

DISTRIBUTION POLICY

The Fund initiated a fixed, monthly distribution to stockholders in 2002 which, with interim adjustments and extensive disclosure, continues to be a high-level managed distribution plan (“MDP”). The MDP has been maintained through the historic economic volatility, increased regulatory scrutiny and challenging markets of the intervening years.

During recent years, the Fund’s investments made in accordance with its objective have failed to provide adequate income to meet the requirements of the managed distribution policy. Nevertheless, the Board continues to believe that the Fund’s objective and strategy are complementary to the Fund’s commitment, through the MDP, to provide regular distributions which increase liquidity and provide flexibility to individual Stockholders. The Adviser seeks to achieve net investment returns that exceed the amount of the Fund’s managed distributions, although there is no guarantee that the Adviser will be successful in this regard.

What are the features of the MDP?

The MDP provides a regular monthly distribution to Stockholders that is adjusted through an annual resetting of the monthly distribution amount per share based on the Fund’s net asset value on the last business day in October. The terms of the MDP have been reviewed and are approved at least annually by the Fund’s Board and can be modified at the Board’s discretion. To the extent that distributions exceed the current Net Earnings of the Fund, the balance of the amounts paid out will be generated from sales of portfolio securities held by the Fund and will be distributed either as short-term or long-term capital gains or a tax-free return-of-capital. Although return of capital distributions may not be taxable, such distributions may reduce a Stockholder’s cost basis in his or her Shares, and therefore may result in an increase in the amount of any taxable gain on a subsequent disposition of such Shares, even if such Shares are sold at a loss to the Stockholder’s original investment amount. To the extent these distributions are not represented by net investment income and capital gains, they will not represent yield or investment return on the Fund’s investment portfolio. A return-of-capital distribution reduces the tax basis of an investor’s shares in the Fund. The Fund plans to maintain the MDP even if a return-of-capital distribution would exceed an investor’s tax basis and therefore be a taxable distribution. The Board currently plans to maintain this MDP even if regulatory requirements would make part of a return-of-capital, necessary to maintain the distribution, taxable to Stockholders and to disclose that portion of the distribution that is classified as ordinary income. Although it has no current intention to do so, the Board may terminate the MDP at any time and such termination may have an adverse effect on the market price for the Fund’s Shares.

What are the benefits of the MDP?

The MDP historically has maintained a stable, high rate of distribution. The Board remains convinced that the Fund’s Stockholders are well served by a policy of regular distributions which increase liquidity and provide flexibility to individual Stockholders in managing their investments. Stockholders have the option of reinvesting all or a portion of these distributions in additional Shares through the Fund’s dividend reinvestment plan or receiving them in cash. For more information regarding the Fund’s dividend reinvestment plan, Stockholders should carefully read the description of the dividend reinvestment plan contained in the Fund’s Reports to Stockholders.

What are the risks of the MDP?

The Fund makes level distributions on a monthly basis and these distributions are not tied to the Fund’s net investment income and capital gains, and may not represent yield or investment return on the Fund’s portfolio. Under the MDP, the Fund makes monthly distributions to Stockholders at a rate that may include periodic distributions of its Net Earnings or a return of capital. As noted above, Stockholders have the option of reinvesting all or a portion of these distributions in additional shares of the Fund through the Fund’s dividend reinvestment plan or receiving them in cash. In any fiscal year where total cash distributions exceed Net Earnings and unrealized gain or loss for the year, such excess will decrease the Fund’s total assets and, as a result, will have the likely effect of increasing the Fund’s expense ratio. There is a risk that the total Net Earnings and unrealized gain or loss for years from the Fund’s portfolio would not be great enough to fully offset the amount of cash distributions paid to Fund stockholders. If this were to be the case, the Fund’s assets would be partially reduced by an equal amount, and there is no guarantee that the Fund would be able to replace the assets. In addition, in order to make such distributions, the Fund may need to sell a portion of its investment portfolio at a time when independent investment judgment might not dictate such action. Furthermore, the cash used to make distributions will not be available for investment pursuant to the Fund’s investment objective.

Funds maintain varying degrees of cash levels pursuant to market conditions and the judgment of the portfolio manager. In addition, portfolio managers must raise cash periodically to cover operating expenses. For any fund, to the extent that cash is held at any given time for operating expenses or other purposes, it will not be available for investment pursuant to that fund’s investment objective. In addition to these general cash requirements, a fund’s distribution policy may also require that securities be sold to raise cash for those stockholders who elect to take cash distributions rather than reinvest in shares of the fund, in which case, it will also not be available

for investment pursuant to the fund's investment objective. It is possible that a situation will occur where the MDP contributes to a reduction of assets over an extended period of time such that the assets of the Fund are reduced to a point where the Fund would no longer be economically viable. In such event, the Fund would need to take additional actions, which may include, for example, liquidation or merger, to address the situation. While this is one of the risk factors of any managed distribution policy, including the MDP, it is important to note that the MDP was not designed to be a mechanism for the dissolution of the Fund or a short-term liquidation policy, and it is not the intention of the Board to allow the Fund to self-liquidate through the unsupervised effects of the MDP. The Board monitors the MDP and the Fund's asset levels regularly, and remains ready to modify the terms of the MDP if, in its judgment, the Board believes it is in the best interests of the Fund and its Stockholders. To the extent Fund assets are reduced, the Board will consider additional rights offerings in the future.

A return-of-capital distribution reduces the tax basis of an investor's Shares, which may make record-keeping by certain Stockholders more difficult.

The Fund discloses the characterization of its distributions in notices to Stockholders and press releases to the public. Notwithstanding these communications, it is possible that the MDP may create potential confusion in the marketplace as to whether the Fund's distributions are comprised of income or return of capital and how such characterization may influence the market price of the Fund's Shares.

Unless the registered owner of Shares elects to receive cash, all distributions declared on the Fund's Shares will be automatically reinvested in additional Shares. See "Dividend Reinvestment Plan".

In order to maintain the MDP, the Fund applied for and received an exemption from the requirements of Section 19(b) of the 1940 Act and Rule 19b-1 thereunder permitting the Fund to make periodic distributions of long-term capital gains, provided that the MDP calls for periodic (e.g., quarterly/monthly) distributions in an amount equal to a fixed percentage of the Fund's average net asset value over a specified period of time or market price per Share at or about the time of distribution or pay-out of a level dollar amount.

The MDP results in the payment of approximately the same amount per share to the Fund's Stockholders each month. These distributions are not tied to the Fund's investment income and capital gains and do not represent yield or investment return on the Fund's portfolio. Section 19(a) of the 1940 Act and Rule 19a-1 thereunder require the Fund to provide a written statement accompanying any such payment that adequately discloses its source or sources, other than net investment income. Thus, if the source of some or all of the dividend or other distribution were the original capital contribution of the Stockholder, and the payment amounted to a return of capital, the Fund would be required to provide written disclosure to that effect. Nevertheless, persons who periodically receive the payment of a dividend or other distribution may be under the impression that they are receiving net profits when they are not. Stockholders should read any written disclosure provided pursuant to Section 19(a) and Rule 19a-1 carefully, and should not assume that the source of any distribution from the Fund is net profit. A return of capital distribution does not reflect positive investment performance. Stockholders should not draw any conclusions about the Fund's investment performance from the amount of its managed distributions or from the terms of the MDP.

The Board of Directors reserves the right to change the MDP from time to time.