Interview with Art Lipson
Western Investment LLC
7050 S. Union Park Center
Suite 590
Midvale, UT 84047
www.fixmyfund.com

Portfolio Management Team:
Art Lipson
Matt Crouse
Bruce Duncan
Ansu Lee

What is the overall objective of your firm/investment group, including activities outside of closed-end funds?
We are market neutral, and try to make a modest positive return. We try to be indifferent to market ups or downs.

What portion of your firm's total investments is invested in closed-end funds? What is your overall objective specifically for your closed-end fund investments?
Over 90%, using the same objective I described above.

Can you describe your selection criteria and whether you take a long- or short-term investment approach?
Our normal investment objective is to try to buy what we believe are the cheapest funds, the ones most likely to have a reversion in the discount. We buy the ones at the bottom of the barrel, sell many when they recover and continue to buy more from the bottom. If we end up with a large holding in a fund, at that point we assess if we should go into activism mode.

Another strategy we use is to get fully invested or over- invested at the end of the year when discounts are wider, then sell as they narrow toward the middle of the year. We have no position limits, we keep buying more and more of the cheapest funds. That is what differentiates us; we don't have strict diversification rules.

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Do you typically take a passive or active role in your closed-end fund holdings? Or, more specifically, when, if ever, would you change from a passive to an active role?
When we have a large position, we look at the other shareholders in that fund, we assess the merits of a proxy contest, look at when the annual meeting will be held, what the notification date is, and when we should start accumulating the stock. If we decide to run a proxy contest, then we buy as much as we possibly can.

If we run into a company that has offensive business practices, this would also cause us to take an activist role. For example Deutsche Investment Management has an absolute majority voting rule to elect directors. In 2008 we ran a proxy contest in **DWS Enhanced Commodity Strategy Fund** (GCS). We won by a 64% to 36% margin, as percentages of votes cast. The number of votes for our slate, however, was not an absolute majority of the outstanding shares. They wouldn't give us any seats; the incumbent directors were held over. We started accumulating other funds managed by the same advisor, which also have the same voting provisions. Just this month we believe we won a majority of shares voted in **DWS Dreman Value Income Edge Fund** (DHG). In three other funds, **DWS High Income Trust** (KHI), **DWS Strategic Income Trust** (KST) and **DWS Multi-Market Income Trust** (KMM), we didn't win. None of their candidates were able to get 50% of the vote so the incumbent directors were held over.

Funds may see absolute majority voting requirements as an anti-takeover defense; I think of it as a death sentence. If directors cannot be elected over an extended period, a court will rule that the company is dysfunctional. A company should be liquidated if it cannot elect a board. I also nominated directors in the advisor's two other funds, **DWS RREEF World Real Estate & Tactical Strategies Fund** (DRP) and **DWS Global High Income Fund** (LBF).

Sometimes if we see another activist being mistreated by a fund, we might take a large position. We did this in the past in **Neuberger Berman Real Estate Fund** (NRL) and again in **Insured Municipal Income Fund** (PIF) and **Investment Grade Municipal Trust** (PPM). Companies that display this type of bad behavior are showing weakness and make better bargains.

As observers of the industry, we tend to see activity related to only your largest holdings in the form of Schedule 13G and 13D filings and, in some cases, attached correspondence. Approximately what percentage of your closed-end fund investments do disclosed holdings represent?
More than 50% is a rough estimate.

Do you purposely take large stakes in individual funds? How does taking a large stake affect your trading strategy? Would you sell if the discount narrowed, for instance?
It depends on the dynamics of the situation. If we have a large stake, and we've made an investment in time and effort, we are very likely to push for the company to take some significant action. If a company makes a real effort to reduce the discount, however, then we would trade out of a large stake. Once you hold a large position, there is leverage value, so you don't just walk away casually; if

there is more to be gained from a proxy contest then we conduct a proxy contest.

That said, many times there is more to be gained by negotiating with the company. **MBIA Capital/Claymore Managed Duration Investment Grade Municipal Fund** (MZF) agreed to conduct a tender offer and raise its dividend, it also agreed to future conditional tender offers to guarantee that the discount would be addressed if it is wider than the 5% level. We feel that if they can keep the discount narrower than 5%, that is a normal fluctuation. We feel we almost certainly would have won the proxy contest, but we were happier with a negotiated result.

We don't try to take over companies. Western Investment is an ethical activist. We have been involved in 32 corporate actions since 2004 (closed-end funds and BDCs) and in all the completed actions, we have reached a solution that is available to all shareholders; we have never accepted any private payments, deals or special benefits. We hope that the mom and pop shareholders come to trust Western as an agent who will work to maximize value for them.

Do you have any voting or position size restrictions related to the entities that hold your closed-end fund investments? If so, can you describe them?
Yes. The Investment Company Act of 1940 has limits on one investment company's holding of shares of a second investment company. This came up in a recent lawsuit that **Gabelli Global Multimedia Trust** (GGT) brought against Western. Western manages a number of companies and the courts have demonstrated that each one of those can own 3% of any particular investment company. These rules stem from the mutual fund industry, not from the hedge fund business; in fact the Investment Company Act of 1940 refers to investment companies, not hedge funds. Mutual funds, business development companies and hedge funds are investment companies. For instance, the 3% rule applies to companies such as Fidelity and Vanguard who might have several funds that hold positions of less than 3% of a particular other investment company. A change in interpretation would have a more profound impact on mutual funds. Western Investment's entities are all different: they have different investors, different objectives and their performances are significantly different--they are not the same funds.

Do you stay in contact with managements of the funds in which you take large stakes? How would you rate management responsiveness to shareholder concerns?
On a scale of 1 to 10--is a negative number acceptable? In my opinion, board members have sold their integrity to the fund manager for a lousy $200,000 a year. I have the highest level of personal contempt for closed-end fund directors that do not fulfill their fiduciary responsibility to the individual shareholders. On the other hand, we have been very impressed with the actions that Putnam funds' board has taken to make repurchases and reduce the discounts. They include the accretive value of the repurchases in their reports.

Have recent and planned regulatory changes that impact director elections had an impact on your trading strategies, i.e. the expected prohibition of broker non-votes in routine director elections, and third-party voting for ARPs holdings by settling firms that hold more than 25% of the outstanding preferred shares?
In closed-end fund proxy contests, we routinely mail to all shareholders and as a result all of our proxies are fully contested. We have always done that, so it makes little difference to us.

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With regard to a preferred share contest, we have not yet conducted one. But we are definitely considering it.

Have you taken a closer look at corporate governance issues in light of comments made by the SEC's Director of Investment Management, Andrew "Buddy" Donohue regarding management entrenchment, and the state of Maryland's recent clarifications of its Control Share Acquisition Act?
We have met with Director Donohue and have asked him to implement the substance of his words. The SEC should not tolerate companies that openly flout the SEC's interpretation of the 40 Act. We have asked him to put some teeth into his words. This is a high priority for me.

What is your overall impression of the closed-end fund industry today, and how do you see it evolving in the near future and long-term?
Wall Street has a history of abuses, most recently the sub-prime mortgage fiasco. But abusive practices have gone on for a hundred years. If left to their own devices, Wall Street can be expected to sell products guaranteed to underperform, so long as they make their fee.

Closed-end funds are the "sub-prime mortgage" of the mutual fund space; Wall Street sells the funds because they make a lot of money on them. What other investment category is expected to consistently trade at a discount to its underlying value!

I retired in 1981; what brought me back were the abuses perpetuated on mom and pop investors. When discounts go to zero, I can retire once again.