

FIRST OPPORTUNITY FUND INC
Form DEF 14A
April 01, 2010
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by Registrant [X]
Filed by a Party other than the Registrant []

Check the appropriate box:

- [] Preliminary Proxy Statement
[] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[X] Definitive Proxy Statement
[] Definitive Additional Materials
[] Soliciting Material Pursuant to Sec. 240.14a-11(c) or Sec. 240.14a-12

FIRST OPPORTUNITY FUND, INC.
(Name of Registrant as Specified In Its Charter)

Stephen C. Miller
2344 Spruce Street, Suite A
Boulder, Colorado 80302
(303) 442-2156
(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

- [X] No fee required.
[] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

- 1) Title of each class of securities to which transactions applies:
- 2) Aggregate number of securities to which transaction applies:
- 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):
- 4) Proposed maximum aggregate value of transaction:
- 5) Total fee paid:

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- 1) Amount Previously Paid:
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 - 3) Filing Party:
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FIRST OPPORTUNITY
FUND, INC.
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Reference]

2344 Spruce Street
Suite A
Boulder, Colorado 80302
www.firstopportunityfund.com

March 31, 2010

Dear Fellow Stockholder,

You are invited to attend the 2010 Annual Meeting of Stockholders of First Opportunity Fund, Inc. (the "Fund"), which will be held on May 3, 2010 at 9:00 a.m. Mountain Daylight Time (local time), at the St. Julien Hotel, 900 Walnut Street, Boulder, Colorado. Details of the business to be presented at the meeting can be found in the accompanying Notice of Annual Meeting and Proxy Statement. This is a very important meeting at which the Fund's board of directors (the "Board") is asking you to approve significant, and we believe, positive changes to the Fund.

Since the Fund's inception in 1986, Wellington Management Company, LLP ("Wellington Management") has served as the Fund's investment adviser. During this time, the Board believes that the Fund has delivered a strong track record of performance relative to its peer groups and the relevant indices. At past meetings, members of the Board have discussed various ways of increasing the potential future returns of the Fund including investing in hedge funds. As a consequence of these discussions, ultimately the Board concluded that stockholder value could be enhanced by investing a significant portion of the Fund's assets in hedge funds, in particular, some hedge funds sponsored by Wellington Hedge Management, LLC ("WHM") (an indirect wholly owned subsidiary of Wellington Management) and advised by Wellington Management (the "WHM Hedge Funds"). In order to accommodate investing in any WHM Hedge Fund, the Fund must change its investment adviser to an entity or entities that are not affiliated with the current investment adviser, Wellington Management.

Accordingly, you are being asked to approve new investment advisory agreements for the Fund. The Proxy Statement contains proposals for new advisory agreements whereby Rocky Mountain Advisers, L.L.C. ("RMA") and Stewart Investment Advisers ("SIA") (together, the "New Advisers") would serve as the Fund's co-advisers, and a new sub-advisory agreement proposal for Wellington Management to serve as a temporary investment sub-adviser. Under the new structure, the New Advisers would be permitted to invest significant assets of the Fund in hedge funds, including WHM Hedge Funds. However, in the near term, the New Advisers do not anticipate investing in any hedge funds other than the WHM Hedge Funds. Under the Fund's present advisory structure, because of affiliate prohibitions under the Investment Company Act, the Fund cannot invest in a hedge fund managed by Wellington Management or its affiliates. We believe this new structure, if approved by you, will provide greater advantages in terms of enhancing investment opportunity and flexibility by permitting investments in hedge funds, in particular the WHM Hedge Funds, and leveraging the talent pools of the New Advisers and Wellington Management.

As part of the restructuring, and to provide additional flexibility to the New Advisers, the Board also recommends removing the Fund's fundamental concentration policy of investing at least 65% of its assets in financial services companies.

And finally, the Proxy Statement includes a proposal for the election of the members of the Board. The enclosed Proxy Statement gives details about each proposal which requires your approval and should be carefully read and considered before you vote.

As Chairman of the Board, I encourage you to support all of the proposals. After careful and extensive review, the members of the Board, including the independent directors, unanimously approved and recommended to stockholders

that they approve all of the proposals as detailed in the Proxy Statement. We hope you plan to attend the Annual Meeting. Your vote is important. Whether or not you are able to attend, it is important that your shares be represented at the Annual Meeting. Accordingly, we ask that you please sign, date, and return the enclosed Proxy Card or vote via telephone or the Internet at your earliest convenience.

On behalf of the Board and the management of First Opportunity Fund, Inc., I extend our appreciation for your continued support.

Sincerely,

/s/Joel W. Looney

Joel W. Looney, Chairman of the Board

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Reference]

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held on May 3, 2010

To the Stockholders:

The Annual Meeting of Stockholders (the "Meeting") of First Opportunity Fund, Inc., a Maryland corporation (the "Fund"), will be held on May 3, 2010 at 9:00 a.m. Mountain Daylight Time (local time), at the St. Julien Hotel, 900 Walnut Street, Boulder, Colorado, to consider and vote on the following proposals, all of which are more fully described in the accompanying Proxy Statement:

1. To approve or disapprove the proposed investment advisory agreement with Rocky Mountain Advisers, L.L.C. ("RMA") (Proposal 1);
2. To approve or disapprove the proposed investment advisory agreement with Stewart Investment Advisers ("SIA") (Proposal 2);
3. To approve or disapprove the proposed investment sub-advisory agreement with Wellington Management Company, LLP ("Wellington") (Proposal 3);
4. To approve or disapprove eliminating the Fund's fundamental policy of investing at least 65% of its assets in financial services companies (the "Concentration Policy") (Proposal 4);
5. To approve or disapprove amending the Concentration Policy to reduce the Fund's minimum threshold for investing in financial services companies to 25% (Proposal 5);
6. The election of directors of the Fund (Proposal 6); and
7. To transact such other business as may properly come before the Meeting or any adjournments and postponements thereof.

The Board of Directors of the Fund has fixed the close of business on March 29, 2010 as the record date for the determination of stockholders of the Fund entitled to notice of and to vote at the Meeting and any postponements or adjournments thereof. The Proxy Statement, Notice of Annual Meeting, and proxy card are first being mailed to stockholders on or about April 5, 2010.

By Order of the Board of Directors,

/s/Stephanie Kelley

STEPHANIE KELLEY

Secretary

March 31, 2010

EVEN IF YOU PLAN TO ATTEND THE MEETING, STOCKHOLDERS ARE URGED TO SIGN THE ENCLOSED PROXY CARD (UNLESS AUTHORIZING THEIR PROXY VIA TOUCH-TONE TELEPHONE OR THROUGH THE INTERNET) AND MAIL IT IN THE ENCLOSED ENVELOPE SO AS TO ENSURE A QUORUM AT THE MEETING. THIS IS IMPORTANT WHETHER YOU OWN FEW OR MANY SHARES.

INSTRUCTIONS FOR SIGNING PROXY CARDS

The following general rules for signing proxy cards may be of assistance to you and may avoid the time and expense to the Fund involved in validating your vote if you fail to sign your proxy card properly.

1. Individual Accounts: Sign your name exactly as it appears in the registration on the proxy card.
2. Joint Accounts: Either party may sign, but the name of the party signing should conform exactly to a name shown in the registration.
3. All Other Accounts: The capacity of the individual signing the proxy card should be indicated unless it is reflected in the form of registration. For example:

Registration	Valid
Corporate Accounts	Signature
(1) ABCA B C Corp.	Corp., by [title of authorized officer]
(2) ABCJohn Doe, Corp.	Treasurer
(3) ABCJohn Doe Corp., c/o John Doe	Treasurer
(4) ABCJohn Doe, Corp.	Profit Trustee

S h a r i n g

Plan

T r u s t
Accounts

(1) A B C J a n e B .
Trust D o e ,
Trustee

(2) J a n e B . J a n e B .
D o e , D o e
T r u s t e e ,
u / t / d
12/28/78

Custodian
or Estate
Accounts

(1) J o h n B . J o h n B .
S m i t h , S m i t h
C u s t . ,

f / b / o
J o h n B .
S m i t h , J r .
U G M A

(2) J o h n B . J o h n B .
S m i t h S m i t h , J r . ,
E x e c u t o r

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Questions & Answers Regarding the Meeting and Proposals

Question 1: What changes are being proposed?

Answer: In addition to electing the Fund's board of directors (the "Board"), stockholders are being asked to vote on other significant proposals: approving new investment co-advisory agreements, approving a new investment sub-advisory agreement and eliminating the Fund's fundamental policy of investing at least 65% of its assets in financial services companies (together, the "Restructuring").

Question 2: How does the Board recommend I vote on the Proposals?

Answer: The Board, including all of the directors who are not "interested persons" of the Fund (as defined in the Investment Company Act of 1940, as amended (the "1940 Act")) (the "Independent Directors"), has unanimously recommended that stockholders vote FOR all of the Proposals. If no instructions are indicated on your proxy, the representatives holding proxies will vote in accordance with the recommendations of the Board.

Question 3: Who are the Fund's proposed new investment co-advisers?

Answer: The Board, including all of the Independent Directors, has unanimously approved and recommends that stockholders approve investment advisory agreements (the "Advisory Agreements") with Rocky Mountain Advisers, L.L.C. ("RMA") and Stewart Investment Advisers ("SIA") (together the "New Advisers"). If the Advisory Agreements are approved by stockholders, the New Advisers will act as co-advisers to the Fund. Both New Advisers are controlled by trusts and entities affiliated with the family of Stewart R. Horejsi (together, the "Horejsi Affiliates"). The Horejsi Affiliates own 35.51% of the Fund's outstanding common stock. SIA and Boulder Investment Advisers, LLC ("BIA") currently provide investment advisory services to three other closed-end investment companies: Boulder Total Return Fund, Inc. (NYSE:BTF), Boulder Growth & Income Fund, Inc. (NYSE:BIF), and The Denali Fund Inc. (NYSE:DNY) (collectively, the "Boulder Funds"). BIA is an affiliate of the New Advisers and the management and staffing of RMA is substantially the same as that of BIA.

Question 4: Why are there two co-advisers?

Answer: The Restructuring contemplates RMA and SIA acting as investment co-advisers to the Fund. This arrangement is similar to that currently existing between BIA and SIA (collectively, the "Boulder Advisers") in their relationship with the Boulder Funds whereby a single advisory fee is paid to, but split between, the co-advisers. Mr. Horejsi is the primary investment manager for the New Advisers and BIA and, together with Carl Johns, will be responsible for the day-to-day management of the Fund's assets and primarily responsible for the Fund's asset allocation. The reason for two advisers is that Mr. Horejsi spends a substantial portion of his time residing in Barbados, during which he is employed exclusively by SIA, which is a resident Barbados international business company. If the Restructuring is approved by stockholders, when Mr. Horejsi resides in the U.S., he will be employed exclusively by the "on-shore" adviser (i.e., RMA) with respect to his efforts on behalf of the Fund. From the Fund's

point of view, the economics and practicalities of the co-advisory arrangement are no different than they would be if Mr. Horejsi worked exclusively for RMA under a single advisory contract (i.e., the Fund would still pay the same advisory fee (discussed below in Question 10) but only to a single adviser). See “Proposals 1 and 2 – The Advisory Agreements” below.

Question 5: Who is the Fund's proposed investment sub-adviser?

Answer: The Board, including all of the Independent Directors, has unanimously approved and recommends that stockholders approve a temporary and limited investment sub-advisory agreement with Wellington Management Company, LLP ("Wellington Management") (the "Sub-Advisory Agreement"). Wellington Management presently acts as the Fund's sole investment adviser and has done so since the Fund's inception. Under the Sub-Advisory Agreement, Wellington Management would be responsible for managing a discrete portion of the Fund's current assets with respect to which it has experience and familiarity (the "Legacy Holdings"). Wellington Management will act in a sub-advisory capacity for a period of two years after the effective date of the Restructuring (i.e., the date on which stockholders approve the Advisory Agreements and Sub-Advisory Agreement) (the "Effective Date"). Under the terms of the Sub-Advisory Agreement, Wellington Management would be responsible for managing the Legacy Holdings with a view towards continuing to hold the securities, selling them in its discretion and assisting the New Advisers in gaining familiarity with the Legacy Holdings.

Question 6: Why does the Board think it is necessary to restructure the Fund?

Answer: Since the current Board was seated in 2004, it has annually reviewed the performance of Wellington Management as the Fund's adviser. As part of the annual contract renewal process and upon the Board's request, Wellington Management presents current and historic fee and performance data with respect to other private long/short funds that it manages that invest substantially in the financial services sector. In particular, Wellington Management had provided at the Board's request performance information regarding several hedge funds sponsored by an indirect wholly-owned subsidiary of Wellington Management, Wellington Hedge Management ("WHM") (the "WHM Hedge Funds"). Even though these hedge funds have investment objectives similar to the Fund's investment objective, these private funds employ different investment strategies, including short selling, and they have at times outperformed the Fund. This was especially the case during the most recent market downturn when the Fund, having a "long only" investment approach, was not able to take advantage of the many short selling opportunities in the financial sector.

Wellington Management does not engage in short selling in portfolios that require public disclosure of its short positions. The Fund cannot take advantage of short selling and retain Wellington Management as the investment adviser under its current structure. In addition, the Fund is subject to regulatory constraints that limit its investment flexibility as compared with private funds like the WHM Hedge Funds. As a result of restrictions imposed by the 1940 Act, registered investment companies are more limited in their flexibility than private funds and with respect to the use of certain investment techniques, in particular the use of leverage (which effectively limits a registered investment company's ability to acquire derivative securities and engage in short selling), and the speed with which investment techniques may be implemented compared with private funds. The greater flexibility to engage in a wider array of investment strategies may also present a higher degree of risk than a portfolio pursuing an unleveraged "long-only" strategy.

Over the last several years, the Board has reviewed and implemented a number of options intended to allow the Fund to take greater advantage of the broader array of investment strategies and techniques available to Wellington Management and its investment personnel, thus attempting to bolster the Fund's long term performance. In particular, the Board approved eliminating or revising certain of the Fund's investment restrictions and policies, changing the name of the Fund to eliminate the term "Financial", changing the Fund's investment objective to "total return", changing the Fund from a "diversified" to a "non-diversified" investment company, and reclassifying the Fund's investment objective as non-fundamental.

Beginning in late 2008, in evaluating the Fund's alternatives to employ a broader array of investment strategies and retain the investment management services of Wellington Management, the Board considered the feasibility of the

Fund investing directly in the WHM Hedge Funds which would, on a look-through basis, give the Fund, at least with respect to a significant portion of its portfolio, the same flexibility as the WHM Hedge Funds. However, under the Fund's current structure with Wellington Management as the sole adviser, the Fund is prohibited by provisions of the 1940 Act from investing any of its assets in a hedge fund managed by any affiliate of Wellington Management. Appointing the New Advisers as the Fund's primary investment advisers, and segregating the Fund's assets temporarily into two portions – one managed by the New Advisers and the other, the Legacy Holdings, that would be temporarily managed by Wellington Management with the investment discretion to only hold or sell such holdings– would permit the New Advisers, independent of Wellington Management's influence or control, to invest significantly in private funds including the WHM Hedge Funds.

The New Advisers anticipate, in the near term and based on current market conditions and the number of WHM Hedge Funds currently available for investment, that they would invest as much as 50% of the Fund's assets in certain WHM Hedge Funds, several of which emphasize investments in the financial services sector and are managed in whole or part by the Fund's current portfolio manager. This percentage could increase or decrease over time. The Board and New Advisers believe that investments in the WHM Hedge Funds offer the Fund the potential for superior risk-adjusted returns arising from the added flexibility and broader investment options available to the WHM Hedge Funds.

Question 7: Will the New Advisers invest in hedge funds other than the WHM Hedge Funds?

Answer: The New Advisers do not anticipate, at least in the foreseeable future, investing in any hedge funds other than the WHM Hedge Funds. It has taken nearly 8 years for the New Advisers to develop the requisite familiarity with Wellington Management to fully trust its abilities as a private fund manager in which the New Advisers would invest. It is highly unlikely that the New Advisers would seek out and invest in other private funds without first spending a similar amount of time and energy evaluating the manager's organization, performance and ethical underpinnings.

Question 8: Why is there a need for Wellington Management to continue in a sub-advisory capacity?

Answer: The Fund is presently invested primarily in securities which were analyzed, purchased, and are overseen by Wellington Management in its current capacity as the Fund's sole adviser. The New Advisers may have limited familiarity with these securities. It is anticipated that under the guidance of the New Advisers, the Fund will contribute a number of these securities "in-kind" in exchange for interests in several WHM Hedge Funds, although the extent to which an "in-kind" contribution will occur cannot be determined until after the Effective Date. In addition, on the Effective Date, the New Advisers will assume responsibility for all of the Fund's cash or cash equivalent assets as well as certain of the Fund's large cap equity holdings familiar and acceptable to the New Advisers. All of the Fund's remaining assets for which the New Advisers do not assume responsibility – anticipated to be fair-valued and other securities with less market liquidity described above as the Legacy Holdings – will be managed by Wellington Management in accordance with the Fund's investment objective but with a view solely towards holding, liquidating the assets to generate cash for the New Advisers to invest, and/or familiarizing the New Advisers with the Legacy Holdings. After the Effective Date, Wellington Management will not be responsible for purchasing any new securities directly for the Fund. Although there is no set time frame for accomplishing its objectives, by its terms, the proposed sub-advisory agreement with Wellington Management would terminate in two years, and the New Advisers would assume all responsibility for managing any remaining Legacy Holdings at that time.

Question 9: How will the co-adviser and sub-adviser arrangement work? Will they work together?

Answer: Under the terms of the Advisory Agreements, RMA and SIA would serve as co-advisers to the Fund and would be jointly and severally responsible for making investment decisions with respect to the Fund's holdings other than the Legacy Holdings, including any decision to invest in the WHM Hedge Funds, supplying investment research and portfolio management services, placing purchase and sale orders for portfolio transactions, making asset allocation decisions for the Fund and determining the extent, nature and application of the Fund's leverage, if any. Under the terms of the Sub-Advisory Agreement, Wellington Management would serve as sub-adviser and be responsible for making investment decisions solely with respect to the Legacy Holdings, although once liquidated, the proceeds from selling the Legacy Holdings will be transferred to the New Advisers for investment.

Because the New Advisers could decide to invest assets in WHM Hedge Funds at any time, the New Advisers and Wellington Management will not work together or collaborate on their respective portfolios. Wellington Management will have sole investment discretion with respect only to whether to continue to hold or liquidate the Legacy Holdings and the New Advisers will have sole investment discretion with respect to the remaining assets, including the WHM Hedge Fund investments and any proceeds from the sale of Legacy Holdings. However, as a sub-adviser to the Fund, Wellington Management will be subject to general oversight and monitoring by RMA and SIA as the Fund's co-advisers.

Question 10: Will the Fund's expenses be affected by the Advisory Agreements and the Sub-Advisory Agreement?

Answer: Yes. The Fund currently pays Wellington Management an advisory fee of 1.125% on the Fund's net assets up to and including \$150 million; 1.00% on net assets between \$150 million and \$300 million; and 0.875% on net assets exceeding \$300 million (the "Current Fee"). As proposed, the Advisory Agreements contemplate the New Advisers being paid an investment advisory fee of 1.25% on the Fund's net assets, including leverage, although the Fund currently has no leverage. However, under the Advisory Agreements, the New Advisers would waive (i) up to 1.00% on the "look-through" advisory fees (but not the performance fees) paid to WHM with respect to any investment by the Fund in any WHM Hedge Fund and (ii) all fees paid by the Fund to Wellington under the Sub-Advisory Agreement. WHM charges an asset-based fee of 1.00% to the WHM Hedge Funds presently under consideration for investment by the New Advisers. Under the Sub-Advisory Agreement, Wellington Management would receive fees from the Fund based on the Current Fee schedule, as applied only with respect to the assets represented by the Legacy Holdings.

Based on current assets under management, and the New Advisers' anticipated investment of approximately 50% of the Fund's assets in WHM Hedge Funds, the advisory fees paid directly by the Fund would decrease by approximately \$725,000 annually versus the Current Fee (\$2.34 million based on net assets of \$215.1 million as of December 31, 2009). However, on a "look-through" basis (i.e., taking into consideration the fees charged by WHM in managing the WHM Hedge Funds), if the WHM Hedge Funds achieve an investment return of 10% (and are thus paid a concomitant performance based fee), advisory-related expenses will increase by approximately \$2.5 million annually. On such a "look-through" basis, the overall expense ratio would increase from 1.65% to approximately 2.84% (assuming the 10% investment return and impact of the performance fee paid to WHM). This expense ratio may or may not fluctuate depending on fixed expenses as well as the size of the Fund. See the "Fees and Expenses" Table under Proposal 1 and 2 below and the example in the paragraph immediately below.

Hedge fund managers, including WHM, typically are paid a 20% performance fee with respect to annual gains generated in their hedge funds. Thus, under the Restructuring, the advisory-related fees could increase significantly when there are significant net gains in the hedge fund. Since performance fees will necessarily vary from year to year, they can only be estimated based on a normalized market return. For the sake of comparison, if the Fund invests 50% of its current assets in WHM Hedge Funds, and during the first year after the Effective Date the value of WHM Hedge Funds increase by 10%, and all the Fund's other assets remain unchanged, on a "look-through" basis, the Fund would pay an additional \$2.5 million in advisory related fees. The Board believes that because the WHM Hedge Funds offer more investment flexibility and the possibility of superior risk adjusted returns, the likelihood that the Fund will pay higher look-through advisory-related fees is an acceptable tradeoff.

Question 11: Will the Restructuring affect the Fund's investment objective or any fundamental policies?

Answer: The Restructuring will not affect the Fund's investment objective of "total return". However, as part of the Restructuring, stockholders are asked to remove the Fund's fundamental policy of investing at least 65% of its assets in financial services companies (the "Concentration Policy"). The Board believes that the 65% minimum investment requirement in financial services companies places a disproportionate industry risk on the Fund and stockholders. If the Restructuring is approved and the Concentration Policy eliminated, the New Advisers will be required to reduce the Fund's exposure to the financial services industry to comply with this change.

The Fund will continue to have the flexibility to invest in a wide range of investments, which could include, among others, common stocks, debt instruments, preferred stocks, securities convertible into common stocks, interest rate and credit default swaps, and cash and cash equivalents. In addition, the Restructuring is intended to provide the Fund with the ability to invest in hedge funds, in particular the WHM Hedge Funds, which carry a set of risks particular to investing in hedge funds and which are discussed below. The Restructuring and, in particular, removal of the Concentration Policy, is intended to give the Fund and New Advisers additional flexibility in investing the Fund's assets.

If the Concentration Policy is eliminated, going forward, the Fund would be precluded from investing more than 25% of its assets in the financial services or any other industry. However, the Fund would likely be concentrated in the securities of financial services companies immediately following stockholder approval as a result of the current effectiveness of the Concentration Policy. The New Advisers would seek to reduce the Fund's holdings in financial services companies to below 25% of the Fund's assets in a prudent manner consistent with elimination of the Concentration Policy. As discussed under Proposals 1 through 3 below, if the Restructuring Proposals are approved by stockholders, the New Advisers expect to invest significantly in the WHM Hedge Funds, several of which have significant exposure to the financial services sector. However, the Fund will not "look through" its investments in the WHM Hedge Funds to underlying portfolio holdings in financial services companies in determining whether the Fund exceeds the 25% maximum concentration threshold if the Concentration Policy is eliminated. The Fund could therefore become indirectly concentrated in financial services companies or other industries by virtue of the

investments by the WHM Hedge Funds in such investments.

Question 12: Why are there two proposals (Proposals 4 and 5) dealing with the Concentration Policy?

Answer: As discussed above, Proposal 4 contemplates the removal of the Concentration Policy in its entirety as part of the Restructuring so that the New Advisers will have additional flexibility when investing the Fund's assets. Proposal 5 is a precautionary proposal which would become effective only if stockholders do not approve the Restructuring (i.e., Proposals 1 through 4). Proposal 5 would amend the Concentration Policy to reduce the Fund's minimum holdings in financial services companies from 65% to 25% (subject to the Fund's ability to take defensive measures to preserve value). Regardless of whether Wellington Management or the New Advisers are the primary advisers to the Fund, the Board believes that the 65% investment requirement in financial services companies places a disproportionate industry risk on the Fund and stockholders and needs to be eliminated or at the very least significantly reduced.

QuestionAre the separate proposals of the Restructuring conditioned on stockholder approval of the other proposals 13: (e.g., approval of the Advisory Agreements and Sub-Advisory Agreement)?

Answer: Passage of Proposals 1 and 2 (approval of the Advisory Agreements) and Proposal 3 (approval of the Sub-Advisory Agreement) are conditioned on all such Proposals being approved by stockholders (i.e., if one fails to achieve stockholder approval, all three fail). However, the Board believes that eliminating or amending the Concentration Policy is a change that should be implemented regardless of whether Proposals 1 through 3 are approved. Thus, stockholders are presented with two alternative proposals regarding the Concentration Policy, and passage of Proposal 4 (eliminating the Concentration Policy) will be conditioned on stockholder approval of Proposals 1 through 4. In other words, if stockholders approve Proposal 4 but not Proposals 1 through 3, Proposal 4 will not become effective. Proposal 5 (amending the Concentration Policy) will be conditioned upon stockholder approval of Proposal 5 and their failure to approve Proposals 1 through 3. Thus, if stockholders approve both Proposals 4 and 5 and Proposals 1 through 3 pass, Proposal 4 will become effective and Proposal 5 will not. However, if stockholders approve both Proposals 4 and 5, but Proposals 1 through 3 do not pass, Proposal 5 will become effective and Proposal 4 will not. Ultimately, the Board believes that eliminating or significantly reducing the minimum threshold of the Concentration Policy will mitigate industry risk and provide the Fund's adviser(s) with additional flexibility and ease the Fund's future administrative burdens going forward. If the Restructuring Proposals are not adopted and Wellington Management stays on as investment adviser to the Fund, Wellington Management intends to retain its primary focus on investments in the financial services industry. Proposal 5 would give Wellington Management additional flexibility to invest outside of the financial services sector, including during periods of market turmoil.

QuestionDescribe any other anticipated change to the Fund's investment strategies or operations and explain the 14: anticipated benefits to the Fund and its stockholders of any such change.

Answer: The primary impetus for the Restructuring is to provide the Fund with more flexibility and increased access to hedge funds, including the less constrained and broader investment tools of Wellington Management, the Fund's current adviser, by making investments in certain WHM Hedge Funds including those that emphasize investments in the financial services sector. The New Advisers are considering making a significant allocation (approximately 50%) of the Fund's assets to WHM Hedge Funds, once the Restructuring is fully implemented. This would represent an obvious change in investment approach as compared to the Fund's historical universe of investments. The Board believes that giving the Fund the ability to invest significantly in hedge funds, in particular the WHM Hedge Funds, ultimately offers more investment flexibility and the potential for superior risk adjusted returns.

QuestionWill the risk profile of the Fund change as a result of the Restructuring and, in particular, as a result of 15: investing significantly in hedge funds?

Answer: Yes. Because the New Advisers anticipate investing substantially in hedge funds, in particular the WHM Hedge Funds, the Fund could be exposed to, among other things, the increased leverage and consequent risks (with potential for increased returns) resulting from hedge funds' use of certain investment strategies not currently used by the Fund. Therefore, stockholders should be aware of the general risks and concerns associated with investing in hedge funds:

§ Hedge funds are unregistered private investment funds or pools that invest and trade in many different markets, investment strategies and instruments (including securities, non-securities and derivatives) and are NOT subject to the same regulatory and oversight requirements as investment companies that are registered under the 1940 Act.

§ Hedge fund offering documents are not reviewed or approved by federal or state regulators.

§ Hedge funds may be leveraged and their performance may be volatile. Employing leverage amplifies the potential gain of an investment but also amplifies the potential loss. In addition, a hedge fund's cost of leverage (e.g., interest expense) may be subject to increase and may be higher than the fund's investment returns.

§ A hedge fund's manager generally has absolute trading authority over the hedge fund.

§ Some hedge funds may involve structures or strategies that may cause delays in the receipt by their investors of important tax information.

- § Hedge funds typically provide limited transparency regarding underlying investments. Hedge funds in which the New Advisers may invest will generally permit the Fund to publish only limited financial information about the holdings and performance of those hedge funds.
- § Hedge funds may execute a substantial portion of trades on foreign exchanges which could mean higher risk because they are subject to less regulation than U.S. exchanges and are subject to adverse political or economic events in their respective markets.
- § When the Fund values its securities, market prices may not be readily available for a substantial portion of its investments. Securities for which market prices are not readily available (as is expected to be the case with respect to the Fund's investments in the WHM Hedge Funds) will be valued by the Fund at fair value as determined in good faith in accordance with procedures approved by the Board. As the New Adviser and the Board anticipate that market prices will not be readily available for the hedge funds in which the Fund might invest, the Fund's valuation procedures provide that the fair value of the Fund's investments in hedge funds ordinarily will be the value determined for each such fund in accordance with that fund's own valuation policies. Although the Fund will receive periodic information from each hedge fund regarding its investment performance and investment strategy, the New Adviser may have little or no means of independently verifying valuation information. Investors should be aware that situations involving uncertainties as to the value of portfolio positions could have an adverse effect on the Fund's net assets if the judgments of the Board, the New Advisers or investment advisers to hedge funds in which the Fund invests should prove incorrect. Also, investment advisers to hedge funds typically provide determinations of the net asset value on a monthly basis, in which event, the Fund's weekly reporting of net asset value may be based on information that is not current and could fluctuate significantly when the Fund updates its portfolio valuations to reflect updated values for its hedge fund investments. See "Net Asset Valuation."
- § The Fund's investment in a hedge fund may be illiquid and there may be significant restrictions on liquidating or transferring interests in a hedge fund.
- § There are no secondary markets for the Fund's investment in any hedge fund and none are expected to develop.
- § A hedge fund's ongoing advisory and performance fees and expenses may be substantial regardless of positive trading profits.
- § Hedge funds may invest in startup, small cap and distressed companies all of which may have limited liquidity and volatile market dynamics which may result in volatile performance by the hedge funds.
- § Hedge funds may engage in investment techniques that are viewed as speculative such as short selling and investing in futures contracts and may invest in certain securities such as options, warrants, convertible securities and non-U.S. securities. Certain short selling and futures contracts expose hedge funds to potentially unlimited losses.
- § Hedge funds may invest in interest rate and credit default swaps and other derivative instruments. Derivative instruments can be volatile and involve various degrees of risk depending on the characteristics of the particular derivative and the characteristics of the investing hedge fund's portfolio.
- § Hedge funds may invest in securities denominated in foreign currencies thus exposing their investors to foreign currency risk.

This summary is not a complete list of the risks involved in investing in a hedge fund. Stockholders should review the section entitled "Risks and Special Considerations Associated with the Restructuring Proposals – Risks Associated with

Investments by Hedge Funds” under Proposal 1 and 2 which contains a more in depth discussion of the risks and considerations identified above.

Question Describe the manner in which the current investment portfolio of the Fund would be modified in connection with the Restructuring and whether there will be any associated adverse costs or tax consequences.

Answer: Initially the New Advisers are considering investing up to 50% of the Fund’s assets in at least three WHM Hedge Funds (up to approximately 17% of the Fund’s assets in each WHM Hedge Fund). In addition, the New Advisers may in their discretion make additional investments of up to 5% of the Fund’s assets (at the time of investment) in other hedge funds, including WHM Hedge Funds. Also as discussed above, removing the Concentration Policy will allow the New Advisers more flexibility in investing in hedge funds and managing the Fund’s remaining portfolio, allowing the New Advisers to invest the Fund’s assets in a more diversified array of industries and investments, both domestic and abroad. Due to the recent market volatility and the credit crisis, it is difficult to predict where or in what industries the New Advisers will focus.

As discussed above, Wellington Management, in its capacity as a sub-adviser after the Restructuring, will be charged with the task of holding and/or liquidating the Legacy Holdings in a timely and prudent manner, generating cash for the New Advisers to invest opportunistically. With respect to the Legacy Holdings, an adviser normally would be concerned about the tax consequence of aggressively liquidating a large portion of the Fund's portfolio. However, because the Fund has significant net unrealized capital losses (i.e., \$40 million as of September 30, 2009) and capital loss carry forwards (i.e., \$25.8 million expiring March 31, 2017), the sale of existing portfolio securities is not expected to trigger net capital gains. Also, it is anticipated that a portion of the Fund's current portfolio may be able to be exchanged "in-kind" for an interest in the WHM Hedge Funds without the expectation of immediate tax consequences. In these circumstances, the Fund would retain its cost basis in the "in-kind" securities and would realize a gain or loss only when the hedge fund sells the respective in-kind securities. The extent of any in-kind contribution, however, cannot be determined until after the Effective Date.

Question Will stockholders have access to the financial data of the WHM Hedge Funds or other hedge funds in which the Fund invests?
17:

Answer: No. Managers of hedge funds generally do not permit public disclosure of their hedge funds' investment strategies, investment portfolios or other proprietary financial information. Consequently, unlike the publicly available financial information on the Fund's investments in publicly-traded companies, stockholders will not have public access to research and analysis on the hedge funds in which the Fund invests.

The staff of the Securities and Exchange Commission (the "SEC Staff") has taken the informal position that an investment company, such as the Fund, should provide its stockholders with audited financial statements on an annual basis for a private company in which the investment company invests, including hedge funds, if the value of such investment exceeds 25% of the investment company's net asset value (measured as of the last day of each calendar quarter) (the "25% Threshold"). In the SEC Staff's view, the 25% Threshold is absolute and the financial statement delivery requirement will apply regardless of whether the 25% Threshold is exceeded as a result of the initial investment amount, subsequent fluctuations in the market value of the private company investment or the investment company's other portfolio investments, or otherwise. As discussed above, since hedge fund managers generally will not permit public disclosure of the financial statements of the hedge funds they manage, the Fund likely would be unable to satisfy the financial statement delivery requirement if the Fund's investment in any single hedge fund exceeds the 25% Threshold. Accordingly, to avoid the possibility that the Fund would exceed the 25% Threshold but not be able to provide the underlying financial statements, the Fund has adopted policies and procedures to ensure that the New Advisers continuously monitor the percentage the Fund has invested in each of its hedge fund investments. Under these procedures, the New Advisers will limit the Fund's initial investment in any single hedge fund to approximately 17% of the Fund's net asset value at the time of investment and will begin taking affirmative steps to reduce the Fund's investment in any hedge fund when the value of any such investment exceeds 22% of the Fund's net asset value.

Although the New Advisers believe that Fund's investments in hedge funds can be managed so as not to exceed the 25% Threshold, if the value of one of the Fund's hedge fund investments increases precipitously while the remainder of the Fund's investments decreases, given the redemption notice period required by most hedge fund advisers, the Fund may not be able to reduce its position quickly enough to avoid exceeding the 25% Threshold prior to the measuring date at the end of a calendar quarter. Moreover, because most hedge funds (including the WHM Hedge Funds) impose a "lock up" period on new investors (i.e., new investors cannot make redemption requests for a specified period, typically one year), the Fund may be unable to redeem its interest in a hedge fund quickly enough to avoid exceeding the 25% Threshold despite the Fund's policies and procedures.

Question Do the investment activities contemplated by the Restructuring violate any New York Stock Exchange listing standards?
18: ("NYSE")

Answer: Presently, there are no NYSE listing standards affecting NYSE members that invest in hedge funds. However, in 2008, the American Stock Exchange (“AMEX”) filed a proposed rule change with the Securities and Exchange Commission concerning a “generic” listing standard for closed-end management investment companies of hedge funds (the “AMEX Standard”). As proposed, the AMEX Standard would have imposed significant obligations on member companies that make investments of any size in any private investment vehicle relying on specified exemptions under the 1940 Act (e.g., hedge funds, private equity funds, pooled investment vehicles, etc.). As proposed, the AMEX Standard would require, as a condition of listing, that a member closed-end investment company (i) invest only in hedge funds that independently report their net asset values weekly, and (ii) publicly disclose all material information that an investee hedge fund makes available to its investors (e.g., financial statements and holdings). As discussed above, neither of these conditions is likely to be feasible under the Restructuring.