CITY OF LONDON
Investment Group PLC

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

Seventh Edition, November 2009

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Overview

City of London is a significant long term investor in closed end funds (CEFs) and wants to promote growth in the industry by encouraging Funds to make their product more attractive for investors. Poor tracking of a CEF's share price relative to its net asset value destroys shareholder value. The world is getting more competitive for CEFs: exchange traded funds are available which offer tight tracking. The CEF industry leaves itself vulnerable in this environment if it continues to allow unpredictable and substantial upward moves in discounts. Launching new products becomes virtually impossible after establishing a pattern of discount mis-management.

CEFs have largely escaped the Corporate Governance spotlight that has fallen on many industries. Boards need to run CEFs as a business, in a way that is responsive to their customers. The key is BOTH to deliver alpha (out-performance) relative to the benchmark AND to keep discounts in check.

For ten years we have quietly, in a non-prescriptive manner, been setting out the broad principles by which we believe closed end funds should be governed. At the end of the day, this is a matter of managing the supply and demand of quality products.

Our latest Statement on Corporate Governance reiterates these principles and lays out again the relationships we expect to see between the Board, the Shareholders and the Manager. Our position on these items has been consistent over time. Our concern is that the CEF industry will see competitive pressures continue to increase. This industry will thrive only if it demonstrates that it takes shareholder value seriously.

I. Introduction

1. The Purpose of This Document

This is the seventh edition of City of London's "Statement on Corporate Governance and Voting Policy for Closed-End Funds." This statement, the first of which was published in 1999, is intended 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. Corporate governance, in our opinion, therefore relates directly to shareholder value. 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 mainly in emerging markets. The firm was established in 1991, having grown out of a brokerage that specialized in closed-end funds. We have four offices in London, Coatesville (our U.S. office just outside Philadelphia), Singapore, and Dubai from which we identify and research closed-end fund securities in markets around the globe.

3. Our Approach to Corporate Governance

We are committed to supporting the closed-end fund industry and believe that good corporate governance is of paramount importance. The following statements outline our views on 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 encourage 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. The industry's state of development therefore varies from country to country, and thus the applicability of some of the views expressed herein will differ accordingly.

3.2 The Importance of Voting

City of London values its right to vote and abstains only as a result of a conscious decision. The default position 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.

We review each Board/Fund proposal/resolution on its merits and we 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 and provides one of the few opportunities for a shareholder to make his views known in a formal setting. We do not believe in 'voting with our feet', and merely selling the shares of a fund with an unresponsive Board. We believe it is more advantageous to work with Boards and Managers to improve shareholder value, and the Firm uses shareholder voting rights accordingly.

City of London maintains a Proxy Voting Policy which meets the U.S. requirement for "written policies and procedures" as described under Rule 206(4)-6 of the Investment Advisers Act of 1940. We vote proxies in every instance for the benefit of, and in the best interests of, the investment client. The objective is to seek to enhance the value of the associated security. The Policy does not prescribe specific voting requirements or voting considerations, but instead provides procedures for assembling voting information and for applying the informed expertise and judgment of CoL's investment professionals. We cannot vote in instances where proxy materials are not received on a timely basis. Therefore, administrative matters beyond our control may at times prevent voting in particular instances.

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 Shareholders, the Board, and the Manager—are safeguarded. In Shareholder terms, this ultimately translates into the delivery of competitive long-term financial returns measured against a relevant benchmark.

Proper management of the relationship between the Shareholders, the Board, and the Manager is fundamental to improving Shareholder returns. In order to promote the long-term prosperity of the closed-end fund industry, it is vital that Boards and Managers are committed to the pursuit of best practice in corporate governance.

3.4 Underlying Concepts and Policy

City of London's approach is not generally prescriptive. 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 the firm, decision-making on corporate governance issues is a collective process involving the Investment Management Teams in City of London's four offices. Exceptions to a policy or changes to a decision are always considered on a case by case basis using a collegiate approach.

One of the key concepts that underlies our approach is to ensure that our own control procedures are monitored internally on an ongoing basis. We expect that the funds in which we invest have similar compliance programs in place.

3.5 Socially Responsible Investing

We seek 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 hear that particular issues are important to our clients, we undertake to ensure that the Boards with whom we interact become aware of those concerns.

II. Ideal Relationship

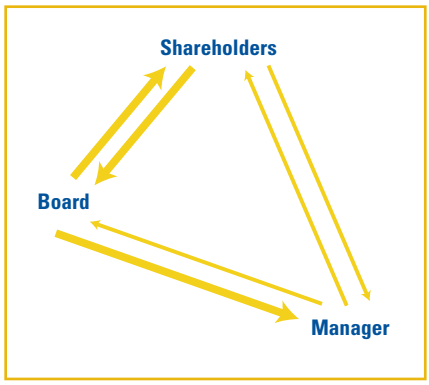
City of London's views are best illustrated by the concept of the "Eternal Triangle" — a partnership between Shareholders, the Board and the Manager.

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



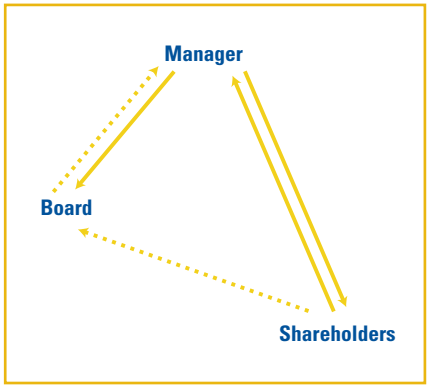
Too often Funds exhibit features of poor Corporate Governance, best illustrated by:

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 Safeguarding

City of London is aware that Boards 'contract out' the physical safeguarding of securities to recognised global custodians. Problems in this area are relatively rare, and are usually a result of

direct fraud or malpractice. Boards should ensure that adequate steps are taken to recognize and control exposure to counter-party risks as part of the safeguarding process.

1.2 Financial Safeguarding

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 leaves 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

City of London believes the ideal Board is 100% independent of the Manager. A representative from the Manager could routinely be invited to attend Board meetings, but should not possess the automatic right to attend. This arrangement allows the Board to communicate more fully and productively with the Manager due to the less personal nature of any criticism levelled directly at the Manager.

The Manager is employed by the Fund, and as such answers 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 under review.

2.2 Period of Tenure

If a Director serves more than three terms then his or her views may have become entrenched. Assuming a three-year tenure, one would expect that there should be at least one Director seeking re-election every year. 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

Key selection criteria should be whether the candidate possesses the requisite experience and understanding of closed-end funds. This experience is far more relevant than knowledge of the country or region in which the fund invests. The latter is the responsibility of the manager, who is contracted by the Board and being paid to supply this skill.

A Board should provide Shareholders with brief CV's of proposed new Board members. Simply disclosing a name, age and number of board positions held is insufficient to enable Shareholders to make an informed decision.

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 contributions of a Director outside this criterion may be too far removed from current business practices or thinking to truly add value to the Board over the long term.

2.4 Board Remuneration

City of London believes that Board members should be adequately rewarded for their service.

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. The Chairman is expected to take responsibility for Director appraisals, Board succession planning, and regular assessment of the investment

Manager. The Chairman should be adequately rewarded for these added responsibilities and it is therefore vital to attract an individual of the relevant calibre.

3. Definition of Independence

An independent Board is crucial for effective corporate governance of a closed-end fund. While independence can be hard to assess objectively, consensus generally emerges when a Director is not independent. For a Director to have the trust and support of Shareholders he must be seen to be independent. In the past where we have deemed it appropriate, we have suggested Directors wholly independent of our firm.

Shareholders often have to vote on a Director's election never having met the individual and on the basis of a very brief biography. 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, or a Concert Party of Shareholders, 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 or its affiliates. In our view, such a Director has a potential conflict of interest arising from his relationship with the Manager and, as stated above, conflicts of interest pose a threat to the Board's role of ensuring that the best interest of shareholders is pursued. In fact, by being an appointed Director by the Manager to several funds, this person gets a stipend per fund that, when accumulated, ends up being a potentially significant source of income. With this in mind such a Director could be inclined to vote in favour of the Manager's interests, even if they were against the best interests of shareholders;
- individuals with cross-directorships with executives of the Fund, the Manager or Manager affiliates, or similar arrangements.

For the avoidance of doubt, City of London will not automatically support the election or re-election of Directors that fall into the above categories.

We further expect that a person appointed to a Fund Board will have been selected by a committee of other independent, non-executive directors. City of London holds the view 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 communication between the Board and the Shareholders 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 a gate keeper 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 dislike surprises resulting from poor shareholder communication. Boards should consult with shareholders when considering such matters as changes to the Manager, benchmark, investment guidelines, and discount control measures, before their announcement or implementation.

1.2 Regulation FD (Fair Disclosure)

In the U.S., 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, or to excuse Managers from scrutiny. In many instances, City of London has been prepared to sign a confidentiality letter or be made "inside" regarding specific proposals.

1.3 Shareholder Meetings

1.3.1 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, thus allowing Shareholders an opportunity 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 avoid 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 is a questionable practice. Boards should not allow such votes to thwart the intent of Shareholders who are sufficiently interested in their investment to register their vote. The ability to use these votes was created to facilitate a quorum for ordinary business; it seems however that they can be also used against the wishes of voting shareholders. In the end, Boards who undertake this type of "protectionism" invariably fail and 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. In 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.

1.3.2 At the Meeting

The Meeting agenda should be strictly followed. To the extent possible, City of London will not permit its proxy to be used to approve motions raised under 'Any Other Business' as Shareholders are not given time to make considered judgments.

The Board should announce the results of any Shareholder meeting where Shareholders have voted. This disclosure should include the number of votes cast 'For', 'Against' and 'Abstentions'. Most jurisdictions provide for this at the shareholder meeting but there are notable exceptions. There is no reason why this should not be possible and we would assume that the Board would want Shareholders to know the outcome as soon as possible.

1.3.3 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, the Board should take steps, and be seen to be taking steps, to implement their wishes as soon as is practicable.

1.4 General Communication

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

In most jurisdictions, the Board is required to notify both Shareholders and the market of significant events, such as when a company repurchases its own shares. However, the U.S. 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 or the change of fund Manager. To the extent permitted by applicable law, Boards should also contact Shareholders to gather their opinions with regards to sensitive issues like the change of Investment Manager, or granting of sub-advisory contracts, in advance of presenting the facts in the proxy forms to be voted at Shareholders meetings. The benefits for Shareholders should also be clearly disclosed.

1.5 Directors' Responsibility

Directors have a legal obligation to look after the interests of all 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. It is this tenet that leads to City of London's commitment to use our vote as a matter of course.

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.

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 a persistent discount is a breach of the implicit Board/Shareholder contract.

It is the Board's responsibility to implement effective discount control measures when the discount is persistently wide. When a Board introduces discount control measures and the market's perception is that the Board will honour its commitment, the result can be significant narrowing with discount volatility constrained within a fairly tight range. Conversely, where discounts remain persistently wide it is the Board's responsibility to consider all options to enhance shareholder value, including but not limited to liquidation of the fund.

2.2 Rights Offerings and Issues

City of London will consider each capital raising proposal on its own merits but in every case support will depend on a satisfactory performance record and on appropriate discount control mechanisms being in place. Shares should not be issued at a discount unless the pre–emptive rights of existing shareholders are respected. Rights issues, other than in the rarest of circumstances, should not be made at substantial discounts to net asset value.

By the same token, a Board looking to reduce potential over-supply of stock that may be causing a wide discount should offer investors a price that is close to NAV, which was after all the price paid at inception. All shareholders will benefit from the ensuing discount narrowing. In contrast, the benefit of NAV accretion garnered by "cheap" buybacks is often lost if the discount remains wide but liquidity in the Fund's shares is reduced.

2.3 Treasury Shares

In certain jurisdictions, Boards have the powers 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 a typical 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.

Managers should not charge fees on Treasury shares. They should disclose leverage that will arise on purchases, and the cost of the borrowing to purchase Treasury shares should be disclosed separately from other borrowing costs. In our experience Fund Boards too often purchase shares when markets are high using borrowed money which has cost shareholders from both a capital and a revenue account perspective.

2.4 Pre-emptive Rights

New share issues, other than pro rata to Shareholders at not less than NAV, 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 fails to meet these conditions.

2.5 Funds in Liquidation

While cost is a consideration, it is important that a Fund which has been put into liquidation continues to communicate with its Shareholders. Often at the point that the liquidator is appointed, 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 Shareholders are kept informed regularly (e.g. quarterly) of an estimated NAV and a timetable for future payments, even if this announcement is via a website or newswire.

In addition, where a Board is recommending a liquidation of a Fund, it should publish a likely schedule of asset realisations and subsequent return of capital in consultation with the Manager and liquidator prior to any shareholder vote.

2.6 Prospectus Commitments

Many Fund prospectuses and annual reports contain statements by Boards along the lines that "if the Fund's shares trade at a substantial discount to the Fund's NAV 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.

We contend that Boards owe an obligation to Shareholders to explicitly define what is meant by both "substantial discount" and "substantial period of time." A Board may retain discretion, but the credibility of any Board is irretrievably linked to how it exercises that discretion. Board credibility is enhanced by avoiding the use of potentially vague statements.

2.7 Dividend and Capital Gains Distribution Policies

The Board should disclose the intended Dividend Policy to 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 announce the terms at which these will be realised and distributed to shareholders, especially when a fund is trading at a large discount to NAV.

2.8 Continuation Votes

It is our view that continuation votes should be accompanied by an event such as a partial tender offer. In adopting such a policy, the Board is signaling to Shareholders that they can vote in favour of continuation, confident of being given the opportunity in the future to realise value at close to net asset value. This policy is a vital part of the ongoing discount management process.

3. Measurable Targets

In the same way as a Manager's performance is measured against a benchmark, it is desirable for Shareholders to have quantifiable standards 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 its intention, a Board is able to manage Shareholders' expectations. Perhaps contrary to intuitive logic, stating its objective can also help a Board to achieve its goal. For instance, City of London's experience has been that when a Board states it will 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 then not using the powers.

3.1 Responsibility for Published NAV

A Board should have in place adequate procedures and controls to ensure that the published NAV is correct and that there are adequate checking mechanisms in place. The method of calculation should be transparent to allow investors to make informed decisions because investors are making buy and sell decisions based on this published information. We do not favour fair value pricing (FVP) by closed-end funds, and would ask that the unadjusted NAV also be disclosed where FVP is employed.

V. The Board and the Manager

1. The Board's Relationship with the Manager

1.1 Independence

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.

1.2 Safeguarding Assets

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, stock lending, cash and collateral management, and settlement issues.

1.3 Independent Review of Manager

City of London strongly supports 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, particularly with a view to rollover risk and covenants;
- 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;
- Closely monitor the Manager's expenses and those which are passed to the investment company.

Where portfolio investments are illiquid, and infrequently or subjectively valued, the Committee should satisfy itself that the valuations have been undertaken prudently particularly where they are relevant to the calculation of performance fees.

The Manager's performance should be critically assessed against the Fund's benchmark and consistent underperformance (over a reasonable period as determined by the Board) should result in the board selecting and recommending a new Manager to Shareholders. It is important that any NAV accretion resulting from buying back shares at a discount should be removed when assessing the Manager's performance.

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 adversely affected 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, and the motivation for any change in benchmark suggested by the manager.

3. Ancillary Services

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

3.1 Value and Quality

When support services are provided by subsidiaries of the Manager these issues are especially sensitive. Engagement of support services from affiliated entities should not be viewed as a way that the Manager can supplement its management fee. Alternative third party suppliers should be regularly considered.

The Board should exercise prudence and monitor all expenses to prevent the total expense ratio from rising above an acceptable level. Good practice requires that the Board should periodically seek competing tenders for the provision of professional services to ensure that the Fund is not being over-charged. This should be transparent process and reported to Shareholders.

3.2 Control and Supervision

The Board of Directors retains ultimate responsibility for the implementation of a robust Net Asset Value calculation methodology. The methodology should include the 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, on its website, and in widely used price dissemination systems such as Bloomberg.

3.3 Launch of New Funds

The Board of a Fund should monitor the launch of new funds by the Manager with care, and should be included in discussions at an early stage, particularly where the investment mandate is similar to the existing fund. As a general rule, City of London is wary of Managers who seek to raise assets whilst their existing funds trade on a discount. Good governance should dictate that

the interests of existing shareholders be placed above the fundraising imperatives of the Manager, particularly where these imperatives might result in oversupply 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.

Thereafter, 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's overall performance should 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 of scale are shared with Shareholders. Compensation payable to the Manager should always be calculated on the basis of net assets under management. Under no circumstances should the Fund pay compensation on geared assets.

We discourage performance fees for long-only relative strategies. 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 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, and to discourage use of excessive risk or leverage.

We also believe that Managers should not charge fees on uninvested cash where such balances are significant and have been held for periods of time longer than implied in the Prospectus. If the investment environment is such that the Manager cannot deploy Shareholders' funds in accordance with the mandate, Shareholders should be consulted on a return of their funds or a change of mandate.

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 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. 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 resulted in a myriad web of cross shareholdings across the sector could not 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 derived by virtue of managing another investment vehicle that is a Fund Shareholder. It may, in some circumstances, be appropriate that the Manager voluntarily abstains from any vote pertaining to the continuation or reconstruction of a Fund where they have an economic interest in the maintenance of the status quo. We believe Boards should encourage recognition of such circumstances.

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. This information should include, at the very least, the Fund's top ten portfolio investments and their percentage weightings, the amount of any private equity, real estate or any other illiquid holdings held in the Fund (where the fund is not a specialist investor in the relevant sector), and the level of any investment outside the relevant benchmark index.

Derivative positions, whether for hedging purposes or otherwise, should be disclosed. OTC derivative positions should have their counterparty disclosed. Information on gearing should include the nature and tenor of any debt, as well as any security arrangements over the assets of the fund, including repurchase agreements. The Manager should also detail the nature of any unfunded future commitments or contingent liabilities. The update should be made freely available, in a timely manner, to all interested parties and preferably on the Fund's web site.

We welcome your comments and questions about this Statement on Corporate Governance and Voting Policy for Closed-End Funds.

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Important Notice

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