CITY OF LONDON
Investment Group PLC

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

Eighth Edition, September 2011

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I. Preface

City of London Investment Management Company Limited ("City of London") is focused on continuing to achieve superior investment performance for institutional clients. We are a significant long-term investor in closed-end funds ("CEFs") and seek to promote growth in the industry by encouraging CEFs to make their product more attractive for investors. Good corporate governance is a vital element of this process. Our updated *Statement on Corporate Governance and Voting Policy for Closed-End Funds*, which was first published in 1999, identifies what we consider to be the current 'best practices' in the corporate governance of CEFs. It is addressed to Boards, Managers, Shareholders, and the professional investment community.

On our clients' behalf, City of London invests primarily in CEFs which themselves invest mainly in emerging markets. The firm has been an investor in emerging markets since 1991, and we have four offices (in London, Pennsylvania, Singapore, and Dubai) from which we research and invest in CEFs in markets around the globe.

City of London's Approach to Corporate Governance

Our approach to corporate governance is a collective process involving the investment management teams in each of our four offices. Our approach is not generally prescriptive and City of London would normally support a Board that attempts to 'do the right thing.' Exceptions to a stated policy are always considered on a case-by-case basis using our collegiate approach. We invite Boards to discuss important issues with our firm and we will endeavor to carefully consider each situation.

II. Introduction

Barry M. Olliff, Chief Investment Officer

In writing this introduction I thought that it would be a good idea to provide a few core values regarding the way we view the corporate governance of CEFs.

City of London 'core values' for Corporate Governance

- First, this is a very old industry. Its origins in the UK were circa 150 years ago and our interest is in supporting it. We would like to see it to grow.
- Second, as with anything that is old it is possible to develop bad habits. Our job as an engaged shareholder is to ensure that Boards are aware of our views and that they consider some of the wider implications of their actions.
- Third, we are not an activist; rather, we consider our position within the context of an ongoing relationship with the Manager and also the Board of a Fund. We are long-term investors and often can demonstrate that we have been longer term in our ownership than the average retail Shareholder.
- Fourth, whilst we avoid conflict we will stand up for our (Clients') rights.
- Fifth, we will review on a regular basis the ongoing performance of Boards in what we consider to be their Continuing Obligations.
- Sixth, we expect to meet with Boards. We do not expect them to undertake their work in isolation. We understand that they are part-time and that they might not have the commitment to our industry that we do, but that is no different from a conventional Independent (US) or Non-Executive (UK) Director of a conventional US or UK Corporation.

For the first time in over ten years we have changed the diagram from the old Eternal Triangle (shown below in Section III) that we have used to show how we view the responsibilities of the various parties that are involved within the context of a CEF. We have changed this diagrammatic way of showing and defining the responsibilities of the different stakeholders as in our opinion this relationship has developed.

As can be seen from the before-and-after this also allows for some assumptions regarding the responsibilities that we would ascribe to the various parties.

The need for independence combined with outreach

For the next few years, we have identified a number of themes from these responsibilities that we will be working on. From the perspective of the Board of a CEF we would suggest that the emphasis has moved from Independence, this has been something that we have focused on for many years and has improved significantly recently, to Outreach. In our opinion there is little point in Boards sitting in what are effectively ivory towers demonstrating oversight over a CEF with little knowledge of either the competitive landscape for the product they are overseeing or the requirements of either the marketplace or the owners, i.e. the Shareholders. It follows from this, specifically in the US, that we do not accept that a CEF Board Member can be on more than four Boards under normal circumstances, and that to demonstrate oversight and to oversee ten and in some instances twenty is in fact a contradiction in terms. For the record, some Directors in the US oversee more than fifty different Funds!

Demonstration of management control over critical aspects

Regarding the Board, rather than belabor the point, ask yourself as a Director of a CEF, with what level of knowledge could you demonstrate Management Control over the following aspects of your work? Review of Investment Performance? Benchmark index selection? Analysis of attribution? Risk-adjusted performance? Peer Group selection and analysis? Turnover analysis? Brokerage fees paid? Counter-party risk controls? Awareness of the Competitive Landscape? An Understanding of the Discount? Knowledge of competitors' Discount Control Mechanisms? Knowledge of measures taken by similar products in other global markets? Oversight regarding the expense ratio? Detailed knowledge of the Investment Management contract? Knowledge of dividend and capital gains distributions? Monitoring of unrealised capital gains distributions? Meetings with Shareholders? Knowledge of Shareholder base?

We do not accept that the majority of a Board's responsibilities should be wrapped up by lawyers via overseeing that the Manager has undertaken its Regulatory responsibilities or that there is just a need for a quarterly review of issues under the 1940 Act. If these things were not in place the Manager would be fired and anyway these could be the responsibility of a Committee of the Board. In our opinion the real business of the Fund and the responsibilities of a Director are to a great extent as referenced above since, after all, the business of a CEF is investment.

"long-term' investors are not 'everlasting'

Regarding the expectations of Funds' Shareholders. In our opinion, long-term means in excess of one year. That is the way that the IRS sees it in the US, reflected in the different treatment applied to long-term and short-term capital gain distributions made by a CEF: it is plus (long-term) or minus (short-term) one year.

We do not accept that a Board's definition of 'long-term' means 'everlasting.' What we would suggest is that Retail and Institutional investors purchase shares with the intention of achieving an objective. That is not to say that they become Short-term because they have achieved their objective (whatever that is or was) and move on. It is amusing how many times Boards imply that their responsibilities relate to a group of Shareholders who are long-term (Everlasting) as if they represent only that very small percentage (often 2% to 5%), who have held their shares for ten years. How can Boards, who in many cases are not aware of either the average holding period of their Shareholders or the percentage that they claim are long-term, represent that this is their primary group in terms of representation?

It's difficult for a truly Independent Board to differentiate between these groups and, what is most troubling, this is often relevant to the major area of discontent demonstrated by CEF Shareholders as it relates to the discount. There seems to be a school of thought amongst Boards on both sides of the Atlantic that suggests that if they do nothing about a [significant] Discount they are supporting long-term investors. Actually, it's often put around the other way; if they do something about it they are supporting short-term investors.

If these Funds were run as conventional businesses they would have decided where to position themselves within the Marketplace. Wide discount– Walmart. Narrow discount– Porsche. Don't be surprised if bargain shoppers buy your (their) products at Walmart, isn't that what that positioning encourages? On the other hand, try and buy a new Porsche cheaply and you know what the reply will be. The point is if you let the Discount get wide in a CEF that you 'Direct' do not be surprised if investors of a short term nature purchase shares. This Discount is after all within your control.

The shareholders are the owners of the business

The Manager. The Manager has a contract. We all know what a contract is; it's an agreement between two parties that can be terminated normally by either party. It does not demonstrate any type of ownership and in this (CEF) situation those responsible for the 'oiling of the wheels', in terms of their Responsibilities, are the Boards.

Underlying all of this are the Shareholders, the owners of the business. If the Manager loses the plot then the Shareholders will be there asking the Board what actions they propose. Obviously if a Board hides and is not available then Shareholders will take the law into their own hands and use their votes and their influence accordingly.

There are two relevant points here:

1) For Board members to say that they cannot possibly know their Shareholders misses the point. They could know their Shareholders if they oversaw four or less Funds. We all know how Wholesaling works, thus there is no need to know every single Shareholder, but rather there is a need to be 'sensitive to the views of Shareholders (generally)' and for information to be collected from a number of third parties (Temperature Takers) on behalf of retail investors. Institutions should be able to look after themselves.

The Board, not the Manager, should be responsible for managing the discount

2) There is no point in a Board suggesting that the Manager should assume the role of Discount Manager or 'Temperature Taker.' This is a direct conflict that anyone can see. Why would a Manager (who after all only has [should have!] just a Contract to manage the assets) tell the Board that Shareholders have told him that the Discount was too wide or that the Benchmark was wrong or their Investment Performance was poor. This would be similar to your window cleaner (who after all only has a contract to clean your windows) telling you that he had done a bad job or was taking too long!

The two main centres where we trade CEFs are in the UK and US and, as can be seen from the table on page 5, there are some differences within the CEF industry between the US and the UK. In our opinion, we would like to see the highest standards from both survive.

There are significant differences between UK and US CEFs

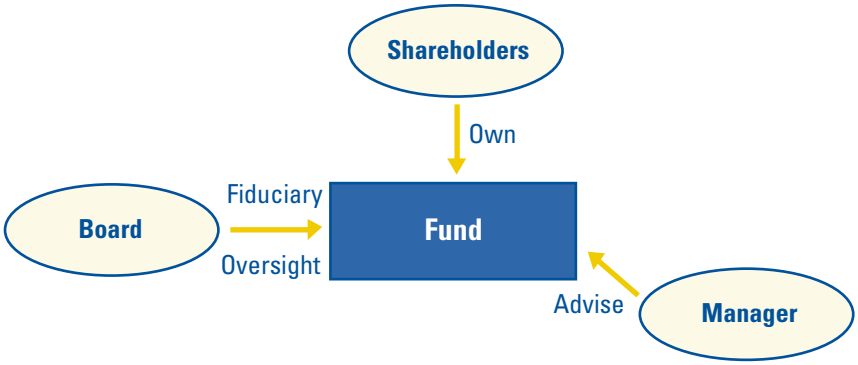
Characteristic	London	US
Industry groups	The AIC's (Association of Investment Companies) mission is to help its members add value for Shareholders	The ICI (Investment Company Institute) is an industry group representing Managers which is sometimes at odds with shareholders' interests
Industry groups' position on Corporate Governance	The AIC has a detailed Corporate Governance Guide for Investment Companies	The ICI has no published policy with respect to corporate governance other than to support the NYSE Corporate Governance Report
Relationships between Board, Manager and Shareholders	Industry is disciplined; responsibilities are clearly defined	The rules are opaque; boundaries are blurred
'Rules of Engagement'	Directors act as fiduciaries	The rule seems to be tilted more towards a 'buyer beware' approach
CEFs' interaction with Shareholders	Boards and Managers regularly visit major Shareholders	Managers and Boards rarely visit major shareholders or allow major shareholders to meet with them
CEFs' approach to Shareholder meetings	London is significantly more shareholder-focused. Boards and Managers listen to Shareholders	The rules are opaque and what we undertake is far higher risk. There are conflicts galore and lawyers rule the roost
The ability to vote 'against'	Shareholders can vote directly against a Director's candidacy	Shareholders cannot vote against a Director, only withhold
Potential for dilution of shares	Pre-emptive rights protect Shareholders from dilutive issues	There seems to be little or no Shareholder protection against dilutive share issuance
Directors' ability to make binding commitments	Directors can enshrine whatever they want into the prospectus in terms of future commitments	It is almost impossible for Directors to promise to undertake anything in the future
Commitment to discount control measures	There is a growing commitment to discount control measures	Discount control measures seem to be adopted as a last resort
Directors' fiduciary duty	Directors have a fiduciary duty to protect shareholders	Directors' fiduciary duty is to the investment company itself
Capital gains distributions	There is no requirement to distribute gains; thus there is no conflict regarding distributions and fees	The Manager faces a conflict between taking profits and thus making 'distributions' as a result of the capital gains tax rules. Obviously distributions reduce fees
Legal fees as an Institutional shareholder working with CEF Boards	City of London's spending on legal advice is negligible	Significant amount spent on legal advice

While we acknowledge that some progress has been made in recent years, this table demonstrates that there are still too many gaps in best practice between the two centres.

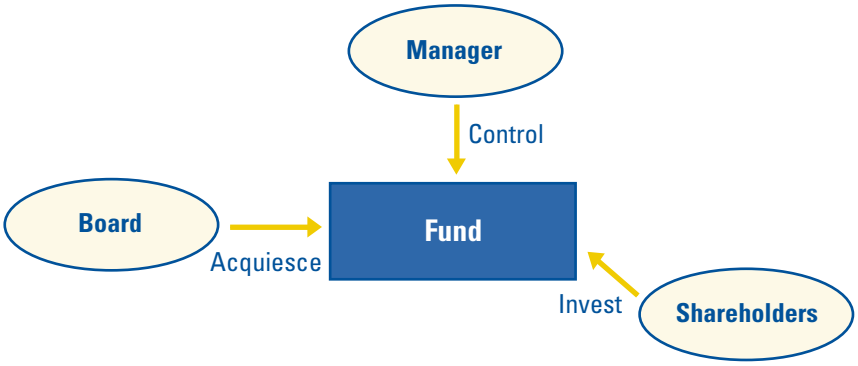
III. Ideal Stakeholder Relationship

The Ideal Stakeholder Relationship is a partnership between Shareholders, the Board and the Manager.

Ideal Relationship



Historic Relationship



IV. The Board

1. Role of the Board

a. Fiduciary Duty to Shareholders

We believe that the Board owes a fiduciary duty to the Shareholders of the Fund as the owners of the business. We believe this should be viewed as the fundamental principal upon which the role of the Board should be based.

b. Importance of Independence from the Manager

We believe 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 leveled directly at the Manager.

In the US in particular, the Board tends to be comprised, in part, of employees or former employees of the Manager, or "friends" of the Manager. This makes it far less likely that the ongoing review of the Manager's performance will be impartial.

The Board must manage the discount

c. Discount Management

A primary responsibility of the Board of a CEF is management of the discount. This responsibility should not be delegated to the Manager. We expect to see formal discount control mechanisms in place. Formal, documented controls ensure that potentially difficult decisions are taken at times where the 'easy' route might be to delay implementation of 'advisory' controls.

d. Role of the Chairman

The Chairman plays a key role in ensuring that the Board meets its fiduciary obligations to Shareholders. We continually seek to evaluate the quality of the Chairman's leadership in assessing the investment potential of a CEF, both prospectively and on an ongoing basis.

The responsibilities of the Chairman's role have evolved significantly in recent years. The Chairman is expected to take responsibility for Directors' appraisals, Board succession planning, and oversight of the regular assessment of the investment Manager (ideally via a management engagement committee as discussed in VI.1.c. below).

2. Composition of the Board

The qualifications necessary for Directors

a. Experience and Qualifications

Key selection criteria should be whether the candidate possesses the requisite experience and understanding of CEFs. 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 a substantial period. 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.

b. Limitations on Directors' Tenure

City of London believes that if a Director serves more than three terms, then his or her views may have become entrenched. Assuming a term of three years, 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.

As noted above in the Introduction, City of London holds the view that a Director should normally hold a maximum of four Board positions, although we realise that there are factors that should be considered in making any final determination.

c. Board Remuneration

City of London believes that Board members should be adequately rewarded for their service. In particular, we acknowledge that the Chairman should be adequately rewarded for these added responsibilities, and it is therefore vital to attract an individual of the relevant caliber. We believe that *qualified* CEF Directors in the US are significantly underpaid relative to their responsibilities.

d. Definition of Independence

An independent Board is crucial for effective corporate governance of a CEF. While independence can be hard to assess objectively, consensus generally emerges when a Director is not independent.

We expect that a person nominated for appointment to a CEF Board will have been selected by a committee of other independent, non-executive Directors. In the absence of evidence to the contrary, City of London's initial premise is that a prospective Director is independent. However, City of London believes that any Director who falls within one of the following categories is not independent:

The definition of independence

- 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;
- individuals 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 providing 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. In our view, such a Director has a potential conflict of interest arising from his relationship with the Manager, because the per fund stipends, when accumulated, end up being a potentially significant source of income;
- 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 who fall into the above-listed categories. By the same token, where we have deemed it appropriate, we have only ever suggested Directors who are wholly independent of our firm as per these same criteria.

3. Safeguarding Assets

a. Financial and Physical

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 further ensure that adequate steps are taken to recognize and control exposure to counter-party risks as part of the safeguarding process.

V. The Board and Shareholders

1. The Board/Shareholder Contract

A Board, in the promotion of a new Fund, enters into an ongoing contract with Shareholders, the terms of which are both explicitly stated in the prospectus and implied through offering shares initially at net asset value. We accept that it is not a Board's responsibility to check all relevant information, rather that they have systems and controls in place to enable them to demonstrate the suitable oversight.

A persistent discount is unacceptable

a. Awareness of the Discount –'an implied term'

When a CEF is launched a Board implies to 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, and to take action if it persists at a significant level for a substantial period of time. We view the failure by a Board to address a persistent discount is a breach of the implicit Board/Shareholder contract.

When a Board introduces discount control measures and the market's perception is that the Board will honour its commitment, the result invariably leads to significant narrowing with discount volatility constrained within a tighter range. Where discounts remain persistently wide, it is the Board's responsibility to consider all options to enhance shareholder value, potentially including liquidation of the fund.

A rights offering should not be authorized at a substantial discount to NAV

b. Rights Offerings and Issues

We will consider each capital raising proposal on its own merits, but in every case support will depend upon a satisfactory performance record and the existence of appropriate discount control mechanisms. Shares should not be issued at a discount unless the preemptive rights of existing shareholders are respected via an opportunity for Shareholders to vote in support. Rights issues should not otherwise be authorised at a discount to net asset value.

A Board seeking to reduce an over-supply of stock causing a wide discount should offer investors a price that is close to current NAV, which was after all the price paid at inception. All shareholders will benefit from the ensuing discount narrowing.

c. Treasury Shares

In certain jurisdictions, Boards have the power to buy back shares, take them into treasury and re-issue these shares at a later date, when there is demand. Treasury shares should never be re-issued at a discount and shares held in treasury should be cancelled after 12 months.

The CEF should disclose leverage that will arise on purchases, and the cost of the borrowing to purchase Treasury shares should be disclosed. In our experience, 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.

d. Pre-emptive Rights

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.

e. Funds in Liquidation

While cost is a consideration, it is important that a CEF which has been placed in liquidation continues to communicate with its Shareholders. Often at the point that the liquidator is appointed, virtually all communication with shareholders ceases. In the UK, 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 liquidation, 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.

Boards should provide unambiguous guidance regarding DCMs

f. Prospectus Commitments

Many CEF 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 give unambiguous guidance about what is meant by a "substantial discount." A Board may reasonably retain discretion, but Board credibility is enhanced by explaining the meaning of potentially vague statements.

g. Dividend and Capital Gains Distribution Policies

As is the case in US CEF prospectuses, 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. In the US, the Board should monitor the amount of unrealised capital gains in the portfolio and announce the terms under which these will be realised and distributed to shareholders, especially when a CEF is trading at a large discount to NAV. In the US, significant undistributed long-term capital gains are not in the interest of Shareholders because they invariably imply long-term inflexibility, which is discounted by the marketplace via a wider discount to NAV.

Continuation votes provide an opportunity to provide a partial tender offer

h. Continuation Votes

It is our view that continuation votes should be accompanied by a commitment to 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 a further 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.

2. Communication with Shareholders

a. 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, in the

US the notification is not required to be made directly to the marketplace or in a timely manner. 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.

Boards should communicate more information than merely what is legally required

City of London believes that Boards should inform Shareholders as soon as practicable of any material change in any relevant aspect related to the Manager, such as resignations or the change of the 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.

Directors have a legal obligation to look after the interests of all Shareholders. However, the Board can only be expected to act in the interest of Shareholders to the extent that Shareholders have clearly communicated their views. 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.

b. 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. City of London believes that Boards in the US should be much more willing to consult with Shareholders when considering such matters as changes to the Manager, benchmark, investment guidelines, and discount control measures.

c. Regulation FD (Fair Disclosure)

In the US, Regulation FD (Fair Disclosure) provides that, prior to disclosure by an issuer of material non-public information, the issuer must either obtain a commitment from that party that it will neither trade on nor divulge that information or the issuer 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.

In the US, Directors should not hide behind Regulation FD

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, or after an explicit agreement that the party will be brought 'inside.' 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 certain instances, City of London has been prepared to sign a confidentiality letter or be made 'inside' regarding specific proposals.

d. Shareholder Meetings

i. Before the Meeting

The Annual General Meeting should be publicised well in advance. The agenda should be circulated prior to the meeting and should include a detailed description of the motions.

Boards should explain clearly why Shareholders should support each resolution thus allowing Shareholders an opportunity to cast an informed vote. The brief descriptions found in proxy statements sometimes provide too little information for shareholders to make informed decisions. If a meeting is to be adjourned, as much notice as possible should be given and the reconvened meeting should be well publicised.

Consideration should be applied regarding 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 the Board may delegate various duties to third parties (e.g. the distribution of proxy materials), it cannot avoid responsibility for ensuring satisfactory performance.

ii. 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.

In the UK, the voting rights of shareholders who have declined to vote should not be exercised unless they are cast pro rata to the overall result of voting shareholders. This is especially pertinent to the savings schemes operated by some UK Trusts in which management and Directors may disproportionately influence voting and thus the overall result.

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' (where applicable). 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.

iii. 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.

e. 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. We would make the point that 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. CEFs should not adopt fair value pricing for quoted assets when markets are closed as investors could be misled by this practice. To the extent FVP is used, the procedure should be clearly spelt out and the difference between the FVP estimate and the actual NAV should be made available.

3. Measurable Targets

The Board should provide a commentary on the Fund's performance against its objectives and if appropriate it should indicate what action is being taken to correct any under-performance. The Board should also set out the circumstances under which the Manager will be replaced and the procedure that would be followed for such a review.

VI. The Board and the Manager

1. The Board's Relationship with the Manager

a. 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 for the benefit of Shareholder value.

b. 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 parameters.

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.

c. Independent Review of Manager

As is required in the US under the 1940 Act, 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 in the UK highlight the growing acceptance of the need for such a Committee to review the Manager's performance within an objective and quantitative framework.

The importance of the independent review of the Manager

The Management Engagement Committee should ideally:

- Meet quarterly (the current requirement in the US is for a meeting at least annually), 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 outperformance of the benchmark;
- Specify that NAVs will be released to investors on a regular 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 those expenses which the Manager passes to the investment company;
- Ensure that all information distributed by third parties is accurate and up to date.

Where portfolio investments are illiquid, and infrequently or subjectively valued, the Committee must satisfy itself that the valuations have been undertaken prudentially particularly where they are relevant to the calculation of performance fees. Any NAV accretion resulting from buying back shares at a discount should be removed when assessing the Manager's performance.

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.

d. 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 the fact that the Fund exists and is managed via a contract for the benefit of the Shareholders. 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.

2. The Investment Management Contract

a. 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 CEF 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 CEF or fundamental restructuring of an existing Fund. Thereafter, Shareholders would ideally 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.

b. 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 ensure that Shareholders benefit from the economies of scale as a Fund grows. Compensation payable to the Manager should always be calculated on the basis of net assets under management. Under no circumstances should the CEF pay compensation on geared (i.e. leveraged) assets.

In the UK, 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 – 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, and to discourage use of excessive risk or leverage.

We also believe that Managers should not as a matter of course charge fees on uninvested cash, where such balances are substantial and have been held for periods of time longer than inferred 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.

c. 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.

The Board accepts additional risk when an individual becomes a 'star' manager

d. Cross Shareholdings

In the UK, 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. 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. 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. Of course, care should be taken to ensure there is no double charging of fees by the Manager.

3. Ancillary Services

a. Value and Quality

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

When support services are provided by subsidiaries of the Manager, these issues are especially sensitive. Provision 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.

b. Control and Supervision

The Board of Directors retains ultimate responsibility for the adequacy of procedures to ensure proper control and supervision of ancillary service providers.

c. Launch of New Funds

The Board of a CEF should carefully monitor the launch of new funds by the Manager 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.

4. The Manager's Communication with Shareholders

a. Portfolio Transparency

The Manager should provide regular updates, preferably monthly, detailing the Fund's portfolio, which should include information on the underlying holdings and the level of any gearing (i.e. leverage). Information on the underlying holdings 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 should be disclosed, whether for hedging purposes or otherwise. OTC derivative positions should have their counterparty disclosed. Information on gearing (leverage) 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.

VII. Voting Policy for Closed-End Funds

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 in this Statement.

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 CEF with an unresponsive Board. We believe it is more advantageous to work with Boards and Managers to improve shareholder value, and City of London uses shareholder voting rights accordingly. 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.

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. Our procedures do not prescribe specific voting requirements or voting considerations, but instead provide for assembling voting information and for applying the informed expertise and judgment of City of London'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. City of London maintains a Proxy Voting Policy which can be provided upon request and meets the US requirement for "written policies and procedures" as described under Rule 206(4)-6 of the Investment Advisers Act of 1940.

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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