

THE SWISS HELVETIA FUND, INC.

1270 Avenue of the Americas, Suite 400
New York, New York 10020
1-888-SWISS-00 (1-888-794-7700)
1-212-332-2760

STATEMENT OF ADDITIONAL INFORMATION

May 18, 2007

This Statement of Additional Information ("SAI") of the Fund relating to this offering of shares of the Fund's common stock (the "Common Stock") does not constitute a prospectus, but should be read in conjunction with the Fund's prospectus relating to the Common Stock dated May 18, 2007. This SAI does not include all information that a prospective investor should consider before purchasing shares of Common Stock in this offering. Investors should obtain and read the Fund's prospectus prior to purchasing such shares. A copy of the Fund's prospectus may be obtained without charge by calling (888) 794-7700. You also may obtain a copy of the Fund's prospectus on the Securities and Exchange Commission's website (<http://www.sec.gov>).

Capitalized terms used but not defined in this SAI have the meanings assigned to them in the prospectus.

TABLE OF CONTENTS

	<u>Page</u>
The Fund.....	1
Investment Objective, Policies and Risks.....	1
Investment Restrictions	5
Management of the Fund.....	6
Investment Advisory and Other Services	12
Portfolio Transactions and Brokerage	16
Determination of Net Asset Value.....	17
Repurchase of Common Stock	18
U.S. Federal Taxation.....	19
Counsel and Independent Registered Public Accounting Firm	24
Financial Statements.....	24

Privacy Policy

Hottinger Capital Corp. ("HCC") collects certain personally identifiable financial information about the Fund's stockholders to ensure that it offers the highest quality financial services and products. The personally identifiable financial information which the Fund gathers during the normal course of doing business with its stockholders may include:

1. information the Fund receives from its stockholders on applications or other forms;
2. information about transactions with the Fund, its affiliates, or others;
3. information collected through an Internet "cookie" (an information collecting device from a web server); and
4. information that the Fund receives from a consumer reporting agency.

The Fund does not disclose any nonpublic personal information about its current or former stockholders to anyone, except as permitted by law. In accordance with Section 248.13 of Regulation S-P, the Fund may disclose all of the information collected, as described above, to certain nonaffiliated third parties such as attorneys, accountants, auditors and persons or entities that are assessing the Fund's compliance with industry standards. HCC, on behalf of the Fund, enters into contractual agreements with all nonaffiliated third parties that prohibit such third parties from disclosing or using this information other than to carry out the purposes for which the Fund discloses the information.

The Fund restricts access to nonpublic personal information about its stockholders to those employees who need to know that information to provide financial products or services to stockholders. The Fund maintains physical, electronic, and procedural safeguards that comply with Federal standards to guard the nonpublic personal information of the Fund's stockholders.

THE FUND

The Fund is a non-diversified closed-end investment management company, which was incorporated in Delaware on October 24, 1986. The Fund commenced investment operations on August 27, 1987 following an initial public offering of 8,000,000 shares of the Fund's common stock, par value \$0.001 per share (the "Common Stock") at \$15.00 per share. The Fund changed its name from "The Helvetia Fund, Inc." to "The Swiss Helvetia Fund, Inc." on May 16, 1990. The Fund issued an additional 800,786 shares of Common Stock at an offering price of \$12.60 in connection with a non-transferable rights offering in June 1992. The Fund issued an additional 3,075,000 shares of Common Stock at an offering price of \$18.72 in connection with a non-transferable rights offering in July 1995. On October 16, 1998, the Fund effected a 2:1 stock split.

INVESTMENT OBJECTIVE, POLICIES AND RISKS

The following descriptions supplement the descriptions of the Fund's principal investment objective, strategies and risks as set forth in the prospectus. Except as otherwise provided, the Fund's investment policies are not fundamental and may be changed by the Board of Directors of the Fund without the approval of the stockholders; however, the Fund will not change its non-fundamental investment policies without written notice to stockholders.

Initial Public Offerings

The Fund may purchase securities of companies in initial public offerings ("IPOs") or shortly thereafter. An IPO is a corporation's first offering of stock to the public. Shares are given a market value reflecting expectations for the corporation's future growth. Corporations offering stock in IPOs generally have limited operating histories and may involve greater investment risk. The prices of these companies' securities may be very volatile, rising and falling rapidly, sometimes based solely on investor perceptions rather than economic reasons. IPO securities will be sold when the Adviser believes the price has reached full value. IPO securities may be sold by the Fund on the same day the Fund receives an allocation.

Smaller Company Securities

The Fund may purchase securities of smaller capitalization companies, the prices of which may be subject to more abrupt or erratic market movements than securities of larger, more established companies, because securities of smaller companies typically are traded in lower volume and the issuers typically are subject to greater changes in earnings and prospects. Smaller capitalization companies often have limited product lines, markets or financial resources. They may be dependent on management for one or a few key persons, and can be more susceptible to losses and the risk of bankruptcy. In addition, securities of the small capitalization sector may be thinly traded (and therefore may have to be sold at a discount from current market prices or sold in small lots over an extended period of time), may be followed by fewer investment research analysts and may pose a greater chance of loss than investments in securities of larger capitalization companies.

Convertible Securities

Convertible securities may be converted at either a stated price or stated rate into underlying shares of common stock. Convertible securities have characteristics similar to both fixed-income and equity securities. Convertible securities generally are subordinated to other similar but non-convertible securities of the same issuer, although convertible bonds, as corporate debt obligations, enjoy seniority in right of payment to all equity securities, and convertible preferred stock is senior to common stock, of the same issuer.

The market value of convertible securities tends to decline as interest rates increase and, conversely, tends to increase as interest rates decline. In addition, because of the conversion feature, the market value of convertible securities tends to vary with fluctuations in the market value of the underlying common stock. A unique feature of convertible securities is that as the market price of the underlying common stock declines, convertible securities tend to trade increasingly on a yield basis and so may not experience market value declines to the same extent as the underlying common stock. When the market price of the underlying common stock increases, the prices of the

convertible securities tend to rise as a reflection of the value of the underlying common stock. While no securities investments are without risk, investments in convertible securities generally entail less risk than investments in common stock of the same issuer.

Convertible securities provide for a stable stream of income with generally higher yields than common stocks, but there can be no assurance of current income because the issuers of the convertible securities may default on their obligations. A convertible security, in addition to providing fixed income, offers the potential for capital appreciation through the conversion feature, which enables the holder to benefit from increases in the market price of the underlying common stock. There can be no assurance of capital appreciation, however, because securities prices fluctuate. Convertible securities generally offer lower interest or dividend yields than non-convertible securities of similar quality because of the potential for capital appreciation.

Swiss Real Estate Companies

Real property investments are subject to varying degrees of risk. Property values may fall due to increasing vacancies or declining rents resulting from economic, legal, cultural or technological developments. The price of real estate company shares also may drop because of the failure of borrowers to pay their loans and poor management. Many real estate companies utilize leverage, which increases investment risk and could adversely affect a company's operations and market value in periods of rising interest rates, as well as risks normally associated with debt financing. The yields available from investments in real estate depend on the amount of income and capital appreciation generated by the related properties. Income and real estate values also may be adversely affected by such factors as applicable laws, interest rate levels and the availability of financing. If the properties do not generate sufficient income to meet operating expenses, including, where applicable, debt service, ground lease payments, tenant improvements, third-party leasing commissions and other capital expenditures, the income and ability of the real estate company to make payments of any interest and principal on its debt securities will be adversely affected. In addition, real property may be subject to the quality of credit extended and defaults by borrowers and tenants. The performance of the economy in each of the regions and countries in which the real estate owned by a portfolio company is located affects occupancy, market rental rates and expenses and, consequently, has an impact on the income from such properties and their underlying values. The financial results of major local employers also may have an impact on the cash flow and value of certain properties. In addition, real estate investments are relatively illiquid and, therefore, the ability of real estate companies to vary their portfolios promptly in response to changes in economic or other conditions is limited. A real estate company also may have joint venture investments in certain of its properties and, consequently, its ability to control decisions relating to these properties may be limited.

Real property investments are also subject to risks which are specific to the investment sector or type of property in which the real estate companies are investing. Such sectors include retail, office, hotel, healthcare and multifamily properties. Certain portfolio companies may carry comprehensive liability, fire, flood, earthquake, extended coverage and rental loss insurance with various policy specifications, limits and deductibles. Should any type of uninsured loss occur, the portfolio company could lose its investment in, and anticipated profits and cash flows from, a number of properties, which, as a result, would adversely affect the Fund's investment performance.

Real Estate Investment Trusts

Real estate investment trusts ("REITs") are companies that own interests in real estate or in real estate related loans or other interests and revenue primarily consists of rent derived from owned, income producing real estate properties and capital gains from the sale of such properties. A REIT in the U.S. is generally not taxed on income distributed to shareholders so long as it meets certain tax related requirements, including the requirement that it distribute substantially all of its taxable income to such shareholders. Some countries have a REIT structure very similar to the U.S. Other countries have REIT structures that are different from the U.S. in terms of tax requirements/benefits or scope of qualifying business activities. In addition, there are other countries that have not adopted a REIT structure in any form, although some of these countries, including Switzerland, are considering adopting a REIT structure.

REITs (especially mortgage REITs) are also subject to interest rate risks. When interest rates decline, the value of a REIT's investment in fixed rate obligations can be expected to rise. Conversely, when interest rates rise,

the value of a REIT's investment in fixed rate obligations can be expected to decline. If the REIT invests in adjustable rate mortgage loans the interest rates on which are reset periodically, yields on a REIT's investments in such loans will gradually align themselves to reflect changes in market interest rates. This causes the value of such investments to fluctuate less dramatically in response to interest rate fluctuations than would investments in fixed rate obligations. REITs may have limited financial resources, may trade less frequently and in a limited volume and may be subject to more abrupt or erratic price movements than larger company securities.

Borrowing Money

The Fund may borrow in an amount up to 10% of the value of its total assets (including the amount borrowed) valued at the lesser of cost or market, less liabilities (including the amount borrowed) at the time the borrowing is made. Money borrowed will be subject to interest costs. In addition, the Fund may borrow for investment purposes to the extent permitted under the Investment Company Act of 1940, as amended (the "1940 Act"). See "Leverage" below.

Leverage

Under the 1940 Act, money borrowed for leveraging is limited to 33 $\frac{1}{3}$ % of the value of the Fund's net assets plus the principal amount represented by borrowings. The Fund is limited in the amount it may borrow for leveraging purposes to 10% of the value of its total assets (including the amount borrowed). Interest costs of borrowings may or may not be recovered by appreciation of the securities purchased; in certain cases, interest costs may exceed the return received on the securities purchased. For borrowings for investment purposes, the 1940 Act requires the Fund to maintain continuous asset coverage (net assets plus the principal amount represented by borrowings) of 300% of the amount borrowed. In addition, the Fund is not permitted to declare any cash dividend or other distribution on its Common Stock unless, at the time of such declaration, the value of the Fund's net assets plus the principal amount by borrowings, is at least 300% of such principal amount. The Fund also may be required to maintain minimum average balances in connection with such borrowings or pay a commitment or other fee to maintain a credit facility; either of these requirements would increase the cost of borrowings over the stated interest rate.

Using leverage (borrowing for investment purposes) is a speculative investment technique and involves certain risks. These include higher volatility of net asset value, the likelihood of more volatility in the market value of the Fund's common stock and the possibility either that the Fund's return will fall if the interest rate on any borrowings rises, or that income and the Fund's distributions will fluctuate because the interest rate on borrowings varies. So long as the Fund is able to realize a higher net return on its investment portfolio than the then current cost of any leverage together with other related expenses, the effect of the leverage will be to cause the Fund to realize higher net return than if the Fund were not so leveraged. On the other hand, to the extent that the then current cost of any leverage, together with other related expenses, approaches the net return on the Fund's investment portfolio, the benefit of leverage to the Fund's common stockholders will be reduced, and if the then current cost of any leverage were to exceed the net return on the Fund's portfolio, the Fund's leveraged capital structure would result in a lower rate of return than if the Fund were not so leveraged. If the market value of the Fund's portfolio declines, the leverage will result in a greater decrease in net asset value than if the Fund were not leveraged. A greater net asset value decrease also will tend to cause a greater decline in the market price for the Fund's common stock. There can be no assurance that any leverage strategy the Fund employs will be successful.

Credit Facility. The Fund has entered into a \$45 million credit agreement with Citibank, N.A. (the "Credit Agreement") for an uncommitted line of credit with Citibank, N.A. as lender and agent (the "Line of Credit"). The Line of Credit may be used (1) to purchase portfolio investments and (2) for payment of distributions to stockholders and other short-term portfolio management purposes.

Lending Portfolio Securities

The Fund may lend securities from its portfolio to brokers, dealers and other financial institutions needing to borrow securities to complete certain transactions. In connection with such loans, the Fund remains the owner of the loaned securities and continues to be entitled to payments in amounts equal to the interest, dividends or other distributions payable on the loaned securities. The Fund also has the right to terminate a loan at any time. The Fund may call the loan to vote proxies if a material issue affecting the Fund's investment is to be voted upon. Loans of portfolio securities may not exceed 33⅓% of the value of the Fund's total assets. The Fund will receive collateral consisting of cash, U.S. Government securities or irrevocable letters of credit which will be maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities. If the collateral consists of a letter of credit or securities, the borrower will pay the Fund a loan premium fee. If the collateral consists of cash, the Fund will reinvest the cash and pay the borrower a pre-negotiated fee or "rebate" from any return earned on the investment. Should the borrower of the securities fail financially, the Fund may experience delays in recovering the loaned securities or exercising its rights in the collateral. Loans are made only to borrowers that are deemed by the Adviser to be of good financial standing. In a loan transaction, the Fund will also bear the risk of any decline in value of securities acquired with cash collateral.

Options

The Fund may invest in, or enter into, certain options. Options may be purchased on established exchanges or through privately negotiated transactions referred to as over-the-counter ("OTC") transactions. Exchange-traded options generally are guaranteed by the clearing agency which is the issuer or counterparty to such options. This guarantee usually is supported by a daily variation margin system operated by the clearing agency in order to reduce overall credit risk. As a result, unless the clearing agency defaults, there is relatively little counterparty credit risk associated with options purchased on an exchange. In contrast, no clearing agency guarantees OTC transactions. Therefore, each party to an OTC transaction bears the risk that the counterparty will default. OTC options are less liquid than exchange-traded options since the other party to the transaction may be the only investor with sufficient understanding of the option to be interested in bidding for it.

The Fund may buy and sell (write) covered call options and may buy put options. A call option gives the purchaser of the option the right to buy, and obligates the writer to sell, the underlying security or securities at the exercise price at any time during the option period, or at a specific date. Conversely, a put option gives the purchaser of the option the right to sell, and obligates the writer to buy, the underlying security or securities at the exercise price at any time during the option period, or at a specific date. A covered call option written by the Fund is a call option with respect to which the Fund owns the underlying security or otherwise covers the transaction by segregating permissible liquid assets. The principal reason for writing covered call options is to realize, through the receipt of premiums, a greater return than would be realized on the underlying securities alone. The Fund receives a premium from writing covered call options which it retains whether or not the option is exercised.

The Fund also may buy call options and buy put options in respect of stock indices listed on Swiss or European stock exchanges or traded in the over-the-counter market. An option on an index is similar to an option in respect of specific securities, except that settlement does not occur by delivery of the securities comprising the index. Instead, the option holder receives an amount of cash if the closing level of the index upon which the option is based is greater than, in the case of a call, or less than, in the case of a put, the exercise price of the option. Thus, the effectiveness of purchasing or writing index options will depend upon price movements in the level of the index rather than the price of a particular security.

There is no assurance that sufficient trading interest to create a liquid secondary market on a securities exchange will exist for any particular option or at any particular time, and for some options no such secondary market may exist. A liquid secondary market in an option may cease to exist for a variety of reasons. In the past, for example, higher than anticipated trading activity or order flow, or other unforeseen events, at times have rendered certain of the clearing facilities inadequate and resulted in the institution of special procedures, such as trading rotations, restrictions on certain types of orders or trading halts or suspensions in one or more options. There can be no assurance that similar events, or events that may otherwise interfere with the timely execution of customers' orders, will not recur. In such event, it might not be possible to effect closing transactions in particular options. If the Fund is unable to effect a closing purchase transaction in a secondary market, it will not be able to

sell the underlying security until the option expires or it delivers the underlying security upon exercise or it otherwise covers its position.

Successful use by the Fund of options will be subject to the Adviser's ability to predict correctly movements in the prices of individual stocks, the stock market generally, foreign currencies or interest rates. To the extent the Adviser's predictions are incorrect, the Fund may incur losses.

Investment Companies

The Fund may invest in securities issued by other registered investment companies. Under the 1940 Act, the Fund's investment in such securities, subject to certain exceptions, currently is limited to (1) 3% of the total voting stock of any one investment company, (2) 5% of the Fund's total assets in any one investment company and (3) 10% of the Fund's total assets in the aggregate. Investments in the securities of other investment companies may involve duplication of advisory fees and certain other expenses.

INVESTMENT RESTRICTIONS

The investment objective and the general investment policies and investment techniques of the Fund are described in the prospectus. The Fund has also adopted certain investment restrictions limiting the following activities except as specifically authorized. The Fund may not:

1. Invest 25% or more of the total value of its assets in a particular industry.
2. Issue senior securities, borrow money or pledge its assets, except that the Fund may borrow money from banks in amounts not exceeding 10% of its total assets (including the amount borrowed) and may pledge its assets in connection with such permitted borrowing; provided that permitted derivative transactions are not deemed to be an issuance of a senior security.
3. Make loans, except through the purchase of debt obligations consistent with the Fund's investment policies.
4. Buy or sell commodities, commodity contracts, futures contracts, real estate or interests in real estate, except that the Fund may purchase and sell securities issued by Swiss Real Estate Companies, and the Fund may acquire, hold and sell real estate or mortgages on real estate as a result of default, liquidation or other distributions of an interest in real estate as a result of the Fund's ownership of securities of Swiss Real Estate Companies.
5. Make short sales of securities or maintain a short position in any security.
6. Purchase securities on margin, except such short-term credits as may be necessary or routine for the clearance or settlement of transactions.
7. Act as an underwriter, except to the extent the Fund may be deemed to be an underwriter in connection with the sales of securities in its portfolio.
8. Invest 10% or more of the total value of its assets in securities which cannot be readily resold because of legal or contractual restrictions or which are not otherwise readily marketable.

The investment restrictions numbered 1 through 8 in this SAI have been adopted as fundamental policies of the Fund. Under the 1940 Act, a fundamental policy may not be changed without the approval of the holders of a "majority of the outstanding" Common Stock. When used with respect to particular shares of the Fund, a "majority of the outstanding" shares means (i) 67% or more of the shares present at a meeting, if the holders of more than 50% of the shares are present or represented by proxy, or (ii) more than 50% of the shares, whichever is less.

If a percentage restriction is adhered to at the time of an investment or transaction, a later change in

percentage resulting from a change in the values of investments or the value of the Fund's total assets, unless otherwise stated, will not constitute a violation of such restriction or policy.

MANAGEMENT OF THE FUND

Board of Directors

The business and affairs of the Fund are managed under the direction of the Fund's Board of Directors (the "Board"), which approves all significant agreements with those companies that furnish services to the Fund. These companies are as follows:

Hottinger Capital Corp.	Investment Adviser
Citigroup Fund Services, LLC.....	Administrator and Fund Accountant
Citibank, N.A.....	Custodian
American Stock Transfer & Trust Company	Transfer Agent, Dividend Disbursing Agent and Registrar

Basic information about the identity and experience of each Director and officer is set forth in the charts below. The Directors of the Fund, their addresses, their ages, the length of time served, their principal occupations for at least the past five years, and other directorships held by the Director are set forth below. The Fund is not part of a fund complex or group, and, accordingly, the Directors do not serve on the board of any other registered investment company in a complex or group with the Fund.

Name, Address & Age, Position(s) with the Fund (Since)	Principal Occupation(s) During At Least The Past Five Years	Other Directorships Held
Class I Directors		
Claude W. Frey Clos 108 2012 Auvemier Switzerland Age: 63 Director (1995); Member of the Governance/Nominating Committee (2002)	President of the Swiss Parliament from 1994 to 1995; President of the Swiss Police Academy (Neuchâtel) from 1996 to 2003; Member of the Swiss Parliament from 1979 to 2003; Parliamentary Assembly of the Council of Europe (Strasbourg) from 1996 to 2004; Executive Board of the "North-South Centre" (Lisbon) since 1999; President of the National Committee for Foreign Affairs from 2001 to 2003; Vice President of the National Committee for Foreign Affairs from 1999 to 2001; Chairman of the Board: Bérun Frais SA (Maria) since 2002; Federation of Swiss Food Industries (Berne) from 1991 to 2001; Association of Swiss Chocolate Manufacturers (Berne) from 1991 to 2000; Vice Chairman of the Board: Federation of Swiss Employers' Association (Zurich) from 1997 to 2001	Chairman of the Board: Infra Tunnel SA (Marin) since 2002; Beton Frais SA (Marin) since 2002; President of the Steering Committee of InterNutrition (Zurich) since 2000; Member of the Board: SCCM SA (Crans-Montana) since 2001; Dexia Banque Privée (Suisse), Zurich, since 2003; Dexia Public Finance (Suisse), Geneva since 2006; Racemark Industries SA (Suisse), Couvet since 2006; Chairman of the Executive Board of the "North-South Centre" (Lisbon) since 2004; Chairman of the Federal Committee for Employee Pension Plans (Berne) since 2004
Jean-Marc Boillat Les Gadras 47120 Villeneuve de Duras France Age: 64 Director (2005); Member of the Governance/Nominating Committee (2005)	Former CEO, Tornos-Bechler S.A., Moutier; Former Ambassador of Switzerland in various countries, including Lebanon, Cyprus, Angola, Mozambique and Argentina	None

Name, Address & Age, Position(s) with the Fund (Since)	Principal Occupation(s) During At Least The Past Five Years	Other Directorships Held
Alexandre de Takacsy ¹ Financière Hottinguer 43, rue Taitbout 75009 Paris France Age: 77 Director (1987 to 1994; 1998 to present)	Senior Advisor to the Hottinger Group and President of Hottinger U.S., Inc. ("HUS") until December 2004; Vice Chairman of the Board, Director, President and Secretary of HCC; Retired Senior Executive, Royal Bank of Canada	None

Name, Address & Age, Position(s) with the Fund (Since)	Principal Occupation(s) During At Least The Past Five Years	Other Directorships Held
Class II Directors		
Didier Pineau-Valencienne c/o SABARD Private Equity Partners, 24/32 Rue Jean Goujon 75008 Paris France Age: 75 Director (1999); Member of the Audit Committee (1999) and Governance/Nominating Committee (2002); and Member of the Litigation Committee (2001 to 2003)	Honorary Chairman of Schneider Electric SA (industrial conglomerate) since 1999; Chairman of the Board and Chief Executive Officer of Schneider Electric SA from 1981 to 1999; Chairman of AFEP from 1999 to 2001; Vice Chairman of Credit Suisse First Boston (Europe) Limited (investment banking) from February 1999 to November 2002; Senior Adviser of Credit Suisse First Boston (Europe) Limited since November 2002; Partner of SAGARD Private Equity Partners (France)	Director: Fleury Michon (France); AFEP (France); Wendel Investissements (formerly, Compagnie Générale d'Industrie et de Participations (CGIP)) from 1996 to 2005; Member of the Board of Pernod Ricard since 2003; Member of the Supervisory Board of AXA-UAP (France) (insurance) from 1998 to 2001; Member of Advisory Board of Booz Allen & Hamilton (USA) from 1997 to 2002; Member of LAGARDÈRE (France) (holding company)
Samuel B. Witt, III, Esq. 1802 Bayberry Court, Suite 401 Richmond, Virginia 23226 Age: 71 Director (1987) and Chairman of the Board of Directors (2006); Chairman of the Audit Committee (1993 to 2006) and Litigation Committee (2001 to 2003); and Member of the Governance/Nominating Committee (2002)	Senior Vice President and General Counsel: Stateside Associates, Inc. from 1993 to 2004; Senior Consultant to Stateside Associates, Inc. from June 1 to December 31, 2004; Samuel B. Witt, III, Attorney-at-Law, since August 1993	Former Member and President of the Virginia Military Institute Board of Visitors; Trustee of The Williamsburg Investment Trust (registered investment company); Trustee, George C. Marshall Foundation; Trustee, University of Virginia Law School Foundation; Director, Gateway Homes, Inc.; and Director, College Orientation Workshop
Paul R. Brenner, Esq. 25 Moore Rd. Bronxville, New York 10708 Age: 64 Director (2002); Chairman of the Audit Committee (2006); Member of the Governance/ Nominating Committee (2005); and Secretary (1987 to 2002)	Of Counsel of Salans (law firm) since July 1996; Paul R. Brenner, Attorney-at-Law since June 1993; Counsel to the Fund from 1994 to 2002; Partner of Kelley Drye & Warren LLP (law firm) from 1976 to 1993	Chairman of the Board and Director: Harry Limited (Private Investment Company ("P.I.C.")); MFGAT, Inc. (P.I.C.); Strelsau, Inc. (P.I.C.); MG Management Corp. (P.I.C.); Marango Capital Management Corp. (P.I.C.); Director: Quercus Foundation, Inc. (Private Foundation); Highstead Fund, Inc. (Private Foundation); Highstead Foundation, Inc (Arboretum); and Director and Senior Trustee of The Louis Calder Foundation (Private Foundation)

Name, Address & Age, Position(s) with the Fund (Since)	Principal Occupation(s) During At Least The Past Five Years	Other Directorships Held
Class III Directors		
Michael Kraynak, Jr. 401 Mountain Avenue Ridgewood, New Jersey 07450 Age: 76	Partner of Brown Brothers Harriman & Co.; Member, BBH Trust Company Investment Committee	Director of American Australian Association; Chairman, Finance Committee; Member, Executive Committee; President of the Robert Brunner Foundation (private foundation); Trustee of the Ridgcrest Senior Citizens Housing Corp.; Former Member of the Ridgewood (NJ) Financial Advisory Council; Former Director: Yale Alumni Association of Bergen County
Director (2005); and Member of the Audit Committee (2006) and Governance/ Nominating Committee (2005)		
Stephen K. West, Esq. Sullivan & Cromwell LLP 125 Broad Street New York, New York 10004 Age: 78	Senior Counsel of Sullivan & Cromwell LLP (law firm) since 1997; Partner of Sullivan & Cromwell LLP from 1964 to 1996	Director: Pioneer Funds (registered investment companies) (52 portfolios); AMVESCAP PLC (investment manager) from 1999 to 2005; First ING Insurance Company of New York from 1983 to 2001; Winthrop Focus Funds (registered investment companies) from 1988 to 1997; ING America Holdings, Inc. (insurance and broker-dealer holding company) from 1988 to 1998; Dresdner RCM Global Strategic Income Fund, Inc. (registered investment company) from 1997 to 2002
Director (1995); and Member of the Audit Committee (1996 to 2004 and since 2006), Governance/Nominating Committee (2002) and Litigation Committee (2001 to 2003)		
Paul Hottinguer ¹ Hottinger et Cie Dreikönigstrasse 55 8027 Zurich Switzerland Age: 64	General Partner: Hottinger et Cie (Zurich); President: Gaspee (real estate) since 1992; Financière Hottinguer (holding company) (1990 to 2002); Financière Provence Participations (venture capital firm) since 1990; AXA International Obligations (finance) since 1996; Managing Director: Intercom (holding company) since 1984; Administrator: Investissement Provence SA (holding company) since 1996; Finaxa (finance) since 1982; Permanent Representative: Credit Suisse Hottinguer to Provence International (publicly held French mutual fund), Credit Suisse Hottinguer to CS Oblig Euro Souverain (mutual fund); Financière Hottinguer to CS Institutions Monétaire (mutual fund) from 1990 to 2002; Financière Hottinguer to CS Court Terme (mutual fund) from 1990 to 2002; Censor – Provence Europe (mutual fund); Credit Suisse Hottinguer to PPC; Credit Suisse Hottinguer to Croissance Britannia (investment fund); Credit Suisse Hottinguer to Harwanne Allemagne; Vice Chairman of the Board, Director and Member of Investment Committee: HCC; Director of HUS until December 2004.	Director: Drouot Securite; Member: Conseil de Surveillance Credit Suisse Hottinguer; Societe pour le Financement de Bureaux et d'Usines Sofibus (real estate)
Director (1989); Chairman of the Board of Directors (1989 to 2006); and Chief Executive Officer (1989 to 2002)		

Name, Address & Age	Position(s) With Fund (Since)	Principal Occupation(s) During At Least The Past Five Years and Other Directorships Held
Officers²		
Rodolphe E. Hottinger Hottinger et Cie 3 Place des Bergues C.P. 1620 1211 Geneve 1 Switzerland Age: 50	President (1997); Chief Executive Officer (2002); Chief Operating Officer (1997 to 2002); Acting President (1996 to 1997); and Executive Vice President and Chief Operating Officer (1994 to 1996)	Managing Partner of Hottinger et Cie (Zurich) since 1987; President: Financière Hottinguer Paris; Hottinger Capital, S.A. (Geneva) (investment company) since 2000; Hottinger & Co. Ltd, UK (investment advisor) since 2001; Emba, NV (investment company) since 1990; Vice Chairman of the Board, Director, Chief Executive Officer and Member of Investment Committee of HCC since 1994; Director of HUS until December 2004. Director: Sofibus SA (real estate investment company); AXA Switzerland (Insurance); Hottinger Bank & Trust Ltd. (Bahamas); PMA, Vienna; Hottinger London
Rudolf Millisits HCC 1270 Avenue of the Americas, Suite 400 New York, New York 10020 Age: 49	Senior Vice President (2000); Treasurer and Chief Financial Officer (2002); and Vice President (1995 to 2000)	Director of HCC since December 2000; Chief Operating Officer of HCC since December 1998; Executive Vice President, Portfolio Manager, Member of Investment Committee and Chief Compliance Officer of HCC since September 1994; Assistant Secretary of HCC since August 1995; Chairman, Chief Executive Officer and Director of HUS since December 2004; Executive Vice President of HUS from 1994 to 2004; Assistant Secretary of HUS from 1995 to 2004; President and Chief Financial Officer: Hottinger Brothers LLC since 2004
Philippe R. Comby, CFA, FRM HCC 1270 Avenue of the Americas, Suite 400 New York, New York 10020 Age: 40	Vice President (2000)	Director of HCC since September 2005; Senior Vice President of HCC since 2002; First Vice President of HCC from 1998 to 2002; Treasurer of HCC since 1997; Chief Investment Officer and Senior Vice President of Hottinger Brothers LLC since 2004; Director, President and Secretary of HUS since December 2004
Edward J. Veilleux 5 Brook Farm Court Hunt Valley, Maryland 21030 Age: 63	Vice President (1987); Secretary (2002); and Treasurer (1987 to 2002)	President of EJV Financial Services LLC (investment company consulting) since May 2002; Senior Vice President of Old Mutual Advisor Funds (formerly known as the PBHG Funds) since January 2005; Director of Deutsche Asset Management from 1999 to 2002; Principal of BT Alex Brown Incorporated from 1989 to 1999; Executive Vice President of Investment Company Capital Corp. from 1987 to 2002
Peter R. Guarino Foreside Compliance Services, LLC Two Portland Square Portland, Maine 04101 Age: 49	Chief Compliance Officer (2004)	Managing Director of Foreside Compliance Services, LLC since 2004; Independent Compliance Consultant from 2002 to 2004; General Counsel and Global Compliance Director of MiFund, Inc. (mutual fund services) from 2000 to 2002

1 Indicates "Interested Person," as defined in the 1940 Act. Paul Hottinguer is an "Interested Person" because of his affiliation with Hottinger et Cie (Zurich) and as a controlling person of HCC. Alexandre de Takacsy is an Interested Person because of his current positions with HCC.

2 Each executive officer serves on a year-to-year basis for an indefinite term, until his successor is elected and qualified.

The Fund's officers are elected annually by the Board of Directors at its Annual Meeting following the Annual Meeting of Stockholders. In addition to the executive officers, the Fund's other officers are Scot E. Draeger, Assistant Secretary and Jean L. Seidel, Assistant Treasurer, each of whom is an employee of Citigroup Fund Services, LLC.

The table below indicates the dollar range of each Director's ownership of Common Stock of the Fund as of December 31, 2006.

	Dollar Range of Common Stock
Jean-Marc Boillat.....	\$10,001-\$50,000
Paul R. Brenner.....	Over \$100,000
Alexandre de Takacsy.....	\$10,001-\$50,000
Claude W. Frey.....	\$10,001-\$50,000
Paul Hottinguer.....	Over \$100,000
Michael Kraynak.....	\$10,001-\$50,000
Didier Pineau-Valencienne.....	\$10,001-\$50,000
Stephen K. West, Esq.	Over \$100,000
Samuel B. Witt, III, Esq.....	\$10,001-\$50,000

Hottinger et Cie (Zurich), a partnership, owns 143,305 shares of the Fund; HCC owns 140,307 shares of the Fund; Hottinger Treuhand AG owns 9,823 shares of the Fund; and Hottinger Bank & Trust Limited, Nassau owns 34,016 shares of the Fund. Paul Hottinguer and Rodolphe E. Hottinger are controlling partners of Hottinger et Cie (Zurich) and controlling shareholders and directors of HCC and Hottinger Treuhand AG and therefore share voting and investment power over the 327,451 shares of the Fund owned by Hottinger et Cie (Zurich), HCC, Hottinger Treuhand AG and Hottinger Bank & Trust Limited, Nassau. In addition, Rodolphe E. Hottinger and his children directly own 18,533 shares.

As of May 4, 2007, all Directors and executive officers as a group owned 725,492 shares which constitutes approximately 2.97% of the outstanding Common Stock of the Fund. No Director who is not an "interested person" of the Fund as defined in the 1940 Act ("Independent Directors"), and no immediate family members, owns any securities issued by the Adviser or any person or entity (other than the Fund) directly or indirectly controlling, controlled by or under common control with the Adviser.

During the year ended December 31, 2006, the Board of Directors met four times. The Board of Directors provides oversight with respect to the Fund's governance, operations, performance and stockholder relations. In that capacity the Board, directly and through permanent and ad hoc committees, provides oversight of the Fund's investment adviser, HCC, the Fund's independent registered public accounting firm, Deloitte & Touche, LLP, the Fund's administrator and fund accountant, Citigroup Fund Services, LLC ("Citigroup Fund Services"), and Fund management.

The Board has established an Audit Committee whose current members are Messrs. Brenner, Kraynak, Pineau-Valencienne and West, each of whom is an Independent Director. Mr. Brenner serves as Chairman of the Audit Committee. Mr. Witt, as Chairman of the Board of Directors, serves as an ad hoc member of the Audit Committee, but is not considered a formal member of the Audit Committee. In this capacity, Mr. Witt does not have any voting powers and is not counted for purposes of determining a quorum at meetings of the Audit Committee.

Pursuant to the Audit Committee Charter adopted by the Fund's Board of Directors, the function of the Audit Committee is to assist Board oversight of (i) the integrity of the Fund's financial statements; (ii) the Fund's compliance with legal and regulatory requirements; and (iii) the independent registered public accounting firm's qualifications, independence and performance. The Audit Committee held six meetings during the year ended December 31, 2006. The Audit Committee has direct responsibility to appoint, retain, determine the compensation of, evaluate and terminate the Fund's independent registered public accounting firm, including sole authority to approve all audit engagement fees and terms, and in connection therewith, to review and evaluate matters potentially affecting the independence and capabilities of the independent registered public accounting firm. The Audit Committee also oversees the accounting and financial reporting processes of the Fund and the audits of the Fund's financial statements as well as the administration of the Fund.

The Board of Directors has a Governance/Nominating Committee whose current members are Messrs. Boillat, Brenner, Frey, Kraynak, Pineau-Valencienne, West and Witt, each of whom is an Independent Director. Mr. Pineau-Valencienne serves as Chairman of the Governance/Nominating Committee. The Governance/Nominating Committee met four times during the year ended December 31, 2006.

Among other responsibilities, the Governance/Nominating Committee selects and nominates persons for election or appointment by the Board as Directors of the Fund and oversees the annual assessment of the effectiveness of the Board and such other matters of Fund governance as may be delegated to it by the Board or determined by the Governance/Nominating Committee to be appropriate. In evaluating potential nominees, including any nominees recommended by stockholders, the Committee takes into consideration the factors listed in the Governance/Nominating Committee Charter, including character and integrity, experience in business, investment and economic matters in Europe, the United States, or Switzerland or political matters of Switzerland, and whether the Committee believes the person has the ability to apply sound and independent business judgment and would act in the interest of the Fund and its stockholders. The Governance/Nominating Committee will consider nominees recommended by a stockholder if such recommendation is in writing and is received in a timely manner by the Fund, and otherwise complies with the requirements for such proposals contained in the Governance/Nominating Committee Charter, the Fund's By-Laws and other applicable law.

In connection with the Offer, the Board also established an Ad Hoc Rights Offering Committee, consisting of Messrs. Brenner, Kraynak, Pineau-Valencienne, West and Witt. This Ad Hoc Committee was formed for the purpose of considering the advisability of conducting a rights offering and consulting with various parties, including management of the Fund, legal counsel and various investment banks as to the structure, timing and terms of the Offer. The Ad Hoc Rights Offering Committee met ten times between December 2006 and May 2007.

Each Independent Director of the Fund is paid an annual aggregate fee of \$32,809, plus \$1,300 for each meeting of the Board of Directors attended and \$750 for each Committee meeting attended, if held separately. In addition, the Chairman of the Board receives an annual fee of \$12,000, and the Chairmen of the Audit Committee and the Governance/Nominating Committee receive an annual fee of \$5,000. The annual fee of Independent Directors (including the annual fee paid to the Chairmen of the Audit Committee and the Governance/Nominating Committee) is adjusted annually, as of each January 1, in proportion to the increase in the Consumer Price Index for the preceding twelve month period. Each Director who is an Independent Director and who is a member of the Audit or Governance/Nominating Committees or any other Ad Hoc or Standing Committee as established by the Board of Directors may be compensated for incremental work over and above attending a meeting based upon the value added to the Fund. Finally, the Fund reimburses Independent Directors for certain out-of-pocket expenses, such as travel expenses in connection with Board meetings. During the year ended December 31, 2006, the incumbent Independent Directors received from the Fund individual remuneration (exclusive of reimbursed expenses), as follows:

Name of Person and Position¹	Aggregate Compensation From the Fund²
Jean-Marc Boillat, Director ³	\$39,832.17
Paul R. Brenner, Esq., Director and Chairman of the Audit Committee ^{3,4}	\$44,607.50
Claude W. Frey, Director ³	\$37,730.00
Michael Kraynak, Jr., Director ^{3,4}	\$40,730.00
Didier Pineau-Valencienne, Director ^{3,4}	\$41,480.00
Stephen K. West, Esq., Director ^{3,4}	\$39,980.00
Samuel B. Witt, III, Esq., Director and Chairman of the Board ³	<u>\$52,522.50</u>
TOTAL REMUNERATION:	\$296,882.17

-
1. The Directors' positions are stated as of December 31, 2006. In March 2007, Mr. Pineau-Valencienne became Chairman of the Governance/Nominating Committee.
 2. The Fund is not part of a fund complex or group, and, accordingly, the Directors do not serve on the board of any other registered investment company in a complex or group with the Directors. The Fund pays all of the Independent Directors' remuneration. Retirement and/or pension benefits are not offered as part of the compensation for Directors.
 3. Member of the Governance/Nominating Committee.
 4. Member of the Audit Committee.

Sullivan & Cromwell LLP, who have served as counsel to the Independent Directors since 1987, received approximately \$59,000 for legal services rendered and disbursements incurred during 2006. Mr. West serves as Senior Counsel to such Firm. No Executive Officer of the Fund received aggregate compensation from the Fund for

the most recently completed fiscal year in excess of \$120,000. Accordingly, no other persons have been included in the compensation table set forth above.

Principal Stockholders

As of May 4, 2007, no stockholder, to the knowledge of the Fund, other than Wachovia Corporation, One Wachovia Center, Charlotte, North Carolina 28288, and Lazard Asset Management LLC, 30 Rockefeller Plaza, New York, New York 10112, beneficially owned more than five percent of the Fund's outstanding shares of Common Stock. Wachovia Corporation, on behalf of its advisory clients, filed on February 6, 2007, a beneficial ownership report on Schedule 13G with the Commission stating that as of December 31, 2006 it beneficially owned 2,130,009 shares of Common Stock, and Lazard Asset Management LLC, on behalf of its advisory clients, filed on February 8, 2007, a beneficial ownership report on Schedule 13G/A with the Commission stating that as of December 31, 2006, it beneficially owned 1,366,890 shares of Common Stock. Based on the share amounts shown in these filings, these holdings represented approximately 8.73% and 5.60% of the Fund's outstanding shares, respectively, as of May 4, 2007.

INVESTMENT ADVISORY AND OTHER SERVICES

Investment Adviser and Investment Advisory Agreement

Investment Adviser. Hottinger Capital Corp., with its principal offices located at 1270 Avenue of the Americas, Suite 400, New York, New York 10020, has served as the Fund's investment adviser since the Fund's inception. Pursuant to an investment advisory agreement between the Fund and HCC (the "Advisory Agreement"), HCC is responsible for selecting portfolio securities and for providing a continuous investment program for the Fund, including providing investment research and management and purchasing, retaining and selling securities for the Fund and placing orders for the execution of the Fund's portfolio transactions, all in accordance with the 1940 Act and any rules thereunder, the supervision and control of the Board of Directors, and the investment objective, policies and restrictions of the Fund.

HCC is principally owned by Hottinger et Cie (Zurich) and Hottinger U.S. Inc. ("HUS"), each of which belongs to the Hottinger Group and is controlled by members of the Hottinger family. The Hottinger Group dates back to Banque Hottinguer, which was formed in Paris in 1786 and is one of Europe's oldest private banking firms. Hottinger et Cie, whose principal office is located at Dreikonigstrasse 55, 8027, Zurich, Switzerland, provides to its customers a full range of investment services, including international portfolio management and corporate finance. HUS is a New York corporation indirectly controlled by the Hottinger Group, which provides discretionary investment advisory services. HUS also is a registered investment adviser under the Investment Advisers Act of 1940. As of December 31, 2006, HCC's assets under management consist solely of the Fund's assets, which were approximately \$503 million.

Advisory Agreement. The Fund pays HCC an annual advisory fee under the Advisory Agreement of 1.0% of the Fund's average monthly net assets up to \$60 million, 0.90% of such assets between \$60 million and \$100 million, 0.80% of such assets between \$100 million and \$200 million, 0.70% of such assets between \$200 million and \$300 million, 0.65% of such assets between \$300 million and \$400 million, 0.60% of such assets between \$400 million and \$500 million, 0.55% of such assets between \$500 million and \$600 million, and 0.50% of such assets in excess of \$600 million, computed by the Fund's administrator on the basis of net assets at the end of each month. Based on the average net assets for the year ending December 31, 2006, the blended advisory fee for that period was 0.75%.

The Advisory Agreement has an initial term of two years and then is subject to annual approval by (i) the Fund's Board of Directors or (ii) a vote of a majority of the outstanding voting securities of the Fund, as required by the 1940 Act, provided that in either event the continuance also is approved by a majority of the Independent Directors of the Fund, by vote cast in person at a meeting called for the purpose of voting on such approval. The Advisory Agreement is terminable without penalty, on 60 days' notice, by the Fund's Board of Directors or by vote of the holders of a majority of the shares of the Fund, or, upon not less than 60 days' notice, by the Adviser.

HCC is not liable for any error of judgment or for any loss suffered by the Fund in connection with matters relating to the Advisory Agreement. HCC, however, is liable for a loss resulting from willful misfeasance, bad faith or gross negligence in the performance of, or from reckless disregard of, its obligations and duties under the Advisory Agreement. HCC is also liable for any loss resulting from a breach of fiduciary duty with respect to receipt of compensation for services, in which case any award of damages shall be limited to the period and the amount set forth in Section 36(b)(3) of the 1940 Act.

HCC bears all expenses of its employees and overhead incurred by it in connection with its duties under the Advisory Agreement. HCC also pays the salaries and fees of the Fund's Directors and officers who are "interested persons" (as defined in the 1940 Act) other than the salaries and fees of the employees or agents of the Fund's administrator or legal counsel.

For the fiscal years ended December 31, 2004, 2005 and 2006, the Fund paid HCC total aggregate advisory fees of \$2,968,162, \$3,214,790 and \$3,638,546, respectively.

Portfolio Managers

Portfolio Managers. Messrs. Philippe Comby and Rudolf Millisits are primarily responsible for the management of the Fund. Mr. Comby has been the Fund's portfolio manager since 1999, when he joined the Adviser. Mr. Comby is a Vice President of the Fund and a Director and Senior Vice President of the Adviser. He also is a Director and the President of HUS and the Chief Investment Officer and Senior Vice President of Hottinger Brothers LLC, each of which is a registered investment adviser affiliated with the Adviser. Mr. Comby has been affiliated with the Hottinger Group since 1994, providing portfolio management and client advisory services. He is a member of the New York Society of Security Analysts, a member of Global Association of Risk Professionals and a Chartered Financial Analyst.

Mr. Millisits has been the Fund's portfolio manager since 1994, when he joined the Adviser. Mr. Millisits is the Senior Vice President and Chief Financial Officer of the Fund and a Director, the Chief Operating Officer, Executive Vice President and Chief Compliance Officer of the Adviser. He also is the Chairman and Chief Executive Officer of HUS and the President and Chief Financial Officer of Hottinger Brothers, LLC. Mr. Millisits has been affiliated with the Hottinger Group since 1993, providing portfolio management and private banking services. Prior to joining the Hottinger Group, Mr. Millisits was a portfolio manager for private clients for Credit Suisse in New York and Geneva.

Portfolio Management. In addition to managing the Fund, the Fund's portfolio managers manage accounts for a diverse client base, including private clients and institutions, for Hottinger Brothers, LLC and HUS, which are affiliated investment advisers of HCC.

Material Conflicts Related to Management of Similar Accounts. The potential for conflicts of interest exist when HCC or its affiliates and the portfolio managers manage other accounts that invest in securities in which the Fund may invest or that may pursue a strategy similar to the Fund's strategy (collectively, "Similar Accounts"). In addition, the Fund, as a registered investment company, is subject to different regulations than certain of the Similar Accounts, and, consequently, may not be permitted to engage in all the investment techniques or transactions, or to engage in such techniques or transactions to the same degree, as the Similar Accounts.

Potential conflicts of interest may arise because of a portfolio manager's management of the Fund and Similar Accounts. For example, conflicts of interest may arise with both the aggregation and allocation of securities transactions and allocation of limited investment opportunities, as the portfolio manager may be perceived as causing accounts he manages to participate in an offering to increase his overall allocation of securities in that offering, or to increase his ability to participate in future offerings by the same underwriter or issuer. Allocations of bunched trades, particularly trade orders that were only partially filled due to limited availability, and allocation of investment opportunities generally, could raise a potential conflict of interest, as the portfolio manager may have an incentive to allocate securities that are expected to increase in value to preferred accounts. Initial public offerings, in particular, are frequently of very limited availability. Additionally, the Fund's portfolio managers may be perceived to have a conflict of interest because of the number of Similar Accounts, in addition to the Fund, that they are

managing. In addition, HCC could be viewed as having a conflict of interest to the extent that HCC or its affiliates and/or the portfolio managers have a materially larger investment in a Similar Account than their investment in the Fund.

A potential conflict of interest may be perceived to arise if transactions in one account closely follow related transactions in a different account, such as when a purchase increases the value of securities previously purchased by the other account, or when a sale in one account lowers the sale price received in a sale by a second account.

Other Accounts Managed by the Portfolio Managers. The chart below includes information regarding the Fund's portfolio managers, as of December 31, 2006. Specifically, it shows the number of other portfolios and assets, including the Fund, managed by the Fund's portfolio managers. Neither portfolio manager manages any accounts with respect to which the advisory fee is based on this performance of the account.

Portfolio Manager	Registered Investment Companies (\$)	Other Pooled Investment Vehicles (\$)	Other Accounts (\$)
Philippe Comby	1 (502.8 million)	0	24 (61.2 million)
Rudolf Millisits	1 (502.8 million)	0	24 (61.2 million)

Compensation for the Portfolio Managers. The portfolio managers are generally responsible for managing multiple types of accounts that may, or may not, invest in securities in which the Fund may invest or pursue a strategy similar to one of the Fund's investment strategies.

For the Fund's fiscal year ended December 31, 2006, the portfolio managers were compensated by a competitive salary and bonus structure, which was determined both quantitatively and qualitatively. Salary and bonus are paid in cash. The portfolio managers are compensated on the performance of the aggregate group of portfolios they manage rather than for a specific fund or account. Various factors are considered in the determination of the portfolio managers' compensation. All of the portfolios managed by the portfolio managers are comprehensively evaluated to determine each portfolio manager's positive and consistent performance contribution over time. Further factors include the amount of assets in the portfolios as well as qualitative aspects that reinforce the Adviser's investment philosophy.

Total compensation is generally not fixed, but rather is based on the following factors: (i) leadership and commitment; (ii) maintenance of current knowledge and opinions on companies owned in the portfolio; (iii) generation and development of new investment ideas, including the quality of security analysis and identification of appreciation catalysts; (iv) ability and willingness to develop and share ideas; and (v) the performance results of the portfolios managed by the portfolio managers.

Variable bonus is based on a portfolio manager's quantitative performance as measured by his ability to make investment decisions that contribute to the pre-tax absolute and relative returns of the accounts managed by the portfolio manager, by comparison to predetermined benchmarks (for the Fund, the Swiss Market Index and the Swiss Performance Index) over the current fiscal year and the longer-term performance (3-, 5- or 10-year, if applicable), as well as performance relative to peers. The portfolio managers' bonuses also can be influenced by subjective measurement of the managers' ability to help others make investment decisions.

Ownership of Securities of the Fund. As of December 31, 2006, Mr. Comby and Mr. Millisits owned between \$50,001-\$100,000 and over \$100,000 of shares of the Fund's Common Stock, respectively.

Administrator and Administration Agreement

Pursuant to an Administration Agreement between the Fund and Citigroup Fund Services, LLC (the "Administration Agreement"), Citigroup Fund Services performs certain administrative and accounting functions for the Fund, including (i) monitoring relationships with organizations providing services to the Fund, including the custodian and transfer agent; (ii) supervising compliance by the Fund with record-keeping requirements under the 1940 Act and regulations thereunder, maintaining books and records for the Fund; (iii) supervising the pricing of the

Fund's investment portfolio and the publication of the net asset value of the Fund's shares, earnings reports and other financial data; (iv) attending Board meetings to report on general administrative activities and developments; (v) attending and assisting at annual meetings of the Fund's stockholders and participating in the preparation of proxy statements; (vi) supervising preparation of the periodic updating of the Fund's registration statement, including prospectus and SAI, for the purpose of filings with the Securities and Exchange Commission and state securities administrators and monitoring and maintaining the effectiveness of such filings, as appropriate; (vii) supervising preparation of periodic reports to the Fund's stockholders and filing of these reports with the Securities and Exchange Commission, Forms N-CSR, N-Q, N-SAR and N-PX filed with the Securities and Exchange Commission, notices of dividends, capital gains distributions and tax credits, and attending to routine correspondence and other communications with individual stockholders; (viii) authorizing expenditures and approving bills for payment on behalf of the Fund; (ix) preparing and filing of tax reports other than the Fund's income tax returns; and (x) providing executive, clerical and secretarial help needed to carry out these responsibilities.

Pursuant to the Administration Agreement, the Fund pays Citigroup Fund Services a fee of 0.08% on the first \$250 million of the Fund's daily net assets; 0.05% on the next \$250 million of the Fund's daily net assets; and 0.03% on net assets in excess of \$500 million of the Fund's daily net assets. The Fund also pays \$2,500/calendar quarter plus reasonable out-of-pocket expenses incurred by Citigroup Fund Services to duplicate and distribute the materials for each Board meeting including but not limited to printing and postage costs. For the fiscal years ended December 31, 2004, 2005 and 2006, aggregate fees incurred under the Administration Agreement were \$284,103, \$333,870 and \$326,384, respectively.

The Adviser remains responsible for monitoring and overseeing the performance by Citibank, N.A. and American Stock Transfer & Trust Company, as custodian and transfer agent, disbursing agent and registrar, respectively, of their obligations to the Fund under their respective agreements with the Fund, subject to the overall authority of the Fund's Board of Directors.

Custodian and Transfer and Dividend Disbursing Agent

Citibank, N.A., which has its principal business office at 399 Park Avenue, New York, New York 10022, has been retained to act as custodian of the Fund's investments. American Stock Transfer & Trust Company, which has its principal business office at 59 Maiden Lane Plaza Level New York, NY 10038, has been retained as the Fund's transfer agent, dividend disbursing agent and registrar. Neither Citibank, N.A. nor American Stock Transfer & Trust Company has any part in deciding the Fund's investment policies or which securities are to be purchased or sold for the Fund's portfolio.

Code of Ethics

The Fund and the Adviser have adopted Codes of Ethics pursuant to Rule 17j-1 under the 1940 Act (the "Codes"). The Codes apply to the personal investing activities of various individuals including directors and officers of the Fund and designated officers, directors and employees of the Adviser. The provisions of the Codes place restrictions on individuals who are involved in managing the Fund's portfolio, who help execute the portfolio manager's decisions or who come into possession of contemporaneous information concerning the investment activities of the Fund. Portfolio managers and other individuals with knowledge of Fund investment activities are prohibited from purchasing or selling a security during a blackout period of 30 calendar days before and after the date on which the Fund effects a trade in the same or a similar security. They are also prohibited from engaging in short term trading of Swiss equity or equity linked securities. Each Code of Ethics can be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling the SEC at (202) 551-8090. The Codes of Ethics also are available on the SEC's web site at <http://www.sec.gov> and may be obtained, after paying a duplicating fee, by electronic request at the following email address: publicinfo@sec.gov, or by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102.

Proxy Voting

The Fund has delegated voting of proxies in respect of portfolio holdings to the Adviser, to vote the Fund's proxies in accordance with Adviser's proxy voting guidelines and procedures. HCC has adopted proxy voting guidelines (the "Voting Guidelines") that provide as follows:

- HCC votes proxies in respect of a client's securities in the client's best economic interests and without regard to the interests of HCC or any other client of HCC.
- Unless HCC's Proxy Voting Committee (the "Committee") otherwise determines (and documents the basis for its decision) or as otherwise provided below, HCC votes proxies in a manner consistent with the Voting Guidelines.
- To avoid material conflicts of interest, HCC applies the Voting Guidelines in an objective and consistent manner across client accounts. Where a material conflict of interest has been identified and the matter is covered by the Voting Guidelines, the Committee votes in accordance with the Voting Guidelines. Where a conflict of interest has been identified and the matter is not covered by the Voting Guidelines, HCC will disclose the conflict and the Committee's determination of the manner in which to vote to the Fund's Audit Committee.
- HCC also may determine not to vote proxies in respect of securities of any issuer if it determines that it would be in the client's overall best interests not to vote.

HCC's Voting Guidelines address how it will vote proxies on particular types of matters such as the election for directors, adoption of option plans and anti-takeover proposals. For example, HCC generally will:

- support management in most elections for directors, unless the board gives evidence of acting contrary to the best economic interests of shareholders;
- support option plans, if it believes that they provide for their administration by disinterested parties and provide incentive to directors, managers and other employees by aligning their economic interests with those of the shareholders while limiting the transfer of wealth out of the company; and
- oppose anti-takeover proposals unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.

PORTFOLIO TRANSACTIONS AND BROKERAGE

Subject to the supervision of the Directors, decisions to buy and sell securities for the Fund and negotiation of its brokerage commission rates are made by the Adviser. There is generally no stated commission in the case of securities traded in the over-the-counter market, but the price paid by the Fund usually includes an undisclosed dealer commission or markup. In certain instances, the Fund may make purchases of underwritten issues at prices which include underwriting fees.

In selecting a broker to execute each particular transaction, the Adviser will take the following into consideration: the best net price available; the reliability, integrity and financial condition of the broker; the size and difficulty in executing the order; and the value of the expected contribution of the broker to the investment performance of the Fund on a continuing basis. Accordingly, the cost of the brokerage commissions to the Fund in any transaction may be greater than that available from other brokers if the difference is reasonably justified by other aspects of the portfolio execution services offered. Subject to such policies and procedures as the Directors may determine, the Adviser shall not be deemed to have acted unlawfully or to have breached any duty solely by reason of its having caused the Fund to pay a broker that provides research services to the Adviser an amount of commission for effecting a portfolio investment transaction in excess of the amount of commission another broker would have charged for effecting that transaction, if the Adviser determines in good faith that such amount of commission was reasonable in relation to the value of the research service provided by such broker viewed in terms

of either that particular transaction or the Adviser's ongoing responsibilities with respect to the Fund. Research and investment information is provided by these and other brokers at no cost to the Adviser and is available for the benefit of other accounts advised by the Adviser and their respective affiliates, and not all of the information will be used in connection with the Fund. This information may be useful in varying degrees and may tend to reduce the Adviser's expenses. The extent to which the Adviser makes use of statistical, research and other services furnished by brokers is considered by the Adviser in the allocation of brokerage business, but there is no formula by which such business is allocated. The Adviser does so in accordance with its judgment of the best interests of the Fund and its stockholders.

To the extent consistent with applicable provisions of the 1940 Act and the rules adopted by the SEC thereunder, the Board has determined that securities transactions for the Fund may be executed through persons affiliated with the Fund, including Hottinger & Cie, if, in the judgment of the Adviser, the use of such affiliate is likely to result in price and execution at least as favorable as those of other qualified brokers or dealers, and if, in the transaction, the affiliate charges the Fund a rate consistent with that charged to comparable unaffiliated customers in similar transactions. The Fund is not permitted to engage in principal transactions with Hottinger & Cie or other affiliates of the Adviser. During the fiscal years ended December 31, 2004, 2005 and 2006, the Fund incurred aggregate brokerage commissions of \$591,461, \$673,581 and \$669,649, respectively. Of those amounts, \$47,325, \$64,225 and \$38,108, respectively, was paid to Hottinger & Cie. In 2006, the Fund's payment of \$38,108 to Hottinger & Cie accounted for 5.69% of the Fund's aggregate brokerage commissions of \$669,649. In 2006, Hottinger & Cie effected 10.34% of the Fund's total brokerage transactions, which totaled \$40,815,213.

During the fiscal year ended December 31, 2006, \$101,478 in brokerage commissions was placed with brokers or dealers who provide research and investment information on transactions in the aggregate amount of approximately \$48,567,328. The Fund's portfolio turnover rate for the fiscal years ended December 31, 2005 and 2006 was 37% and 34%, respectively.

For the fiscal year ended December 31, 2006, the Fund held the following amounts of securities of its regular broker-dealers, or their parent companies, as defined in Rule 10b-1 under the 1940 Act: UBS AG, \$52,775,866; and Julius Baer Holding AG, \$18,645,302.

DETERMINATION OF NET ASSET VALUE

The Fund determines the net asset value of its shares daily by 6:15 p.m. Eastern time. Net asset value is computed by dividing the value of all assets of the Fund (including accrued interest and dividends), less all liabilities (including accrued expenses and dividends declared but unpaid), by the total number of shares outstanding.

The electronic trading platform of the SWX Swiss Exchange enables the fully automated execution, clearing and settlement of all Exchange transactions. Depending on the type of transaction, the trade executions are disseminated to financial information providers (such as Reuters, Telekurs, Bloomberg etc.). In the fully automated Exchange System of SWX, buy and sell orders are matched against each other in accordance with clearly defined rules. Regardless of their origin or size, orders are prioritized for execution first on the basis of price and secondly on the basis of time of receipt (price-time priority). Each execution triggers an automated clearing and settlement process that includes the national securities depository SIS SegInterSettle AG and the Swiss National Bank (SNB). If buy and sell orders are not available, then such securities are valued at fair value as determined in good faith in accordance with procedures as adopted by the Board.

Net asset value expressed in Swiss francs is translated into U.S. dollars at the noon buying rate of the U.S. dollar against the Swiss franc quoted by the Federal Reserve Bank of New York or, if no such rate is quoted at such time, at such other appropriate rate as may be determined by the Board of Directors.

Trading on Swiss exchanges and in the over-the-counter markets ordinarily is completed well before the close of business on each business day in New York (*i.e.*, a day on which the NYSE is open). Calculation of the Fund's net asset value may not take place contemporaneously with the determination of the prices of portfolio assets used in such calculation. If events materially affecting the value of securities occur between the close of the exchange or market on which the security is principally traded and the time when the Fund's net asset value is calculated, such securities will be valued at their fair values as determined in good faith by or under the supervision

of the Board. The effect of using fair value pricing is that the net asset value of the Common Stock will reflect the affected securities' values as determined in the judgment of the Board or its designee instead of being determined by the market. Using a fair value pricing methodology to price securities may result in a value that is different from the most recent closing price of a security and from the prices used by other investment companies to calculate their portfolios' net asset values.

Securities and other assets for which current market quotations are not readily available are valued at fair value as determined in good faith in accordance with procedures approved by the Board. Under these procedures, in the event that the Adviser determines that a significant event has occurred after the close of a market on which a foreign security is traded but before the close of regular trading on the New York Stock Exchange, such that current market quotations for a security or securities are not readily available, the Investment Committee of the Adviser will evaluate a variety of factors to determine the fair value of the affected securities. These factors include, but are not limited to, the type of security, the value of comparable securities, observations from financial institutions and relevant news events.

REPURCHASE OF COMMON STOCK

General. The Fund is a closed-end investment company and as such its stockholders will not have the right to cause the Fund to redeem their shares. Instead the Fund's shares will trade in the open market at a price that will be a function of several factors, including dividend levels (which are in turn affected by expenses), net asset value, call protection, price, dividend stability, relative demand for and supply of such shares in the market, market and economic conditions and other factors. Because shares of a closed-end investment company may frequently trade at prices lower than net asset value, the Fund's Board of Directors may consider action that might be taken to reduce or eliminate any material discount from net asset value in respect of shares, which may include the repurchase of such shares in the open market, private transactions, the making of a tender offer for such shares at net asset value, or the conversion of the Fund to an open-end investment company. The Board of Directors may not decide to take any of these actions. During the pendency of a tender offer, the Fund will publish how stockholders may readily ascertain the net asset value. In addition, there can be no assurance that share repurchases or tender offers, if undertaken, will reduce market discount.

Subject to its investment limitations, the Fund may use the accumulation of cash to finance repurchase of shares or to make a tender offer. Interest on any borrowings to finance share repurchase transactions or the accumulation of cash by the Fund in anticipation of share repurchases or tenders will reduce the Fund's income. Any share repurchase, tender offer or borrowing that might be approved by the Board of Directors would have to comply with the 1934 Act and the 1940 Act and the rules and regulations under each of those Acts.

The acquisition of Common Stock by the Fund will decrease the total assets of the Fund and, therefore, have the effect of increasing the Fund's expense ratio and may adversely affect the ability of the Fund to achieve its investment objective. To the extent the Fund may need to liquidate investments to fund repurchase of Common Stock, this may result in portfolio turnover which will result in additional expenses being borne by the Fund. The acquisition of Common Stock by the Fund, however, at prices below net asset value will result in an increase in the net asset value per share of those shares that remain outstanding. There can be no assurance that share repurchases or tenders at or below net asset value will result in the Fund's shares of Common Stock trading at a price equal to their net asset value. Nevertheless, the fact that the shares may be the subject of repurchase or tender offers at net asset value from time to time, or that the Fund may be converted to an open-end investment company, may reduce any spread between market price and net asset value that might otherwise exist.

Any share repurchases or tender offers will be made in accordance with the requirements of the Exchange Act and the 1940 Act.

Stock Repurchase Program. In June 2003, the Fund settled litigation involving its prior practice of declaring dividends payable in Common Stock at a time when the Fund's Common Stock was trading at a discount to net asset value, which diluted the interests of stockholders. As a result, through December 31, 2012, the Fund may not declare dividends payable in shares of Common Stock until any existing dilution resulting from this practice has been eliminated through open market purchase of the Fund's Common Stock at times when the Fund's

net asset value exceeds its market price. See "Risk Factors—Additional Risk Considerations—Dividend Distribution Risk" in the Prospectus.

As a result of the settlement, among other reasons, the Board of Directors has annually approved a stock repurchase program, which permits, among other things, the Adviser to repurchase shares of the Fund's Common Stock to eliminate any cumulative dilution. The principal purpose of the Fund's Common Stock repurchase program is to enhance stockholder value by increasing the Fund's net asset value per share without creating a meaningful adverse effect upon the Fund's expense ratio. For the fiscal year ended December 31, 2006, the Board had authorized the Adviser to repurchase up to 1 million shares and the Adviser repurchased 430,800 shares. For the fiscal year ending December 31, 2007, the Board has authorized the Adviser to repurchase up to 500,000 shares of the Fund's Common Stock, but no shares have been repurchased to date.

U.S. FEDERAL TAXATION

Set forth below is a discussion of certain U.S. Federal income tax issues concerning the Fund and the purchase, ownership and disposition of Fund shares. This discussion does not purport to be complete or to deal with all aspects of Federal income taxation that may be relevant to stockholders in light of their particular circumstances. This discussion is based upon present provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the regulations promulgated thereunder, and judicial and administrative ruling authorities, all of which are subject to change, which change may be retroactive. Prospective investors should consult their own tax advisors with regard to the Federal tax consequences of the purchase, ownership, or disposition of Fund shares, as well as the tax consequences arising under the laws of any state, foreign country, or other taxing jurisdiction.

Taxation of the Fund

The Fund has elected to be treated and intends to continue to qualify annually to be treated as a regulated investment company under the Code. To qualify as a regulated investment company, the Fund must, among other things, (a) derive in each taxable year at least 90% of its gross income from (i) dividends, interest, payments with respect to securities loans and gains from the sale or other disposition of stock, securities or foreign currencies or other income derived with respect to its business of investing in such stock, securities or currencies and (ii) net income from an interest in a "qualified publicly traded partnership" as defined in the Code; (b) diversify its holdings so that, at end of each quarter of the taxable year, (i) at least 50% of the market value of the Fund's total assets is represented by cash and cash items (including receivables), U.S. Government securities, securities of other regulated investment companies and other securities, with such other securities of any one issuer limited for the purposes of this calculation to an amount not greater than 5% of the value of the Fund's total assets and not greater than 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of its total assets is invested in the securities (other than U.S. Government securities or the securities of other regulated investment companies) of a single issuer, or two or more issuers which the Fund controls and that are determined to be engaged in the same, similar or related trades or businesses or of one or more "qualified publicly traded partnerships" as defined in the Code; and (c) distribute at least 90% of the sum of its investment company taxable income (as that term is defined in the Code, but without regard to the deduction for dividends paid) and net tax-exempt interest each taxable year. For purposes of the diversification requirements described above, the outstanding voting securities of any issuer include the equity securities of a "qualified publicly traded partnership."

As a regulated investment company, the Fund generally will not be subject to U.S. Federal income tax on its investment company taxable income and net capital gain (the excess of net long-term capital gain over net short-term capital loss), if any, that it distributes to stockholders. The Fund intends to distribute to its stockholders, at least annually, all or substantially all of its investment company taxable income and net capital gain. Amounts not distributed on a timely basis in accordance with a calendar year distribution requirement (described above) are subject to a nondeductible 4% excise tax. To prevent imposition of the excise tax, the Fund must distribute during each calendar year an amount equal to the sum of (1) at least 98% of its ordinary income (not taking into account any capital gains or losses) for the calendar year, (2) at least 98% of its capital gains in excess of its capital losses (adjusted for certain ordinary losses) for the one-year period ending on October 31 of the calendar year (unless an election is made to use the Fund's fiscal year), and (3) any ordinary income and capital gains from previous years that were not distributed during those years and on which the Fund paid no U.S. Federal income tax. A distribution will be treated as paid on December 31 of the current calendar year if it is declared by the Fund in October,

November or December with a record date in such a month and paid by the Fund during January of the following calendar year. Such distributions will be taxable to stockholders in the calendar year in which the distributions are declared, rather than the calendar year in which the distributions are received. To prevent application of the excise tax, the Fund intends to make its distributions in accordance with the calendar year distribution requirement.

If the Fund failed to qualify as a regulated investment company or failed to satisfy the 90% distribution requirement in any taxable year, the Fund would be taxed as an ordinary corporation on its taxable income (even if such income were distributed to its stockholders) and all distributions out of earnings and profits (including distributions of net capital gain) would be taxed to stockholders as ordinary income. Such distributions generally would be eligible (i) to be treated as qualified dividend income in the case of individual stockholders and (ii) for the dividends received deduction ("DRD") in the case of corporate stockholders.

Distributions

Dividends paid out of the Fund's current and accumulated earnings and profits will, except in the case of qualified dividend income and capital gain dividends described below, be taxable to a U.S. stockholder as ordinary income to the extent of the Fund's earnings and profits. It is not anticipated that any portion of the dividends paid by the Fund to corporate stockholders will be eligible for the DRD. In addition, for taxable years beginning on or before December 31, 2010, distributions of investment company taxable income designated by the Fund as derived from qualified dividend income (*i.e.* generally dividends paid by certain U.S. corporations and "qualified foreign corporations") will be taxed in the hands of individuals at the rates applicable to long-term capital gain, provided holding period and other requirements are met by both the Fund and the stockholder. However, even if income received is in the form of a distribution of qualified dividend income and is taxed at the same rates as long-term capital gains, such income will not be considered long-term capital gains for other U.S. Federal income tax purposes. Specifically, a dividend paid by the Fund to a stockholder will not be treated as qualified dividend income of the stockholder if (1) the dividend is received with respect to any share held for fewer than 61 days during the 121-day period beginning on the date which is 60 days before the date on which such share becomes ex-dividend with respect to such dividend, (2) to the extent that the recipient is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property, or (3) if the recipient elects to have the dividend treated as investment income for purposes of the limitation on deductibility of investment interest. A foreign corporation is a "qualified foreign corporation" if it is (1) incorporated in a possession of the United States or is eligible for benefits of a comprehensive income tax treaty with the United States that the United States Treasury Department determines is satisfactory for this purpose and that includes an exchange of information program or (2) any other foreign corporation with respect to any dividend paid by such corporation if the stock with respect to which such dividend is paid is readily tradable on an established securities market in the United States. A "qualified foreign corporation" does not include any foreign corporation, which for the taxable year of the corporation in which the dividend was paid, or the preceding taxable year, is a passive foreign investment company. Because of the fact-specific nature of the inquiry, the Fund cannot predict at this time what portion of dividends it will receive from foreign corporations will be eligible for the reduced rates of taxation applicable to qualified dividend income.

Distributions of net capital gain, if any, designated as capital gain dividends are taxable to a stockholder as long-term capital gains, regardless of how long the stockholder has held Fund shares. Long-term capital gain rates for individuals have been temporarily reduced to 15% (with lower rates for individuals in the 10% and 15% rate brackets) for taxable years beginning on or before December 31, 2010.

A distribution of an amount in excess of the Fund's current and accumulated earnings and profits will be treated by a stockholder as a return of capital which is applied against and reduces the stockholder's basis in his or her shares. To the extent that the amount of any such distribution exceeds the stockholder's basis in his or her shares, the excess will be treated by the stockholder as gain from a sale or exchange of the shares.

Distributions will be treated in the manner described above regardless of whether such distributions are paid in cash or invested in additional shares of the Fund.

The Fund may elect to retain its net capital gain or a portion thereof for investment and be taxed at corporate rates on the amount retained. In such case, it may designate the retained amount as undistributed capital

gains in a notice to its stockholders who will be treated as if each received a distribution of his or her pro rata share of such gain, with the result that each stockholder will (i) be required to report his or her pro rata share of such gain on his or her tax return as long-term capital gain, (ii) receive a refundable tax credit for his pro rata share of tax paid by the Fund on the gain and (iii) increase the tax basis for his or her shares by an amount equal to the deemed distribution less the tax credit.

Stockholders will be notified annually as to the U.S. Federal tax status of distributions.

Sale or Exchange of Fund Shares

Upon the sale or other disposition of shares of the Fund which a stockholder holds as a capital asset, such stockholder may realize a capital gain or loss which will be long-term or short-term, depending upon the stockholder's holding period for the shares. Generally, a stockholder's gain or loss will be a long-term gain or loss if the shares have been held for more than one year. Long-term capital gain rates for individuals have been temporarily reduced to 15% (with lower rates for individuals in the 10% and 15% brackets) for taxable years beginning on or before December 31, 2010. Generally, a stockholder's gain or loss will be a short-term gain or loss if the shares have been held for one year or less. Short-term capital gain for individuals is currently taxed at a maximum U.S. Federal income tax rate of 35%.

Any loss realized on a sale or exchange will be disallowed to the extent the shares disposed of are replaced (including through reinvestment of dividends) within a period of 61 days beginning 30 days before and ending 30 days after disposition of the shares. In such a case, the basis of the shares acquired will be adjusted to reflect the disallowed loss. Any loss realized by a stockholder on a disposition of Fund shares held by the stockholder for six months or less will be treated as a long-term capital loss to the extent of any distributions of net capital gain received by the stockholder (or amounts designated as undistributed capital gains) with respect to such shares. The ability to deduct capital losses may be subject to other limitations under the Code.

Nature of Fund's Investments

The Fund may engage in certain investment practices that are subject to special and complex U.S. Federal income tax provisions that may, among other things, (i) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (ii) convert lower taxed long-term capital gain or qualified dividend income into higher taxed short-term capital gain or ordinary income, (iii) convert an ordinary loss or a deduction into a capital loss (the deductibility of which is more limited), (iv) cause the Fund to recognize income or gain without a corresponding receipt of cash, (v) adversely affect the time as to when a purchase or sale of stock or securities is deemed to occur, (vi) adversely alter the characterization of certain complex financial transactions and (vii) produce income that will not qualify as good income for purposes of the 90% annual gross income test described above. The Fund will monitor its transactions and may make certain tax elections and may be required to borrow money or dispose of securities to mitigate the effect of these rules and prevent disqualification of the Fund as a regulated investment company.

Investment in Non-U.S. Securities

Investment income that may be received by the Fund from sources within foreign countries may be subject to foreign taxes withheld at the source. The United States has entered into tax treaties with many foreign countries, which entitle the Fund to a reduced rate of, or exemption from, taxes on such income. In certain circumstances, a regulated investment company may elect to "pass through" to the its stockholders the amount of foreign taxes it has paid. If a regulated investment company so elects, each stockholder would be required to include in gross income, even though not actually received, his or her pro rata share of the foreign taxes paid by such regulated investment company, but would be treated as having paid his or her pro rata share of such foreign taxes and would therefore be allowed to either deduct such amount in computing taxable income or use such amount (subject to various Code limitations) as a foreign tax credit against U.S. Federal income tax (but not both).

Passive Foreign Investment Company

If the Fund purchases shares in a "passive foreign investment company" (a "PFIC"), the Fund may be subject to U.S. Federal income tax on a portion of any "excess distribution" or gain from the disposition of such shares even if such income is distributed as a taxable dividend by the Fund to its stockholders. Additional charges in the nature of interest may be imposed on the Fund in respect of deferred taxes arising from such distributions or gains. If the Fund were to invest in a PFIC and elected to treat the PFIC as a "qualified electing fund" under the Code (a "QEF"), in lieu of the foregoing requirements, the Fund would be required to include in income each year a portion of the ordinary earnings and net capital gain of the QEF, even if not distributed to the Fund. However, the Fund will be unable to make a QEF election unless certain information is received from the PFIC, and there can be no assurance the PFIC will provide such information. Alternatively, the Fund can, in certain cases, elect to mark-to-market at the end of each taxable year its shares in a PFIC; in this case, the Fund would recognize as ordinary income any increase in the value of such shares, and as ordinary loss any decrease in such value to the extent it did not exceed prior increases included in income. Under either election, the Fund might be required to recognize in a year income in excess of its distributions from PFICs and its proceeds from dispositions of PFIC stock during that year, and such income would nevertheless be subject to the distribution requirement and would be taken into account for purposes of the nondeductible 4% excise tax (described above). Dividends paid by PFICs will not be treated as qualified dividend income.

Foreign Currency Transactions

Under Section 988 of the Code, gains or losses attributable to fluctuations in exchange rates between the time the Fund accrues income or receivables or expenses or other liabilities denominated in a foreign currency and the time the Fund actually collects such income or receivables or pays such liabilities are generally treated as ordinary income or loss. Similarly, gains or losses on foreign currency forward contracts and the disposition of debt securities denominated in a foreign currency, to the extent attributable to fluctuations in exchange rates between the acquisition and disposition dates, are also treated as ordinary income or loss.

Investments in Securities of Uncertain Tax Character

The Fund may invest in securities the U.S. Federal income tax treatment of which may not be clear or may be subject to recharacterization by the Internal Revenue Service (the "IRS"). To the extent the tax treatment of such securities or the income from such securities differs from the tax treatment expected by the Fund, it could affect the timing or character of income recognized by the Fund, requiring the Fund to purchase or sell securities, or otherwise change its portfolio, in order to comply with the tax rules applicable to regulated investment companies under the Code.

Backup Withholding

The Fund may be required to withhold U.S. Federal income tax on all taxable distributions and redemption proceeds payable to stockholders who fail to provide the Fund with their correct taxpayer identification number or to make required certifications, or who have been notified by the IRS that they are subject to backup withholding. Corporate stockholders and certain other stockholders specified in the Code generally are exempt from such backup withholding. Backup withholding is not an additional tax. Any amounts withheld may be credited against the stockholder's U.S. Federal income tax liability, if any, provided that the required information is furnished to the IRS.

Foreign Stockholders

U.S. taxation of a stockholder who, as to the United States, is a nonresident alien individual, a foreign trust or estate or a foreign corporation (a "foreign stockholder") depends on whether the income of the Fund is "effectively connected" with a U.S. trade or business carried on by the stockholder.

Income Not Effectively Connected. If the income from the Fund is not "effectively connected" with a U.S. trade or business carried on by the foreign stockholder, distributions of investment company taxable income will be subject to a U.S. tax of 30% (or lower treaty rate, except in the case of any excess inclusion income allocated to the

stockholder), which tax is generally withheld from such distributions. However, for taxable years beginning before January 1, 2008, U.S. source withholding taxes are no longer imposed on dividends paid by regulated investment companies to the extent the dividends are designated as "interest-related dividends" or "short-term capital gain dividends." Interest-related dividends and short-term capital gain dividends generally represent distributions of interest or short-term capital gains that would not have been subject to U.S. withholding tax at the source if they had been received directly by a foreign person, and that satisfy certain other requirements.

Capital gain dividends and any amounts retained by the Fund which are designated as undistributed capital gains will not be subject to U.S. tax at the rate of 30% (or lower treaty rate) unless the foreign stockholder is a nonresident alien individual and is physically present in the United States for more than 182 days during the taxable year and meets certain other requirements. However, this 30% tax on capital gains of nonresident alien individuals who are physically present in the United States for more than the 182 day period only applies in exceptional cases because any individual present in the United States for more than 182 days during the taxable year is generally treated as a resident for U.S. income tax purposes; in that case, he or she would be subject to U.S. income tax on his or her worldwide income at the graduated rates applicable to U.S. citizens and residents, rather than the 30% U.S. withholding tax. In the case of a foreign stockholder who is a nonresident alien individual, the Fund may be required to withhold U.S. income tax on distributions of net capital gain unless the foreign stockholder certifies his or her non-U.S. status under penalties of perjury or otherwise establishes an exemption. See "Taxation—Backup Withholding" above.

Any gain that a foreign stockholder realizes upon the sale or exchange of such stockholder's shares of the Fund will ordinarily be exempt from U.S. tax unless in the case of a stockholder that is a nonresident alien individual, the gain is U.S. source income and such stockholder is physically present in the United States for more than 182 days during the taxable year and meets certain other requirements.

Based on the anticipated investment activities of the Fund, it is not expected that the Fund will be treated as a "United States real property holding corporation" for U.S. Federal income tax purposes. If, contrary to expectations, the Fund were to be so treated, then notwithstanding anything to the contrary stated herein, certain Fund distributions to, and certain gains from sales or other dispositions of Fund shares by, a foreign shareholder that holds more than 5% of the stock of the Fund could be subject to U.S. Federal income and withholding taxes under special rules governing dispositions of U.S. real property interests by foreign persons. In such event, the foreign stockholder would be required to file a U.S. Federal income tax return.

Income Effectively Connected. If the income from the Fund is "effectively connected" with a U.S. trade or business carried on by a foreign stockholder, then distributions of investment company taxable income and capital gain dividends, any amounts retained by the Fund which are designated as undistributed capital gains and any gains realized upon the sale or exchange of shares of the Fund will be subject to U.S. income tax at the graduated rates applicable to U.S. citizens, residents and domestic corporations. Foreign corporate stockholders may also be subject to the branch profits tax imposed by the Code.

The tax consequences to a foreign stockholder entitled to claim the benefits of an applicable tax treaty may differ from those described herein. If a partnership or an entity treated as a partnership for U.S. Federal income tax purposes holds shares of the Fund's Common Stock, the U.S. Federal income tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Foreign stockholders are advised to consult their own tax advisors with respect to the particular tax consequences to them of an investment in the Fund.

Swiss Taxation

The Fund will be subject to Swiss withholding taxes on dividends and certain interest received from Swiss corporations at net rates of 15% and 0%, respectively. If the Fund qualifies as a regulated investment company, if certain distribution requirements are satisfied and if more than 50% of the value of the Fund's assets at the close of any taxable year consists of stocks or securities of foreign companies, all of which is expected to be the case, the Fund may elect, for U.S. Federal income tax purposes, to treat such Swiss or other foreign withholding taxes as paid by its stockholders. The Fund has made this election in the past and intends to continue to make this election in any year in which it qualifies to do so. As a consequence, each stockholder will be required to include in income an

amount equal to its allocable share of such Swiss or other foreign withholdings taxes paid by the Fund and, subject to certain limitations, to credit such amount against its U.S. Federal income tax liability, if any, or to deduct its share from its U.S. taxable income, if any. In general, a stockholder may elect each year whether to claim a deduction or a credit for such foreign taxes paid. No deductions, however, for foreign taxes may be claimed by certain foreign stockholders and by non-corporate stockholders who do not itemize deduction.

The amount of Swiss or other foreign withholding tax that may be credited against a stockholder's U.S. Federal income tax liability will generally be limited to an amount equal to the stockholder's U.S. Federal income tax rate multiplied by the stockholder's foreign source taxable income. For this purpose, the Fund expects that the capital gains, if any, it distributes, whether as dividends or capital gains distributions, will not be treated as foreign source taxable income. In addition, this limitation must be applied separately to certain categories of foreign source income, one of which is foreign source "passive income." For this purpose, foreign source "passive income" included dividends, certain interest, capital gains and certain foreign currency gains. As a consequence, certain stockholders may not be able to claim a foreign tax credit for the full amount of their proportionate share of Swiss or other foreign taxes paid by the Fund, although taxes which cannot be claimed in the year they are paid as a result of this limitation may be carried back or carried forward. Stockholders that are exempt from U.S. Federal income tax under the Code, such as pension plans, generally will derive no benefit from the Fund's election described above. However, such stockholders should not be disadvantaged because the amount of additional income they are deemed to receive equal to the allocable share of such Swiss or other foreign tax paid by the Fund generally will not be subject to U.S. Federal income tax. Each stockholder will be notified within 60 days after the close of the Fund's taxable year whether, pursuant to the election described above, the foreign taxes paid by the Fund to Switzerland or other foreign countries will be treated as paid by its stockholders for the year and, if so, such notification will designate (i) such stockholder's portion of the foreign taxes paid and (ii) the portion of the Fund's dividends and distributions that represents income derived from foreign sources.

Other Taxation

Fund stockholders may be subject to state, local and foreign taxes on their Fund distributions. Stockholders are advised to consult their own tax advisors with respect to the particular tax consequences to them of an investment in the Fund.

COUNSEL AND INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stroock & Stroock & Lavan LLP serves as counsel to the Fund, and is located at 180 Maiden Lane, New York, New York 10038. Deloitte & Touche, LLP ("Deloitte") has been appointed as independent registered public accounting firm for the Fund. The address of Deloitte is 1700 Market Street, 25th Floor, Philadelphia, Pennsylvania 19103.

FINANCIAL STATEMENTS

The Fund's financial statements at December 31, 2006, incorporated by reference in the prospectus and in this SAI have been so incorporated in reliance on the report of Deloitte, independent registered public accounting firm, given upon the authority of said firm as experts in auditing and accounting. A copy of the Fund's 2006 Annual Report, and any subsequent reports to stockholders, is available at the SEC's website at www.sec.gov. Copies also may be obtained free of charge upon written or oral request from the Fund's Information Agent, Georgeson Inc., at 17 State Street, 10th Floor, New York, New York 10004 or 1-800-561-3947.