



An MSCI Brand

2011 U.S. Auction Rate Preferred Securities Closed-End Fund
Proxy Voting Guidelines
Executive Summary

January 24, 2011

Institutional Shareholder Services Inc.

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Background and Introduction

The collapse of the weekly auction market in Auction Rate Preferred Shares (ARPS) has left ARPS holders with illiquid securities that can only be sold at a discount to par. A consequence of this is that the interests of the common shareholders and the ARPS holders may diverge on certain matters.

ARPS holders are entitled to elect directors or trustees to protect their interests. Their primary interest is achieving liquidity at par, which usually requires the fund to redeem the ARPS and refinance them with alternative sources of leverage. These sources may include variable rate demand preferred securities, tender option bonds, fixed rate preferred shares or munifund term preferred shares, and tender offers can also be implemented in order to provide at least some partial liquidity to ARPS holders. However, holders of common shares may be reluctant for the fund to redeem the ARPS, whose interest rates make them an attractive source of financing for the fund. Thus, there may be conflicting interests between the ARPS holders who want liquidity at par and the common shareholders who are concerned that redeeming the ARPS at par may raise their financing costs and have an adverse impact on the fund's common shareholders over the long term.

It is in the best interests of ARPS holders for a closed-end fund's board to work with the Fund's investment adviser to identify ways to resolve the ARPS liquidity issue. In light of the ongoing failure of ARPS, it is appropriate for directors designated as preferred directors to explore alternative sources of funding for the ARPS. Accordingly, ISS has developed proxy voting guidelines consistent with the objectives of ARPS holders and fiduciaries. Items that appear on the agenda for closed-end funds apply to both common and preferred shareholders (including ARPS holders). Thus, on matters of fund governance, fund structure, and shareholder rights, ISS' current voting guidelines that apply to common shareholders will continue to apply to ARPS holders on routine voting items where interests of the common and ARPS holders do not differ.

On matters where interests of ARPS holders may diverge, such as liquidations, open-end conversions, and election of directors, emphasis will be placed on maximizing value for ARPS holders. When evaluating director/trustee elections, emphasis will specifically be placed on actions taken by the directors or trustees that demonstrate a commitment to serving the best interests of ARPS holders. These guidelines provide an overview of how ISS approaches proxy voting issues for its ARPS clients. We closely examine the merits of each proposal and consider recent and fund-specific information in arriving at our decisions. To that end, ISS may rely on fund press releases and public statements in reaching our vote recommendation. ISS may also engage with interested shareholders and fund board members and managers to gain further insight into contentious issues facing the fund. ISS updates its voting guidelines on an annual basis to take into account evolving issues and latest developments in corporate governance practices and regulation.

ISS' approach to key voting items for ARPS holders where interests diverge from common holders include the following:

Voting on Director Nominees in Uncontested Elections

Four fundamental principles apply when determining votes on director or trustee nominees: board accountability, board responsiveness, director independence, and director competence.

ISS will recommend case-by-case on the election of directors and trustees considering the four principles above including the steps the board has taken in attempts to liquidate ARPS which include exploration of alternative sources of leverage that could redeem a portion of the ARPS (based on existing disclosure). ISS may consider recommending that shareholders “do not vote” on a case-by-case basis instead of a “withhold” vote as a more effective means to send a message to preferred directors that have not been acting in the best interests of ARPS holders.

Voting on Director Nominees in Contested Elections

ISS will recommend case-by-case considering factors including, but not limited to, the following:

measures that the board has taken to address the liquidity issues related to ARPS holders; past shareholder activism; board activity and votes on related proposals; strategy of the incumbents versus the dissidents; independence of directors; experience and skills of preferred director candidates; governance profile of the fund; and evidence of management entrenchment.

Disposition of Assets/Termination/Liquidation

ISS will recommend generally in favor of proposals seeking liquidation considering the terms of liquidation including, but not limited to, the value ARPS holders will receive.

Convert Closed-end Fund to Open-End

ISS will recommend generally in favor of proposals to open-end a fund or merger with an existing open-end fund considering terms of conversion or reorganization including, but not limited to, the value ARPS holders will receive.

Investment Advisory Agreements

ISS will recommend generally in favor of proposals seeking approval of investment advisory agreements unless ARPS holders are adversely affected by the terms of the agreement.