justified?*

Rights issues and the like, other than in the rarest of circumstances, should not be made at a discount to net asset value. To do otherwise dilutes the net asset value to the detriment of existing Shareholders, particularly those who are unable to take up their entitlement.

If the Board is looking to reduce the size of the fund to reduce the potential over supply of stock causing the wide discount or add an incentive for the share price to trade closer to its NAV when buying shares back, the price investors should receive should be close to Net Asset value, this being the equivalent price paid at inception.

2.3 Treasury Shares

Boards have had the powers, for a number of years, to buy back shares, take them into treasury and re-issue these shares at a later date, when there is demand. It is City of London's experience that these powers have rarely been used effectively. Market participants such as ourselves can fulfil this role much more nimbly than any Board. Professional value investors, such as ourselves, will be competing with a Board to buy shares when the discount is relatively wide and sell shares once more when the discount narrows. We are effectively doing the job the Board are attempting to do via managing supply and demand. The other points that should be made in this regard are that we don't believe Managers should charge fees on Treasury shares and that if purchases are financed with leverage this should be disclosed and that the cost of this borrowing should be disclosed also.

2.4 Pre-emptive Rights

City of London believes that there is rarely a need for the Board of a Fund to have 'authorised but unissued shares' that it can issue other than to existing Shareholders at not less than net asset value in proportion to their existing holding.

New share issues, other than pro rata to Shareholders at not less than net asset value, are dilutive in effect and are potentially harmful to Shareholder interests. Therefore, Shareholders must always have the ability to take up any fresh issue of shares or be given the opportunity to make an informed decision as to why it is in their interests not to subscribe.

City of London will routinely vote against any resolution that gives a Board the power to allot new shares, other than to Shareholders pro rata to their existing holding, unless the resolution expressly states that such issues cannot be at a price less than the net asset value per share.

2.5 Funds in Liquidation

Cost is an issue here, but what tends to happen is that shareholders vote to put a fund into liquidation, the Board negotiate a contract with a liquidator and, at the point that the liquidator is appointed, the Board and the Manager no longer have any responsibility to shareholders and virtually all communication with shareholders ceases. In the U.K., the liquidation process typically takes years. We would advocate that as part of the liquidator's contract the Board negotiate a clause whereby shareholder are kept informed regularly, say quarterly, of an estimated NAV and a timetable for future payments.

2.6 Prospectus Commitments

Many Fund prospectuses and annual reports contain statements by Boards that "if shares of the Fund's shares trade at a substantial discount from the Fund's then-current net asset value for a substantial period of time, the Fund's Board of Directors will consider taking such actions as may seem appropriate to eliminate or reduce the discount." Such policy statements are generally discretionary to the Board.

Boards owe an obligation to Shareholders to explain what is meant by both "substantial discount" and "substantial period of time". A Board may retain discretion; however, the credibility of any Board is irretrievably linked to how it exercises that discretion. Board credibility is enhanced by highlighting its view of the meaning of vague statements as by so doing allows it to demonstrate its independence from the Manager.

2.7 Dividend Policy

The Board should disclose the intended Dividend Policy with Shareholders, including how frequently the fund intends to pay shareholders a dividend and factors affecting the dividend distribution. The Board should monitor the amount of unrealized capital gains in the portfolio and whether these should be realized in order to pay a larger dividend to shareholders, especially when a fund is trading at a large discount to NAV.

2.8 Capital Gains Management

Board responsibility also includes ensuring a managed distribution policy where capital gains do not reach untenable levels and thus interfere with the management or investment performance of the Fund. Management of a portfolio should be conducted in a manner to provide best performance for its shareholders and not to grow the assets of a fund to enhance management fees.

3 Measurable Targets

In the same way as a Manager's performance is measured against a benchmark, it is desirable for Shareholders to have a quantifiable standard against which to measure a Board. This is especially true when Boards are seeking specific permission from Shareholders for a course of action.

By stating their intention, a Board is able to manage Shareholders' expectations. Contrary to intuitive logic, stating its objective can also help a Board to achieve their goal, e.g., City of London's experience has been that when a Board states it will aggressively buy back shares if the discount is greater than, say, 15%, it is frequently found that the discount will narrow to around 15% without the Board having to purchase a share. On the other hand, there seems little point in a Board taking powers to buy back shares and their not using it.

3.1 Responsibility for Published NAV

A board should have in place adequate procedures to ensure that the published NAV is correct and that there are adequate checking mechanisms in place. After all, investors are making buy and sell decisions based on this published information. Human error is not an adequate excuse in an environment of systems, controls, double-checks, and management oversight.

V. The Board and the Manager

1. The Board's Relationship with the Manager

All of the points made earlier in the document take up time at Board meetings. We do not agree with batched meetings for obvious reasons and for the reasons articulated or stated earlier in this document and we do not agree with Directors holding multiple Directorships within the same complex.

The independence of the Board allows Directors to take an objective view as to issues concerning the Manager. Regular meetings between the two parties should provide an opportunity to review the performance and activities of the Manager. The Manager should furnish the Board with sufficiently detailed and accurate information to allow the Board to fulfill its duties. A Board that questions and challenges the Manager on occasion is likely to focus the mind of the Manager to the benefit of Shareholder value.

City of London believes that best practice would involve the Board reviewing the Manager's internal compliance procedures and the financial controls in place within the Manager and Custodian. It is, after all, the Board's responsibility to ensure that the Fund's assets are safeguarded, particularly with respect to areas such as stockbroking relationships and settlement issues.

City of London has historically strongly supported the establishment of a Management Engagement Committee, consisting solely of directors independent of the manager. The Committee should formally review the performance of the manager annually, and describe its conclusion and rationale in the annual report. Recent developments, especially in the U.K., highlight the growing acceptance of the need for such a Committee to review the Manager's performance within an objective and quantitative framework.

This committee should ideally:

Meet quarterly, and be comprised only of directors who are independent (to the extent the entire board is not independent), and who do not accept any direct or indirect consulting, advisory or other compensatory fee from the Fund, the Manager or any affiliate of the Manager other than in the Director's capacity as a Board member;

Agree in advance upon a relevant benchmark against which the investment Manager will be assessed;

Specify a period over which the investment manager's performance will be assessed;

Specify the level of volatility that is acceptable in achieving out-performance of the benchmark;

Specify that NAVs will be released to investors on a daily basis and the methodology for calculation of NAVs;

Monitor and assess the Manager's use of gearing/leverage;

Review performance/attribution reports;

Monitor portfolio characteristics (e.g., market capitalization) versus the fund's investment guidelines;

Review performance relative to an appropriate peer group, in addition to benchmark comparisons;

Specify and assess the Manager's fulfillment of its marketing obligation, and;

Closely monitor the Manager's expenses and those which are passed to the Fund.

The Manager's performance should be critically assessed against the Fund's benchmark and consistent underperformance should result in the board selecting and recommending to Shareholders a new manager.

2. Investment Policy

Compliance with the Fund's stated investment objectives and restrictions is to be expected from the Manager. It is the Board's obligation to ensure that Shareholder assets are not abused by investment outside those criteria.

In order to facilitate a meaningful measure of the Manager's performance it is imperative that an appropriate benchmark is chosen. This becomes of particular concern when the Manager is to be paid a performance related fee. The Board should periodically review the continuing relevance of the chosen benchmark.

The Board should be responsive to the wishes of the Shareholders as to the amendment of the investment guidelines and benchmark index in response to changes as the markets evolve.

3. Ancillary Services

The Board must exercise equal care when employing the services of support functions such as the company secretariat, proxy solicitation agents, or fund administration.

3.1 Value and Quality

When support services are provided by subsidiaries of the Manager these issues are especially sensitive. It should not be viewed as a way that the Manager can supplement its management fee.

The Board should exercise prudence and monitor all expenses against the quotes received, as it is all too easy for the total expense ratio to rise above an acceptable level. Good practice requires that periodically the Board should seek competing tenders for auditors and lawyers to ensure that the Fund is not being disadvantaged. This should be transparent and a process reported to Shareholders.

3.2 Control and Supervision

We have experienced a series of examples regarding incorrect releases and calculations of NAV. This is all the harder to accept when the calculation is being made within the same complex.

The Board of Directors is ultimately responsible for the implementation of a Net Asset Value calculation methodology to which the administrators of the Fund should strictly adhere. The methodology should include a procedure for the detailed calculation of the NAV, the frequency of NAV calculation and the media via which the NAV is to be disseminated. The detailed methodology should include the time at which stock prices and exchange rates are obtained for NAV calculation purposes. This methodology should be made freely available to all interested parties as well as being disclosed in the fund's financial statement, website and widely used pricing systems such as Bloomberg.

4 Launch of New Funds

The Board should monitor the launch of new funds by the manager with a similar mandate (asset allocation), in particular with reference to the discount of the current fund and amount of assets already invested. The move by the manager to launch a number of products in a short period of time may result in over supply of product and thus wider discounts in the future.

VI. The Fund and the Manager

1. The Manager's Tenure

A management contract longer than 12 months is unreasonably onerous on Shareholders in the event of the need to terminate the Manager.

When a new Fund is launched, City of London will be receptive to the needs of the Manager for some degree of security of tenure to compensate for the heavier workload and expense in the early years of a Fund's life. As a general rule, City of London believes it is appropriate for a Manager to have no more than two years security of tenure at the launch of a new Fund or fundamental restructuring of an existing Fund.

Shareholders should be given the opportunity annually to re-appoint the Manager. An annual vote can only serve to focus the Manager on the need to provide Shareholders with good performance and value for money with respect to investment management fees. In our opinion the Manager should be appointed on a contract no longer than 12 months, and be assessed quarterly by a Management Engagement Committee made up of independent directors.

2. The Manager's Remuneration

The level of compensation payable to the Manager must be appropriate for the particular type of Fund. It is to be generally assumed that a lower level of remuneration would be payable for a passive, index tracking fund than for an actively managed Fund with a high level of complexity. The Board should also be conscious of the potential economies of scale for a Manager as a Fund grows in tandem with the market and ensure that the benefits of such economies are shared with Shareholders. Compensation payable to the Manager should always be calculated on a net-assets basis. Under no circumstances should the Fund pay compensation on geared assets.

Where a performance fee is payable, the hurdle level should be set high enough to encourage genuine outperformance, attributable to the Manager, against both a peer group and a market benchmark. Managers should not be incentivised - and therefore rewarded - for achieving what is to be expected from an average investment manager with reasonable skill and diligence. A high watermark should also be in place so that a period of good performance subsequent to a period of under-performance is not rewarded.

3. The Name of the Fund

By naming a Fund after a Manager, City of London believes that all parties - the Board, the Manager and Shareholders - can lose sight of for whose benefit the Fund exists and is managed.

The argument is sometimes advanced that attaching the Manager's name gives a marketing edge which helps avoid discounts developing and creates an incentive for a Manager to address issues of poor performance which may reflect badly on the Manager's other Funds.

The evidence, in City of London's view, does not support either contention.

4. The Manager's Personnel

Many Funds become associated, in Shareholder eyes, with a particular individual(s) within the Manager. Such association will often prompt Shareholder investment decisions. City of London regards the timely public dissemination of information concerning such individuals and their involvement with the Fund and/or the Manager as a paramount obligation of both the Board and the Manager.

City of London recognises, but does not endorse, that certain Funds become associated with individuals. In the event that such individuals cease to be involved with the management of the Fund, the Board should formally review the appropriateness of the prevailing management arrangements for the Fund.

5. Cross Shareholdings

The use of cross shareholdings to frustrate the wishes of a majority of the Shareholders in a fund has received much attention in recent years. Specifically, in the split capital trust sector it became apparent that investment decisions which have resulted in a myriad web of cross shareholdings across the sector cannot in most cases be justified on the grounds of prudent investment decisions.

City of London believes that if there is to be any investment into a Fund by another Fund under the control of the same Manager, it should be limited to 5% of a Fund's voting equity. Further, the rights of the investing Fund as a Shareholder should not be used to prejudice other Shareholders. Therefore a Fund's Board should consider restricting, to the extent permitted by applicable law, the indirect voting rights of the Manager exercised by virtue of managing another investment vehicle that is a Fund Shareholder. Additionally, care should be taken to ensure there is no double charging of fees by the Manager.

6. Portfolio Transparency

The Manager should provide a regular update, preferably monthly, detailing the Fund's portfolio, which should include information on the underlying holdings and the level of any gearing. Information on the underlying holdings should include, at the very least, the Fund's top ten portfolio investments and their percentage weightings, and the amount of any private equity held in the Fund. Information on gearing should include the nature and tenure of any debt. The update should be made freely available in a timely manner to all interested parties, preferably on the Fund's web site.

VII. Conclusion

City of London's view is that a fund's Board should be fully independent from the fund's Manager in order to properly serve Shareholders' best interests. Management representation on a fund's Board can only dilute the effectiveness of the decision making process when considering sensitive matters, for example investment performance and the management contract. It continues to be demonstrated that poor corporate governance results in Fund price underperformance via the widening of the discount to Net Asset Value. We believe adoption of the standards laid out in this "Statement on Corporate Governance and Voting Policy for Closed-End Funds" will result in a better-supported and ultimately larger closed-end fund industry with greater global respect and support.



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