



**Frank J. Abella, Jr., President & CEO
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Investment Partners Asset Management is a federally-registered Investment Advisory Firm. In addition to serving as investment advisory representatives at our firm, our principals also maintain brokerage registered representative status at T.R. Winston & Company LLC in Bedminster, NJ. Combining accounts where our firm is the advisor and accounts where the three of us personally serve as merely brokers, we manage over 300 accounts with roughly \$90,000,000 in total assets.

Q: What is the overall objective of Investment Partners?

Our firm's main purpose is to achieve consistent superior long-term after-tax total returns for our clients, commensurate with risk. Our core philosophy is to purchase and hold issues that we feel are trading at a meaningful discount to an enterprise's intrinsic worth, selling them when their prices exceed rational valuations. We truly see ourselves as "partners" in investing with our clients.

We generally employ two investment styles; value investing and anticipatory special-situation investing. We have found that because of our size we need to do our own extensive research and fundamental analysis of companies and industries that are not widely followed but, we hope, others will eventually find attractive. This contrarian view often means focusing on underperforming companies in interesting sectors that may currently be neglected. We consider this approach to be the flip-side of momentum investing.

We are size independent and don't believe market capitalization or geographic restrictions should play a major role in the choice of what to buy or where to invest.

We believe in relationship investing. In the majority of cases we are outside passive minority investors – satisfied to monitor corporate developments and mark progress. That is our preference.

As time goes on, we observe the dynamics and corporate culture of our clients' portfolio companies as well as how capital, labor and other resources are allocated. In short we make judgments about the capabilities of boards to direct and management to manage. We are very interested in determining whether we agree with a company's strategic direction. Sometimes we find that companies are on the right course but lack access to the resources to accomplish their mission. With that recognition we act as responsible owners and sometimes are catalysts for change – all in an effort to produce superior investment returns for our clients and other investors. In those instances, where management is receptive, we become enthusiastic supporters, frequently adding to our positions.

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Unfortunately, we sometimes find that there are reasons that the securities we own represent cheap values that attracted us to the investment in the first place. Over the years, we have found that the flaws in some of them become apparent only after we have invested for a while and watched the companies perform through a period of adversity.

In those instances pursuit of alternate strategies is sometimes called for. This means that management and other owners need to be convinced that the status quo is not acceptable. In those cases, where we are initially unable to convince management, we may chose to make our intentions known by communicating with management and/or other owners, proxy voting, and, in some cases, even seeking board

representation. We have sometimes proposed that management seek alternatives such as merging, liquidating or putting the company up for sale.

It sounds so simple. Many of our competitors who are investment managers see their role as fiduciaries having to make one of two decisions: hold, or sell and move on. In our view that style just won't cut it when investments are made in smaller companies, whose securities often lack liquidity. At that point we have three choices: do nothing, vote with our feet and get out, or spring into action and become vocal agents of change.

One of the distinguishing characteristics of our activist style is that we believe we can actually produce an enhancement in the value of our holdings.

We believe that our strategy of investing is sound and has produced successful results in a number of instances where our clients had extensive holdings that increased in value over time through improved corporate governance practices and operational efficiencies.

Q: What portion of your firm's total investments is in closed-end funds?

The amount of funds devoted to closed-end funds varies by client. All client portfolios are customized.

Since no two clients are alike, no two portfolios are identical. We therefore utilize closed-end funds and ETFs to compliment, balance or supplement the client's existing portfolios. For instance, when we are diversifying a client portfolio that has an interest in owning equities with foreign exposure but do not want emerging markets, we may invest in Canadian, European and Australian issues. To get broad diversification in well known large caps we may use certain **BlackRock** closed end funds. One of our favorites before it merged into the **Blackrock Eurofund** was the **Europe Fund**, the successor of which we continue to hold over a year and a half since its merger.

On the income side, we look to certain funds to provide a degree of predictable monthly income; we particularly like funds that have an ability to create returns by writing covered calls on their portfolios, but again we look to the quality of the holdings before we are willing to commit client funds. What we don't like to see are funds which, in order to make the monthly income targets, distribute a significant amount of cash that in actuality is considered return of principal.

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While the amount varies, a large portion of our client accounts

contain closed end funds, most of which sell at discounts to their net asset values. On average roughly 15% of assets under management are invested in closed end funds with another 7 to 10 % in ETFs.

Q: What do you look for when selecting a fund to invest in? What are your selection criteria?

Our portfolio investments, particularly closed-end investment companies, are chosen based on their uniqueness, asset composition, and the potential for the stock price to grow at the same rate or a faster rate than the potential rise in the net asset value.

Good examples of this are our early investments in **The Greater China Fund, (GCH)** and **The Swiss Helvetia Fund, (SWZ)**.

Our initial investments are conditioned on the candidate company being attractive on an “absolute basis”. We pay close attention to the value of the underlying holdings. In the case of SWZ, we would have bought any one of the five top holdings of the Fund, which then represented over 50% of the NAV: Roche, Novartis, Nestle, Credit Suisse Group, UBS. In addition we viewed the Swiss currency to be undervalued relative to the dollar. We found management to be greatly concerned about the discount to NAV and they seemed willing to do something about this dynamic through a share repurchase program and their current strategy of issuing a semi-annual dividend.

Furthermore, receptivity to ideas on how to improve the Fund, access to the portfolio managers and independent members of the Board, and a modest marketing program gave us confidence that the Fund is being managed for the benefit of the shareholders.

Our confidence has been rewarded by exceptional performance.

Q: How did you become interested in the closed-end fund industry?

Some view the closed-end fund industry as an anachronism – a throwback to a time when investors had not yet discovered mutual funds.

We start with a belief that most investment companies are *sold to* investors not *bought by* investors. In the aftermath of the 60's, 70's, and 80's, brokers could be rewarded far more handsomely by selling open-end mutual funds than the relatively smaller commissions earned from recommending a closed-end fund despite perhaps similar attributes and same fund family sponsors.

For a value buyer, the lack of demand stimulus is both a blessing and a curse. Often there appears to be little correlation between performance and the discount gap prevalent in so many funds. Funds flow to mutual funds, particularly to open-end funds, and can create a self-fulfilling prophecy as they sometimes buy many of the same holdings already in those funds. The lack of funds flow or new money to closed-end funds after the initial public offering, absent rights offerings, means that management has to live with their investments, perhaps longer than they might otherwise.

Furthermore, it can be hard for a target market to be developed for closed end funds due to the regulatory limitations on the purchase of closed-end funds by open-end mutual funds, limited liquidity, limited distribution capabilities, potential director and management apathy, and, in some instances, large undistributed, unrealized future taxable capital gains.

Having said that, we often find that closed-end fund NAV performance is as good if not better than open-end management performance. You would think that the limited supply of stock in a performing

closed-end fund would reward investors with a premium market price.

With all that in mind, in the 70's, when I was a much younger man, I was attracted to the venture capital companies organized as SBIC's or closed-end companies: American Research & Development, Capital Southwest, Midland Capital, and The United Fund were companies whose underlying investments in companies like Digital Equipment, Ionics, High Voltage Engineering, Sierra Research, Canadian International Power, were in themselves, selling at huge discounts. Many of the Funds were sponsored by banks that had no idea how to market their uniqueness. The low share price of the funds relative to asset values, and low P/Es and market capitalizations of the individual portfolio companies were the attractions for me at that time.

As time went on the underlying assets became very valuable. For patient investors with a long view, the discounts narrowed and some, like Berkshire Hathaway, subsequently went on to sell at premiums. Many of the companies merged and some sold out. The inherent leverage of compounding from a lower price was the draw then and to a great extent we still find that to be an attractive attribute in some funds.

Q: Do you employ a trading strategy or buy and hold approach?

When you "buy safe and cheap" there is no need to vary from a buy and hold strategy. In volatile markets we find that we remain disciplined at the core but need to be flexible at the margin. So the markets dictate our tactics, but not necessarily our strategy. With closed-end funds we prefer to invest and not trade. With ETFs we take a more active trading stance. Since information flows at the speed of a mouse-click, markets are more volatile and we use the volatility depending on the circumstances.

It is safe to say that it is far more challenging for an investment advisory firm with a buy and hold discipline to compete in today's world. For that reason we have not approached the institutional client world where the demands frequently call for monthly and quarterly performance. We remain committed to maintaining our focus on the longer view.

Q: Do you invest with the goal of narrowing a fund's discount or effecting a reorganization?

We do not invest with the goal of narrowing the fund's discount or effect reorganization except in instances that demand that action. We will take notice of activism on the part of others but prefer to find situations that are attractive for other reasons.

Q: Where you have large holdings, do you stay in contact with management?

My two sons and I manage as a team. We attempt to have at least one of us meet the management of our portfolio companies, attend conferences, participate in conference calls etc. In the closed-end funds we try to meet at least one member of the Board. Furthermore, we attend annual meetings; ask questions, dialogue with research analysts and other professional investors.

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Q: How would you rate closed-end fund managements for responsiveness to specific inquiries, and then for overall responsiveness to shareholder concerns?

We find that good closed-end fund managers also tend to be frequent and honest communicators with their shareholders. We become skeptical of managements and boards who take the low-road in this regard – those who go to great length to preserve the status quo. In these instances managements can give the impression that they may not be putting the interest of the shareholders first. For example, we recently experienced in a Canadian closed-end fund trading at roughly a 20% discount to asset value (organized as an energy trust) that, after poor performance, and a dilutive merger below the fund's market price, allowed management to pay itself large bonuses using shareholder money. Unfortunately in this case we found out that US unit holders do not enjoy the same rights that they might in a US-based closed-end fund. At the center of the problem is management's "catch-me-if-you-can" attitude and a disdain for the true owners of the enterprise. Every industry has companies like these and the closed-end fund universe is no different. In our view, managements like that do not belong managing public investment companies.

Q: Are managements becoming more or less attuned to shareholders' issues? Do you see any trend(s)?

The question is a good one. I don't like to answer it by saying it depends.

There is no question that shareholders of publicly-traded companies are fed up with CEOs and managers that reward themselves at their expense. You would think that independent members of the Board of investment companies would feel the hot breath of discontent. What is surprising to us is that they don't seem to. When a management contract comes up for renewal, do you ever see where any of the directors go out to other firms and entertain bids? They are supposedly the stewards that are the watchdogs representing the shareholders. The situation is still quite cozy. While the industry parlance refers to independent

directors as "disinterested", they might as well call them "uninterested". Often they own no stock directly in the funds on whose boards they sit and are paid handsomely by the funds to monitor their governance. The very reason they sit on the fund boards is that management appointed them so it's hard to expect that they will do much to stir the pot. Ironically, the marketplace tends to punish closed-end funds that are not perceived to be shareholder friendly – a situation which winds up hurting the holders more than the boards and managements themselves. If there is a trend developing, it is that shareholders may become restless and demand more from the organizers and managers of the funds – holding boards more accountable if the funds' investments under-perform or if the funds' expense ratios are uncompetitive.

Q: 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?

I believe the closed-end fund industry and the mutual fund industry are facing competition of a type they have never experienced before. The advent of ETFs, where a portfolio of companies in specific sectors with different strategies can be

constructed that easily mimic what is available in an investment company, provide investors with inter-day trading, instantaneous access at low transaction fees, lower expense ratios, and nominal discounts to asset value (if any), are attracting cash that would normally be flowing to open-end mutual funds and closed-end investment companies.

Closed-end fund discounts in this circumstance, where there is less overall demand, can expect to widen and more importantly we foresee industry consolidation, mergers, acquisitions, liquidations, focused shareholder activism, and an overall shrinkage in the population of funds. The trend, if carried to extremes, could result in the marginalization of the sponsoring of fund companies and the potential for the industry to lose its relevance.

Funds that do a better job of describing their uniqueness and communicate with their holders (much like the Berkshire Hathaway "get-togethers" or the days when John Templeton would meet and greet the stockholders and listen to their concerns and answer questions) will be the survivors. Those managers who care about their investors should be willing to face up to their responsibilities. The ones that do would have a better chance of capturing future investor dollars.

The fact that few do it today is no excuse for not trying it tomorrow.

Q: What do you do when you are not trading closed-end funds? For entertainment/hobby?

I have always felt that working hard to exceed client expectations was an ethic that makes my life fulfilling. When I am able to relax and unwind, I enjoy being with my wife, Vicki Lynn, a now retired 36 year veteran United Airlines flight attendant and our four grandchildren. I enjoy mentoring young people about school and career choices and am active in community efforts.

For entertainment, I am passionate about the following in this order

- a) Major League Baseball, particularly the Boston RedSox - (I saw every game this season thanks to the invention of the DVR)
- b) The National Football League - (I am a lifelong NY Giant fan; Vicki was their flight attendant for nineteen years.)
- c) Fly Fishing - I have been known to "wet-a -line" for an unsuspecting trout. I am a proprietary member, (one of twelve), of the Pequest Anglers Club
- d) Gardening - I find it relaxing, because I like to see things grow
- e) Golf - Not passionate and my handicap proves it

Q: Mr. Abella, thank you for the interview and for sharing your views.

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