



CITY OF LONDON
Investment Group PLC

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

Fifth Edition, September 2005

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I. Introduction

This Statement is addressed to Boards, Managers, Investors and the Professional community.

City of London is an institutional investor in closed-end funds.

City of London values its vote as an asset and will normally exercise its right to vote.

1. Purpose of this Publication

This is the fifth edition of City of London’s ”Statement on Corporate Governance and Voting Policy for Closed-End Funds.” Our intention in publishing this statement 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. 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 securities in markets around the globe.

3. Our Approach to Corporate Governance

The following paragraphs 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 regulators 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 do not vote, then 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, however, 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 versus some 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. This statement of corporate governance policy is prepared from the Shareholder perspective; however, it is in Managers' best interests to promote the long-term survival of the closed-end fund industry and, for this, their commitment to best practice in corporate governance is vital.

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 perceives there to be the potential for either 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 within a collegial approach.

In closed-end funds, understanding the relationship between the Board, the Manager, and Shareholders is fundamental to improving the return to Shareholders.

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II. The Current State of the Closed-End Fund Industry

Recent scandals have brought the importance of corporate governance into focus.

The split capital trust scandal in the U.K. brought significant changes to the closed-end fund industry.

The FSA mandated that a Board review specific parameters in determining whether to renew a Manager's investment advisory contract.

At the time we published our last update (2003), scandals had rocked both the U.S. and U.K. regulatory landscape. In the U.S., Congress had recently passed the Sarbanes-Oxley Act in response to a series of scandals that had, at their heart, issues related to broad failures in corporate governance. In the U.K., it was the split capital trust problems, directly involving the closed-end fund industry, which precipitated a regulatory response. Two years later, the changes wrought by these events can be analyzed in terms of their impact on corporate governance in the closed-end fund industries in these markets.

In the U.K., the split capital trust scandal led to changes to the LSE Listing Rules governing Investment Companies. The FSA, after consultation with practitioners in the industry (including City of London), adopted regulations specific to the closed-end fund industry. Significant improvements have resulted. Generally, the regulations provide detailed guidance regarding the degree to which a Board must be independent from the Manager, as well as mandating greater transparency with respect to the holdings in closed-end funds.

The amendments to the Listing Rules contain specific requirements that now provide for genuinely independent Directors. A majority of the Board must be independent, and the Board must demonstrate it will act independently of the investment manager. No more than one Director of a closed-end fund may be a Director of the fund's investment manager, and that Director must be subject to annual re-election. The Chairman of the Board must be independent, and, crucially, the Chairman may not be a director of another fund advised by the same Manager.

The FSA also focused attention on a closed-end fund's contractual relationship with the Manager, with emphasis on disclosure. The Listing Rules now stipulate that certain steps be undertaken with respect to reviewing the Manager's performance. Specifically, the annual report must include a summary of the investment management agreement, including details of compensation for early termination. Any material change in the Fund's investment policies may only be made with Shareholder approval. The report must also include a prominent statement as to whether the Directors believe that an extension of the Manager's contract is in the best interests of the Shareholders as a whole, together with a statement of the reasons for this view. The regulations go so far as to specify that the discount is a factor that the Board will use in its consideration of the Manager's performance.

Of less relevance, perhaps, to City of London is the provision in the Listing Rules addressing the issue of "cross investing" between

Overall, the state of corporate governance in the U.K. closed-end fund industry is significantly improved.

In the U.S., the Sarbanes-Oxley Act had little impact on corporate governance within the closed-end fund industry.

The standard of Shareholder reporting in the U.S. closed-end fund industry is inadequate.

closed-end funds, a factor that precipitated the split capital trust scandal. Essentially, the FSA has forced additional disclosure of the details of significant cross investments.

In summary, the changes to the Listing Rules provide significant improvements in two broad areas which City of London has consistently identified as critical to improving the governance of closed-end funds: requirements that force independence of fund Boards; and, greater transparency regarding both fund holdings and the contractual relationship with the Manager. While a clear definition of a Board's independence from a fund's Manager still has not been fully addressed in the U.K., significant progress has been made. As we would have expected, the net result of these advances in corporate governance is that discounts in London-listed closed-end funds have narrowed measurably.

On the other hand, the corporate governance problems that surfaced in the U.S. at the beginning of this decade were broad-based. The Sarbanes-Oxley Act was intended to redress the transgressions of the likes of Enron, WorldCom, Tyco et al, but it barely touched the closed-end fund industry. The industry-specific focus of the U.K.'s split capital trust scandal was missing in the U.S. when our last Statement was published in 2003. Subsequently, however, the mutual fund industry found itself swept up in scandals involving late trading and market timing, which did serve to bring a new focus on corporate governance.

In the past two years, the SEC has adopted several amendments to rules aimed directly at strengthening the independent Directors' 'watchdog' role in managing conflicts of interest between the Manager and the Shareholders. Requirements that independent Directors meet separately at least once per quarter, perform an annual "self-assessment," and be affirmatively authorized to hire their own staff, are all significant steps towards enhancing their "independence." The extent to which these provisions translate into an improvement in corporate governance practices will become clear over time.

The U.S. closed-end fund market is now in excess of 75% institutionally owned, and the industry should raise the standard of Shareholder reporting in recognition of this reality. The annual report for a Fund should include detailed disclosure of items such as performance attribution, portfolio turnover, brokerage commission review, liquidity screening, investment guideline review, and investment manager compensation. The SEC now requires that a Board retain copies of written materials it considers when approving the fund's advisory contract, and that a discussion of some specific factors be included in the report. We encourage Boards to embrace the spirit of these new requirements, in order to improve portfolio transparency.

Another area that warrants scrutiny is the out-dated "broker vote" rule, which is unique to the U.S. Enabling brokers to vote on behalf

of street-name shares on ‘routine’ matters—often including such potentially critical issues as Board elections—warrants scrutiny in the context of a market dominated by institutional Shareholders.

Change often occurs as part of a series of steps, rather than as a linear progression. The past two years have yielded significant improvements in corporate governance in the U.K. closed-end fund industry as a result of regulatory changes. As we would have predicted, discounts have narrowed. In the U.S., the next couple of years will reveal the extent to which generally parallel regulatory changes serve to strengthen the role of independent Directors. Ultimately, the test within the closed-end fund industry will be the extent to which discounts narrow over time.

Overall, across all markets, City of London has as our goal the creation of a closed-end fund industry that demonstrates better accountability and transparency. We seek to encourage the creation of more competitive products in order to attract a larger number of investors to closed-end funds. We endeavor to educate Boards, through this policy statement and through our direct interactions with Directors, regarding the changes necessary if the industry is to grow.

A Board must demonstrate the ability and willingness to objectively assess the Manager’s performance, and to replace an under-performing Manager where warranted.

III. The Board

1. Role of the Board

Physical Safeguarding

City of London is aware that it is normal for the Board to ‘contract out’ the physical safeguarding 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.

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

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 argument is flawed. A representative from the Manager should routinely be invited to attend Board meetings, but not have the automatic right

*Principal Responsibility -
To ensure assets are safeguarded
both physically and financially.*

*City of London believes that
the entire Board should be truly
independent of the Manager.*

Shareholders must have the opportunity to express their discontent with the performance of a Director or the Board as a whole.

Directors must possess the skills to enable them to add value over the long term.

The method of remuneration of Directors must ensure that their interests are allied to those of Shareholders.

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.

One should remember that 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 and the Manager's position is in doubt.

2.2 Period of Tenure

A Director should serve no longer than three years without there being a vote by Shareholders for his re-election. A Director should serve for no longer than three full terms subsequent to his initial election. Shareholders should have the ability to vote to 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 Age/Experience

As a general rule, Directors should not start a new term in office beyond the age of 70 or if they have been retired from active employment for more than 5 years, whichever is the earlier. Nor should any spurious restrictions or qualifications be imposed limiting who can be a director.

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 is applied, it would generally be inappropriate for a Director to dispose of such share-

The Chairman should be adequately rewarded for his added responsibility.

City of London believes that current or former Directors, officers and other personnel of the Manager or its affiliates, and their relatives, are not independent.

holding 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 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 vital to attract an individual of the highest calibre.

3. Definition of Independence

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. 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 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 interests 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, not necessarily but possibly, inclined to vote in favour of the Manager's interests, even if they were against the best interests of shareholders; or

individuals with cross-directorships with executives of the Fund, the Manager or Manager affiliates, or similar arrangements.

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.

It is also expected that any person appointed to a Fund Board will have been selected by a committee of other independent, non-executive directors.

City of London will consider exceptions to its policy on a case by case basis.

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

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

1.2 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

An independent point of contact, preferably the Chairman, should be clearly identified as the principal point of contact for Shareholders.

General Shareholder meetings are the formal opportunity for all parties to communicate issues.

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 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’ as 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.

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

1.3 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.

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

Board actions should be of a transparent nature, and should be clearly communicated to shareholders.

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 disclosed.

1.4 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. Similarly, it is contrary to the principles of democracy if the views of Shareholders who do vote are obstructed by the apathy of the silent Shareholders. It is analogous to the winner of an election not being allowed to take up their post because a large number of the population did not vote.

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". A failure by a Board to address the emergence of a persistent discount is a breach of the implicit Board/Shareholder contract.

2.2 Rights Offerings and Issues

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.

2.3 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.

A Board's disregard of the emergence of a persistent discount is a breach of the implicit contract with Shareholders.

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.

2.4 Prospectus Commitments

Many Fund prospectuses and annual reports contain statements by Boards that “if listed shares of the Fund 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 it demonstrates its independence from the Manager.

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.

The Board must honour statements and commitments, however non-specific, made in their name.

When a Board embarks on a particular course of action it should clearly define in a quantitative manner what the objective is and how this success should be measured.

V. The Board and the Manager

The Board has an obligation to oversee and monitor the Manager.

The Management Engagement Committee.

The Manager's performance should be assessed within a well-defined framework.

1. The Board's Relationship with the Manager

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:

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 management 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; Closely monitor the Manager's expenses and those which are passed to the investment company.

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.

It is the Board's duty to ensure the Manager adheres to the stated investment policy and that a relevant benchmark is provided to gauge the performance of the 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 remit 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 their 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 a transparent and reported process to Shareholders.

3.2 Control and Supervision

A recent global trend that can be applied to closed-end funds has been to require directors of companies to be able to demonstrate the fulfillment of their duties. The UK regulators have issued CP35 (Senior Management Arrangements, Systems & Controls) to develop this point.

This principle can equally be applied to closed-end fund Boards. One example of where it could be applied, in the UK, is ensuring that the company secretary is making the necessary regulatory disclosures. Similarly, Boards should be able to demonstrate management control

The Fund should receive good value in terms of both quality of service and price.

The Board should have in place a process by which it can monitor, and demonstrate its control over, the services provided to the Fund.

over proxy solicitation agents, who are there to aid and facilitate shareholder voting but all too often act as an obstruction to the two-way flow of information between Boards and Shareholders. Boards should also be able to demonstrate that appropriate action is being taken with respect to the voting of securities and collection of dividends due to the fund.

Calculation and Dissemination of Net Asset Value

City of London considers that the NAV should be calculated and published on a daily basis, preferably on the fund's web site. Alternatively, dissemination of NAV information via Bloomberg or AMEX is welcomed. Dissemination should take place at a specific time each day and, where applicable, include the relevant currency rate(s) used in the calculation. The Board should ensure that strict management controls are in place to insure that the NAV is calculated accurately, and that it is published in a timely manner.

The Board of Directors is ultimately responsible for the implementation of a Net Asset Value calculation methodology that the administrators of the Fund should strictly adhere to. 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.

VI. The Fund and the Manager

1. The Manager's Tenure

After an initial term of two years, a Manager's contract should be subject to annual renewal by Shareholders.

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.

The remuneration should be reasonable given the nature of the Fund.

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.

The association of the Manager with the Fund through the use of the Manager's name implies a degree of 'ownership' of the Fund which is not in Shareholders' long term interests.

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.

Changes to senior personnel directly involved with the management of a Fund should be regarded as price sensitive information and released to Shareholders forthwith.

The Manager should limit cross investment by Funds under its control.

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, the amount of any private equity held in the Fund, and the level of any investment outside the relevant benchmark index. 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 and 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 ultimately result in a larger closed-end fund industry with greater global respect and support.

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

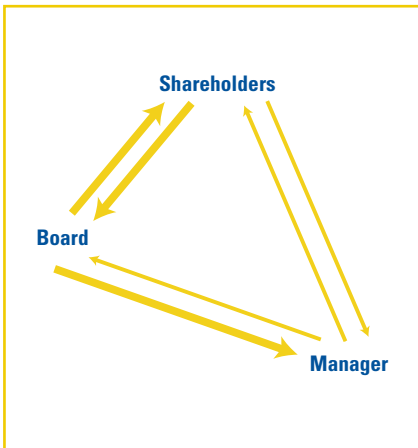
Ideal Relationship

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:

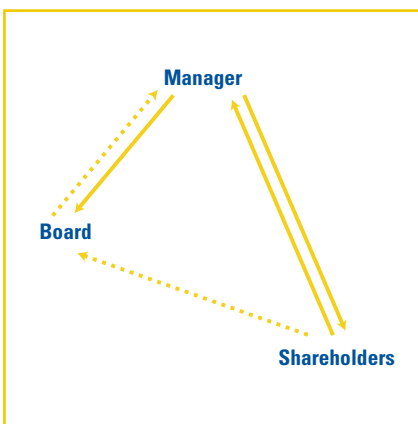


Historic Relationship

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





CITY OF LONDON
Investment Group PLC

Information/Queries

London Office

10 Eastcheap
London EC3M 1LX
United Kingdom
Phone: +44 (0) 207 711 0771
Fax: +44 (0) 207 711 0772
E-Mail: info@citlon.co.uk

U.S. Office

The Barn, 1125 Airport Road
Coatesville, PA 19320
United States
Phone: +1 610 380 2110
Fax: +1 610 380 2116
E-Mail: info@citlon.com

Singapore Office

20 Collyer Quay
10-04 Tung Centre
Singapore 049319
Phone: +65 6236 9136
Fax: +65 6532 3997

Website

www.citlon.co.uk

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