

ABERDEEN CHILE FUND, INC.  
Form N-2/A  
April 14, 2011

As filed with the Securities and Exchange Commission on April 14, 2011

Securities Act File No. 333-172627

Investment Company Act File No. 811-05770

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## Form N 2

Registration Statement Under the Securities Act of 1933

Pre Effective Amendment No. 1

Post Effective Amendment No.

and/or

Registration Statement under the Investment Company Act of 1940

Amendment No. 11

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## **Aberdeen Chile Fund, Inc.**

(Exact Name of Registrant as Specified in its Charter)

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**1735 Market Street, 32nd Floor**

**Philadelphia, Pennsylvania 19103**

Address of Principal Executive Offices

Registrant's Telephone Number, including Area Code: **(866) 839-5205**

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**Lucia Sitar, Esq.**

**c/o Aberdeen Asset Management Inc.**

**1735 Market Street, 32nd Floor**

**Philadelphia, Pennsylvania 19103**

Name and Address of Agent For Service

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**Copies to:**

**Rose F. DiMartino, Esq.  
Willkie Farr & Gallagher**

**787 Seventh Avenue**

**New York, New York 10019**

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Approximate Date of Proposed Public Offering: **As soon as practicable after the effective date of this Registration Statement.**

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If any of the securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. **x**

**It is proposed that this filing will become effective (check appropriate box)**

when declared effective pursuant to section 8(c).

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**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

<b>Title of Securities Being Registered</b>	<b>Amount Being Registered(1)</b>	<b>Proposed Maximum Offering Price per Unit</b>	<b>Proposed Maximum Aggregate Offering Price(2)</b>	<b>Amount of Registration Fee(3)</b>
Common Stock, \$0.001 par value		\$	\$ 75,000,000	\$ 8,707.50

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- (1) There are being registered hereunder a presently indeterminate number of shares of common stock to be offered on an immediate, continuous or delayed basis.
- (2) Estimated solely for the purpose of calculating the registration fee, pursuant to Rule 457(o) under the Securities Act of 1933.
- (3) The registration fee was previously paid in connection with a previous filing.

**THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT THAT SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SECTION 8(a), MAY DETERMINE.**

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The information in this Prospectus is not complete and may be changed. The Fund may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to sell these securities and is not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

**Subject To Completion Dated April 14, 2011**

Base Prospectus

\$75,000,000

**ABERDEEN CHILE FUND, INC.**

Shares of Common Stock

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Aberdeen Chile Fund, Inc. ( Fund, we, us or our ) is a closed-end, non-diversified management investment company that commenced operations on September 26, 1989. The Fund seeks total return, consisting of capital appreciation and income, by investing primarily in Chilean securities. It is the policy of the Fund normally to invest at least 80% of the Fund's net assets (plus any borrowings for investment purposes) in Chilean securities. The Fund's portfolio of Chilean securities, under normal market conditions, will consist principally of Chilean equity securities. There can be no assurance that the Fund's investment objective will be achieved. Aberdeen Asset Management Investment Services Limited ( AAMISL or the Investment Adviser ) serves as the Fund's investment adviser and Celfin Capital Servicios Financieros S.A. ( Celfin or the Sub-Adviser ) serves as the Fund's Chilean sub-adviser. The address of the Fund is 1735 Market Street, 32nd Floor, Philadelphia, Pennsylvania 19103, and the Fund's telephone number is (866) 839-5205.

We may offer, from time to time, in one or more offerings, our shares of common stock, par value \$0.001 per share ( Shares ). Shares may be offered at prices and on terms to be set forth in one or more supplements to this Prospectus (each, a Prospectus Supplement ). You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in our Shares.

Our Shares may be offered directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The Prospectus Supplement relating to the offering will identify any agents or underwriters involved in the sale of our Shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. We may not sell any of our Shares through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering of our Shares.

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Our Shares are listed on the NYSE Amex Equities ( Amex ) under the symbol CH. The last reported sale price of our Shares, as reported by the Amex on March 21, 2011, was \$21.19 per Share. The net asset value of our Shares at the close of business on March 21, 2011, was \$19.00 per Share.

**Investment in the Shares involves certain risks and special considerations, including risks associated with currency fluctuations. Investing in the Fund's common stock may be speculative and involve a high degree of risk and should not constitute a complete investment program. Investment in Chile involves certain special considerations not typically associated with investments in the United States. Both practices entail risks. For a discussion of these and other risks, see Risks and Special Considerations.**

Shares of closed-end investment companies frequently trade at a discount to their net asset value. If the Fund's Shares trade at a discount to its net asset value, the risk of loss may increase for purchasers in a public offering. See Risks and Special Considerations-Net Asset Value Discount.

**Neither the Securities and Exchange Commission ( SEC ) nor any state securities commission has approved or disapproved these securities or passed upon the adequacy of this Prospectus. Any representation to the contrary is a criminal offense.**

This Prospectus, together with any Prospectus Supplement, sets forth concisely the information about the Fund that a prospective investor should know before investing. You should read this Prospectus and applicable Prospectus Supplement, which contain important information, before deciding whether to invest in the Shares. You should retain the Prospectus and Prospectus Supplement for future reference. A Statement of Additional Information ( SAI ), dated [ ], 2011, containing additional information about the Fund, has been filed with the SEC and is incorporated by reference in its entirety into this Prospectus. The Table of Contents for the SAI is on page [ ] of this Prospectus. You may call 1-866-839-5205, email InvestorRelations@aberdeen-asset.com or write to the Fund at 1735 Market Street, 32nd Floor, Philadelphia, Pennsylvania 19103 to obtain, free of charge, copies of the SAI and the Fund's annual and semi-annual reports to shareholders, as well as to obtain other information about the Fund and to make shareholder inquiries. The Fund's SAI, as well as the annual and semi-annual reports to shareholders, are also available on the Fund's website at www.aberdeench.com. The SEC maintains a website

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at <http://www.sec.gov> that contains the SAI, other material incorporated by reference into the Fund's registration statement and additional information about the Fund.

Our Shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

Prospectus dated [            ], 2011

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**You should rely only on the information contained in, or incorporated by reference into, this Prospectus and any related Prospectus Supplement in making your investment decisions. The Fund has not authorized any person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The Fund is not making an offer to sell the shares in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this Prospectus and any Prospectus Supplement is accurate only as of the dates on their covers. The Fund's business, financial condition and prospects may have changed since the date of its description in this Prospectus or the date of its description in any Prospectus Supplement.**





## PROSPECTUS SUMMARY

*The following information is only a summary. You should consider the more detailed information contained in the Prospectus and in any related Prospectus Supplement and in the SAI before purchasing Shares, especially the information under Risks and Special Considerations on page [ ] of the Prospectus.*

The Fund	The Fund is a non-diversified, closed-end management investment company organized as a Maryland corporation. See The Fund.
The Offering	<p>The Fund's Shares are listed for trading on the Amex under the symbol CH. As of March 21, 2011, the net assets of the Fund were \$155,410,766.55 and the Fund had outstanding 8,178,159 Shares. The last reported sale price of the Fund's Shares, as reported by the Amex on March 21, 2011 was \$21.19 per Share. The net asset value of the Fund's Shares at the close of business on March 21, 2011 was \$19.00 per Share. See Description of Shares.</p> <p>We may offer, from time to time, in one or more offerings, up to \$75,000,000 of our Shares on terms to be determined at the time of the offering. The Shares may be offered at prices and on terms to be set forth in one or more Prospectus Supplements. The offering price of our Shares will not be less than the net asset value of our Shares at the time we make the offering, exclusive of any underwriting commissions or discounts. You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in our Shares. Our Shares may be offered directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The Prospectus Supplement relating to the offering will identify any agents, underwriters or dealers involved in the sale of our Shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. See Plan of Distribution. We may not sell any of our Shares through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering of our Shares.</p>
Use of Proceeds	We intend to use the net proceeds from the sale of our Shares primarily to invest in accordance with our investment objectives and policies. Proceeds will be invested within approximately 60 days of receipt by the Fund. See Use of Proceeds.
Investment Objectives	The Fund's investment objective is to seek total return, consisting of capital appreciation and income, by investing primarily in Chilean securities. There can be no assurance that the Fund's investment objective will be achieved. See Investment Objective.
Investment Policies	Under normal market conditions, substantially all, but not less than 80%, of the Fund's net assets will be invested in Chilean securities. The Fund's portfolio of Chilean securities (the Chilean Portfolio), under normal conditions, will consist principally of Chilean equity securities; however, it may also include Chilean debt securities. A substantial portion of the equity securities acquired by the Fund are expected to be dividend-paying securities. Chilean companies listed on the stock exchanges are required by law to pay out as dividends at least 30% of annual audited net income.

The Fund defines Chilean securities as (a) securities of companies, the principal trading market for which is in Chile, (b) securities issued or guaranteed by the Republic of Chile or the Central Bank of Chile, (c) peso-denominated securities issued by companies to finance operations in Chile or

(d) securities of companies that derive more than 50% of their revenues or profits from goods or services produced in Chile or sales made in Chile or

have more than 50% of their assets in Chile.

Chilean equity securities in which the Fund invests consist predominantly of common stocks, although the Fund may also invest to a limited extent in preferred stocks, convertible securities and, to the extent a market exists for them and investing in them is permitted under Chilean law, warrants.

Although the Fund invests principally in Chilean equity securities, it may invest a substantial portion of its assets in Chilean debt securities when AAMISL believes that it is appropriate to do so in order to achieve the Fund's investment objective. AAMISL expects to do so, for example, when interest rates on Chilean debt securities are high in comparison with anticipated returns on equity securities. AAMISL may invest in securities of companies that it determines to be suitable investments for the Fund regardless of their rating. The Fund may invest up to 35% of the Chilean Portfolio in high-yield securities. The Fund may not, however, invest more than 5% of the Chilean Portfolio in Chilean debt securities rated C or below by Chilean rating services or unrated securities which AAMISL determines to be of comparable quality. Because interest on most Chilean debt securities is inflation-adjusted, the variation in the value of Chilean debt securities in relation to fluctuations in the value of the Chilean peso tends to be less than would otherwise be the case.

The Fund may invest up to 20% of the Chilean Portfolio in unlisted Chilean securities, including investments in new and early-stage companies, provided that not more than 3% of the Chilean Portfolio may be invested in unlisted securities of Chilean companies that, at the time of investment, had less than one year of operations, including operations of predecessor companies. The Fund invests only in unlisted equity securities that, in the opinion of AAMISL, present opportunities for substantial growth over a period of two to five years, notwithstanding that such investments may be illiquid and may present risks not normally existing in publicly owned, more established companies with possibly higher market capitalizations.

The Fund will not invest 25% or more of its total assets in the securities of companies in the same industry (although the Fund may invest in securities issued by the government of the United States without regard to this limitation). In selecting industries and companies for investment by the Fund, AAMISL will consider factors such as overall growth prospects, competitive position in domestic and export markets, technology, research and development, productivity, labor costs, raw material costs and sources, profit margins, return on investment, capital resources, government regulation and management.

The Fund purchases and holds securities with a view toward maximizing the total return to the Fund and does not expect to trade in securities for short-term gain. The Fund may, for cash management purposes, invest up to 25% of its net assets in certain short-term investments and may, for temporary defensive purposes, invest up to 100% of its assets in certain short-term instruments. For more information, including a description of the types of short-term instruments in which the Fund may invest, see Investment Policies.

In addition to the foregoing restrictions, the Fund is subject to Chilean Law No. 18,657 ( Law No. 18,657 ), which limits the Chilean Portfolio to: (a) shares of Chilean open corporations, i.e., corporations that publicly offer their shares; (b) securities issued or guaranteed by the Chilean

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government; (c) securities issued by the Central Bank of Chile; (d) securities issued or guaranteed by Chilean banks or financial institutions; (e) letters of credit issued by Chilean banks, financial institutions or other authorized entities; (f) bonds and negotiable instruments registered in the Chilean Securities

Register; (g) quotas of investment funds; and (h) other securities duly authorized by the Chilean Superintendency of Securities and Insurance ( SVS ).

Diversification rules under Law No. 18,657 provide that the Fund may not hold more than 5% of any Chilean issuer's voting stock (subject to an increase to up to 10% for newly-issued shares, including through the exercise of preemptive rights) and not more than 10% of the Chilean Portfolio may be invested in securities issued or guaranteed by any single Chilean issuer (other than securities issued or guaranteed by the Chilean government or by the Central Bank of Chile). Further, at least 80% of the Chilean Portfolio must be invested in shares or in debt obligations of Chilean companies or the Chilean government the maturity to which at the date of purchase exceeds four years, with not less than 60% of the Chilean Portfolio invested in shares of open corporations.

Investment Restrictions

The Fund has certain investment restrictions that may not be changed without approval by a majority of the Fund's outstanding voting securities. These restrictions concern issuance of senior securities, borrowing, lending, concentration, diversification and other matters. See Investment Restrictions.

Risks (See generally Risks and Special Considerations for more information on these and other risks)

The value of the Fund's assets, as well as the market price of its shares, will fluctuate. You can lose money on your investment. Investing in the Fund involves other risks, including the following:

- *General.* The Fund is a non-diversified, closed-end investment company designed primarily as a long-term investment and not as a trading tool. The Fund invests generally in Chilean securities. An investment in the Fund's Common Stock may be speculative and involves a high degree of risk. The Fund should not constitute a complete investment program. Due to the uncertainty in all investments, there can be no assurance that the Fund will achieve its investment objective.
- *Chilean Securities Risk.* Like other investors in the Chilean securities markets, the Fund is subject to general economic and political conditions in Chile. The Fund's investing in Chilean securities involves certain considerations not typically associated with investing in the United States, including generally (a) controls on foreign investment and limitations on repatriation of capital invested in Chile; (b) greater price volatility, substantially less liquidity and significantly smaller market capitalization of the Chilean securities markets; (c) currency devaluation and other currency exchange rate fluctuations; (d) more substantial governmental involvement in the economy; and (e) political uncertainty and other considerations. More specifically, (1) the Fund may not repatriate capital for five years after investment in Chile except under limited circumstances to pay expenses; (2) there can be no assurance that Chilean inflation might not adversely affect the performance of the Chilean economy or its securities market; (3) governmental and political events in Chile could affect future economic policies; (4) because of the limited forward market for the purchase of dollars in Chile and the limited circumstances under which the Fund hedges against declines in the value of the Chilean peso generally, the Fund will be adversely affected by peso devaluations against the U.S. dollar; (5) the Fund's ability to make defensive investments may be limited by the application of repatriation restrictions and requirements to maintain minimum percentages of assets in shares of Chilean companies; and (6) due to differences between U.S. and Chilean accounting, auditing and financial reporting standards, certain material disclosures may not be made by issuers of, and less information may be available to, the Fund and other

investors investing in Chilean securities.

The Fund has filed an application with the Chilean Foreign Investment Committee (the Foreign Investment Committee ) to enter into an investment contract pursuant to which the proceeds of this offering will be invested in Chile. While the Fund expects to receive approval from the Foreign Investment Committee to enter into such contract, there can be no assurance that such approval will be granted.

The Fund is subject to supervision and regulation by the SVS. Failure by the Fund to comply with diversification or other SVS requirements applicable to the Fund could, in addition to causing the loss of certain favorable Chilean tax treatment for the Fund, result in the assessment of fines by the SVS or other disciplinary actions.

- *Foreign Securities Risk.* Investments in foreign securities that are traded on foreign markets, including Chilean securities, are subject to risks of loss that are different from the risks of investing in U.S. securities. These include the possibility of losses due to currency fluctuations (see Currency Exchange Rate Fluctuations ), or to adverse political, economic or diplomatic developments in Chile, including possible increases in taxes. Additionally, accounting, auditing, financial reporting standards and other regulatory practices and requirements for securities in which the Fund may invest vary from those applicable to entities subject to regulation in the United States. The Chilean securities market for both listed and unlisted securities may be more volatile and less liquid than the major U.S. markets. In addition, the cost to the Fund of buying, selling and holding securities in the Chilean market may be higher than in the United States. Any higher expenses of non-U.S. investing may reduce the amount the Fund can earn on its investments and typically results in a higher operating expense ratio than for investment companies that invest only in the United States. Regulatory oversight of the Chilean securities market may differ from that of U.S. markets. There also may be difficulty in invoking legal protections across borders.
- *Equity Securities Risk.* Consistent with its objective, the Fund will invest a substantial portion of its assets in Chilean equity securities. Equity securities, such as common stock, generally represent an ownership interest in a company. Although equity securities have historically generated higher average returns than fixed income securities, equity securities have also experienced significantly more volatility in those returns. An adverse event, such as an unfavorable earnings report, may depress the value of a particular equity security held by the Fund. Also, the prices of equity securities, particularly common stocks, are sensitive to general movements in the stock market. The Fund's share price can fall because of weakness in the Chilean market, a particular industry or specific holdings. The Chilean market as a whole can decline for many reasons, including adverse political or economic developments in Chile or elsewhere, changes in investor psychology, or heavy institutional selling. The prospects for an industry or company may deteriorate because of a variety of factors, including disappointing earnings or changes in the competitive environment. Investments in futures and options, if any, are subject to additional volatility and potential losses.
- *High-Yield/Junk Bond Securities Risk.* Although the Fund invests principally in Chilean equity securities, it may invest a substantial portion of its assets in Chilean debt securities when AAMISL believes that it is appropriate to do so in order to achieve the Fund's investment objective of total return. The Fund may invest in Chilean debt securities



of any rating, including high-yield securities. Investment in high-yield securities involves substantial risk of loss. Below investment grade non-convertible debt securities or comparable unrated securities, as determined by AAMISL, are commonly referred to as junk bonds and are considered predominantly speculative with respect to the issuer's ability to pay interest and principal and are susceptible to default or decline in market value due to adverse economic and business developments. The market values for high yield securities tend to be very volatile, and these securities are less liquid than investment grade debt securities. If the Fund invests in such securities, your investment in the Fund is subject to the following specific risks:

- increased price sensitivity to changing interest rates and to a deteriorating economic environment;
- greater risk of loss due to default or declining credit quality;
- adverse company specific events are more likely to render the issuer unable to make interest and/or principal payments; and
- if a negative perception of the high yield market develops, the price and liquidity of high yield securities may be depressed. This negative perception could last for a significant period of time.

Adverse changes in economic conditions are more likely to lead to a weakened capacity of a high yield issuer to make principal payments and interest payments than an investment grade issuer. An economic downturn could severely affect the ability of highly leveraged issuers to service their debt obligations or to repay their obligations upon maturity. The secondary market for high yield securities may not be as liquid as the secondary market for more highly rated securities, a factor which may have an adverse effect on the Fund's ability to dispose of a particular security.

There are fewer dealers in the market for high yield securities than for investment grade obligations. The prices quoted by different dealers may vary significantly and the spread between the bid and asked price is generally much larger than for higher quality instruments. Under adverse market or economic conditions, the secondary market for high yield securities could contract further, independent of any specific adverse changes in the condition of a particular issuer, and these instruments may become illiquid. As a result, the Fund could find it more difficult to sell these securities or may be able to sell the securities only at prices lower than if such securities were widely traded. Prices realized upon the sale of such lower rated or unrated securities, under these circumstances, may be less than the prices used in calculating the Fund's NAV.

- *Inflation Risk.* Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of the Fund's Common Stock and dividends can decline. Chile historically has had a volatile inflation rate, and if Chile's inflation rate were to enter a period of extreme volatility, the value of the Fund's holdings in Chilean securities would fluctuate correspondingly.



- *Management Risk.* AAMISL or Celfin's judgment about the attractiveness, relative value or potential appreciation of a particular security or investment strategy may prove to be incorrect.

- *Conflicts of Interest Risk.* AAMISL's and Celfin's advisory fees are based on the lower of the Fund's market value or NAV. Consequently, AAMISL and Celfin will likely benefit from an increase in the Fund's net assets resulting from this offering. In addition, a Director who is an interested person (as such term is defined under the 1940 Act) of the Fund or the Portfolio Manager of the Fund could benefit indirectly from this offering because of such affiliations. Currently, the Fund has no directors in this category.
- *Currency Exchange Rate Fluctuations.* The Fund invests substantially in instruments denominated in foreign currencies-primarily the Chilean peso. The Fund does not currently intend to hedge against currency risk; consequently, the Fund's equity securities are subject to the risk that some holdings may lose value because of a decline in the value of the Chilean currency or adverse political or economic events in Chile or elsewhere. Fluctuations in the value of non-U.S. currencies relative to the U.S. dollar can adversely affect the U.S. dollar value of the Fund's assets. A decline in the value of such a foreign currency can require the Fund to liquidate portfolio securities to pay distributions previously calculated in U.S. dollars and can increase the relevant foreign currency cost of expenses incurred in U.S. dollars. Currency exchange losses can reduce or eliminate the Fund's ability to make ordinary income distributions.
- *Liquidity Risk.* It may be difficult for the Fund to buy and sell significant amounts of Chilean securities without an unfavorable impact on prevailing market prices. Trading on the Bolsa de Comercio de Santiago (the Santiago Exchange), Chile's principal stock exchange, is not as active as trading on the Amex or other major stock exchanges in the United States. Consequently, larger purchases or sales of these securities by the Fund in a short period of time may cause abnormal movements in the market price of these securities. As a result, these securities may be difficult to dispose of at a fair price at the times when the Fund believes it is desirable to do so. The Fund may also have difficulty purchasing securities in companies in which the Fund would otherwise invest. Investment of the Fund's capital in securities that are less actively traded or that over time experience decreased trading volume may restrict the Fund's ability to take advantage of other market opportunities.
- *Net Asset Value Discount.* Shares of the Fund, a closed-end investment company, may trade in the market at a discount from their net asset value.
- *Market Discount Risk.* The Fund's Common Stock has typically traded at a discount relative to net asset value (NAV). See Description of Shares for a chart that shows how the market value of the Fund's Common Stock has fluctuated compared to its NAV throughout the Fund's history. The last reported sale price represents a 11.53% premium over the per share NAV on March 21, 2011; however, there can be no assurance that this premium will continue after this offering or that the shares will not again trade at a discount, as they have for most of the Fund's history. Common shares of closed-end investment companies, including the Fund, frequently trade at prices lower than their NAV. The provisions of the Investment Company Act of 1940, as amended (the 1940 Act), require, as a condition to the completion of this offering, that the public offering price of the shares of Common Stock, less the sales load and discounts, must equal or exceed the NAV per share of the Fund's Common Stock (calculated within 48 hours of pricing). An investor who buys the Fund's Common Stock in the offering at a price that reflects a premium to NAV may experience a

decline in the market value of these shares of Common Stock independent of any change in their NAV.

The market price of the Fund's Common Stock may be affected by such factors as the market supply and demand of the Common Stock. As of December 31, 2010, two stockholders owned approximately 26.5% of the Fund's outstanding Common Stock. Any substantial dispositions or acquisitions of Common Stock by these investors could affect the supply or demand for, and possibly the market price of, the Common Stock. The Fund's Common Stock is designed primarily for long-term investors, and you should not purchase shares of Common Stock if you intend to sell them shortly after purchase.

- *Distribution Rate.* There can be no assurance that the Board will maintain the Fund's distribution rate at a particular level, or that the Board will continue a managed distribution policy. Additionally, distributions may include return of capital as well as net investment income and capital gains. If the Fund's investments do not generate sufficient income, the Fund may be required to liquidate a portion of its portfolio to fund these distributions. See *Dividends and Distributions*.

- *Non-Diversification Risk.* As a non-diversified investment company, the Fund can invest more of its assets in fewer issuers than an investment company that is diversified, exposing the Fund to greater risk. The Fund, however, is subject to Chilean laws limiting investments in a single issuer and intends to comply with the diversification requirements imposed by the U.S. Internal Revenue Code of 1986, as amended (the Code), for qualification as a regulated investment company.

- *Unlisted Securities Risk.* The Fund may invest up to 20% of the Chilean Portfolio in unlisted Chilean securities. Because the market for unlisted securities is not liquid, it may be difficult for the Fund to sell these securities at a desirable price. Unlisted securities are not subject to the disclosure and other investor protection requirements of Chilean law applicable to listed securities.

- *Tax Risks.* The Fund may invest in securities of which the federal income tax treatment may not be clear or may be subject to recharacterization by the U.S. Internal Revenue Service (the IRS) or the Chilean Servicio de Impuestos Internos (the Chilean IRS). It could be more difficult for the Fund to comply with the United States tax requirements applicable to regulated investment companies, or with the Chilean tax requirements applicable to foreign investors, if the tax characterization of the Fund's investments or the tax treatment of the income from such investments were successfully challenged by the IRS or by the Chilean IRS.

- *Anti-takeover Charter Provisions.* The Fund's Articles of Incorporation and By-laws include provisions that could limit the ability of other entities or persons to acquire control of the Fund or to change the composition of its Board of Directors. Such provisions could limit the ability of stockholders to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund. These provisions include staggered terms of office for the Directors, advance notice requirements for stockholder proposals, and super-majority voting requirements for conversion of the Fund to an open-end investment company or certain merger, asset sale or similar transactions. In certain circumstances, these provisions might also inhibit the ability of stockholders to sell their shares at a premium over

prevailing market prices.

- *Market Disruption Risk.* Certain events have had a disruptive effect on the securities markets, such as terrorist attacks (including the terrorist attacks in the United States on September 11, 2001), war and other geopolitical events, earthquakes, storms and other disasters. The Fund cannot predict the effects of similar events in the future on the markets or economy of Chile or other countries.

- *Repurchase Agreements Risk.* These transactions involve risks in the event of counterparty default or insolvency.

- *Securities Lending Risk.* In connection with its loans of portfolio securities, the Fund may be exposed to the risk of delay in recovery of the loaned securities or possible loss of rights in the collateral should the borrower become insolvent. The Fund also bears the risk of loss on the investment of cash collateral. There is also the risk that, in the event of default by the borrower, the collateral might not be sufficient to cover any losses incurred by the Fund. There can be no assurance that the return to the Fund from a particular loan, or from its loans overall, will exceed the related costs and any related losses.

- *Foreign Custody.* The Fund's custodian generally holds the Fund's non-U.S. securities and cash in non-U.S. bank sub-custodians and securities depositories generally in Chile. Regulatory oversight of non-U.S. banks and securities depositories may differ from that in the U.S. Additionally, laws applicable to non-U.S. banks and securities depositories may limit the Fund's ability to recover its assets in the event the non-U.S. bank, securities depository or issuer of a security held by the Fund goes bankrupt.

Investment Adviser and  
Sub-Adviser

The Fund's investment adviser is Aberdeen Asset Management Investment Services Limited (AAMISL or Investment Adviser). The Investment Adviser is a United Kingdom corporation that was acquired by Aberdeen PLC in December 2005. AAMISL is a U.S. registered investment adviser under the Investment Advisers Act of 1940, as amended (the Advisers Act), and is also regulated in the United Kingdom by the Financial Services Authority. AAMISL provides equity and fixed income advisory services to U.S. clients. The Investment Adviser is located at Bow Bells House, 1 Bread Street, London, U.K., EC4M 9HH.

The Investment Adviser is a wholly-owned subsidiary of Aberdeen Asset Management PLC (Aberdeen PLC), which is the parent company of an asset management group managing approximately \$287 billion in assets as of December 31, 2010 for a range of pension funds, financial institutions, investment trusts, unit trusts, offshore funds, charities and private clients, in addition to U.S. registered investment companies. The registered offices of Aberdeen PLC are located at 10 Queen's Terrace, Aberdeen, Scotland AB 10 1 YG. Aberdeen PLC, its affiliates and subsidiaries are referred to collectively herein as Aberdeen. Aberdeen PLC was formed in 1983 and was first listed on the London Stock Exchange in 1991.

The Fund's sub-adviser is Celfin Capital Servicios Financieros S.A. (Sub-Adviser). Celfin is a closed corporation organized under the laws of Chile and is an investment adviser registered with the SEC under the Advisers Act. Celfin is a 98% owned direct subsidiary of Celfin Capital S.A., located at

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Avenida Apoquindo 3721, 19th floor, Las Condes, Santiago, Chile. Inversiones Casablanca Ltda., located at Peumo 187, Vitacura, Santiago, Chile, and Patmos Finance SA, located at Avenida Apoquindo 3721, 19th floor, Santiago, Chile, each own 32.8% of Celfin Capital S.A., and

Inversiones y Renta Montemar Ltda., located at Dieciocho 229, 2nd floor, Santiago, Chile, owns 16.8% of Celfin Capital S.A. The two controlling managing directors of Celfin Capital S.A. are Juan Andrés Camus and Jorge Diego Errázuriz.

The Fund pays a fee to the Investment Adviser computed at the annual rate of 1.20% of the first \$50 million of the Fund's Average Weekly Base Amount, 1.15% of amounts from \$50-100 million, 1.10% of amounts from \$100-150 million, 1.05% of amounts from \$150-200 million and 1.00% of amounts over \$200 million, calculated weekly and paid quarterly. Average Weekly Base Amount is defined in the investment management agreement as the average of the lesser of the market value of the Fund's outstanding shares and the Fund's net assets, determined as of the last trading day of each week during a quarter. The Investment Adviser has agreed to waive a portion of its advisory fee so that the net Advisory Fee after Fee Waiver is 1.00% of the Fund's Average Weekly Base Amount. The waiver was effective on July 1, 2009 and continues for annual periods, unless terminated.

The Investment Adviser pays the fees of the Sub-Adviser. These fees are computed at the annual rate of 0.20% of the Fund's average monthly net assets invested less the Discount Adjustment Amount. The Discount Adjustment Amount is defined in the investment advisory agreement. The Sub-Adviser has agreed to waive a portion of its fee so that the net sub-advisory fee after fee waiver is 0.17% of the Fund's average monthly net assets less the Discount Adjustment Amount. The waiver was effective on July 1, 2009 and continues for annual periods, unless terminated.

Portfolio Managers

The Fund is managed by the Global Emerging Markets Team. The following persons have the most significant responsibility for the day-to-day management of the Fund's portfolio: Devan Kaloo, Head of Emerging Markets; Fiona Manning, CFA, Investment Adviser; Andy Brown, CFA, Investment Adviser; Stephen Parr, Investment Adviser; and Nick Robinson, CFA, Investment Adviser. See Management of the Fund Portfolio Management.

Administrator

Brown Brothers Harriman & Co. (BBH & Co.), 40 Water Street, Boston, MA 02109, is U.S. administrator for the Fund and certain other U.S. registered closed end funds advised by AAMISL and its affiliates (the Funds). The Funds pay BBH & Co. monthly for administrative and fund accounting services, at an annual rate of .06% of the Funds' aggregate assets up to \$500 million, .0525% for the next \$500 million, and .0425% in excess of \$1 billion. Each Fund pays its pro rata portion of the fee based on its level of assets.

Celfin Capital S.A. Administradora de Fondos de Capital Extranjero (AFCE, and collectively with BBH & Co., the Administrator) serves as the Fund's Chilean administrator. For its services, AFCE is paid a fee, out of the advisory fee payable to AAMISL, that is calculated weekly and paid quarterly at an annual rate of 0.05% of the Fund's average weekly market value or net assets (whichever is lower). In addition, AFCE receives a supplemental administration fee, an annual reimbursement of out-of-pocket expenses and an accounting fee. See Management of the Fund Administrator.

Custodian

BBH & Co., 40 Water Street, Boston, MA 02109, acts as the Fund's custodian. See Management of the Fund Custodian.

Transfer Agent

Computershare Trust Company, N.A., P.O. Box 43078, Providence, RI 02940, serves as the Fund's stock transfer agent and dividend paying agent. See Management of the Fund Transfer Agent.

Dividends and Distributions

The Board of Directors has implemented a managed distribution policy of



paying quarterly distributions at an annual rate, set once a year, that is a percentage of the rolling average of the Fund's prior four quarter-end net asset values. The current rolling distribution rate is 10%, but this rate may be changed by the Board in response to, among other things, market conditions. The distributions are made from current income, supplemented by realized capital gains and, to the extent necessary, paid-in capital. Any distributions made from paid-in-capital would represent a return of a stockholder's original investment in the Fund. A return of capital to stockholders would reduce the Fund's net asset value and, over time, potentially increase the Fund's expense ratio. A return of capital reduces the amount of a stockholder's tax basis in such stockholder's shares. When a stockholder sells shares in the Fund, the amount, if any, by which the sales price exceeds the stockholder's basis in the Fund's shares is gain subject to tax. There can be no assurance that the Board will continue a managed distribution policy. See Dividends and Distributions.

The Fund's policy is to distribute at least annually to its stockholders substantially all of its net investment income. The Fund determines annually whether to distribute any net realized long-term capital gains in excess of net realized short-term capital losses (including capital loss carryover); however, it currently expects to distribute any excess annually to its stockholders.

Dividends, interest and net realized capital gains may be remitted out of Chile at any time, subject to a 10% Chilean tax. The 10% tax is not applicable to capital gains from the sale of shares of open corporations having a stock exchange presence, from bonds issued by certain entities or companies, or from investment funds quotas and mutual fund quotas, provided certain requirements are met. No tax is applied against remittances of capital after the five-year investment period required by Chilean law, provided that if the Fund's Taxable Profit Fund (Fondo de Utilidades Tributables) has retained taxable or financial earnings that have not been distributed, then a remittance of capital is applied first to such retained earnings subject to the 10% tax. Once the retained earnings have been remitted, then the repatriated capital is not subject to tax. See Taxation Chilean Taxes.

Dividend Reinvestment and Direct Stock Purchase Plan

Computershare Trust Company, N.A. sponsors and administers a Dividend Reinvestment and Direct Stock Purchase Plan (the Plan), which is available to shareholders. Additional information about the Plan and a brochure that includes the terms and conditions of the Plan may be obtained at [www.computershare.com/buyaberdeen](http://www.computershare.com/buyaberdeen) or by calling Computershare Trust Company, N.A. at 1-800-647-0584. For both purchases and reinvestment purposes, shares acquired through the Plan will be purchased in the open market at the current share price and cannot be issued directly by the Fund.

Taxation

Withholding and/or other taxes may apply in the countries in which the Fund invests, which will reduce the Fund's cash return in those countries. The Fund intends to elect, when eligible, to pass-through to the Fund's shareholders the ability to claim (subject to limitations) a deduction or credit for the amount of foreign income and similar taxes paid by the Fund. Tax considerations for an investor in the Fund are summarized under Taxation. See also Risks and Special Considerations.



**SUMMARY OF FUND EXPENSES**

<b>Shareholder Transaction Expenses</b>	
Maximum Sales Load (as a percentage of offering price)(1)	%
Offering Expenses (as a percentage of offering price (1))	%
Dividend Reinvestment and Cash Purchase Plan Fees	None
Annual Operating Expenses (as a percentage of average net assets attributable to the fund's common stock)	
Management Fee(3)	1.14%
Other Expenses(4)(5)	0.63%
Total Annual Operating Expenses(6)	1.77%

(1) If the Shares are sold or through underwriters, the Prospectus Supplement will set forth any applicable sales load and the estimated offering expenses.

(2) If you participate in the Dividend Reinvestment and Direct Stock Purchase Plan sponsored and administered by Computershare Trust Company, N.A., you will be subject to any fees imposed by Computershare Trust Company, N.A.

(3) See Management of the Fund The Investment Adviser and the Sub-Adviser for additional information. The management fee excludes taxes paid by the Fund.

(4) Other Expenses have been estimated for the current fiscal year.

(5) Includes an administration fee of 0.13% of average net assets attributable to the Fund's common stock. See Management of the Fund - Administrator for additional information.

(6) The Investment Adviser has entered into an agreement with the Fund to voluntarily waive advisory fees so that the net advisory fee after waivers is 1.00%. The net total annual operating expenses after applying the advisory fee waiver is 1.63%. The Investment Adviser may terminate this waiver at any time.

**Example**

An investor would pay the following expenses on a \$1,000 investment in the Fund, assuming a 5% annual return:

**One Year**

**Three Years**

**Five Years**

**Ten Years**

\$	18	\$	56	\$	96	\$	208
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The above table and example are intended to assist investors in understanding the various costs and expenses directly or indirectly associated with investing in Shares of the Fund. The Example assumes that all dividends and other distributions are reinvested at net asset value and that the percentage amounts listed in the table above under Total Annual Operating Expenses remain the same in the years shown. The above table and example and the assumption in the example of a 5% annual return are required by regulations of the SEC that are applicable to all investment companies; the assumed 5% annual return is not a prediction of, and does not represent, the projected or actual performance of the Fund's Shares. For more complete descriptions of certain of the Fund's costs and expenses, see Management of the Fund and Expenses.

**The example should not be considered a representation of past or future expenses, and the Fund's actual expenses may be greater than or less than those shown. Moreover, the Fund's actual rate of return may be greater or less than the hypothetical 5% return shown in the example.**

## FINANCIAL HIGHLIGHTS

The financial highlights table is intended to help you understand the Fund's financial performance. Information is shown for the Fund's last ten fiscal years. Certain information reflects financial results for a single Fund Share. The following information has been audited by PricewaterhouseCoopers LLP (PwC), independent registered public accounting firm for the Fund, for the fiscal year ended December 31, 2010, whose report thereon was unqualified. The report of PwC, together with the financial statements of the Fund, are included in the Fund's December 31, 2010 Annual Report, and are incorporated by reference into the SAI, which is available upon request.

	For the Fiscal Years Ended December 31,					
	2010	2009	2008	2007	2006	
<b>PER SHARE OPERATING PERFORMANCE</b>						
Net asset value, beginning of year	\$ 18.77	\$ 11.05	\$ 18.78	\$ 17.33	\$ 14.16	
Net investment income(a)	0.04	0.11	0.20	0.11	0.01	
Net realized and unrealized gain/(loss) on investments and foreign currency related transactions	6.64	8.68	(7.01)	3.85	4.28	
Net increase/(decrease) in net assets resulting from operations	6.68	8.79	(6.81)	3.96	4.29	
Dividends and distributions to shareholders:						
Net investment income	(0.01)	(0.33)	(0.16)	(0.12)	(0.03)	
Net realized gain	(3.45)	(0.74)	(0.76)	(2.39)	(1.09)	
Total dividends and distributions to shareholders	(3.46)	(1.07)	(0.92)	(2.51)	(1.12)	
Anti-dilutive impact due to capital shares tendered	0.06					
Net asset value, end of year	\$ 22.05	\$ 18.77	\$ 11.05	\$ 18.78	\$ 17.33	
Market value, end of year	\$ 22.67	\$ 17.90	\$ 9.82	\$ 22.00	\$ 16.92	
<b>Total Investment Return Based on:</b>						
Market value(b)	49.48%	93.78%	(51.78)%	49.56%	2.35%	
Net asset value	38.65%	80.58%	(36.43)%	24.65%	30.66%	
<b>Ratio/Supplementary Data</b>						
Net assets, end of year (000 omitted)	\$ 168,153	\$ 190,851	\$ 112,362	\$ 190,448	\$ 175,680	
Average net assets (000 omitted)	\$ 176,275	\$ 156,471	\$ 175,102	\$ 206,623	\$ 153,963	
Ratio of expenses to average net assets(c)	2.07%	1.94%	1.89%	1.79%	2.14%	
Ratio of expenses to average net assets, excluding fee waivers(c)	2.20%	2.02%	1.89%	1.79%	2.14%	
Ratio of expenses to average net assets, excluding taxes	1.84%	1.58%	1.50%	1.56%	1.91%	
Ratio of net investment income to average net assets	0.21%	0.71%	1.13%	0.55%	0.05%	
Portfolio turnover rate	41.45%	12.77%	27.33%	23.29%	19.95%	

(a) Based on average shares outstanding.

(b) Total investment return is calculated assuming a purchase of common stock on the first day and a sale on the last day of each reporting period. Dividends and distributions, if any, are assumed, for purposes of this calculation to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions.

(c) Ratios include the effect of Chilean taxes.

	For the Fiscal Years Ended December 31,				
	2005	2004	2003	2002	2001
<b>PER SHARE OPERATING PERFORMANCE</b>					
Net asset value, beginning of year	\$ 15.68	\$ 14.48	\$ 8.39	\$ 9.93	\$ 11.43
Net investment income	0.11	0.16	0.07	0.09*	0.21
Net realized and unrealized gain/(loss) on investments and foreign currency related transactions	2.71	3.27	6.47	(1.70)	(0.70)
Net increase/(decrease) in net assets resulting from operations	2.82	3.43	6.54	(1.61)	(0.49)
Dividends and distributions to shareholders:					
Net investment income	(0.07)	(0.47)	(0.08)	(0.09)	(0.15)
Net realized gain on investments and foreign currency related transactions	(4.27)	(1.76)	(0.37)		(0.86)
Total dividends and distributions to shareholders	(4.34)	(2.23)	(0.45)	(0.09)	(1.01)
Anti-dilutive impact due to capital shares tendered or repurchased				0.16	
Net asset value, end of year	\$ 14.16	\$ 15.68	\$ 14.48	\$ 8.39	\$ 9.93
Market value, end of year	\$ 17.65	\$ 13.99	\$ 14.10	\$ 7.25	\$ 8.43
<b>Total Investment Return (a)</b>	<b>57.74%</b>	<b>14.93%</b>	<b>100.72%</b>	<b>(12.93)%</b>	<b>13.18%</b>
<b>Ratios/Supplemental Data</b>					
Net assets, end of year (000 omitted)	\$ 143,603	\$ 158,983	\$ 146,839	\$ 85,082	\$ 134,289
Ratio of expenses to average net assets (b)	1.82%	1.85%	1.74%	1.11%	2.71%
Ratio of expenses to average net assets, excluding taxes	1.57%	1.62%	1.74%	2.01%	1.54%
Ratio of net investment income/(loss) to average net assets	0.69%	1.12%	0.65%	1.28%(c)	1.91%
Portfolio turnover rate	37.48%	35.54%	31.94%	31.94%	29.81%

\* Based on actual shares outstanding on February 4, 2002 (prior to the tender offer) and December 31, 2002.

- (a) Total investment return at market value is based on the changes in market price of a share during the year and assumes reinvestment of dividends and distributions, if any, at actual prices pursuant to the Fund's dividend reinvestment program.
- (b) Ratios include the effect of Chilean taxes.
- (c) Ratio includes the effect of a reversal of Chilean tax accrual; excluding the reversal, the ratio would have been 0.18%.

### USE OF PROCEEDS

The Fund anticipates that it will be able to invest substantially all of the net proceeds of the offering in accordance with its investment objectives and policies within approximately 60 days after completion of the offering. Pending such investment, the Fund anticipates investing the proceeds in short-term securities issued by the U.S. government or its agencies or instrumentalities or in high quality, short-term or long-term debt obligations or money market instruments.

### THE FUND

The Fund is a non-diversified, closed-end management investment company registered under the 1940 Act. The Fund is designed for investors seeking experienced professional management of a portfolio of Chilean securities. An investment in the Fund may not be appropriate for all investors and should not be considered to be a complete investment program. An investment in the Fund involves risks that you should consider before purchasing Shares. See Risks and Special Considerations. The Fund's principal office is located at 1735 Market Street, 3rd floor, Philadelphia, Pennsylvania 19103.

### DESCRIPTION OF SHARES

The Fund, which was incorporated under the laws of the State of Maryland on January 30, 1989, is authorized to issue 100,000,000 shares, \$0.001 par value per share. As of the date of this Prospectus, the Fund has not issued any shares of preferred stock and the Board of Directors has no present intention to issue shares of preferred stock. All references to stock or shares herein refer to common stock, unless otherwise indicated. Each share of common stock has equal voting, dividend, distribution and liquidation rights. The Shares outstanding are, and, when issued, the Shares offered by this Prospectus will be, fully paid and non-assessable. Shares are not redeemable and have no preemptive, conversion or cumulative voting rights. The number of Shares outstanding as of December 31, 2010 was 7,626,079.

The Fund's outstanding Shares are, and, when issued, the Shares offered by this Prospectus will be, publicly held and listed and traded on the Amex. The Fund determines its net asset value on a daily basis. The following table sets forth, for the quarters indicated, the highest and lowest daily closing prices on the Amex per share of common stock, and the net asset value per share and the premium to or discount from net asset value, on the date of each of the high and low market prices. The table also sets forth the number of Shares traded on the Amex during the respective quarters.

During Quarter Ended	NAV per Share on Date of Market Price High and Low (1)		Amex Market Price per Share(2)		Premium/(Discount) on Date of Market Price High and Low(3)		Trading Volume(4)
	High	Low	High	Low	High	Low	
March 31, 2008	20.76	16.43	21.22	16.72	18.28%	(9.77)%	3,390,146
June 30, 2008	21.54	18.40	20.20	16.50	(5.52)%	(10.33)%	1,023,581
September 30, 2008	19.40	15.16	17.18	12.82	(8.68)%	(19.13)%	1,635,357
December 31, 2008	15.94	10.60	13.30	7.96	(11.13)%	(24.91)%	1,313,835
March 31, 2009	13.37	11.35	12.40	9.79	(5.42)%	(18.55)%	1,109,159
June 30, 2009	16.86	12.94	15.62	11.08	(4.44)%	(14.83)%	867,237

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September 30, 2009	17.25	15.78	16.36	14.55	(2.65)%	(10.57)%	982,887
December 31, 2009	19.07	16.47	18.08	15.42	(2.51)%	(7.39)%	1,208,919
March 31, 2010	20.52	18.12	19.60	16.80	(2.69)%	8.17)%	2,265,299
June 30, 2010	19.54	17.33	18.66	16.25	(2.22)%	(8.68)%	2,648,548
September 30, 2010	23.11	18.32	22.93	17.29	0.04%	(9.22)%	2,340,361
December 31, 2010	24.43	21.32	26.25	21.00	7.45%	(3.21)%	4,255,504

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(1) Based on the Fund's computations.

(2) Source: The NYSE Amex Equities.

(3) Based on the Fund's computations.

(4) Source: Bloomberg.

On March 21, 2011, the per Share net asset value was 19.00 and the per Share market price was \$21.19, representing an 11.53% premium over such net asset value.

The Fund's Shares have traded in the market below, at and above net asset value since the commencement of the Fund's operations. However, it has been the case that the Fund's Shares have traded at a discount from net asset value. The Fund cannot determine the reasons why the Fund's Shares trade at a premium to or discount from net asset value, nor can the Fund predict whether its Shares will trade in the future at a premium to or discount from net asset value, or the level of any premium or discount. Shares of closed-end investment companies frequently trade at a discount from net asset value.

The following information regarding the Fund's authorized shares is as of December 31, 2010.

Title of Class	Amount Authorized	Amount Held by Fund for its own Account	Amount Outstanding Exclusive of Amount held by Fund
Common Stock	100,000,000	0	7,626,079

### INVESTMENT OBJECTIVE

The Fund's investment objective is to seek total return, consisting of capital appreciation and income, by investing primarily in Chilean securities. At the Fund's inception, the Fund adopted a fundamental investment policy that the Fund will invest primarily in Chilean equity and debt securities. That fundamental policy may only be changed upon the affirmative vote of the holders of a majority of the Fund's outstanding voting securities. A majority of the Fund's outstanding voting securities as used in this Prospectus means the lesser of (a) 67% or more of the shares of the Fund's Common Stock present at a meeting of stockholders, if the holders of 50% of the outstanding shares are present or represented by proxy at the meeting, or (b) more than 50% of the outstanding shares. The Chilean Portfolio, under normal conditions, will consist principally of Chilean equity securities.

The Fund's Board of Directors has adopted a non-fundamental investment policy for the Fund, pursuant to which the Fund will invest at least 80% of its net assets (plus any borrowings for investment purposes) in Chilean securities. If the Board of Directors elects to change this 80% policy, the Fund will provide shareholders with at least 60 days' prior notice.

The Fund is designed for investors who want to participate in the Chilean securities markets. The Fund defines Chilean securities as (a) securities of companies, the principal trading market for which is in Chile, (b) securities issued or guaranteed by the Republic of Chile or the Central Bank of Chile, (c) peso-denominated securities issued by companies to finance operations in Chile or (d) securities of companies that derive more than 50% of their revenues or profits from goods or services produced in Chile or sales made in Chile or have more than 50% of their assets in Chile.

### INVESTMENT POLICIES

The Fund intends its Chilean Portfolio, under normal market conditions, to consist principally of Chilean equity securities. A substantial portion of the equity securities acquired by the Fund are expected to be dividend-paying securities. Chilean companies listed on the stock exchanges are required by law to pay out as dividends at least 30% of annual audited net income. The Fund, however, may invest a substantial portion of its assets in Chilean debt securities when the Investment Adviser believes that it is appropriate to do so in order to achieve the Fund's investment objective of total return. The Investment Adviser expects to do so, for example, when interest rates on Chilean debt securities are high in comparison with anticipated returns on equity securities. Chilean equity securities in which the Fund invests consist predominantly of common stocks, although the Fund may also invest to a limited extent in preferred stocks, convertible securities and, to the extent a market exists for them and investing in them is permitted under Chilean law, warrants.



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The Fund may invest up to 20% of the Chilean Portfolio in unlisted Chilean securities, including investments in new and early-stage companies, provided that not more than 3% of the Chilean Portfolio may be invested in unlisted securities of Chilean companies that, at the time of investment, had less than one year of operations, including operations of predecessor companies. The Fund invests only in unlisted equity securities that, in the opinion of the Investment Adviser, present opportunities for substantial growth over a period of two to five years, notwithstanding that such investments may be illiquid and present risks not normally existing in publicly owned, more established companies with possibly higher market capitalizations.

Although the Fund invests principally in Chilean equity securities, it may also invest a substantial portion of its assets in Chilean debt securities. Chilean debt securities that the Fund may acquire include bonds, notes and debentures of any maturity of the Chilean government, its agencies and instrumentalities, of the Central Bank of Chile and of banks and other companies determined by the Investment Adviser to be suitable investments for the Fund (including repurchase agreements with respect to obligations of the Chilean government or the Central Bank of Chile). In selecting securities, the Investment Adviser considers the ratings of securities by the public and private credit rating services in Chile, although the Investment Adviser may invest in securities of companies that it determines to be suitable investments for the Fund regardless of their rating. The Fund may invest up to 35% of the Chilean Portfolio in high-yield securities. The Fund may not, however, invest more than 5% of the Chilean Portfolio in Chilean debt securities rated C or below by Chilean rating agencies or unrated securities that the Investment Adviser believes to be of comparable quality. Chilean debt securities rated above C have at least a good capacity to pay principal and interest when due, although some of them may be susceptible to being adversely affected by changes in the issuer, the relevant industry or the economy generally. Because interest on most Chilean debt securities is inflation-adjusted, the variation in the value of Chilean debt securities in relation to fluctuations in

the value of the Chilean peso tends to be less than would otherwise be the case. Chilean debt securities rated C or below are instruments with an inadequate capacity to pay capital and interest as a result of changes in the issuer, in the industry to which it belongs, or in the economy, and exhibit some probability of lateness in payments or loss of interest. The yields on lower-rated fixed-income securities generally are higher than the yield available on higher-rated securities. However, investments in lower-rated securities may be subject to greater market fluctuations and greater risks of loss of income or principal than higher-rated securities. Chilean securities are rated by a number of both public and private credit rating agencies.

Since investors generally perceive that there are greater risks associated with lower quality debt securities of the type in which the Fund may invest a portion of its assets, the yields and prices of such securities may tend to fluctuate more than those for higher-rated securities. In the lower quality segments of the debt securities market, changes in perceptions of issuers' creditworthiness tend to occur more frequently and in a more pronounced manner than do changes in higher quality segments of the debt securities market, resulting in greater yield and price volatility. If the Fund invests in high yield securities that are rated C or below, the Fund will incur significant risk. Distressed securities frequently do not produce income while they are outstanding.

To the extent consistent with provisions of the 1940 Act and any administrative exemptions granted by the SEC, the Fund may invest in the securities of other investment companies that invest in Chilean securities. Absent special relief from the SEC, the Fund may invest up to 10% of its total assets in shares of other investment companies and up to 5% of its total assets in any one investment company, as long as that investment does not represent more than 3% of the voting stock of the acquired investment company. As a stockholder in any investment company, the Fund will bear its ratable share of the company's expenses, and would remain subject to payment of the Fund's advisory and administrative fees with respect to assets so invested.

The Fund will not invest 25% or more of its total assets in the securities of companies in the same industry, although the Fund may invest in U.S. government securities without regard to this limitation. In selecting industries and companies for investment by the Fund, the Investment Adviser will consider factors such as overall growth prospects, competitive position in domestic and export markets, technology, research and development, productivity, labor costs, raw material costs and sources, profit margins, return on investment, capital resources, government regulation and management. This policy may only be changed upon the affirmative vote of the holders of a majority of the Fund's outstanding voting securities.

The Fund purchases and holds securities with a view toward maximizing the total return to the Fund and does not expect to trade in securities for short-term gain. For cash management purposes, the Fund may invest up to 25% of its net assets in certain short-term investments described below and, for temporary defensive purposes, may invest up to 100% of its assets in those short-term instruments. The prohibition on repatriating capital within five years after capital is brought into Chile may limit the Fund's ability to make defensive investments during a period in which the Investment Adviser believes that such investments are warranted.

The short-term instruments in which the Fund may invest include (a) obligations of the United States government, its agencies or instrumentalities (including repurchase agreements with respect to these securities); (b) bank obligations (including certificates of deposit, time deposits and bankers' acceptances) of United States and foreign banks denominated in any currency; (c) floating rate securities and other instruments denominated in any currency issued by international development agencies, banks and other financial institutions, governments and their agencies and instrumentalities and corporations located in countries that are members of the Organization for Economic Cooperation and Development (the "OECD"); (d) obligations of United States corporations that are rated no lower than A-2 by the Standard & Poor's, a subsidiary of The McGraw-Hill Companies, Inc. or P-2 by Moody's Investors Service, Inc., or the equivalent from another rating service or, if unrated, deemed to be the equivalent by the Investment Adviser; and (e) shares of money market funds that may invest in (a) through (d).

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The value of securities denominated or quoted in foreign currencies may be adversely affected by fluctuations in the relative currency exchange rates. The Investment Adviser generally does not seek to hedge against a decline in the value of the Fund's non-dollar denominated portfolio securities resulting from a currency devaluation or fluctuation. As a consequence, the Fund's investment performance may be negatively affected by a devaluation of the Chilean peso. Further, the Fund's investment performance may be significantly affected, either positively or negatively, by currency exchange rates because the U.S. dollar value of securities denominated or quoted in the Chilean peso will increase or decrease in response to changes in the value of such currency in relation to the U.S. dollar. Therefore, the risk of currency devaluations and fluctuations and the effect they may have on the Fund should be carefully considered by investors in determining whether to purchase shares of the Fund.

The Fund reserves the right to conduct currency exchange transactions through entering into forward contracts to purchase or sell currency or currency futures contracts should suitable hedging instruments become available on acceptable terms.

Certain investment policies that the Fund has adopted are fundamental policies; that is, these policies may only be changed upon the affirmative vote of the holders of a majority of the Fund's outstanding voting securities. These fundamental policies are described in the section captioned Investment Restrictions. Unless otherwise indicated, the investment policies described above are not fundamental and may be changed by the Fund at any time.

### **Repurchase Agreements**

The Fund may enter into repurchase agreements with banks and broker-dealers when it deems it advisable. A repurchase agreement is a contract under which the Fund acquires a security for a relatively short period (usually no more than one week) subject to the obligations of the seller to repurchase and the Fund to resell such security at a fixed time and price (representing the Fund's cost plus interest). The Investment Adviser will monitor the value of such securities daily to determine that the value equals or exceeds the repurchase price. Under the 1940 Act, repurchase agreements are considered to be loans made by the Fund which are collateralized by the securities subject to repurchase. See also Risks and Special Considerations.

### **Loans of Portfolio Securities**

The Fund's investment policies permit the Fund to enter into securities lending agreements. Under such agreements, the Fund may lend to borrowers (primarily banks and broker-dealers) portfolio securities with an aggregate market value of up to one-third of the Fund's total assets when it deems advisable. Any such loans must be secured by collateral (consisting of any combination of cash, U.S. government securities, irrevocable bank letters of credit or other high quality debt securities) in an amount at least equal, on a daily marked-to-market basis, to the current market value of the securities loaned. Cash collateral will be invested by the lending agent in short-term instruments, money market mutual funds or other collective investment funds, and income from these investments will be allocated among the Fund, the borrower and the lending agent. The Fund may terminate a loan after such notice period as is provided for the particular loan. The Fund will receive from the borrower amounts equivalent to any cash payments of interest, dividends and other distributions with respect to the loaned securities, although the tax treatment of such payments may differ from the treatment of distributions paid directly by the issuer to the Fund. The Fund also has the option to require non-cash distributions on the loaned securities to be credited to its account. The terms of the Fund's lending arrangement includes provisions to permit the Fund to vote the loaned securities. See also Risks and Special Considerations.

### **Foreign Investments in Chile**

The Central Bank of Chile is responsible for, among other things, monetary policies and for exchange controls in Chile. According to its regulations, contained in Chapter XIV of the *Compendio de Normas de Cambios Internacionales* of the Central Bank of Chile ( Chapter XIV ), foreign investments must be carried out through Chile's *Mercado Cambiario Formal*, or the Formal Exchange Market, and reported to the Central Bank of Chile. The Formal Exchange Market includes all commercial banks and certain exchange houses and stock broker dealers authorized by the Central Bank pursuant to Chapter III of the *Compendio de Normas de Cambios Internacionales*. In accordance with Chapter XIV, foreign currency payments or remittances abroad (outside of Chile) or made with funds held abroad, that correspond to capital, interest, inflation adjustments, profits, dividends or other benefits, must be carried out through the Formal Exchange Market and reported to the Central Bank of Chile. No prior approval is currently required from the Central Bank of Chile to carry out foreign investments or to make remittances abroad, although such transactions must be reported to the Central Bank of Chile after they have been carried out by the Formal Exchange

Market entity through which such transactions were made.

Foreign investments can be registered with the Foreign Investment Committee under Decree Law No. 600 of 1974 (as amended) ( Decree Law 600 ). Decree Law 600 sets forth the general rules applicable to foreign investors and governs new foreign investment in freely convertible currency, which must be made through the Formal Exchange Market, as well as in assets, technology and investment-related credits and capitalized earnings with a right to transfer abroad. The Foreign Investment Committee, acting through its authorized representative on behalf of the Republic of Chile, enters into a contract with each foreign investor, which stipulates the time period during which the investment or investments must be made. In the case of mining investments, the period is generally eight years; in all others, generally three years. A foreign fund can apply to the SVS for authorization to operate under Law No. 18,657 as a foreign capital investment fund. A fund so authorized is thus subject to all of the principles and rights established in Decree Law 600, as well as to the specific rules contained in Law No. 18,657. General rules concerning repatriation of capital and earnings are contained in Decree Law 600 and Law No. 18,657. Under either statute, foreign capital funds may remit out of Chile dividends, interest or net realized capital gains at any time. Capital, however, may only be repatriated five years after its entrance into Chile under Law No. 18,657.

The Fund, as an approved foreign capital fund, is authorized to purchase foreign currency in the Chilean foreign exchange markets for the purpose of remitting dividends, interest and net realized capital gains abroad pursuant to investment contracts between the Fund and the Republic of Chile, and expects that a similar investment contract for which it will apply in connection with this offering will include such authorization. Although there is no undertaking by the Central Bank that there will be willing vendors of foreign exchange, the Fund will be treated the same as all other participants in the foreign exchange market.

Diversification rules under Law No. 18,657 provide that investors such as the Fund may not hold more than 5% of any Chilean issuer's voting stock (subject to an increase to up to 10% for newly-issued shares, including through the exercise of preemptive rights) and not more than 10% of assets invested in Chile may be invested in securities issued or guaranteed by any single Chilean issuer (other than securities issued or guaranteed by the Chilean government or by the Central Bank of Chile). Further, at least 80% of the Chilean Portfolio must be invested in shares of Chilean companies or the Chilean government or in debt obligations of Chilean companies or the Chilean government, the maturity of which at the date of purchase must exceed four years, with not less than 60% of the Chilean Portfolio invested in shares of open corporations.

Not more than 40% of the Chilean Portfolio may be invested in securities issued or guaranteed by entities belonging to the same entrepreneurial group. An entrepreneurial group is defined as any group of entities where links in respect to their ownership, administration or credit responsibility exist that make it reasonable to assume that the economic and financial performance of its members is guided by or subordinated to the group's common interest or that there are shared financial risks in credits granted to them or in the acquisition of securities issued by them.

If any of these percentage limitations is exceeded, the SVS will require that the excess be corrected during a specific period of between 60 and 180 days. The excess can be corrected by a sale of the amount of securities causing the limitations to be exceeded, by a purchase of securities of other issuers or by the fluctuation in value of one or more of the Fund's portfolio holdings. Failure to achieve compliance during the applicable time period would result in the Fund becoming subject to regular Chilean tax rates for foreign investors at the end of the period for correcting the excessive investment, as well as to other penalties. The Chilean diversification tests are applied at cost at the time of investment.

Law No. 18,657 provides that the Fund, together with all other foreign capital investment funds subject to that law, may not own in the aggregate, directly or indirectly, more than 25% of the shares issued by any corporation. Because other funds that are subject to Law No. 18,657 also make investments in Chile, available investment opportunities for the Fund may be reduced, which may adversely affect the Fund's ability to achieve its investment objective and its performance. In order to avoid the risk of having to sell shares at an inopportune time, the Fund will seek to ascertain the extent of holdings by any other foreign capital investment fund subject to Law No. 18,657 prior to making an investment, although this information may not be available or, if available, may not be obtainable on a timely basis.

Should any investment restriction imposed by Law No. 18,657 be removed or liberalized, the Fund reserves the right to invest accordingly, without stockholder approval, except to the extent that such investment conflicts with the Fund's investment objective or its fundamental investment restrictions.

Except for the diversification rules described above for entities such as the Fund operating under Law No. 18,657, there are generally no percentage limitations on foreign holdings or restrictions applicable to foreign ownership of local enterprises and joint ventures that are not also applicable to Chilean investors. Foreign investors are prohibited, however, from owning television stations and are limited in their ability to own newspaper publishers, other media entities and a limited number of other types of companies. Neither Chilean nor foreign investors may make certain types of investments near the country's borders or engage in uranium mining (except through contracts with the government), and certain other activities require the receipt of a government license. In addition, the Fund has agreed with the Chilean government not to acquire unlisted shares of corporations that are foreign capital investment funds, brokers, stock exchanges or companies that are related to Celfin Capital S.A. Administradora de Fondos de Capital Extranjero (the Chilean Administrator), the Chilean administrator for the Fund.

The Investment Adviser intends for the Fund to comply with the diversification limitations and other investment restrictions to which it is subject and believes that, under current market conditions, doing so will not significantly adversely affect the Fund's ability to achieve its investment objective. If the Fund fails to comply with these restrictions after the expiration of the period set forth in the notice of its noncompliance, the tax rate applicable to remittances of amounts exceeding original capital would be lost with respect to subsequent remittances and a tax at a current effective rate up to 35% (determined after taking into account Chilean withholding taxes and tax credits applicable to such withholding tax) on amounts distributed or remitted out of Chile would be imposed on such amounts. If the Fund's favorable tax treatment were forfeited, the Fund nonetheless would continue to be prohibited from repatriating capital out of Chile during the five years after the capital is brought into Chile.

## INVESTMENT RESTRICTIONS

The following restrictions are fundamental policies, which cannot be changed without the approval of the holders of a majority of the Fund's outstanding voting securities. In the event that the Fund issues preferred shares, changes in investment restrictions would also require approval by a majority of the outstanding preferred shares, voting as a separate class. If a percentage restriction on investment or use of assets set forth below is adhered to at the time a transaction is effected, later changes in a percentage resulting from changing values will not be considered a violation.

The Fund may not:

1. Invest 25% or more of the total value of its assets in a particular industry. This restriction does not apply to investments in United States government securities.
2. Issue senior securities, borrow or pledge its assets, except that the Fund may borrow from a bank for temporary or emergency purposes in amounts not exceeding 5% (taken at the lower of cost or current value) of its total assets (not including the amount borrowed) and may also pledge its assets to secure such borrowings; provided that the Fund may borrow from a bank an amount not exceeding 33 1/3% of its total assets (not including the amount borrowed) for the purpose of (a) obtaining amounts necessary to make distributions for qualification as a registered investment company or to avoid imposition of an excise tax under United States tax laws and (b) to pay Fund expenses outside Chile, and not for the purpose of leveraging. Additional investments may not be made when borrowings exceed 5% of the Fund's total assets.
3. Lend money to other persons except through the purchase of debt obligations and the entering into of repurchase agreements in the United States or Chile consistent with the Fund's investment policies.
4. Make short sales of securities or maintain a short position in any security.
5. Purchase securities on margin, except such short-term credits as may be necessary or routine for the clearance or settlement of transactions and the maintenance of margin with respect to forward contracts or other hedging transactions.
6. Underwrite securities of other issuers, except insofar as the Fund may be deemed an underwriter under the Securities Act of 1933, as amended, in selling portfolio securities.
7. Purchase or sell commodities or real estate, except that the Fund may invest in securities secured by real estate or interests in real estate or in securities issued by companies, including real estate investment trusts, that invest in real estate or interests in real estate, and may purchase and sell forward contracts on foreign currencies to the extent permitted under applicable law.



**Additional Chilean Restrictions**

In addition to the foregoing restrictions, the Fund is subject to Law No. 18,657, which limits the Chilean Portfolio to:

1. Shares of Chilean open corporations, i.e., corporations that publicly offer their shares;
2. Securities issued or guaranteed by the Chilean government;
3. Securities issued by the Central Bank of Chile;
4. Securities issued or guaranteed by Chilean banks or financial institutions;
5. Letters of credit issued by Chilean banks, financial institutions or other authorized entities;
6. Bonds and negotiable instruments registered in the Chilean Securities Register;
7. Quotas of investment funds; and
8. Other securities duly authorized by the SVS.

As noted above, the SVS has authorized the Fund (and has authorized other entities operating under Law No. 18,657) to invest up to 20% of the Chilean Portfolio in equity securities of unlisted companies. The Fund has voluntarily adopted a policy of limiting, to not more than 3% of the Chilean Portfolio, its investments in unlisted securities of Chilean companies that, at the time of the investment, had less than one year of operations, including operations of predecessor companies.

The SVS has also authorized the Fund to purchase put and call options on shares, to enter into repurchase agreements and to engage in hedging transactions designed to protect the Chilean Portfolio against exchange risks.

Diversification rules under Law No. 18,657 provide that the Fund may not hold more than 5% of any Chilean issuer's voting stock (subject to an increase of up to 10% for newly-issued shares, including through the exercise of preemptive rights) and not more than 10% of the Chilean Portfolio may be invested in securities issued or guaranteed by any single Chilean issuer (other than securities issued or guaranteed by the Chilean government or by the Central Bank of Chile). Further, at least 80% of the Chilean Portfolio must be invested in shares or debt obligations of Chilean companies or the Chilean government, the maturity of such debt obligations at the date of purchase must not exceed four years, with not less than 60% of the Chilean Portfolio invested in shares of open corporations.

Law No. 18,657 provides that the Fund, together with all other foreign capital investment funds subject to that law, may not own in the aggregate, directly or indirectly, more than 25% of the shares issued by any corporation. If the 25% limitation is exceeded, the foreign capital investment fund that made the purchase causing the limit to be exceeded must divest the excess shares within a 60- to 180-day period prescribed by the SVS. As other funds subject to Law No. 18,657 make investments in Chile, available investment opportunities for the Fund may be reduced, which may adversely affect the Fund's ability to achieve its investment objective and its performance. In order to avoid the risk of having to sell shares at an inopportune time, the Fund will seek to ascertain the extent of holdings by any other foreign capital investment fund subject to Law No. 18,657 prior to making an investment, although this information may not be available or, if available, may not be obtainable on a timely basis.

Under Law No. 18,657, the Fund is prohibited from borrowing money in Chile.

Should any investment restriction imposed by Law No. 18,657 be removed or liberalized, the Fund reserves the right to invest accordingly, without stockholder approval, except to the extent that such investment conflicts with the Fund's investment objective or its fundamental investment restrictions.

## RISKS AND SPECIAL CONSIDERATIONS

An investment in the Fund involves certain risks and considerations, including risks and considerations not typically associated with funds that invest only in U.S. securities. These risks and considerations are described below.

### General

The Fund is a non-diversified, closed-end investment company designed primarily as a long-term investment and not as a trading tool. The Fund invests generally in a portfolio of Chilean securities. An investment in the Fund's Common Stock may be speculative and involves a high degree of risk. The Fund should not be considered a complete investment program. Due to the uncertainty in all investments, there can be no assurance that the Fund will achieve its investment objective.

### Chilean Securities Risk

Because the Fund's investments are primarily in Chilean securities, the Fund is particularly vulnerable to loss in the event of adverse political, economic, financial and other developments that affect Chile, including fluctuations of Chilean currency versus the U.S. dollar. Like other investors in the Chilean securities markets, the Fund is subject to general economic and political conditions in Chile. The Fund's investing in Chilean securities involves certain considerations not typically associated with investing in the United States, including generally (a) controls on foreign investment and limitations on repatriation of capital invested in Chile; (b) greater price volatility, substantially less liquidity and significantly smaller market capitalization of the Chilean securities markets; (c) currency devaluation and other currency exchange rate fluctuations; (d) more substantial governmental involvement in the economy; and (e) political uncertainty and other considerations. More specifically, (1) the Fund may not repatriate capital for five years after investment in Chile except under limited circumstances to pay expenses; (2) there can be no assurance that Chilean inflation might not adversely affect the performance of the Chilean economy or its securities market; (3) governmental and political events in Chile could affect future economic policies; (4) because of the limited forward market for the purchase of dollars in Chile and the limited circumstances under which the Fund hedges against declines in the value of the Chilean peso generally, the Fund will be adversely affected by Chilean peso devaluations against the U.S. dollar; (5) the Fund's ability to make defensive investments may be limited by the application of repatriation restrictions and requirements to maintain minimum percentages of assets in shares of Chilean companies; and (6) due to differences between U.S. and Chilean accounting, auditing and financial reporting standards, certain material disclosures may not be made by issuers of, and less information may be available to the Fund and other investors investing in, Chilean securities.

The Fund has filed an application with the Foreign Investment Committee to enter into an investment contract, pursuant to which the proceeds of this offering will be invested in Chile. While the Fund expects to receive approval from the Foreign Investment Committee to enter into such contract, there can be no assurance that such approval will be granted. See *Investment Policies - Foreign Investments in Chile* for more information about the Fund's investment contract arrangements with the Foreign Investment Committee.

The Fund is subject to supervision and regulation by the SVS. Failure by the Fund to comply with diversification or other SVS requirements applicable to the Fund could, in addition to causing the loss of certain favorable Chilean tax treatment for the Fund, result in the assessment of fines by the SVS or other disciplinary actions. Chilean accounting, auditing and financial reporting standards are not identical to United States standards and, therefore, certain material disclosures may not be made by issuers of, and less information may be available to investors investing in, Chilean securities in comparison to United States securities.

**Foreign Securities Risk**

Investments in foreign securities that are traded on foreign markets, including Chilean securities, are subject to risks of loss that are different from the risks of investing in U.S. securities. These include the possibility of losses due to currency fluctuations (see Currency Exchange Rate Fluctuations ), or to adverse political, economic or diplomatic developments in Chile, including possible increases in taxes. Additionally, accounting, auditing, financial reporting standards and other regulatory practices and requirements for securities in which the Fund may invest vary from those applicable to entities subject to regulation in the United States. The Chilean securities market for both listed and unlisted securities may be more volatile and less liquid than the major U.S. markets. In addition, the cost to the Fund of buying, selling and holding securities in the Chilean market may be higher than in the United States. Any higher expenses of non-U.S. investing may reduce the amount the Fund can earn on its investments and typically results in a higher operating expense ratio than for investment companies that invest only in the United States. Regulatory oversight of the Chilean securities market may differ from that of U.S. markets. There also may be difficulty in invoking legal protections across borders.

### **Equity Securities Risk**

The value of equity securities, including common stock, preferred stock and convertible stock, will fluctuate in response to factors affecting the particular company, as well as broader market and economic conditions. Moreover, in the event of the company's bankruptcy, claims of certain creditors, including bondholders, will have priority over claims of common stock holders and are likely to have varying types of priority over holders of preferred and convertible stock.

Consistent with its objective, the Fund will invest a substantial portion of its assets in Chilean equity securities. Although equity securities have historically generated higher average returns than fixed income securities, equity securities have also experienced significantly more volatility in those returns. An adverse event, such as an unfavorable earnings report, may depress the value of a particular equity security held by the Fund. Also, the prices of equity securities, particularly common stocks, are sensitive to general movements in the stock market. The Fund's share price can fall because of weakness in the Chilean market, a particular industry or specific holdings. The Chilean market as a whole can decline for many reasons, including adverse political or economic developments in Chile or elsewhere, changes in investor psychology, or heavy institutional selling. The prospects for an industry or company may deteriorate because of a variety of factors, including disappointing earnings or changes in the competitive environment. The Fund does not currently intend to hedge against currency risk; consequently, the Fund's equity securities are also subject to the risk that some holdings may lose value because of a decline in the value of the Chilean currency or adverse political or economic events in Chile or elsewhere. Investments in futures and options, if any, are subject to additional volatility and potential losses.

### **High-Yield/Junk Bond Securities Risk**

Although the Fund invests principally in Chilean equity securities, it may invest a substantial portion of its assets in Chilean debt securities when AAMISL believes that it is appropriate to do so in order to achieve the Fund's investment objective of total return. The Fund may invest in Chilean debt securities of any rating. Investment in high yield securities involves substantial risk of loss. Below investment grade non-convertible debt securities or comparable unrated securities, as determined by AAMISL, are commonly referred to as junk bonds and are considered predominantly speculative with respect to the issuer's ability to pay interest and principal and are susceptible to default or decline in market value due to adverse economic and business developments. The market values for high yield securities tend to be very volatile, and these securities are less liquid than investment grade debt securities. If the Fund invests in such securities, your investment in the Fund is subject to the following specific risks:

- increased price sensitivity to changing interest rates and to a deteriorating economic environment;
- greater risk of loss due to default or declining credit quality;
- adverse company-specific events are more likely to render the issuer unable to make interest and/or principal payments; and
- if a negative perception of the high yield market develops, the price and liquidity of high yield securities may be depressed. This negative perception could last for a significant period of time.

Adverse changes in economic conditions are more likely to lead to a weakened capacity of a high yield issuer to make principal payments and interest payments than an investment grade issuer. An economic downturn could severely affect the ability of highly leveraged issuers to service their debt obligations or to repay their obligations upon maturity. The secondary market for high yield securities may not be as liquid as the secondary market for more highly rated securities, a factor which may have an adverse effect on the Fund's ability to dispose of a particular security.

There are fewer dealers in the market for high yield securities than for investment grade obligations. The prices quoted by different dealers may vary significantly and the spread between the bid and asked price is generally much larger than for higher quality instruments. Under adverse market or economic conditions, the secondary market for high yield securities could contract further, independent of any specific adverse changes in the condition of a particular issuer, and these instruments may become illiquid. As a result, the Fund could find it more difficult to sell these securities or may be able to sell the securities only at prices lower than if such securities were widely traded. Prices realized upon the sale of such lower rated or unrated securities, under these circumstances, may be less than the prices used in calculating the Fund's NAV.

### **Inflation Risk**

Inflation risk is the risk that the value of assets or income from investment will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of the Fund's Common Stock and dividends can decline. Chile historically has had a volatile inflation rate, and if Chile's inflation rate were to enter a period of extreme volatility, the value of the Fund's holdings in Chilean securities would fluctuate correspondingly.

### **Management Risk**

AAMISL or Celfin's judgment about the attractiveness, relative value or potential appreciation of a particular security or investment strategy may prove to be incorrect.

### **Conflicts of Interest Risk**

AAMISL and Celfin's advisory fees are based on the lower of the Fund's market value or NAV. Consequently, AAMISL and Celfin will likely benefit from an increase in the Fund's net assets resulting from an offering. In addition, a Director who is an interested person (as such term is defined under the 1940 Act) of the Fund or the Portfolio Manager of the Fund could benefit indirectly from this offering because of such affiliations. Currently, there are no Directors who are interested persons.

### **Currency Exchange Rate Fluctuations**

Currency exchange rates can fluctuate significantly over short periods and can be subject to unpredictable changes based on a variety of factors, including political developments and currency controls by foreign governments. The Fund will normally hold almost all its assets in Chilean peso denominated securities. Accordingly, a change in the value of the Chilean peso against the U.S. dollar will generally result in a change in the U.S. dollar value of the Fund's assets. Such a change may thus decrease the Fund's net asset value.

In addition, although most of the Fund's income will be received or realized primarily in Chilean pesos, the Fund will be required to compute and distribute its income in U.S. dollars. Therefore, for example, if the exchange rate for the Chilean peso declines after the Fund's income has been accrued and translated in U.S. dollars, but before the income has been received or converted into U.S. dollars, the Fund could be required to liquidate portfolio securities to make distributions. Similarly, if the exchange rate declines between the time the Fund incurs expenses in U.S. dollars and the time such expenses are paid, the amount of Chilean pesos required to be converted into U.S. dollars in order to pay those expenses will be greater than the Chilean peso equivalent of those expenses at the time they were incurred.

Currency exchange rate fluctuations can decrease or eliminate income available for distribution or, conversely, increase income available for distribution. For example, in some situations, if certain currency exchange losses exceed net investment income for a taxable year, the Fund would not be able to make ordinary income distributions, and all or a portion of distributions made before the losses were realized but in the same taxable year would be recharacterized as a return of capital to shareholders for U.S. federal income tax purposes, thus reducing shareholders' cost basis in their Fund shares, or as a capital gain distribution, rather than as an ordinary income dividend.

### **Liquidity Risk**

It may be difficult for the Fund to buy and sell significant amounts of Chilean securities without an unfavorable impact on prevailing market prices. Trading on the Santiago Exchange, Chile's primary stock exchange, is not as active as trading on the NYSE or other major stock exchanges in the United States. Consequently, larger purchases or sales of these securities by the Fund in a short period of time may cause

abnormal movements in the market prices of these securities. As a result, these securities may be difficult to dispose of at a fair price at the times when the Fund believes it is desirable to do so. The Fund may also have difficulty purchasing securities in companies in which the Fund would otherwise invest. Investment of the Fund's capital in securities that are less actively traded or that over time experience decreased trading volume may restrict the Fund's ability to take advantage of other market opportunities.

**Net Asset Value Discount.**

Shares of closed-end investment companies frequently trade at a discount from net asset value. This characteristic is a risk separate and distinct from the risk that net asset value will decrease. The Fund's shares have frequently traded in the market below net asset value since the commencement of the Fund's operations. In the 12-month period ended March 21, 2011, the Fund's Shares have traded in the market at an average discount to net asset value of -2.28%. However, in the period from January 25, 2011 to March 21, 2011, the Fund's Shares have traded in the market at an average premium over net asset value of 3.45%. The Fund cannot predict whether its Shares in the future will trade at, below or above net asset value. This risk that shares of a closed-end fund might trade at a discount is more significant for investors who wish to sell their shares in a relatively short period of time. For those investors, realization of gain or loss on their investment is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance.

**Market Discount Risk**

The Fund's Common Stock has typically traded at a discount relative to NAV. See [Market and Net Asset Value Information](#) for a chart that shows how the market value of the Fund's Common Stock has fluctuated compared to its NAV throughout the Fund's history. The last reported sale price represents a 11.53% premium over the per share NAV on , March 21, 2011; however, there can be no assurance that this premium will continue after an offering or that the shares will



not trade again at a discount, as they have for most of the Fund's history. Shares of closed-end investment companies frequently trade at prices lower than their NAV, but in some cases trade above NAV. The provisions of the 1940 Act require, as a condition to the completion of an offering, that the public offering price of the shares of Common Stock, less the sales load and discounts, must equal or exceed the NAV per share of the Fund's Common Stock (calculated within 48 hours of pricing). An investor who buys the Fund's Common Stock in an offering at a price that reflects a premium to NAV may experience a decline in the market value of the shares of Common Stock independent of any change in the NAV. Whether stockholders will realize a gain or loss upon the sale of the Fund's shares of Common Stock depends upon whether the market value of the shares at the time of sale is above or below the price the stockholder paid, taking into account transaction costs for the shares, and is not directly dependent upon the Fund's NAV. Because the market value of the Fund's shares of Common Stock will be determined by factors such as the relative demand for and supply of the shares in the market, general market conditions and other factors beyond the control of the Fund, the Fund cannot predict whether its shares of Common Stock will trade at, below or above NAV, or below or above the public offering price for the shares of Common Stock. As of December 31, 2010, two stockholders owned approximately 26.5% of the Fund's outstanding Common Stock (see *Principal Holders of Securities*). Any substantial dispositions or acquisitions of Common Stock by these investors could affect the supply or demand for, and possibly the market value of, the Common Stock. The Fund's Common Stock is designed primarily for long-term investors, and you should not purchase shares of Common Stock if you intend to sell them shortly after purchase.

### **Distribution Rate**

The Fund has a managed distribution policy under which quarterly distributions, at a rate determined annually by the Board of Directors, are paid from current income, supplemented by realized capital gains and, to the extent necessary, paid-in capital. See *Dividends and Distributions - Managed Distribution Policy*. There can be no assurance that the distribution rate set at any time, or the policy itself, will be maintained. To the extent total distributions for a year exceed the Fund's net investment income, the difference will be deemed for income tax purposes to have been distributed from realized capital gains (potentially taxable as ordinary income or as long-term capital gain) and/or will be treated as return of capital, as applicable. The Fund's managed distribution policy may, in certain situations, cause the Fund to make taxable distributions to shareholders in excess of the minimum amounts of such taxable distributions required to avoid liability for federal income and excise taxes. Such excess taxable distributions may, in such situations, cause shareholders to be liable for taxes for which they would not otherwise be liable if the Fund only paid that amount required to avoid liability for federal income and excise taxes. The Fund's income distributions and its capital and currency gains distributions are determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States. These differences are primarily due to differing treatments for foreign currencies.

If the Fund's investments do not generate sufficient income, the Fund may be required to liquidate a portion of its portfolio to fund these distributions, and therefore a portion or all of such distributions may represent a reduction of the shareholders' principal investment. Such liquidation might be at a time when independent investment judgment would not dictate such action, increasing the Fund's overall portfolio turnover (and related transaction costs) and making it more difficult for the Fund to achieve its investment objective.

### **Non-Diversification Risk**

The Fund is classified as a non-diversified management investment company under the 1940 Act. This means that the Fund is not subject to limits under the 1940 Act as to the proportion of its assets that may be invested in the securities of a single issuer. As a non-diversified investment company, the Fund may therefore invest its assets in securities of a smaller number of issuers, and, as a result, would be subject to greater risk with respect to its portfolio securities. Although the Fund must comply with certain diversification requirements in order to qualify as a regulated investment company under the Internal Revenue Code of 1986, as amended (Code), the Fund may be more susceptible to any single economic, political or regulatory occurrence than would be the case if it had elected to diversify its holding sufficiently to be classified as a diversified management investment company under the 1940 Act. The Fund, however, is subject to Chilean laws limiting investments in a single issuer and intends to comply with the diversification requirements imposed by the Code for qualification as a regulated investment company.

**Unlisted Securities Risk**

The Fund may invest up to 20% of the Chilean Portfolio in unlisted Chilean securities. Because the market for unlisted securities is not liquid, it may be difficult for the Fund to sell these securities timely and at a desirable price. If not listed, such securities could nonetheless be resold in privately negotiated transactions, although the price may be lower and the time to dispose of the security may take considerably longer than for listed securities and the sale price may be lower than the price paid by the Fund. Unlisted securities are not subject to the disclosure and other investor protection requirements of Chilean law applicable to listed securities.

### **Anti-Takeover Charter Provisions**

The Fund's Articles of Incorporation and By-laws include provisions that could limit the ability of other entities or persons to acquire control of the Fund or to change the composition of the Fund's Board of Directors. Such provisions could limit the ability of stockholders to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund. These provisions include staggered terms of office for the Directors, advance notice requirements for stockholder proposals, and super-majority voting requirements for conversion of the Fund to an open-end investment company or certain merger, asset sale or similar transactions. In certain circumstances, these provisions might also inhibit the ability of stockholders to sell their shares at a premium over prevailing market prices. See Certain Provisions of the Maryland General Corporation Law and the Charter and Bylaws.

### **Market Disruption Risk**

Certain events have had a disruptive effect on the securities markets, such as terrorist attacks (including the terrorist attacks in the United States on September 11, 2001), war and other geopolitical events, earthquakes, storms and other disasters. The Fund cannot predict the effects of similar events in the future on the markets or economy of Chile or other countries.

### **Tax Risk**

The Fund may invest in securities of which the federal income tax treatment may not be clear or may be subject to recharacterization by the IRS or the Chilean IRS. It could be more difficult for the Fund to comply with the United States tax requirements applicable to regulated investment companies, or with the Chilean tax requirements applicable to foreign investors, if the tax characterization of the Fund's investments or the tax treatment of the income from such investments were successfully challenged by the IRS or by the Chilean IRS. See Taxation.

### **Repurchase Agreement Risk**

Repurchase agreements may involve risks in the event of default or insolvency of the seller, including possible delays or restrictions with respect to the Fund's ability to dispose of the underlying securities, and the possibility that the collateral might not be sufficient to cover any losses incurred by the Fund.

### **Securities Lending Risk**

In connection with its loans of portfolio securities, the Fund may be exposed to the risk of delay in recovery of the loaned securities or possible loss of rights in the collateral should the borrower become insolvent. The Fund also bears the risk of loss on the investment of cash collateral. There is also the risk that, in the event of default by the borrower, the collateral might not be sufficient to cover any losses incurred by the Fund. There can be no assurance that the return to the Fund from a particular loan, or from its loans overall, will exceed the related costs and any related losses.

### **Foreign Custody**

The Fund's custodian generally holds the Fund's non-U.S. securities and cash in non-U.S. bank sub-custodians and securities depositories generally in Chile. (See Management of the Fund Custodian and Transfer Agent. ) Regulatory oversight of non-U.S. banks and securities depositories may differ from that in the U.S. Additionally, laws applicable to non-U.S. banks and securities depositories may limit the Fund's ability to recover its assets in the event the non-U.S. bank, securities depository or issuer of a security held by the Fund goes bankrupt.

### **Tax Considerations**

The Fund intends to qualify and to continue to qualify as a regulated investment company under the Code. If it so qualifies, it generally will be relieved of U.S. federal income tax on its investment company taxable income and net capital gains, if any, which it distributes to shareholders in accordance with requirements under the Code. In order to continue to meet the requirements of the Code applicable to regulated investment companies and to minimize its U.S. federal income tax liability, it is the Fund's policy to distribute substantially all of its net income and capital gains, if any, to shareholders. To the extent that the Fund has earnings available for distribution, its distributions in the hands of shareholders may be treated as ordinary dividend income, although certain distributions may be designated by the Fund as capital gain distributions, which would be treated as long-term capital gain, or qualified dividend income, which may be eligible for long-term capital gain tax rates if certain holding period rules apply. Dividends and capital gains distributions paid by the Fund are not expected to qualify for the corporate dividends-received deduction. Distributions in excess of the Fund's current and accumulated earnings and profits will first reduce a shareholder's basis in his shares and, after the shareholder's basis is reduced to zero, will constitute capital gains to the shareholder who holds his shares as capital assets.

Subject to certain limitations imposed by the Code, foreign taxes withheld from distributions or otherwise paid by the Fund may be creditable or deductible by U.S. shareholders for U.S. federal income tax purposes, if the Fund is eligible to and makes an election to treat the shareholders as having paid those taxes for U.S. federal income tax purposes. No

assurance can be given that the Fund will be eligible to make this election each year, but it intends to do so if it is eligible. If the election is made, the foreign withholding taxes paid by the Fund will be includable in the U.S. federal taxable income of shareholders. Non-U.S. investors may not be able to credit or deduct the foreign taxes, but they may be deemed to have additional income from the Fund equal to their share of the foreign taxes paid by the Fund subject to U.S. withholding tax. Investors should review carefully the information discussed under the heading "Taxation" and should discuss with their tax advisers the specific tax consequences of investing in the Fund.

### FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus constitute forward-looking statements, which involve known and unknown risks, uncertainties and other factors that may cause the Fund's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In this Prospectus, the Fund uses words such as "anticipates," "believes," "expects," "intends" and similar expressions to identify forward-looking statements.

The forward-looking statements contained in this Prospectus include statements as to:

- the Fund's operating results;
- the Fund's business prospects;
- the impact of investments that the Fund expects to make;
- the Fund's contractual arrangements and relationships with third parties;
- the dependence of the Fund's future success on the general economy and its impact on the industries in which the Fund invests; and
- the Fund's tax status.

The Fund has based the forward-looking statements included in this Prospectus on information available to it as of the date of this Prospectus, and the Fund assumes no obligation to update any such forward-looking statements. Although the Fund undertakes no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that the Fund may make directly to you or through reports that the Fund in the future may file with the SEC, including the Fund's annual and semi-annual reports. The Fund acknowledges that, notwithstanding the foregoing statement, the safe harbor for forward-looking statements under the Private Securities Litigation Reform Act of 1995 does not apply to the Fund.

## MANAGEMENT OF THE FUND

### The Board of Directors

The Board of Directors directs the management of the business and affairs of the Fund, including general supervision of the duties performed by the Investment Adviser, the Sub-Adviser and other service providers.

### The Investment Adviser and the Sub-Adviser

Aberdeen Asset Management Investment Services Limited serves as the investment adviser to the Fund ( AAMISL or the Investment Adviser ) and Celfin Capital Servicios Financieros S.A. serves as sub-adviser to the Fund ( Celfin or the Sub-Adviser, together with the Investment Adviser, the Advisers ) pursuant to a management agreement dated as of July 1, 2009 (the Advisory Agreement ) and a sub-advisory agreement dated as of July 1, 2009 (the Sub-advisory Agreement ), respectively.

The Investment Adviser is a United Kingdom corporation that was acquired by Aberdeen PLC in December 2005. AAMISL is a U.S. registered investment adviser under the Advisers Act and is also regulated in the United Kingdom by the Financial Services Authority. AAMISL provides equity and fixed income advisory services to U.S. clients. The Investment Adviser, in accordance with the Fund's stated investment objectives, policies and limitations and subject to the supervision of the Fund's Board of Directors, manages the Fund's investments and makes investment decisions on behalf of the Fund, including the selection of, and being responsible for the placement of orders with, brokers and dealers to execute the Fund's portfolio transactions. In rendering investment advisory services, the Investment Adviser may use the resources of Aberdeen Asset Managers Limited ( Aberdeen UK ), a United Kingdom corporation which is a wholly-owned investment

adviser subsidiary of Aberdeen PLC. The Investment Adviser has entered into a Memorandum of Understanding with Aberdeen UK, pursuant to which investment professionals from Aberdeen UK may render portfolio management, research or trading services to the U.S. clients of the Investment Adviser, including the Fund.

The Investment Adviser is a wholly-owned subsidiary of Aberdeen Asset Management PLC (Aberdeen PLC), which is the parent company of an asset management group managing approximately \$287 billion in assets as of December 31, 2010 for a range of pension funds, financial institutions, investment trusts, unit trusts, offshore funds, charities and private clients, in addition to U.S. registered investment companies. The registered offices of Aberdeen PLC are located at 10 Queen's Terrace, Aberdeen, Scotland AB 10 1 YG. Aberdeen PLC, its affiliates and subsidiaries are referred to collectively herein as Aberdeen. Aberdeen PLC was formed in 1983 and was first listed on the London Stock Exchange in 1991.

The Advisory Agreement provides that the Fund will pay the Investment Adviser a fee annual rate of 1.20% of the first \$50 million of the Fund's Average Weekly Base Amount, 1.15% of amounts from \$50-100 million, 1.10% of amounts from \$100-150 million, 1.05% of amounts from \$150-200 million and 1.00% of amounts over \$200 million, calculated weekly and paid quarterly. Average Weekly Base Amount is defined in the Advisory Agreement as the average of the lesser of the market value of the Fund's outstanding shares and the Fund's net assets, determined as of the last trading day of each week during a quarter.

For the fiscal year ended December 31, 2010, and the period July 1, 2009 to December 31, 2009, the Investment Adviser earned management fees of \$1,837,690 and \$905,186 for advisory services, of which AAMISL waived \$233,227 and \$117,095, respectively. Prior to July 1, 2009, Credit Suisse Asset Management, LLC (Credit Suisse LLC), served as the Fund's investment adviser with respect to all investments. Credit Suisse LLC received as compensation for its advisory services from the Fund, an annual fee, calculated weekly and paid quarterly, equal to 1.20% of the first \$50 million of the Fund's average weekly market value or net assets (whichever is lower), 1.15% of the next \$50 million and 1.10% of amounts in excess of \$100 million. For the period January 1, 2009 to June 30, 2009, and the fiscal year ended December 31, 2008, Credit Suisse LLC earned \$679,192 and \$1,748,532 for advisory services. Credit Suisse also provided certain administrative services to the Fund and is reimbursed by the Fund for costs incurred on behalf of the Fund (up to \$20,000 per annum). For period January 1, 2009 to June 30, 2009, and the fiscal year ended December 31, 2008, Credit Suisse was reimbursed \$12,582 for administrative services rendered to the Fund.

The Sub-Adviser is a closed corporation organized under the laws of Chile and is an investment adviser registered with the SEC under the Advisers Act. Celfin is a 98% owned direct subsidiary of Celfin Capital S.A., located at Avenida Apoquindo 3721, 19th floor, Las Condes, Santiago, Chile. Inversiones Casablanca Ltda., located at Peumo 187, Vitacura, Santiago, Chile, and Patmos Finance SA, located at Avenida Apoquindo 3721, 19th floor, Santiago, Chile, each own 32.8% of Celfin Capital S.A., and Inversiones y Renta Montemar Ltda., located at Dieciocho 229, 2nd floor, Santiago, Chile, owns 16.8% of Celfin Capital S.A. The two controlling managing directors of Celfin Capital S.A. are Juan Andrés Camus and Jorge Diego Errázuriz. The Sub-Adviser makes recommendations to the Investment Adviser as to specific portfolio securities to be purchased, retained or sold by the Fund and provides or obtains such research and statistical data as may be necessary in connection therewith.

Under the Sub-advisory Agreement, the Investment Adviser pays the Sub-Adviser a fee computed at the annual rate of 0.20% of the Fund's average monthly net assets invested less the Discount Adjustment Amount. The Discount Adjustment Amount is defined in the investment advisory agreement. The Discount Adjustment Amount is the product of: (x) the quarterly fee otherwise due to the Sub-Adviser, and (y) a fraction, the numerator of which is the amount by which the investment advisory fee payable to the Investment Adviser by the Fund for the corresponding quarter has been reduced, pursuant to the terms of the Advisory Agreement, as a consequence of the market value of the Fund's outstanding shares trading at a discount to the net asset value, and the denominator of which is the management fee that would have been payable to the Investment Adviser for that quarter if no such reduction was required by the terms of the Advisory Agreement.

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The Sub-Adviser informed the Fund that the Investment Adviser or Credit Suisse LLC paid sub-advisory fees of \$287,115, \$263,860 and \$318,879, respectively, to the Sub-Adviser, for the fiscal year ended December 31, 2010, 2009 and 2008. Prior to July 1, 2009, Celfin as sub-adviser received a sub-advisory fee of 0.20% of the Fund's weekly market value or net assets (whichever was lower). A discussion regarding the basis for the Board of Directors' approval of the Advisory Agreement and Sub-advisory Agreement is available in the Fund's annual report to shareholders for the fiscal year ended December 31, 2010.

### **Non-U.S.-Resident Directors and Officers**

Although the Fund is a Maryland corporation, certain of its Directors and officers (Messrs. Martin Torino, Christian Pittard, Devan Kaloo and Hugh Young and Ms. Joanne Irvine) are non-residents of the United States and have all,



or a substantial part, of their assets located outside the United States. None of the Directors or officers has authorized an agent for service of process in the United States. As a result, it may be difficult for U.S. investors to effect service of process upon such Directors and officers within the United States or to effectively enforce judgments of courts of the United States predicated upon civil liabilities of the Directors or officers under the federal securities laws of the United States.

The Fund has been advised by local counsel in Argentina, the foreign jurisdiction in which a Fund Director resides, that it is uncertain whether the courts of Argentina would adjudge civil liability against Directors resident in that jurisdiction in an original action predicated solely on a violation of the federal securities laws of the United States. However, although there is no arrangement in place between Argentina and the United States for the reciprocal enforcement of judgments, a final and conclusive monetary judgment against the Directors and officers in an original action predicated on such provisions rendered by a court in the United States may be enforceable by action or counterclaim or be recognized by the courts of those jurisdictions as a defence to an action or as conclusive of an issue in that action if (i) it has res judicata status and is valid in the United States; (ii) the Argentine party was duly summoned and the proceeding was carried out in accordance with principles of due process; (iii) the decision is not contrary to any previously rendered Argentine decision; (iv) the enforcement would not be contrary to Argentine public order and/or international public policy; and (v) the United States court had jurisdiction according to Argentinean rules of international jurisdiction.

The Fund has been advised by local counsel in the United Kingdom, a foreign jurisdiction in which certain Fund officers reside, that it is uncertain whether the United Kingdom courts would adjudge civil liability against officers resident in the United Kingdom in an original action predicated solely on a violation of the federal securities laws of the United States. However, although there is no arrangement in place between the United Kingdom and the United States for the reciprocal enforcement of judgments, a final and conclusive monetary judgment against the officers in an original action predicated on such provisions rendered by a court in the United States may be enforceable by action or counterclaim or be recognized by the courts of the United Kingdom as a defense to an action or as conclusive of an issue in that action if it was not of a penalty or revenue nature, remains valid and enforceable in the court in which it was obtained and has not be set aside, was not obtained by fraud or otherwise than in accordance with the principles of natural justice, the enforcement would not be contrary to public policy of the United Kingdom and the United States court had jurisdiction in respect of the defendant in the original action in accordance with the English rules of private international law.

## **Portfolio Management**

The following persons have primary responsibility for the day-to-day management of the Fund's portfolio. The Fund's SAI provides additional information about the portfolio managers' compensation, other accounts managed by the portfolio managers and the portfolio managers' ownership of securities in the Fund.

### **Devan Kaloo, Head of Emerging Markets**

Devan joined Aberdeen in 2000 when the investment adviser for which he worked, Murray Johnstone International Ltd., was acquired by Aberdeen. Devan initially worked with the Asian equity team and was promoted to senior investment manager in 2003. In May 2005, he was appointed to his current position. Devan began his career at Martin Currie Ltd. in Edinburgh, initially working on the North American team before transferring to the global asset allocation desk. He has an MA (Hons) from St Andrews University and a postgraduate degree in Investment Analysis from Stirling University, also in Scotland.

### **Fiona Manning, CFA®, Investment Adviser**

Fiona is an investment manager on the emerging markets ex Asia team. She joined Aberdeen as part of a team acquired from Deutsche Asset Management London in October 2005. Prior to joining Aberdeen, Fiona was an analyst with Deutsche since 2001. She graduated from the University of Durham with a BA Honours in History with French.

**Andy Brown, CFA®, Investment Adviser**

Andrew Brown is an investment manager on the Global Emerging Markets Team. Andrew joined the Global Emerging Markets team at Aberdeen in 2005 after graduating from the University of St Andrews with a BSc in Geography. Andrew works within the Global Emerging Markets equity team which is responsible for research of companies and portfolio construction across Emerging Markets mandates. He is a CFA Charterholder.

**Stephen Parr, Investment Adviser**

Stephen Parr is an investment manager on the Global Emerging Markets Team. Stephen joined Aberdeen in July 2009 following the acquisition of certain asset management businesses from Credit Suisse Asset Management. Stephen joined Credit Suisse Asset Management in March 2001 and was a Director of Credit Suisse Asset Management Limited ( Credit Suisse Ltd. U.K. ). Previously, Stephen worked for Energis Communications as Head of Strategy (1998 to 2001). Prior to that, Stephen worked for Ernst & Young Management Consultants as a Managing Consultant (1996-1998) specialising in

the telecommunications sector and prior to that for Energis Communications (1994-1996), Northern Telecom (1989-1994), and CASE Communications (1987-1989) where he worked in strategic planning and marketing management. Stephen graduated with an Upper second class honors degree in Geography from the University of Manchester, a Ph.D in Geography from the University of Keele and an MBA from Warwick Business School.

**Nick Robinson, CFA®, Investment Adviser**

Nick Robinson is an investment manager on the Global Emerging Markets Team and is director of Aberdeen's operations in São Paulo. Nick joined Aberdeen in 2000 and spent eight years on the North American Equities Team, including three years based in Aberdeen's US offices. In 2008 he returned to London to join the global emerging markets equities team. Nick relocated to São Paulo in 2009. Nick graduated with a MA in Chemistry from Lincoln College, Oxford and is a CFA Charterholder.

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**Administrator**

Brown Brothers Harriman & Co. (BBH & Co.), 40 Water Street, Boston, MA 02109, Brown Brothers Harriman & Co. (BBH & Co.), 40 Water Street, Boston, MA 02109, is U.S. administrator for the Fund and certain other U.S. registered closed end funds advised by AAMISL and its affiliates (the Funds). Subject to the control, supervision and direction of the Board of Directors, the Administrator is responsible for, among other things, providing operational management; coordination of communication between, and oversight of, the Fund's service providers; negotiation of the Fund's service provider contracts; preparation of financial information and reports; arranging for payment of Fund expenses; monitoring compliance with the Fund's investment objectives, policies and restrictions, and with applicable tax law and regulations; maintenance of the Fund's books and records; and other administrative services. The Funds pay BBH & Co. monthly for administrative and fund accounting services, at an annual rate of .06% of the Funds' aggregate assets up to \$500 million, .0525% for the next \$500 million, and .0425% in excess of \$1 billion. Each Fund pays its pro rata portion of the fee based on its level of assets.

Celfin Capital S.A. Administradora de Fondos de Capital Extranjero (AFCE, and collectively with BBH & Co., the Administrator) serves as the Fund's Chilean administrator. Under Chilean law, the Fund is required to have an administrator in Chile. AFCE serves as the Fund's Chilean administrator. For its services, AFCE is paid a fee, out of the advisory fee payable to AAMISL, calculated weekly and paid quarterly at an annual rate of 0.05% of the Fund's average weekly market value or net assets (whichever is lower). In addition, the Chilean Administrator receives a supplemental administration fee paid by the Investment Adviser, and an annual reimbursement of out-of-pocket expenses and an accounting fee paid by the Fund.

**Custodian**

BBH & Co., 40 Water Street, Boston, MA 02109, acts as the Fund's custodian.

**Transfer Agent**

Computershare Trust Company, N.A., P.O. Box 43078, Providence, RI 02940, serves as the Fund's stock transfer agent and dividend paying agent.

**EXPENSES**

The Fund pays all of its expenses, including organization expenses; fees of the Investment Adviser, Administrator, custodian and dividend disbursing and stock transfer agent; fees of Directors who are not interested persons (as defined in the 1940 Act) of any other party; out of pocket expenses of all Fund Directors and officers, including those affiliated with Fund management which may be reimbursed under the Fund's reimbursement policy regarding fund-related expenses; other expenses related to meetings of Directors; legal fees and expenses; costs of insurance; costs of shareholders' meetings, proxy statements and shareholder reports; investors' relation fees and expenses, interest expenses; taxes and governmental fees, including original issue taxes or transfer taxes related to portfolio transactions; brokerage commissions and other portfolio transaction expenses; auditing and accounting fees and expenses; and costs of regulatory filings and compliance.

**DIVIDENDS AND DISTRIBUTIONS**

**Managed Distribution Policy**

The Board of Directors has implemented a managed distribution policy of paying quarterly distributions at an annual rate, set once a year, that is a percentage of the rolling average of the Fund's prior four quarter-end net asset values.

The current rolling distribution rate is 10%. This policy is subject to regular review by the Fund's Board of Directors. The distributions are made from current income, supplemented by realized capital gains and, to the extent necessary, paid-in capital. Persons who purchase Shares in this offering will be entitled to any regular quarterly distributions the record date for which occurs after such Shares are purchased. For the fiscal year ended December 31, 2010, the Fund made distributions in the amount of \$3.46 per Share, of which 0.27% represented net investment income, 99.73% represented long-term capital gains and 0% represented return of capital. If the Fund's distributions were to continue to consist of a large amount of return of capital, it would result in the deterioration of the Fund's assets. On December 10, 2010, the Board of Directors announced a quarterly distribution of 49 cents per share, payable on January 14, 2011 to all shareholders of record as of December 21, 2010.

If the Fund's assets do not generate sufficient income and net long-term capital gains, the Fund may be required to liquidate a portion of its portfolio to fund these distributions, and therefore, these payments may represent a reduction of a shareholder's principal investment. There can be no assurance that the current rolling distribution rate will be maintained in the future. The Board of Directors may determine not to maintain the managed distribution rate at its current level, and it is possible, depending on market conditions, that it may determine to abandon the managed distribution policy altogether.

In March 2010, the Fund obtained an order under section 6(c) of the 1940 Act granting an exemption from section 19(b) and rule 19b-1 under the 1940 Act, permitting the Fund to make periodic distributions of long-term capital gains with respect to its outstanding common stock as frequently as monthly in any one taxable year, subject to certain conditions.

#### **General Distribution Policy**

The Fund distributes at least annually to stockholders substantially all of its net investment income (*i.e.*, dividends, interest and other investment income) and net realized short-term capital gains, if any. The Fund determines annually whether to distribute any net realized long-term capital gains in excess of net realized short-term capital losses, including capital loss carryovers, if any. Currently, the Fund expects to distribute any such excess to its stockholders annually. An additional distribution may be made to the extent necessary to avoid the payment of a 4% U.S. federal excise tax.

Dividends and distributions to stockholders are recorded by the Fund on the ex-dividend date. The character of distributions made during the year from net investment income or net realized gains may differ from their ultimate characterization for U.S. income tax purposes due to U.S. generally accepted accounting principles and tax differences in the character of income and expense recognition. Dividends, interest and net realized capital gains may be remitted out of Chile at any time, subject to a 10% Chilean tax. The 10% Chilean tax is not applicable to capital gains from the sale of shares of open corporations having a stock exchange presence, from bonds issued by certain entities or companies, or from investment funds quotas and mutual fund quotas, provided certain requirements are met. No tax is applied against remittances of capital after the five-year investment period required by Chilean law provided retained net profits have been previously absorbed. For Chilean securities the Fund accrues foreign taxes on realized gains as a liability and reduction of realized/unrealized gains in an amount equal to what the Fund would owe if the securities were sold on the valuation date. Taxes on foreign income are recorded when the related income is recorded. The tax rate is 10%. For the year ended December 31, 2010, the Fund incurred \$399,628 in Chilean tax relating to foreign income and realized gains. See Taxation. Income distributions and capital and currency gains distributions are determined in accordance with income tax regulations (see Taxation), which may differ from accounting principles generally accepted in the United States. These differences are primarily due to differing treatments for foreign currencies.

#### **DIVIDEND REINVESTMENT AND DIRECT STOCK PURCHASE PLAN**

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A Dividend Reinvestment and Direct Stock Purchase Plan (the Plan ) is available. The Plan is sponsored and administered by Computershare Trust Company, N.A., the Fund's transfer agent. For both purchases and reinvestment purposes, shares will be purchased in the open market at the current share price and cannot be issued directly by the Fund. For more information about the Plan and a brochure that includes the terms and conditions of the Plan, please contact Computershare at 1-800-647-0584 or visit [www.computershare.com/buyaberdeen](http://www.computershare.com/buyaberdeen).

### TAXATION

The following is intended to be a general summary of certain tax consequences that may result to the Fund and its shareholders. It is not intended as a complete discussion of all such tax consequences, nor does it purport to deal with all categories of investors. Investors are therefore advised to consult with their tax advisers before making an investment in the Fund.

#### The Fund and its Investments

The Fund has qualified and expects to continue to qualify and elect to be treated as a regulated investment company for each taxable year under the Code. The Fund expects that all of its foreign currency gains will be directly

related to its principal business of investing in stocks and securities. As a regulated investment company, the Fund will not be subject to United States federal income tax on its net investment income (*i.e.*, income other than its net realized long- and short-term capital gains) and net realized capital gains, if any, that it distributes to its stockholders, provided that an amount equal to at least 90% of its investment company taxable income (*i.e.*, 90% of the sum of its net investment income and net realized short-term capital gains, after taking into account certain required adjustments) for the taxable year is distributed, but the Fund will be subject to tax at regular corporate rates on any income or gains that it does not distribute. Furthermore, the Fund will be subject to a U.S. corporate income tax with respect to such distributed amounts in any year that it fails to qualify as a regulated investment company or fails to satisfy this distribution requirement.

The Fund intends to distribute annually to its stockholders all of its net investment income and net realized short-term capital gains. The Board of Directors of the Fund will determine annually whether to distribute any net realized long-term capital gains in excess of net realized short-term capital losses (including any capital loss carryovers from prior years). The Fund currently expects to distribute any such excess annually to its stockholders. In addition, see above the discussion of the Fund's distribution policy under Managed Distribution Policy.

The Fund maintains and will continue to maintain accounts and calculate income in U.S. dollars. In general, gains or losses on the disposition of debt securities denominated in a foreign currency that are attributable to fluctuations in exchange rates between the date the debt security is acquired and the date of disposition, gains and losses attributable to fluctuations in exchange rates that occur between the time the Fund accrues interest or other receivables or accrues expenses or other liabilities denominated in a foreign currency and the time the Fund actually collects such receivables or pays such liabilities, and gains and losses from the disposition of foreign currencies and certain hedging instruments will be treated as ordinary income or loss.

The Fund's transactions in foreign currencies, forward contracts, options and futures contracts (including options and futures contracts on foreign currencies) are subject to straddle and other special provisions of the Code that, among other things, may affect the character of gains and losses realized by the Fund (*i.e.*, may affect whether gains or losses are ordinary or capital), accelerate recognition of income to the Fund and defer Fund losses.

### **Dividends and Distributions**

Distributions to stockholders of investment company taxable income will, except in the case of distributions attributable to qualified dividend income described below, be taxable as ordinary income to the extent of the Fund's earnings and profits, whether such distributions are paid in cash or reinvested in additional shares. Distributions of net long-term capital gains, if any, that the Fund reports as capital gains dividends are taxable as long-term capital gains, whether paid in cash or in shares, regardless of how long the stockholder has held the Fund's shares. Dividends and distributions paid by the Fund will not qualify for the deduction for dividends received by corporations. For taxable years beginning on or before December 31, 2012, distributions of investment company taxable income reported by the Fund as derived from qualified dividend income will be taxable to individuals at the rates applicable to long-term capital gain, provided holding period and other requirements are met by both the individual and the Fund. Qualified dividend income generally includes dividends from domestic corporations and dividends from qualified foreign corporations. The determination of whether a particular foreign corporation is a qualified foreign corporation for U.S. federal income tax purposes depends on various factors. Because of the fact-specific nature of the inquiry, the Fund cannot predict at this time what portion of the dividends, if any, that it will receive from foreign corporations will be treated as qualified dividend income. Distributions in excess of the Fund's current and accumulated earnings and profits will first reduce a stockholder's basis in his shares and, after the stockholder's basis is reduced to zero, will constitute capital gains to a stockholder who holds his shares as capital assets.

With respect to income dividends or capital gains distributions payable either in shares of the Fund's Common Stock or in cash, stockholders receiving dividends or distributions in the form of additional shares should be treated for United States federal income tax purposes as receiving a distribution in the amount equal to the amount of money that the stockholders receiving cash dividends will receive, and should have a cost

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basis in the shares received equal to such amount. With respect to income dividends or capital gains distributions payable only in cash, stockholders receiving a distribution in the form of shares of Common Stock purchased in the open market will be treated for U.S. federal income tax purposes as receiving a distribution on the cash distribution that such stockholder would have received had it not elected to have such distribution reinvested and will have a cost basis in such shares equal to the amount of such distribution.

Beginning in 2013, a 3.8% Medicare contribution tax will be imposed on net investment income, including interest, dividends, and capital gain, of U.S. individuals with income exceeding \$200,000 (or \$250,000 if married filing jointly), and of estates and trusts.



If a stockholder is neither a lawful permanent resident nor a citizen of the United States or if he is a foreign entity, the Fund's ordinary income dividends (which include distributions of net short-term capital gain) will generally be subject to a 30% U.S. withholding tax, unless a lower treaty rate applies.

A 30% withholding tax will be imposed on dividends and redemption proceeds paid after December 31, 2012, to (i) foreign financial institutions including non-U.S. investment funds unless they agree to collect and disclose to the IRS information regarding their direct and indirect U.S. account holders and (ii) certain other foreign entities unless they certify certain information regarding their direct and indirect U.S. owners. To avoid withholding, a foreign financial institution will need to enter into agreements with the IRS regarding providing the IRS information including the name, address and taxpayer identification number of direct and indirect U.S. account holders, to comply with due diligence procedures with respect to the identification of U.S. accounts, to report to the IRS certain information with respect to U.S. accounts maintained, to agree to withhold tax on certain payments made to non-compliant foreign financial institutions or to account holders who fail to provide the required information, and to determine certain other information as to their account holders. Other foreign entities will need to provide the name, address, and TIN of each substantial U.S. owner or certifications of no substantial U.S. ownership unless certain exceptions apply.

Dividends and interest received by the Fund may give rise to withholding and other taxes imposed by foreign countries. Tax conventions between certain countries and the United States may reduce or eliminate such taxes. A stockholder may be able to claim a credit or take a deduction for foreign taxes paid by the Fund if certain requirements are met.

By law, a stockholder's dividends and redemption proceeds will be subject to a withholding tax if he has not provided a taxpayer identification number or social security number or the number that he has provided is incorrect.

### **Sales of Shares**

Upon the sale or exchange of shares held as a capital asset, a stockholder will realize a taxable capital gain or loss depending upon the amount realized and his basis in his shares. Such gain or loss will be treated as long-term or short-term capital gain or loss depending upon the stockholder's holding period for the shares. Any loss realized on a sale or through the reinvestment of dividends and capital gains distributions in the Fund under the Plan, within a period (of 61 days) beginning 30 days before and ending 30 days after the disposition of the shares, will be disallowed. In such a case, the basis of the shares acquired will be increased to reflect the disallowed loss. Any loss realized by a stockholder on the sale of a Fund share held by the stockholder for six months or less will be treated for tax purposes as long-term capital loss to the extent of any distributions of long-term capital gains received by the stockholder with respect to such share.

### **Notices**

Stockholders will be notified annually by the Fund as to the United States federal income tax status of the dividends, distributions and deemed distributions made by the Fund to its stockholders. Furthermore, stockholders will also receive, if appropriate, various written notices after the close of the Fund's taxable year regarding the U.S. federal income tax status of certain dividends, distributions and deemed distributions that were paid (or that are treated as having been paid) by the Fund to its stockholders during the preceding taxable year.

### **Chilean Taxes**

The following discussion is based upon the advice of Guerrero, Olivos, Novoa y Errázuriz Ltda., Chilean counsel to the Fund.

All amounts earned by the Fund, including interest, dividends or net realized capital gains on amounts currently invested in Chile pursuant to its two investment contracts with the Republic of Chile, one entered into in 1989 upon the Fund's inception and a second in 1993 in connection with the issuance of additional shares of Common Stock by the Fund in a rights offering (the Investment Contracts), that exceed original capital are subject to a 10% income tax at the time they are remitted outside Chile. The 10% Chilean tax is not applicable to capital gains obtained by foreign institutional investors (including the Fund) on the sale of (i) shares of open corporations having a stock exchange presence, meaning an adjusted presence (as a percentage of days within the last 180 days where daily transactions were higher than 200 UF, approximately US\$9,000) equal to or higher than 25%, (ii) bonds or publicly traded debt securities issued by the Central Bank of Chile, the Republic of Chile or companies incorporated in Chile, provided the sale is made in a stock exchange, in a public offering or through any other system authorized by the SVS, or (iii) investment funds quotas and mutual fund quotas, provided certain requirements established in new article 107, added by Law 20,448 published in the Official

Gazette on August 13, 2010 are met. For these purposes, the Fund must not participate, directly or indirectly, in the control of the issuers of the securities in which it invests nor have, directly or indirectly, 10% or more of the capital or profits of such entities. To be eligible for this tax exemption, the Fund is required to register with the Chilean IRS and sign a written contract with a Chilean bank or authorized broker in which the Chilean bank or authorized broker agree, under its own liability, to check all withholding taxes have duly been paid. The 10% Chilean tax is applied only against remittances of dividends, interest and net realized gains, regardless of the purpose for which the remittances are used. Thus, the tax applies to remittances used to pay the Fund's expenses outside of Chile, as well as amounts distributed to the Fund's stockholders. Such tax is paid by the Fund on a current basis and is thus indirectly borne by all stockholders. Net realized capital gains for these purposes means realized gains net of realized losses (without regard to the length of time the securities were held), including any capital loss carry-over but excluding any gains from hedging transactions. These taxes are retained by the Chilean Administrator at the time a remittance is effected and are deposited in the Chilean Treasury. The original amounts of portfolio investments as well as interest and dividends and gains thereon, if any, that have not been remitted abroad may be reinvested by the Fund in Chile and will not be subject to tax until actually remitted. No other Chilean income taxes will be payable by the Fund or by a stockholder of the Fund that is not a Chilean resident. This special tax regime is included in the Investment Contracts and will be included in a new investment contract, if and when executed by the Fund under Decree Law 600 and, under current Chilean law, will remain in effect for the duration of the Fund's investment in Chile. Nevertheless, increases in taxes on corporations in which the Fund holds stock may affect the Fund's return. As indicated below, the First Category Tax on corporate income is 20% for 2011, 18.5% for 2012 and 17% for 2013 and after. Because of the special tax regime applicable to the Fund, the First Category Tax is not creditable against the 10% tax on remittances. In addition, the protection granted by the Investment Contracts applies to income taxes, which can reasonably be deemed to include capital gains taxes, but does not refer to other taxes, such as VAT and stamp taxes, that may be imposed on the Fund or its operations in Chile as a consequence of changes in general legislation. However, no taxation may affect in a discriminatory way the Fund or other foreign investors that have entered into an investment contract pursuant to the provisions of Decree Law 600. Under current law, the Fund is not subject to any Chilean inheritance, wealth or estate taxes.

The Fund would become subject to Chilean tax at rates applicable to foreign investors, in accordance with tax laws then in effect, should the Fund fail to sell investments held in violation of the diversification requirements contained in Law No. 18,657 within the time prescribed by SVS. Under the general tax regime, the Fund would be subject to the First Category Tax on income (other than dividend income distributed to the Fund by a company that is subject to the First Category Tax on such income). In addition, distributions received by stockholders of the Fund would be subject to a 35% withholding Additional Tax against which the First Category Tax could be credited. In order to assess the taxable basis of the Additional Tax, the credit for the First Category Tax must be added to it (gross basis and up). Therefore, the aggregate tax burden for both taxes, calculated as a percentage of pre-tax income, would be no greater than 35%. Investors should be aware that, under the general tax regime applicable to foreign investors, tax rates, taxable basis and the manner in which taxes would be applied may be amended by law at any time. The Fund would be subject to the above-described taxation for the duration of its operation in Chile and would continue to be unable to repatriate capital out of Chile during the five years after the capital is brought into Chile. No tax is applied against remittances of capital after the five-year investment period required by Chilean law, provided that if the Fund's Taxable Profit Fund (Fondo de Utilidades Tributables) has retained earnings that have not been distributed, then a remittance of capital is applied first to such retained earnings subject to the 10% tax. Once the retained taxable and financial earnings have been remitted, then the repatriated capital is tax exempt. In other words, while capital may be repatriated after the five-year term has elapsed, under a Chilean IRS interpretation, when there is a capital repatriation and retained taxable profits that have not been taxed, the capital repatriation is characterized for tax purposes as a distribution of taxable profits as to the part that was not taxed, and therefore, it is subject to the 10% tax.

#### **Other Taxation**

Distributions also may be subject to additional state, local and foreign taxes depending on each stockholder's particular situation.

THE FOREGOING IS ONLY A SUMMARY OF CERTAIN MATERIAL TAX CONSEQUENCES AFFECTING THE FUND AND ITS SHAREHOLDERS. SHAREHOLDERS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISERS WITH RESPECT TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF AN INVESTMENT IN THE FUND.



**CERTAIN PROVISIONS OF THE MARYLAND GENERAL  
CORPORATION LAW AND THE CHARTER AND BYLAWS**

The Fund has provisions in its Articles of Incorporation and By-laws that could have the effect of limiting the ability of other entities or persons to acquire control of the Fund, to cause it to engage in certain transactions or to modify its structure. The Board of Directors is divided into three classes each having a term of three years. Each year, the term of one class expires and the successor or successors elected to such class will serve for a three-year term. This provision could delay for up to two years the replacement of a majority of the Board of Directors. A Director may be removed from office only by a vote of the holders of at least 66 2/3% of the shares of the Fund entitled to be voted on the matter.

In addition, the conversion of the Fund from a closed-end to an open-end investment company requires the affirmative vote of the holders of 66 2/3% of the outstanding shares of the Fund. If the Fund were to be converted into an open-end investment company, it could be restricted in its ability to redeem its shares (other than in kind) because of Chilean restrictions on repatriation of the Fund's capital within five years after investing. Making distributions only in kind might require that the Fund receive prior approval from the SEC.

In addition, the affirmative vote of the holders of 66 2/3% of the outstanding shares of the Fund is required to authorize the liquidation or dissolution of the Fund (unless a majority of the Continuing Directors, as defined below, approves the liquidation or dissolution, in which case an affirmative vote of a majority of the outstanding shares of the Fund is required) or any of the following transactions:

- a. merger, consolidation or share exchange of the Fund with or into any other corporation;
- b. issuance of any securities of the Fund to any person or entity for cash (other than pursuant to the Program and Cash Purchase Plan);
- c. sale, lease or exchange of all or a substantial part of the assets of the Fund to any entity or person (except sales having an aggregate fair market value of less than US\$1,000,000); or
- d. sale, lease or exchange to the Fund, in exchange for securities of the Fund, of any assets of any entity or person (except assets having an aggregate fair market value of less than US\$1,000,000)

if such corporation, person or entity is directly, or indirectly through affiliates, the beneficial owner of more than 5% of the outstanding shares of the Fund. However, such vote will not be required with respect to the foregoing enumerated transactions where the Continuing Directors of the Fund (defined for this purpose as those Directors who either were members of the Board of Directors on the date of the closing of the initial public offering or subsequently become Directors and whose election is approved by the Continuing Directors then on the Board) under certain conditions approve the transaction. The Fund's By-laws also include advance notice requirements for shareholder proposals.

Provisions such as those described above and other provisions in the Articles of Incorporation and By-laws of the Fund could have the effect of depriving stockholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging a third party from

seeking to obtain control of the Fund in a tender offer of similar transaction. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of the Fund to negotiate first with the Board of Directors. The Fund believes that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because the negotiation of such proposals may improve their terms. The Board of Directors has determined that the foregoing voting requirements, which are generally greater than the minimum requirements under Maryland law and the 1940 Act, are in the best interests of stockholders generally.

#### **PLAN OF DISTRIBUTION**

We may sell Shares through underwriters or dealers, directly to one or more purchasers, through agents, to or through underwriters or dealers, or through a combination of any such methods of sale. The applicable Prospectus Supplement will identify any underwriter or agent involved in the offer and sale of our Shares, any sales loads, discounts, commissions, fees or other compensation paid to any underwriter, dealer or agent, the offering price, net proceeds and use of proceeds and the terms of any sale.

The distribution of our Shares may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at prevailing market prices at the time of sale, at prices related to such prevailing market

prices, or at negotiated prices, provided, however, that the offering price per Share must equal or exceed the NAV per Share, exclusive of any underwriting commissions or discounts.

We may sell our Shares directly to, and solicit offers from, institutional investors or others who may be deemed to be underwriters as defined in the Securities Act of 1933 (the Securities Act ) for any resale of the securities. In this case, no underwriters or agents would be involved. We may use electronic media, including the Internet, to sell offered securities directly.

In connection with the sale of our Shares, underwriters or agents may receive compensation from us in the form of discounts, concessions or commissions. Underwriters may sell our Shares to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of our Shares may be deemed to be underwriters under the Securities Act, and any discounts and commissions they receive from us and any profit realized by them on the resale of our Shares may be deemed to be underwriting discounts and commissions under the Securities Act. Any such underwriter or agent will be identified and any such compensation received from us will be described in the applicable Prospectus Supplement. The maximum commission or discount to be received by any FINRA member or independent broker-dealer will not exceed eight percent. We will not pay any compensation to any underwriter or agent in the form of warrants, options, consulting or structuring fees or similar arrangements.

If a Prospectus Supplement so indicates, we may grant the underwriters an option to purchase additional Shares at the public offering price, less the underwriting discounts and commissions, within 45 days from the date of the Prospectus Supplement, to cover any over-allotments.

Under agreements into which we may enter, underwriters, dealers and agents who participate in the distribution of our Shares may be entitled to indemnification by us against certain liabilities, including liabilities under the Securities Act. Underwriters, dealers and agents may engage in transactions with us, or perform services for us, in the ordinary course of business.

If so indicated in the applicable Prospectus Supplement, we will ourselves, or will authorize underwriters or other persons acting as our agents to solicit offers by certain institutions to purchase our Shares from us pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contacts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by us. The obligation of any purchaser under any such contract will be subject to the condition that the purchase of the Shares shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts. Such contracts will be subject only to those conditions set forth in the Prospectus Supplement, and the Prospectus Supplement will set forth the commission payable for solicitation of such contracts.

To the extent permitted under the 1940 Act and the rules and regulations promulgated thereunder, the underwriters may from time to time act as brokers or dealers and receive fees in connection with the execution of our portfolio transactions after the underwriters have ceased to be underwriters and, subject to certain restrictions, each may act as a broker while it is an underwriter.

A Prospectus and accompanying Prospectus Supplement in electronic form may be made available on the websites maintained by underwriters. The underwriters may agree to allocate a number of securities for sale to their online brokerage account holders. Such allocations of securities for Internet distributions will be made on the same basis as other allocations. In addition, securities may be sold by the underwriters to securities dealers who resell securities to online brokerage account holders.

In order to comply with the securities laws of certain states, if applicable, our Shares offered hereby will be sold in such jurisdiction only through registered or licensed brokers or dealers.

**LEGAL PROCEEDINGS**

There are no material pending legal proceedings to which the Fund, the Investment Adviser or the Sub-Adviser is a party.



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Shareholders' equity applicable to common shares:

Common shares, \$0.001 par value per share; unlimited shares authorized. (The Actual column reflects the Fund's outstanding capitalization of \_\_\_\_\_ shares as of \_\_\_\_\_, 20\_\_\_\_; the As adjusted column assumes the issuance of \_\_\_\_\_ shares (of which all but the \_\_\_\_\_ shares offered pursuant to this Prospectus Supplement have been issued) and \_\_\_\_\_ shares pursuant to the dividend reinvestment plan and outstanding capitalization of \_\_\_\_\_ shares through \_\_\_\_\_, 20\_\_\_\_ )  
 Paid-in surplus\*  
 Accumulated distributions in excess of net investment income and net realized gains  
 Net unrealized depreciation

Net assets applicable to common shares  
 Liquidation preference of preferred shares

Net assets, plus the liquidation preference of preferred shares

\* As Adjusted paid-in surplus reflects a deduction for the estimated underwriting discounts of \$ \_\_\_\_\_ and estimated offering expenses of common shares offerings borne by the Fund of \$ \_\_\_\_\_ through \_\_\_\_\_, 20\_\_\_\_. The total estimated underwriting discounts and offering expenses borne by the Fund for common shares offered by the Fund in the months ended \_\_\_\_\_, 20\_\_\_\_ were \$ \_\_\_\_\_ and \$ \_\_\_\_\_, respectively. The total estimated underwriting discounts and offering expenses borne by the Fund for this offering are \$ \_\_\_\_\_ and \$ \_\_\_\_\_, respectively.

**Table of Contents****TABLE OF FEES AND EXPENSES**

The following tables are intended to assist you in understanding the various costs and expenses directly or indirectly associated with investing in our common shares as a percentage of net assets attributable to common shares. Amounts are for the current fiscal year after giving effect to anticipated net proceeds of the offering, assuming that we incur the estimated offering expenses, including any preferred share offering expenses.

**Shareholder Transaction Expenses**

Sales Load (as a percentage of offering price)	%
Offering Expenses Borne by the Fund (as a percentage of offering price)	%
Dividend Reinvestment Plan Fees	None(1)

**Percentage of Net Assets  
Attributable to Common  
Shares**

**Annual Expenses**

Management Fees	% (2)
Interest on Borrowed Funds	None
Other Expenses	% (2)
Dividends on preferred shares	
Total annual fund operating expenses and dividends on preferred shares	
Total Annual Expenses	% (2)

- (1) You will be charged a \$1.00 service charge and pay brokerage charges if you direct the plan agent to sell your common shares held in a dividend reinvestment account.
- (2) The Investment Adviser's fee is 1.00% annually of the Fund's average weekly net assets, with no deduction for the liquidation preference of any outstanding preferred shares. Consequently, if the Fund has preferred shares outstanding, the investment management fees and other expenses as a percentage of net assets attributable to common shares are higher than if the Fund did not utilize a leveraged capital structure. Other Expenses are based on estimated amounts for the current year assuming completion of the proposed issuances.

**Example**

The following example illustrates the expenses you would pay on a \$1,000 investment in common shares, assuming a 5% annual portfolio total return.\*

**1 Year    3 Years    5 Years    10 Years**

Total Expenses Incurred

- \* **The example should not be considered a representation of future expenses.** The example assumes that the amounts set forth in the Annual Expenses table are accurate and that all distributions are reinvested at net asset value. Actual expenses may be greater or less than those assumed. Moreover, the Fund's actual rate of return may be greater or less than the hypothetical 5% return shown in the example.

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**Table of Contents****USE OF PROCEEDS**

We estimate the total net proceeds of the offering to be \$ based on the public offering price of \$ per share and after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

The Investment Adviser expects that it will initially invest the proceeds of the offering in high-quality short-term debt securities and instruments. The Investment Adviser anticipates that the investment of the proceeds will be made in accordance with the Fund's investment objectives and policies as appropriate investment opportunities are identified.

**FINANCIAL HIGHLIGHTS**

The selected data below sets forth the per share operating performance and ratios for the periods presented. The financial information was derived from and should be read in conjunction with the Financial Statements of the Fund and Notes thereto, which are incorporated by reference into this Prospectus Supplement and the Statement of Additional Information (the SAI). The financial information for the fiscal year ended December 31, 2009 and for each of the preceding fiscal periods presented since inception, has been audited by PricewaterhouseCoopers LLP, the Fund's independent registered public accounting firm, whose unqualified report on such Financial Statements is incorporated by reference into the SAI.

Interim financial information is derived from unaudited financial data, but in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments) that are necessary to present fairly the results of such interim period. Interim results at and for the six months ended June 30, 2010, are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2010.

Selected data for a share of beneficial interest outstanding throughout each period:

	<b>Six Months Ended June 30, 2010</b>	<b>Year Ended December 31,</b>				<b>Period Ended December 31, 2005 (f)</b>
	<b>(Unaudited)</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	
<b>Operating Performance:</b>						
Net asset value, beginning of period	\$ 15.91	\$ 10.39	\$ 29.48	\$ 24.10	\$ 21.99	\$ 19.06(g)
Net investment income/(loss)	0.06	0.12	0.10	(0.02)	0.08	0.08
Net realized and unrealized gain/(loss) on investments, swap contracts, securities sold short, written options, and foreign currency transactions	(0.29)	7.06	(17.18)	7.61	3.77	4.01

Total from investment operations	(0.23)	7.18	(17.08)	7.59	3.85	4.09
<b>Distributions to Preferred Shareholders: (a)</b>						
Net investment income	0.00(d)*	(0.11)	(0.08)	(0.01)		
Net realized gain	(0.08)*	(0.18)	(0.28)	(0.07)		
Total distributions to preferred shareholders	(0.08)	(0.29)	(0.36)	(0.08)		
<b>Distributions to Common Shareholders:</b>						
Net investment income	(0.03)*	(0.26)	(0.13)	(0.15)		(0.07)
Net realized gain	(0.62)*	(0.45)	(0.48)	(1.78)	(1.74)	(1.09)
Return of capital	(0.19)*	(0.97)	(1.07)			
Total distributions to common shareholders	(0.84)	(1.68)	(1.68)	(1.93)	(1.74)	(1.16)
<b>Fund Share Transactions:</b>						
Increase/(decrease) in net asset value from common share transactions	0.00(d)	0.31	0.01	0.00(d)		(0.00)(d)
Increase in net asset value from repurchases of preferred shares		0.00(d)	0.01			

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	<b>Six Months Ended June 30, 2010</b>	<b>Year Ended December 31,</b>				<b>Period Ended December 31, 2005 (f)</b>
	<b>(Unaudited)</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	
Offering costs for preferred shares charged to paid-in capital			0.01	(0.20)		
Total fund share transactions	0.00(d)	0.31	0.03	(0.20)		(0.00)(d)
<b>Net Asset Value, End of Period</b>	\$ 14.76	\$ 15.91	\$ 10.39	\$ 29.48	\$ 24.10	\$ 21.99
NAV total return	(2.20)%	74.36%	(61.59)%	31.47%	18.29%	22.0%**
Market value, end of period	\$ 15.67	\$ 16.34	\$ 13.10	\$ 29.15	\$ 24.60	\$ 21.80
Investment total return	1.12%	40.14%	(50.94)%	27.40%	21.86%	15.2%***
<b>Ratios to Average Net Assets and Supplemental Data:</b>						
Net assets including liquidation value of preferred shares, end of period (in 000 s)	\$ 763,209	\$ 620,047	\$ 289,046	\$ 633,253		
Net assets attributable to common shares, end of period (in 000 s)	\$ 664,317	\$ 521,155	\$ 190,109	\$ 533,253	\$ 432,741	\$ 390,209
Ratio of operating expenses to average net assets attributable to common shares (b)	1.42%(e) 1.21%(e)	1.78% 1.35%	1.69% 1.37%	1.45% 1.39%	1.17%	1.15%(e)

Ratio of operating expenses to average net assets including liquidation value of preferred shares (b)						
Ratio of net investment income/(loss) to average net assets attributable to common shares	0.48%(e)	1.44%	0.39%	(0.09)%	0.42%	0.47%(e)
Portfolio turnover rate	17.0%	61.0%	41.5%	71.3%	114.8%	142.5%
<b>Preferred Shares:</b>						
<b>6.625% Series A Cumulative Preferred Shares</b>						
Liquidation value, end of period (in 000 s)	\$ 98,892	\$ 98,892	\$ 98,937	\$ 100,000		
Total shares outstanding (in 000 s)	3,956	3,956	3,957	4,000		
Liquidation preference per share	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00		
Average market value (c)	\$ 25.67	\$ 24.60	\$ 24.10	\$ 24.16		
Asset coverage per share	\$ 192.94	\$ 156.75	\$ 73.04	\$ 158.31		
<b>Asset coverage</b>	<b>772%</b>	<b>627%</b>	<b>292%</b>	<b>633%</b>		

Based on net asset value per share, adjusted for reinvestment of distributions at the net asset value per share on the ex-dividend dates. Total return for a period of less than one year is not annualized.

Based on market value per share, adjusted for reinvestment of distributions at prices determined under the Fund's dividend reinvestment plan. Total return for a period of less than one year is not annualized.

Effective in 2008, a change in accounting policy was adopted with regard to the calculation of the portfolio turnover rate to include cash proceeds due to mergers. Had this policy been adopted retroactively, the portfolio turnover rate for the year ended December 31, 2007 and the period ended December 31, 2005 would have been 77.7% and 143.3%, respectively. The portfolio turnover rate for the year ended 2006 would have been as shown.

\* Based on year to date book income. Amounts are subject to change and recharacterization at year end.

\*\* Based on net asset value per share at commencement of operations of \$19.06 per share.

\*\*\* Based on market value per share at initial public offering of \$20.00 per share.

(a) Calculated based upon average common shares outstanding on the record dates throughout the periods.

- (b) The Fund incurred interest expense during the years ended December 31, 2008, 2007, and 2006. If interest expense had not been incurred, the ratio of operating expenses to average net assets attributable to common shares would have been 1.54%, 1.33%, and 1.16%, respectively, and for 2008 and 2007, the ratio of operating expenses to average net assets including liquidation value of preferred shares would have been 1.25% and 1.27%, respectively. For the six months ended June 30, 2010 and the year ended December 31, 2009, the effect of interest expense was minimal.

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- (c) Based on weekly prices.
- (d) Amount represents less than \$0.005 per share.
- (e) Annualized.
- (f) The Fund commenced investment operations on March 31, 2005.
- (g) The beginning of period NAV reflects a \$0.04 reduction for costs associated with the initial public offering.

**PRICE RANGE OF COMMON SHARES**

The following table sets forth for the quarters indicated, the high and low closing sale prices on the NYSE Amex per share of our common shares and the net asset value and the premium or discount from net asset value per share at which the common shares were trading, expressed as a percentage of net asset value, at each of the high and low closing sale prices provided.

Quarter Ended	Market Price		Corresponding Net Asset Value ( NAV ) Per Share		Corresponding Premium or Discount as a % of NAV	
	High	Low	High	Low	High	Low
March 31, 2005	\$ 20.01	\$ 20.00	\$ 19.06	\$ 19.06	4.98	4.93
June 30, 2005	20.05	18.03	19.06	18.68	5.19	-3.48
September 30, 2005	21.93	19.80	21.60	19.78	1.53	0.10
December 31, 2005	21.81	20.22	21.03	20.11	3.71	0.55
March 31, 2006	23.90	21.45	22.99	21.75	3.96	-1.38
June 30, 2006	23.93	19.98	24.56	20.62	-2.57	-3.10
September 30, 2006	22.89	21.15	23.90	21.40	-4.23	-1.17
December 31, 2006	24.77	21.00	24.14	21.11	2.61	-0.52
March 31, 2007	26.74	22.92	25.10	22.81	6.53	0.48
June 30, 2007	27.81	25.20	25.88	26.61	7.46	-5.30
September 30, 2007	28.30	21.71	28.22	22.91	0.28	-5.24
December 31, 2007	29.54	25.82	29.51	28.08	0.10	-8.05
March 31, 2008	30.87	25.90	31.69	27.76	-2.59	-6.70
June 30, 2008	30.61	26.30	33.50	29.29	-8.63	-10.21
September 30, 2008	30.30	19.62	32.13	19.65	-5.70	-0.14
December 31, 2008	19.99	7.90	18.53	7.32	7.88	7.92
March 31, 2009	16.45	12.21	10.54	9.69	56.07	26.01
June 30, 2009	15.95	12.80	14.38	10.95	10.92	16.90
September 30, 2009	15.83	12.56	15.30	12.01	3.46	4.58
December 31, 2009	17.14	14.96	16.14	14.44	6.20	3.60
March 31, 2010	17.84	15.26	15.93	14.49	11.99	5.31
June 30, 2010	19.48	15.48	16.64	14.36	17.07	7.80
September 30, 2010	17.45	15.02	16.91	14.59	3.19	2.95
December 31, 2010	19.27	17.26	18.25	16.90	5.89	2.13
	19.25	18.21	18.18	17.43	5.87	4.48

March 31, 2011 (period from  
January 1, 2011 through January 31,  
2011)

The last reported price for our common shares on January 31, 2011 was \$18.23 per share. As of January 31, 2011, the net asset value per share for our common shares was \$17.60 per share.

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**PLAN OF DISTRIBUTION**

We are selling common shares under this Prospectus Supplement. Subject to the terms of \_\_\_\_\_, we have agreed to sell \_\_\_\_\_ common shares at a price of \$ \_\_\_\_\_ per share in cash.

Our common shares are listed on the NYSE Amex under the symbol GGN.

We estimate the total expenses payable by us in connection with the offering will be approximately \$ \_\_\_\_\_.

**LEGAL MATTERS**

Certain legal matters will be passed on by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York, counsel to the Fund in connection with the offering of the common shares.

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**Common Shares of Beneficial Interest**

**PROSPECTUS SUPPLEMENT**

**, 2011**

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**Dated           , 2011**

**THE GABELLI GLOBAL GOLD, NATURAL RESOURCES & INCOME TRUST**

**STATEMENT OF ADDITIONAL INFORMATION**

THE INFORMATION IN THIS STATEMENT OF ADDITIONAL INFORMATION IS NOT COMPLETE AND MAY BE CHANGED. THE FUND MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS STATEMENT OF ADDITIONAL INFORMATION IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

This Statement of Additional Information (the "SAI") does not constitute a prospectus, but should be read in conjunction with the Fund's prospectus relating thereto dated           , 2011, and as it may be supplemented. This SAI does not include all information that a prospective investor should consider before investing in the Fund's common shares, and investors should obtain and read the Fund's prospectus prior to purchasing such shares. A copy of the Fund's Registration Statement, including the prospectus and any supplement, may be obtained from the Securities and Exchange Commission (the "SEC") upon payment of the fee prescribed, or inspected at the SEC's office or via its website ([www.sec.gov](http://www.sec.gov)) at no charge.

The Gabelli Global Gold, Natural Resources & Income Trust, or the "Fund," is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"). The Fund's primary investment objective is to provide a high level of current income. The Fund's secondary investment objective is to seek capital appreciation consistent with the Fund's strategy and its primary objective. An investment in the Fund is not appropriate for all investors. We cannot assure you that the Fund's objectives will be achieved. Gabelli Funds, LLC serves as Investment Adviser to the Fund. See "Management of the Fund."

Under normal market conditions, the Fund will attempt to achieve its objectives by investing at least 80% of its assets in equity securities of companies principally engaged in the gold industry and the natural resources industries. The Fund will invest at least 25% of its assets in the equity securities of companies principally engaged in the exploration, mining, fabrication, processing, distribution or trading of gold or the financing, managing, controlling or operating of companies engaged in gold-related activities. In addition, the Fund will invest at least 25% of its assets in the equity securities of companies principally engaged in the exploration, production or distribution of natural resources, such as gas, oil, paper, food and agriculture, forestry products, metals and minerals as well as related transportation companies and equipment manufacturers. The Fund may invest in the securities of companies located anywhere in the world. Under normal market conditions, the Fund will invest at least 40% of its assets in the securities of issuers located in at least three countries other than the U.S. As part of its investment strategy, the Fund intends to generate gains through an option strategy of writing (selling) covered call options on equity securities in its portfolio. When the Fund sells a covered call option, it generates gains in the form of the premium paid by the buyer of the call, but the Fund forgoes the opportunity to participate in any increase in the value of the underlying equity security above the exercise price of the option. See "Investment Objectives and Policies."

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**THE FUND**

The Gabelli Global Gold, Natural Resources & Income Trust is a non-diversified, closed-end management investment company organized under the laws of the State of Delaware. The Fund's common shares of beneficial interest, par value \$0.001 per share, are listed on the NYSE Amex LLC (the NYSE Amex) under the symbol GGN. Our 6.625% Series A Cumulative Preferred Shares are listed on the NYSE Amex under the symbol GGN PrA.

**INVESTMENT OBJECTIVES AND POLICIES**

**Investment Objectives and Policies**

The Fund's primary investment objective is to provide a high level of current income. The Fund's secondary investment objective is to seek capital appreciation consistent with the Fund's strategy and its primary objective.

Under normal market conditions, the Fund will attempt to achieve its objectives by investing at least 80% of its assets in equity securities of companies principally engaged in the gold industry and the natural resources industries. The Fund will invest at least 25% of its assets in the equity securities of companies principally engaged in the exploration, mining, fabrication, processing, distribution or trading of gold or the financing, managing, controlling or operating of companies engaged in gold-related activities (Gold Companies). In addition, the Fund will invest at least 25% of its assets in the equity securities of companies principally engaged in the exploration, production or distribution of natural resources, such as gas, oil, paper, food and agriculture, forestry products, metals and minerals as well as related transportation companies and equipment manufacturers (Natural Resources Companies). The Fund may invest in the securities of companies located anywhere in the world. Under normal market conditions, the Fund will invest at least 40% of its assets in the securities of issuers located in at least three countries other than the U.S.

Principally engaged, as used in this SAI, means a company that derives at least 50% of its revenues or earnings or devotes at least 50% of its assets to the indicated businesses. An issue will be treated as being located outside the U.S. if it is either organized or headquartered outside of the U.S. and has a substantial portion of its operations or sales outside the U.S. Equity securities may include common stocks, preferred stocks, convertible securities, warrants, depository receipts and equity interests in trusts and other entities. Other Fund investments may include investment companies, including exchange-traded funds, securities of issuers subject to reorganization or other risk arbitrage investments, derivative instruments, debt (including obligations of the U.S. Government) and money market instruments. As part of its investment strategy, the Fund intends to generate gains through an option strategy of writing (selling) covered call options on equity securities in its portfolio. When the Fund sells a covered call option, it generates gains in the form of the premium paid by the buyer of the call option, but the Fund forgoes the opportunity to participate in any increase in the value of the underlying equity security above the exercise price of the option. See Investment Objectives and Policies.

The Fund is not intended for those who wish to exploit short-term swings in the stock market.

The Investment Adviser's investment philosophy with respect to selecting investments in the gold industry and the natural resources industries is to emphasize quality and value, as determined by such factors as asset quality, balance sheet leverage, management ability, reserve life, cash flow and commodity hedging exposure. In addition, in making stock selections, the Investment Adviser looks for securities that it believes may have a superior yield, as well as capital gains potential and that allow the Fund to earn income from writing covered calls on such stocks.

**Additional Investment Policies**

*Canadian Royalty Trusts.* The Fund may invest in equity interests in Canadian Royalty Trusts. A Canadian Royalty Trust is a royalty trust whose securities are generally listed on a Canadian securities



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exchange and which controls an underlying company whose business is the acquisition, exploitation, production and sale of oil and natural gas. These trusts generally pay out to unitholders the majority of the cash flow that they receive from the production and sale of underlying oil and natural gas reserves. The amount of distributions paid on a Canadian Royalty Trust's units will vary from time to time based on production levels, commodity prices, royalty rates and certain expenses, deductions and costs, as well as on the distribution payout ratio policy adopted. As a result of distributing the bulk of its cash flow to unitholders, the ability of a Canadian Royalty Trust to finance internal growth through exploration is limited. Therefore, Canadian Royalty Trusts typically grow through acquisition of additional oil and gas properties or producing companies with proven reserves of oil and gas, funded through the issuance of additional equity or, where the trust is able, additional debt.

Canadian Royalty Trusts, like other types of Natural Resources Companies, are exposed to pricing risk, supply and demand risk and depletion and exploration risk with respect to their underlying commodities, among other risks. An investment in units of Canadian Royalty Trusts involves some risks which differ from an investment in common stock of a corporation, including increased liability for the obligations of the trust. There are certain regulatory and tax risks associated with an investment in Canadian Royalty Trusts resulting from reliance on beneficial Canadian incentive programs and tax laws that may be changed in the future. In addition, securities of certain Canadian Royalty Trusts may not be qualifying assets for the Fund's asset diversification requirements.

*Master Limited Partnerships ( MLPs ).* MLPs in which the Fund intends to invest will be limited partnerships (or limited liability companies taxable as partnerships), the units of which will generally be listed and traded on a U.S. securities exchange. MLPs normally derive income and gains from the exploration, development, mining or production, processing, refining, transportation (including pipeline transporting gas, oil, or products thereof), or the marketing of mineral or natural resources. MLPs generally have two classes of owners, the general partner and limited partners. When investing in an MLP, the Fund intends to purchase publicly traded common units issued to limited partners of the MLP. The general partner typically controls the operations and management of the MLP. MLPs are typically structured such that common units and general partner interests have first priority to receive quarterly cash distributions up to an established minimum amount ( minimum quarterly distributions or MQD ). Common and general partner interests also accrue arrearages in distributions to the extent the MQD is not paid. Once common and general partner interests have been paid, subordinated units receive distributions of up to the MQD; however, subordinated units do not accrue arrearages. Distributable cash in excess of the MQD paid to both common and subordinated units is distributed to both common and subordinated units generally on a pro rata basis. The general partner is also eligible to receive incentive distributions if the general partner operates the business in a manner that results in distributions paid per common unit surpassing specified target levels.

MLPs, like other types of Natural Resources Companies, are exposed to pricing risk, supply and demand risk and depletion and exploration risk with respect to their underlying commodities, among other risks. An investment in MLP units involves some risks which differ from an investment in the common stock of a corporation. Holders of MLP units have limited control and voting rights on matters affecting the partnership. In addition, there are certain tax risks associated with an investment in MLP units and conflicts of interest may exist between common unit holders and the general partner, including those arising from incentive distribution payments.

*Risk Arbitrage.* The Fund may invest up to 10% of its assets at the time of investment in securities pursuant to risk arbitrage strategies or in other investment funds managed pursuant to such strategies. Risk arbitrage investments are made in securities of companies for which a tender or exchange offer has been made or announced and in securities of companies for which a merger, consolidation, liquidation or reorganization proposal has been announced if, in the judgment of the Investment Adviser, there is a reasonable prospect of total return significantly greater than the brokerage and other transaction expenses involved. Risk arbitrage strategies attempt to exploit merger activity to capture the spread between current market values of securities and their values after successful completion of a merger, restructuring or similar corporate transaction. Transactions associated with risk arbitrage strategies typically

involve the purchases or sales of securities in

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connection with announced corporate actions which may include, but are not limited to, mergers, consolidations, acquisitions, transfers of assets, tender offers, exchange offers, re-capitalizations, liquidations, divestitures, spin-offs and similar transactions. However, a merger or other restructuring or tender or exchange offer anticipated by the Fund and in which it holds an arbitrage position may not be completed on the terms contemplated or within the time frame anticipated, resulting in losses to the Fund.

In general, securities which are the subject of such an offer or proposal sell at a premium to their historic market price immediately prior to the announcement of the offer but may trade at a discount or premium to what the stated or appraised value of the security would be if the contemplated transaction were approved or consummated. Such investments may be advantageous when the discount significantly overstates the risk of the contingencies involved; significantly undervalues the securities, assets or cash to be received by shareholders as a result of the contemplated transaction; or fails adequately to recognize the possibility that the offer or proposal may be replaced or superseded by an offer or proposal of greater value. The evaluation of such contingencies requires unusually broad knowledge and experience on the part of the Investment Adviser which must appraise not only the value of the issuer and its component businesses as well as the assets or securities to be received as a result of the contemplated transaction but also the financial resources and business motivation behind the offer and/or the dynamics and business climate when the offer or proposal is in process. Since such investments are ordinarily short-term in nature, they will tend to increase the turnover ratio of the Fund, thereby increasing its brokerage and other transaction expenses. Risk arbitrage strategies may also involve short selling, options hedging and other arbitrage techniques to capture price differentials.

## **Derivative Instruments**

*Options.* The Fund may, from time to time, subject to guidelines of the Board of Trustees and the limitations set forth in the prospectus, purchase or sell (i.e., write) options on securities, securities indices and foreign currencies which are listed on a national securities exchange or in the over-the-counter ( OTC ) market, as a means of achieving additional return or of hedging the value of the Fund's portfolio.

A call option is a contract that gives the holder of the option the right to buy from the writer of the call option, in return for a premium, the security or currency underlying the option at a specified exercise price at any time during the term of the option. The writer of the call option has the obligation, upon exercise of the option, to deliver the underlying security or currency upon payment of the exercise price during the option period.

A put option is a contract that gives the holder of the option the right, in return for a premium, to sell to the seller the underlying security at a specified price. The seller of the put option has the obligation to buy the underlying security upon exercise at the exercise price.

A call option is covered if the Fund owns the underlying instrument covered by the call or has an absolute and immediate right to acquire that instrument without additional cash consideration (or for additional cash consideration held in a segregated account by its custodian) upon conversion or exchange of other instruments held in its portfolio. A call option is also covered if the Fund holds a call option on the same instrument as the call option written where the exercise price of the call option held is (i) equal to or less than the exercise price of the call option written or (ii) greater than the exercise price of the call option written if the difference is maintained by the Fund in cash, U.S. Government Securities or other high-grade short-term obligations in a segregated account with its custodian. A put option is covered if the Fund maintains cash or other liquid securities with a value equal to the exercise price in a segregated account with its custodian, or else holds a put option on the same instrument as the put option written where the exercise price of the put option held is equal to or greater than the exercise price of the put option written.

If the Fund has written an option, it may terminate its obligation by effecting a closing purchase transaction. This is accomplished by purchasing an option of the same series as the option previously written. However, once the Fund

has been assigned an exercise notice, the Fund will be unable to effect a closing purchase transaction. Similarly, if the Fund is the holder of an option it may liquidate its position by effecting a closing sale transaction. This is accomplished by selling an option of the same series as the option

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previously purchased. There can be no assurance that either a closing purchase or sale transaction can be effected when the Fund so desires.

The Fund will realize a profit from a closing transaction if the price of the transaction is less than the premium received from writing the option or is more than the premium paid to purchase the option; the Fund will realize a loss from a closing transaction if the price of the transaction is more than the premium received from writing the option or is less than the premium paid to purchase the option. Since call option prices generally reflect increases in the price of the underlying security, any loss resulting from the repurchase of a call option may also be wholly or partially offset by unrealized appreciation of the underlying security. Other principal factors affecting the market value of a put or a call option include supply and demand, interest rates, the current market price and price volatility of the underlying security and the time remaining until the expiration date of the option. Gains and losses on investments in options depend, in part, on the ability of the Investment Adviser to correctly predict the effect of these factors. The use of options cannot serve as a complete hedge since the price movement of securities underlying the options will not necessarily follow the price movements of the portfolio securities subject to the hedge.

An option position may be closed out only on an exchange that provides a secondary market for an option of the same series or in a private transaction. Although the Fund will generally purchase or write only those options for which there appears to be an active secondary market, there is no assurance that a liquid secondary market on an exchange will exist for any particular option. In such event it might not be possible to effect closing transactions in particular options, in which case the Fund would have to exercise its options in order to realize any profit and would incur brokerage commissions upon the exercise of call options and upon the subsequent disposition of underlying securities for the exercise of put options. If the Fund, as a covered call option writer, 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 otherwise covers the position.

To the extent that the Fund purchases options pursuant to a hedging strategy, the Fund will be subject to the following additional risks. If a put or call option purchased by the Fund is not sold when it has remaining value, and if the market price of the underlying security remains equal to or greater than the exercise price (in the case of a put), or remains less than or equal to the exercise price (in the case of a call), the Fund will lose its entire investment in the option.

Where a put or call option on a particular security is purchased to hedge against price movements in that or a related security, the price of the put or call option may move more or less than the price of the security. If restrictions on exercise are imposed, the Fund may be unable to exercise an option it has purchased. If the Fund is unable to close out an option that it has purchased on a security, it will have to exercise the option in order to realize any profit, or the option may expire worthless.

*Options on Securities Indices.* The Fund may purchase and sell securities index options. One effect of such transactions may be to hedge all or part of the Fund's securities holdings against a general decline in the securities market or a segment of the securities market. Options on securities indices are similar to options on stocks except that, rather than the right to take or make delivery of stock at a specified price, an option on a securities index gives the holder the right to receive, upon exercise of the option, an amount of cash if the closing level of the securities index upon which the option is based is greater than, in the case of a call option, or less than, in the case of a put option, the exercise price of the option.

The Fund's successful use of options on indices depends upon its ability to predict the direction of the market and is subject to various additional risks. The correlation between movements in the index and the price of the securities being hedged against is imperfect and the risk from imperfect correlation increases as the composition of the Fund diverges from the composition of the relevant index. Accordingly, a decrease in the value of the securities being

hedged against may not be wholly offset by a gain on the exercise or sale of a securities index put option held by the Fund.

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*Options on Foreign Currencies.* Instead of purchasing or selling currency futures (as described below), the Fund may attempt to accomplish similar objectives by purchasing put or call options on currencies or by writing put options or call options on currencies either on exchanges or in OTC markets. A put option gives the Fund the right to sell a currency at the exercise price until the option expires. A call option gives the Fund the right to purchase a currency at the exercise price until the option expires. Both types of options serve to insure against adverse currency price movements in the underlying portfolio assets designated in a given currency. The Fund's use of options on currencies will be subject to the same limitations as its use of options on securities, described above and in the prospectus. Currency options may be subject to position limits that may limit the ability of the Fund to fully hedge its positions by purchasing the options.

As in the case of interest rate futures contracts and options thereon, described below, the Fund may hedge against the risk of a decrease or increase in the U.S. dollar value of a foreign currency denominated debt security that the Fund owns or intends to acquire by purchasing or selling options contracts, futures contracts or options thereon with respect to a foreign currency other than the foreign currency in which such debt security is denominated, where the values of such different currencies (vis-à-vis the U.S. dollar) historically have a high degree of positive correlation.

*Futures Contracts and Options on Futures.* The Fund may purchase and sell financial futures contracts and options thereon which are traded on a commodities exchange or board of trade for certain hedging, yield enhancement and risk management purposes. A financial futures contract is an agreement to purchase or sell an agreed amount of securities or currencies at a set price for delivery in the future. These futures contracts and related options may be on debt securities, financial indices, securities indices, U.S. government securities and foreign currencies. The Investment Adviser has claimed an exclusion from the definition of the term "commodity pool operator" under the Commodity Exchange Act and therefore is not subject to registration under the Commodity Exchange Act. Accordingly, the Fund's investments in derivative instruments described in this prospectus and the Statement of Additional Information (the SAI) are not limited by or subject to regulation under the Commodity Exchange Act or otherwise regulated by the Commodity Futures Trading Commission.

The Fund will not enter into futures contracts or options on futures contracts unless (i) the aggregate initial margins and premiums do not exceed 5% of the fair market value of its assets and (ii) the aggregate market value of its outstanding futures contracts and the market value of the currencies and futures contracts subject to outstanding options written by the Fund, as the case may be, do not exceed 50% of its total assets. It is anticipated that these investments, if any, will be made by the Fund solely for the purpose of hedging against changes in the value of its portfolio securities and in the value of securities it intends to purchase. Such investments will only be made if they are economically appropriate to the reduction of risks involved in the management of the Fund. In this regard, the Fund may enter into futures contracts or options on futures for the purchase or sale of securities indices or other financial instruments including but not limited to U.S. Government Securities.

A sale of a futures contract (or a short futures position) means the assumption of a contractual obligation to deliver the securities underlying the contract at a specified price at a specified future time. A purchase of a futures contract (or a long futures position) means the assumption of a contractual obligation to acquire the securities underlying the contract at a specified price at a specified future time. Certain futures contracts, including stock and bond index futures, are settled on a net cash payment basis rather than by the sale and delivery of the securities underlying the futures contracts.

No consideration will be paid or received by the Fund upon the purchase or sale of a futures contract. Initially, the Fund will be required to deposit with the broker an amount of cash or cash equivalents equal to approximately 1% to 10% of the contract amount (this amount is subject to change by the exchange or board of trade on which the contract is traded and brokers or members of such board of trade may charge a higher amount). This amount is known as the initial margin and is in the nature of a performance bond or good faith deposit on the contract. Subsequent payments,

known as variation margin, to and from the broker will be made daily as the price of the index or security underlying the futures contract fluctuates. At any time prior



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to the expiration of the futures contract, the Fund may elect to close the position by taking an opposite position, which will operate to terminate its existing position in the contract.

An option on a futures contract gives the purchaser the right, in return for the premium paid, to assume a position in a futures contract at a specified exercise price at any time prior to the expiration of the option.

Upon exercise of an option, the delivery of the futures position by the writer of the option to the holder of the option will be accompanied by delivery of the accumulated balance in the writer's futures margin account attributable to that contract, which represents the amount by which the market price of the futures contract exceeds, in the case of a call option, or is less than, in the case of a put option, the exercise price of the option on the futures contract. The potential loss related to the purchase of an option on a futures contract is limited to the premium paid for the option (plus transaction costs). Because the value of the option purchased is fixed at the point of sale, there are no daily cash payments by the purchaser to reflect changes in the value of the underlying contract; however, the value of the option does change daily and that change would be reflected in the net assets of the Fund.

Futures and options on futures entail certain risks, including but not limited to the following: no assurance that futures contracts or options on futures can be offset at favorable prices, possible reduction of the yield of the Fund due to the use of hedging, possible reduction in value of both the securities hedged and the hedging instrument, possible lack of liquidity due to daily limits on price fluctuations, imperfect correlation between the contracts and the securities being hedged, losses from investing in futures transactions that are potentially unlimited and the segregation requirements described below.

In the event the Fund sells a put option or enters into long futures contracts, under current interpretations of the 1940 Act, an amount of cash, U.S. Government Securities or other liquid securities equal to the market value of the contract must be deposited and maintained in a segregated account with the Fund's custodian (the Custodian) to collateralize the positions, in order for the Fund to avoid being treated as having issued a senior security in the amount of its obligations. For short positions in futures contracts and sales of call options, the Fund may establish a segregated account (not with a futures commission merchant or broker) with cash, U.S. Government Securities or other high grade debt securities that, when added to amounts deposited with a futures commission merchant or a broker as margin, equal the market value of the instruments or currency underlying the futures contracts or call options, respectively (but are no less than the stock price of the call option or the market price at which the short positions were established).

*Interest Rate Futures Contracts and Options Thereon.* The Fund may purchase or sell interest rate futures contracts to take advantage of or to protect the Fund against fluctuations in interest rates affecting the value of debt securities which the Fund holds or intends to acquire. For example, if interest rates are expected to increase, the Fund might sell futures contracts on debt securities, the values of which historically have a high degree of positive correlation to the values of the Fund's portfolio securities. Such a sale would have an effect similar to selling an equivalent value of the Fund's portfolio securities. If interest rates increase, the value of the Fund's portfolio securities will decline, but the value of the futures contracts to the Fund will increase at approximately an equivalent rate thereby keeping the net asset value of the Fund from declining as much as it otherwise would have. The Fund could accomplish similar results by selling debt securities with longer maturities and investing in debt securities with shorter maturities when interest rates are expected to increase. However, since the futures market may be more liquid than the cash market, the use of futures contracts as a risk management technique allows the Fund to maintain a defensive position without having to sell its portfolio securities.

Similarly, the Fund may purchase interest rate futures contracts when it is expected that interest rates may decline. The purchase of futures contracts for this purpose constitutes a hedge against increases in the price of debt securities (caused by declining interest rates), which the Fund intends to acquire. Since fluctuations in the value of appropriately

selected futures contracts should approximate that of the debt securities that will be purchased, the Fund can take advantage of the anticipated rise in the cost of the debt securities without actually buying them. Subsequently, the Fund can make its intended purchase of the debt securities in the cash market and currently liquidate its futures position. To the extent the Fund enters into futures contracts for this

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purpose, it will maintain in a segregated asset account with the Fund's Custodian, assets sufficient to cover the Fund's obligations with respect to such futures contracts, which will consist of cash or other liquid securities from its portfolio in an amount equal to the difference between the fluctuating market value of such futures contracts and the aggregate value of the initial margin deposited by the Fund with its Custodian with respect to such futures contracts.

The purchase of a call option on a futures contract is similar in some respects to the purchase of a call option on an individual security. Depending on the pricing of the option compared to either the price of the futures contract upon which it is based or the price of the underlying debt securities, it may or may not be less risky than ownership of the futures contract or underlying debt securities. As with the purchase of futures contracts, when the Fund is not fully invested it may purchase a call option on a futures contract to hedge against a market advance due to declining interest rates.

The purchase of a put option on a futures contract is similar to the purchase of protective put options on portfolio securities. The Fund will purchase a put option on a futures contract to hedge the Fund's portfolio against the risk of rising interest rates and a consequent reduction in the value of portfolio securities.

The writing of a call option on a futures contract constitutes a partial hedge against declining prices of the securities that are deliverable upon exercise of the futures contract. If the futures price at expiration of the option is below the exercise price, the Fund will retain the full amount of the option premium, which provides a partial hedge against any decline that may have occurred in the Fund's portfolio holdings. The writing of a put option on a futures contract constitutes a partial hedge against increasing prices of the securities that are deliverable upon exercise of the futures contract. If the futures price at expiration of the option is higher than the exercise price, the Fund will retain the full amount of the option premium, which provides a partial hedge against any increase in the price of debt securities that the Fund intends to purchase. If a put or call option the Fund has written is exercised, the Fund will incur a loss which will be reduced by the amount of the premium it received. Depending on the degree of correlation between changes in the value of its portfolio securities and changes in the value of its futures positions, the Fund's losses from options on futures it has written may to some extent be reduced or increased by changes in the value of its portfolio securities.

*Currency Futures and Options Thereon.* Generally, foreign currency futures contracts and options thereon are similar to the interest rate futures contracts and options thereon discussed previously. By entering into currency futures and options thereon, the Fund will seek to establish the rate at which it will be entitled to exchange U.S. dollars for another currency at a future time. By selling currency futures, the Fund will seek to establish the number of dollars it will receive at delivery for a certain amount of a foreign currency. In this way, whenever the Fund anticipates a decline in the value of a foreign currency against the U.S. dollar, the Fund can attempt to lock in the U.S. dollar value of some or all of the securities held in its portfolio that are denominated in that currency. By purchasing currency futures, the Fund can establish the number of dollars it will be required to pay for a specified amount of a foreign currency in a future month. Thus, if the Fund intends to buy securities in the future and expects the U.S. dollar to decline against the relevant foreign currency during the period before the purchase is effected, the Fund can attempt to lock in the price in U.S. dollars of the securities it intends to acquire.

The purchase of options on currency futures will allow the Fund, for the price of the premium and related transaction costs it must pay for the option, to decide whether or not to buy (in the case of a call option) or to sell (in the case of a put option) a futures contract at a specified price at any time during the period before the option expires. If the Investment Adviser, in purchasing an option, has been correct in its judgment concerning the direction in which the price of a foreign currency would move against the U.S. dollar, the Fund may exercise the option and thereby take a futures position to hedge against the risk it had correctly anticipated or close out the option position at a gain that will offset, to some extent, currency exchange losses otherwise suffered by the Fund. If exchange rates move in a way the Fund did not anticipate, however, the Fund will have incurred the expense of the option without obtaining the expected benefit; any such movement in exchange rates may also thereby reduce rather than enhance the Fund's profits

on its underlying securities transactions.

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*Securities Index Futures Contracts and Options Thereon.* Purchases or sales of securities index futures contracts are used for hedging purposes to attempt to protect the Fund's current or intended investments from broad fluctuations in stock or bond prices. For example, the Fund may sell securities index futures contracts in anticipation of or during a market decline to attempt to offset the decrease in market value of the Fund's securities portfolio that might otherwise result. If such decline occurs, the loss in value of portfolio securities may be offset, in whole or part, by gains on the futures position. When the Fund is not fully invested in the securities market and anticipates a significant market advance, it may purchase securities index futures contracts in order to gain rapid market exposure that may, in part or entirely, offset increases in the cost of securities that the Fund intends to purchase. As such purchases are made, the corresponding positions in securities index futures contracts will be closed out. The Fund may write put and call options on securities index futures contracts for hedging purposes.

*Forward Currency Exchange Contracts.* Subject to guidelines of the Board of Trustees, the Fund may enter into forward foreign currency exchange contracts to protect the value of its portfolio against uncertainty in the level of future currency exchange rates between a particular foreign currency and the U.S. dollar or between foreign currencies in which its securities are or may be denominated. The Fund may enter into such contracts on a spot (i.e., cash) basis at the rate then prevailing in the currency exchange market or on a forward basis by entering into a forward contract to purchase or sell currency. A forward contract on foreign currency is an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days agreed upon by the parties from the date of the contract at a price set on the date of the contract. Forward currency contracts (i) are traded in a market conducted directly between currency traders (typically, commercial banks or other financial institutions) and their customers, (ii) generally have no deposit requirements and (iii) are typically consummated without payment of any commissions. The Fund, however, may enter into forward currency contracts requiring deposits or involving the payment of commissions. To assure that its forward currency contracts are not used to achieve investment leverage, the Fund will segregate liquid assets consisting of cash, U.S. Government Securities or other liquid securities with its Custodian, or a designated sub-custodian, in an amount at all times equal to or exceeding its commitment with respect to the contracts.

The dealings of the Fund in forward foreign currency exchange are limited to hedging involving either specific transactions or portfolio positions. Transaction hedging is the purchase or sale of one forward foreign currency for another currency with respect to specific receivables or payables of the Fund accruing in connection with the purchase and sale of its portfolio securities or its payment of dividends and distributions. Position hedging is the purchase or sale of one forward foreign currency for another currency with respect to portfolio security positions denominated or quoted in the foreign currency to offset the effect of an anticipated substantial appreciation or depreciation, respectively, in the value of the currency relative to the U.S. dollar. In this situation, the Fund also may, for example, enter into a forward contract to sell or purchase a different foreign currency for a fixed U.S. dollar amount when it is believed that the U.S. dollar value of the currency to be sold or bought pursuant to the forward contract will fall or rise, as the case may be, whenever there is a decline or increase, respectively, in the U.S. dollar value of the currency in which its portfolio securities are denominated (this practice being referred to as a cross-hedge).

In hedging a specific transaction, the Fund may enter into a forward contract with respect to either the currency in which the transaction is denominated or another currency deemed appropriate by the Investment Adviser. The amount the Fund may invest in forward currency contracts is limited to the amount of its aggregate investments in foreign currencies.

The use of forward currency contracts may involve certain risks, including the failure of the counterparty to perform its obligations under the contract, and such use may not serve as a complete hedge because of an imperfect correlation between movements in the prices of the contracts and the prices of the currencies hedged or used for cover. The Fund will only enter into forward currency contracts with parties that the Investment Adviser believes to be creditworthy institutions.



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*Special Risk Considerations Relating to Futures and Options Thereon.* The Fund's ability to establish and close out positions in futures contracts and options thereon will be subject to the development and maintenance of liquid markets. Although the Fund generally will purchase or sell only those futures contracts and options thereon for which there appears to be a liquid market, there is no assurance that a liquid market on an exchange will exist for any particular futures contract or option thereon at any particular time. In the event no liquid market exists for a particular futures contract or option thereon in which the Fund maintains a position, it will not be possible to effect a closing transaction in that contract or to do so at a satisfactory price and the Fund would have to either make or take delivery under the futures contract or, in the case of a written option, wait to sell the underlying securities until the option expires or is exercised or, in the case of a purchased option, exercise the option. In the case of a futures contract or an option thereon which the Fund has written and which the Fund is unable to close, the Fund would be required to maintain margin deposits on the futures contract or option thereon and to make variation margin payments until the contract is closed.

Successful use of futures contracts and options thereon and forward contracts by the Fund is subject to the ability of the Investment Adviser to predict correctly movements in the direction of interest and foreign currency rates. If the Investment Adviser's expectations are not met, the Fund will be in a worse position than if a hedging strategy had not been pursued. For example, if the Fund has hedged against the possibility of an increase in interest rates that would adversely affect the price of securities in its portfolio and the price of such securities increases instead, the Fund will lose part or all of the benefit of the increased value of its securities because it will have offsetting losses in its futures positions. In addition, in such situations, if the Fund has insufficient cash to meet daily variation margin requirements, it may have to sell securities to meet the requirements. These sales may be, but will not necessarily be, at increased prices that reflect the rising market. The Fund may have to sell securities at a time when it is disadvantageous to do so.

*Additional Risks of Foreign Options, Futures Contracts, Options on Futures Contracts and Forward Contracts.* Options, futures contracts and options thereon and forward contracts on securities and currencies may be traded on foreign exchanges. Such transactions may not be regulated as effectively as similar transactions in the U.S., may not involve a clearing mechanism and related guarantees, and are subject to the risk of governmental actions affecting trading in, or the prices of, securities of foreign issuers ( Foreign Securities ). The value of such positions also could be adversely affected by (i) other complex foreign political, legal and economic factors, (ii) lesser availability than in the U.S. of data on which to make trading decisions, (iii) delays in the Fund's ability to act upon economic events occurring in the foreign markets during non-business hours in the U.S., (iv) the imposition of different exercise and settlement terms and procedures and margin requirements than in the U.S. and (v) less trading volume.

Exchanges on which options, options on futures and forward contracts are traded may impose limits on the positions that the Fund may take in certain circumstances.

*Swaps.* The Fund may enter into total rate of return, credit default or other types of swaps and related derivatives for the purpose of hedging and risk management. These transactions generally provide for the transfer from one counterparty to another of certain risks inherent in the ownership of a financial asset such as a common stock or debt instrument. Such risks include, among other things, the risk of default and insolvency of the obligor of such asset, the risk that the credit of the obligor or the underlying collateral will decline or the risk that the common stock of the underlying issuer will decline in value. The transfer of risk pursuant to a derivative of this type may be complete or partial, and may be for the life of the related asset or for a shorter period. These derivatives may be used as a risk management tool for a pool of financial assets, providing the Fund with the opportunity to gain or reduce exposure to one or more reference securities or other financial assets (each, a Reference Asset ) without actually owning or selling such assets in order, for example, to increase or reduce a concentration risk or to diversify a portfolio. Conversely, these derivatives may be used by the Fund to reduce exposure to an owned asset without selling it.

Because the Fund would not own the Reference Assets, the Fund may not have any voting rights with respect to the Reference Assets, and in such cases all decisions related to the obligors or issuers of the



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Reference Assets, including whether to exercise certain remedies, will be controlled by the swap counterparties.

Total rate of return swaps and similar derivatives are subject to many risks, including the possibility that the market will move in a manner or direction that would have resulted in gain for the Fund had the swap or other derivative not been utilized (in which case it would have been better had the Fund not engaged in the interest rate hedging transactions), the risk of imperfect correlation between the risk sought to be hedged and the derivative transactions utilized, the possible inability of the counterparty to fulfill its obligations under the swap and potential illiquidity of the hedging instrument utilized, which may make it difficult for the Fund to close out or unwind one or more hedging transactions.

Total rate of return swaps and related derivatives are a relatively recent development in the financial markets. Consequently, there are certain legal, tax and market uncertainties that present risks in entering into such arrangements. There is currently little or no case law or litigation characterizing total rate of return swaps or related derivatives, interpreting their provisions, or characterizing their tax treatment. In addition, additional regulations and laws may apply to these types of derivatives that have not previously been applied. There can be no assurance that future decisions construing similar provisions to those in any swap agreement or other related documents or additional regulations and laws will not have an adverse effect on the Fund that utilizes these instruments.

*Commodities-Linked Equity Derivative Instrument Risk.* The Fund may invest in structured notes that are linked to one or more underlying commodities. Such structured notes provide exposure to the investment returns of physical commodities without actually investing directly in physical commodities. Such structured notes in which the Fund expects to invest are hybrid instruments that have substantial risks, including risk of loss of all or a significant portion of their principal value. Because the payouts on these notes are linked to the price change of the underlying commodities, these investments are subject to market risks that relate to the movement of prices in the commodities markets. They may also be subject to additional special risks that do not affect traditional equity and debt securities that may be greater than or in addition to the risks of derivatives in general, including risk of loss of interest, risk of loss of principal, lack of liquidity and risk of greater volatility.

*Risk of Loss of Interest.* If payment of interest on a structured note or other hybrid instrument is linked to the value of a particular commodity, futures contract, index or other economic variable, the Fund might not receive all (or a portion) of the interest due on its investment if there is a loss in value of the underlying instrument.

*Risk of Loss of Principal.* To the extent that the amount of the principal to be repaid upon maturity is linked to the value of a particular commodity, futures contract, index or other economic variable, the Fund might not receive all or a portion of the principal at maturity of the investment. At any time, the risk of loss associated with a particular instrument in the Fund's portfolio may be significantly higher than 50% of the value of the investment.

*Lack of Secondary Market.* A liquid secondary market may not exist for the specially created hybrid instruments the Fund buys, which may make it difficult for the Fund to sell them at an acceptable price or accurately value them.

*Risk of Greater Volatility.* The value of the commodities-linked equity derivative investments the Fund buys may fluctuate significantly because the values of the underlying investments to which they are linked are themselves extremely volatile. Additionally, economic leverage will increase the volatility of these hybrid instruments, as they may increase or decrease in value more quickly than the underlying commodity index, futures contract or other economic variable.

*The Investment Adviser is Not Registered as a Commodity Pool Operator.* The Investment Adviser has claimed an exclusion from the definition of the term commodity pool operator under the Commodity Exchange Act. Accordingly, the Fund's investments in derivative instruments described in the prospectus and



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this SAI are not limited by or subject to regulation under the Commodity Exchange Act or otherwise regulated by the Commodity Futures Trading Commission.

*Risks of Currency Transactions.* Currency transactions are also subject to risks different from those of other portfolio transactions. Because currency control is of great importance to the issuing governments and influences economic planning and policy, purchases and sales of currency and related instruments can be adversely affected by government exchange controls, limitations or restrictions on repatriation of currency, and manipulation, or exchange restrictions imposed by governments. These forms of governmental action can result in losses to the Fund if it is unable to deliver or receive currency or monies in settlement of obligations and could also cause hedges it has entered into to be rendered useless, resulting in full currency exposure as well as incurring transaction costs.

*Repurchase Agreements.* The Fund may enter into repurchase agreements. A repurchase agreement is an instrument under which the purchaser (i.e., the Fund) acquires a debt security and the seller agrees, at the time of the sale, to repurchase the obligation at a mutually agreed upon time and price, thereby determining the yield during the purchaser's holding period. This results in a fixed rate of return insulated from market fluctuations during such period. The underlying securities are ordinarily U.S. Treasury or other government obligations or high quality money market instruments. The Fund will require that the value of such underlying securities, together with any other collateral held by the Fund, always equals or exceeds the amount of the repurchase obligations of the counter party. The Fund's risk is primarily that, if the seller defaults, the proceeds from the disposition of the underlying securities and other collateral for the seller's obligation are less than the repurchase price. If the seller becomes insolvent, the Fund might be delayed in or prevented from selling the collateral. In the event of a default or bankruptcy by a seller, the Fund will promptly seek to liquidate the collateral. To the extent that the proceeds from any sale of such collateral upon a default in the obligation to repurchase are less than the repurchase price, the Fund will experience a loss.

The Investment Adviser, acting under the supervision of the Board of Trustees of the Fund, reviews the creditworthiness of those banks and dealers with which the Fund enters into repurchase agreements to evaluate these risks and monitors on an ongoing basis the value of the securities subject to repurchase agreements to ensure that the value is maintained at the required level. The Fund will not enter into repurchase agreements with the Investment Adviser or any of its affiliates.

If the financial institution which is a party to the repurchase agreement petitions for bankruptcy or becomes subject to the United States Bankruptcy Code, the law regarding the rights of the Fund is unsettled. As a result, under extreme circumstances, there may be a restriction on the Fund's ability to sell the collateral and the Fund would suffer a loss.

*Loans of Portfolio Securities.* Consistent with applicable regulatory requirements and the Fund's investment restrictions, the Fund may lend its portfolio securities to securities broker-dealers or financial institutions, provided that such loans are callable at any time by the Fund (subject to notice provisions described below), and are at all times secured by cash, cash equivalents or other liquid securities which are maintained in a segregated account pursuant to applicable regulations and that are at least equal to the market value, determined daily, of the loaned securities. The advantage of such loans is that the Fund continues to receive the income on the loaned securities while at the same time earns interest on the cash amounts deposited as collateral, which will be invested in short-term obligations. The Fund will not lend its portfolio securities if such loans are not permitted by the laws or regulations of any state in which its shares are qualified for sale. The Fund's loans of portfolio securities will be collateralized in accordance with applicable regulatory requirements and no loan will cause the value of all loaned securities to exceed 20% of the value of the Fund's total assets. The Fund's ability to lend portfolio securities may be limited by rating agency guidelines.

A loan may generally be terminated by the borrower on one business day notice, or by the Fund on five business days notice. If the borrower fails to deliver the loaned securities within five days after receipt of notice, the Fund could use the collateral to replace the securities while holding the borrower liable for any excess of replacement cost over

collateral. As with any extensions of credit, there are risks of delay in

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recovery and in some cases even loss of rights in the collateral should the borrower of the securities fail financially. However, these loans of portfolio securities will only be made to firms deemed by the Investment Adviser to be creditworthy and when the income that can be earned from such loans justifies the attendant risks. The Board of Trustees will oversee the creditworthiness of the contracting parties on an ongoing basis. Upon termination of the loan, the borrower is required to return the securities to the Fund. Any gain or loss in the market price during the loan period would inure to the Fund. The risks associated with loans of portfolio securities are substantially similar to those associated with repurchase agreements. Thus, if the counterparty to the loan petitions for bankruptcy or becomes subject to the United States Bankruptcy Code, the law regarding the rights of the Fund is unsettled. As a result, under extreme circumstances, there may be a restriction on the Fund's ability to sell the collateral and the Fund would suffer a loss. When voting or consent rights which accompany loaned securities pass to the borrower, the Fund will follow the policy of calling the loaned securities, to be delivered within one day after notice, to permit the exercise of such rights if the matters involved would have a material effect on the Fund's investment in such loaned securities. The Fund will pay reasonable finder's, administrative and custodial fees in connection with a loan of its securities.

*When Issued, Delayed Delivery Securities and Forward Commitments.* The Fund may enter into forward commitments for the purchase or sale of securities, including on a when issued or delayed delivery basis, in excess of customary settlement periods for the type of security involved. In some cases, a forward commitment may be conditioned upon the occurrence of a subsequent event, such as approval and consummation of a merger, corporate reorganization or debt restructuring (i.e., a when, as and if issued security). When such transactions are negotiated, the price is fixed at the time of the commitment, with payment and delivery taking place in the future, generally a month or more after the date of the commitment. While it will only enter into a forward commitment with the intention of actually acquiring the security, the Fund may sell the security before the settlement date if it is deemed advisable by the Investment Adviser.

Securities purchased under a forward commitment are subject to market fluctuation, and no interest (or dividends) accrues to the Fund prior to the settlement date. The Fund will segregate with its Custodian cash or other liquid securities in an aggregate amount at least equal to the amount of its outstanding forward commitments.

## **INVESTMENT RESTRICTIONS**

The Fund operates under the following restrictions that constitute fundamental policies that, except as otherwise noted, cannot be changed without the affirmative vote of the holders of a majority of the outstanding voting securities of the Fund voting together as a single class. In the event the Fund were to issue any preferred shares, the approval of a majority of such shares voting as a separate class would also be required. Such majority vote requires the lesser of (i) 67% of the Fund's applicable shares represented at a meeting at which more than 50% of the applicable shares outstanding are represented, whether in person or by proxy, or (ii) more than 50% of the Fund's applicable shares outstanding. Except as otherwise noted, all percentage limitations set forth below apply after a purchase or initial investment and any subsequent change in any applicable percentage resulting from market fluctuations does not require any action. The Fund may not:

(1) other than with respect to its concentrations in Gold Companies and Natural Resources Companies, invest more than 25% of its total assets, taken at market value at the time of each investment, in the securities of issuers in any particular industry. This restriction does not apply to investments in U.S. government securities and investments in the gold industry and the natural resources industries;

(2) purchase commodities or commodity contracts if such purchase would result in regulation of the Fund as a commodity pool operator;

(3) purchase or sell real estate, provided the Fund may invest in securities and other instruments secured by real estate or interests therein or issued by companies that invest in real estate or interests therein;

(4) make loans of money or other property, except that (i) the Fund may acquire debt obligations of any type (including through extensions of credit), enter into repurchase agreements and lend portfolio assets and (ii) the Fund may, up to 20% of the Fund's total assets, lend money or other property to other

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investment companies advised by the Investment Adviser pursuant to a common lending program to the extent permitted by applicable law;

(5) borrow money, except to the extent permitted by applicable law;

(6) issue senior securities, except to the extent permitted by applicable law; or

(7) underwrite securities of other issuers, except insofar as the Fund may be deemed an underwriter under applicable law in selling portfolio securities; provided, however, this restriction shall not apply to securities of any investment company organized by the Fund that are to be distributed pro rata as a dividend to its shareholders.

In addition, the Fund's investment objectives and its policies of investing at least 25% of its assets in normal circumstances in Gold Companies and in Natural Resource Companies are fundamental policies. Unless specifically stated as such, no policy of the Fund is fundamental and each policy may be changed by the Board of Trustees without shareholder approval.

**Table of Contents****MANAGEMENT OF THE FUND****Trustees and Officers**

Overall responsibility for management and supervision of the Fund rests with its Board of Trustees. The Board of Trustees approves all significant agreements between the Fund and the companies that furnish the Fund with services, including agreements with the Investment Adviser, the Fund's custodian and the Fund's transfer agent. The day-to-day operations of the Fund are delegated to the Investment Adviser.

The names and business addresses of the Trustees and principal officers of the Fund are set forth in the following table, together with their positions and their principal occupations during the past five years and, in the case of the Trustees, their other directorships during the past five years with certain other organizations and companies.

<b>Name (and Age), Position with the Fund and Business Address<sup>1</sup></b>	<b>Term of Office and Length of Time Served<sup>2</sup></b>	<b>Principal Occupation(s) During Past Five Years</b>	<b>Other Directorships Held by Trustee During Past Five Years</b>	<b>Number of Portfolios in Fund Complex<sup>3</sup> Overseen by Trustee</b>
<b>Interested Trustee<sup>4</sup></b>				
Salvatore M. Salibello (65)	Since 2005**	Certified Public Accountant and Managing Partner of the certified public accounting firm of Salibello & Broder LLP Since 1978	Director of Kid Brands, Inc. (group of companies in infant and juvenile products) and until September 2007, Director of Brooklyn Federal Bank Corp., Inc. (independent community bank)	3
<b>Independent Trustees<sup>5</sup></b>				
Anthony J. Colavita (75) <sup>6</sup> Trustee	Since 2005*	President of the law firm of Anthony J. Colavita, P.C.	None	34
James P. Conn (72) <sup>6</sup> Trustee	Since 2005**	Former Managing Director and Chief Investment Officer of Financial Security Assurance Holdings Ltd. (insurance holding company) (1992-1998)	Director of First Republic Bank (banking) through January 2008 and LaQuinta Corp. (hotels) through January 2006	18
Mario d'Urso (70) Trustee	Since 2005***	Chairman of Mittel Capital - Markets S.p.A. (2001-2008); Senator in the Italian Parliament (1996-2001)	None	5



Vincent D. Enright (67) Trustee	Since 2005***	Former Senior Vice President and Chief Financial Officer of KeySpan Energy Corp (public utility) (1994-1998)	Director of Echo Therapeutics, Inc. (therapeutics and diagnostics) and until September 2006, Director of Apton Corporation (pharmaceuticals)	16
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<b>Name (and Age), Position with the Fund and Business Address<sup>1</sup></b>	<b>Term of Office and Length of Time Served<sup>2</sup></b>	<b>Principal Occupation(s) During Past Five Years</b>	<b>Other</b>	<b>Number of Portfolios in Fund Complex<sup>3</sup> Overseen by</b>
			<b>Directorships Held by Trustee During Past Five Years</b>	<b>Trustee</b>
Frank J. Fahrenkopf, Jr. (71) Trustee	Since 2005*	President and Chief Executive Officer of the American Gaming Association; Co-Chairman of the Commission on Presidential Debates; Chairman of the Republican National Committee (1983-1989)	Director of First Republic Bank (banking)	6
Michael J. Melarkey (61) Trustee	Since 2005***	Partner in the law firm of Avansino, Melarkey, Knobel, Mulligan & McKenzie	Director of Southwest Gas Corporation (natural gas utility)	5
Anthonie C. van Ekris (76) Trustee	Since 2005**	Chairman and Chief Executive Officer of BALMAC International, Inc. (commodities and futures trading)	Director of Aurado Energy Inc. (oil and gas operations) through 2005	20
Salvatore J. Zizza (65) Trustee	Since 2005*	Chairman of Zizza & Company, Ltd. (consulting)	Director of Harbor BioSciences, Inc. (biotechnology) and Trans-Lux Corporation (business services); Director and Chief Executive Officer of General Employment Enterprises, Inc. (staffing); Chairman of each of BAM (manufacturing); Bergen Cove Realty Inc. (real estate); Bion Environmental Technologies (technology) (2005-2008); Director of Earl Scheib Inc. (automotive painting) through April 2009	28

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<b>Name (and Age), Position with the Fund and Business Address<sup>1</sup></b>	<b>Term of Office and Length of Time Served<sup>2</sup></b>	<b>Principal Occupation(s) During Past Five Years</b>
<b>Officers<sup>7</sup></b>		
Bruce N. Alpert (59) President	Since 2005	Executive Vice President (since 1999) and Chief Operating Officer (since 1988) of Gabelli Funds, LLC; Director of Teton Advisors, Inc. since 1998; Chairman of Teton Advisors, Inc. 2008 to 2010; President of Teton Advisors, Inc. 1998 through 2008; Senior Vice President of GAMCO Investors, Inc. since 2008; Officer of all of the registered investment companies in the Gabelli/GAMCO Fund Complex since 1988
Carter W. Austin (44) Vice President	Since 2005	Vice President of the Fund since 2005; Vice President of other closed-end funds in the Gabelli/GAMCO Fund Complex; Vice President of Gabelli Funds, LLC since 1996
Peter D. Goldstein (57) Chief Compliance Officer	Since 2005	Director of Regulatory Affairs for GAMCO Investors, Inc. since 2004; Chief Compliance Officer of all of the registered investment companies in the Gabelli/GAMCO Fund Complex
Molly A.F. Marion (56) Vice President and Ombudsman	Since 2005	Vice President and Ombudsman of the Fund since 2005; Vice President and Ombudsman of the Gabelli Equity Trust Inc. since 2009; Assistant Vice President of GAMCO Investors, Inc. since 2006; Assistant Portfolio Manager of Gabelli Fixed Income LLC from 1994 2004
Laurissa M. Martire (34) Vice President and Ombudsman	Since February 2010	Vice President and Ombudsman of the Fund since 2010; Vice President or Ombudsman of other closed-end funds in the Gabelli/GAMCO Fund Complex; Assistant Vice President of GAMCO Investors, Inc. since 2003
Agnes Mullady (52) Treasurer and Secretary	Since 2006	Senior Vice President of GAMCO Investors, Inc. since 2009; Vice President of Gabelli Funds, LLC since 2007; Officer of all of the registered investment companies in the Gabelli/GAMCO Fund Complex; Senior Vice President of U.S. Trust Company, N.A. and Treasurer and Chief Financial Officer of Excelsior Funds from 2004 2005;

(1) Address: One Corporate Center, Rye, NY 10580-1422, unless otherwise noted.

(2) The Fund's Board of Trustees is divided into three classes, each class having a term of three years. Each year the term of office of one class expires and the successor or successors elected to such class serve for a three year term. The three year term for each class is as follows:

- \* Term continues until the Fund's 2011 Annual Meeting of Shareholders and until their successors are duly elected and qualified.
  - \*\* Term continues until the Fund's 2012 Annual Meeting of Shareholders and until their successors are duly elected and qualified.
  - \*\*\* Term continues until the Fund's 2013 Annual Meeting of Shareholders and until their successors are duly elected and qualified.
- (3) The Fund Complex or the Gabelli/GAMCO Fund Complex includes all the registered funds that are considered part of the same fund complex as the Fund because they have common or affiliated investment advisers.
  - (4) Interested person of the Fund, as defined in the 1940 Act. Mr. Salibello may be considered an interested person of the Fund as a result of being a partner in an accounting firm that provides professional services to affiliates of the Investment Adviser.
  - (5) Trustees who are not considered to be interested persons of the Fund as defined in the 1940 Act are considered to be Independent Trustees.
  - (6) Trustee elected solely by holders of the Fund's Preferred Shares.
  - (7) Each officer will hold office for an indefinite term until the date he or she resigns or retires or until his or her successor is elected and qualified.

The Fund's governing documents do not set forth any specific qualifications to serve as a Trustee other than that a nominee for Trustee shall be at least 21 years of age and not older than such age, if any, as the

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Trustees may determine and shall not be under legal disability. The Trustees have not determined a maximum age.

The Board of Trustees believes that each Trustee's experience, qualifications, attributes or skills on an individual basis and in combination with those of other Trustees lead to the conclusion that each Trustee should serve in such capacity. Among the attributes or skills common to all Trustees are their ability to review critically and to evaluate, question, and discuss information provided to them, to interact effectively with the other Trustees, the Investment Adviser, the sub-administrator, other service providers, counsel and the Fund's independent registered public accounting firm, and to exercise effective and independent business judgment in the performance of their duties as Trustees. Each Trustee's ability to perform his duties effectively has been attained in large part through the Trustee's business, consulting or public service positions and through experience from service as a member of the Board of Trustees and one or more of the other funds in the Gabelli/GAMCO Fund Complex, public companies, or non-profit entities or other organizations as set forth above and below. Each Trustee's ability to perform his duties effectively also has been enhanced by his education, professional training and other life experiences.

*Anthony J. Colavita, Esq.* Mr. Colavita is a practicing attorney with over 49 years of experience including in the area of business law. He is the Chair of the Fund's Nominating Committee and is a member of the Fund's Proxy Voting Committee. Mr. Colavita also serves on comparable or other board committees with respect to other funds in the Fund Complex on whose boards he sits. Mr. Colavita also serves as a Trustee of a charitable remainder uni-trust. He formerly served as a Commissioner of the New York State Thruway Authority and as a Commissioner of the New York State Bridge Authority. He served for ten years as the elected Supervisor of the Town of Eastchester, New York, responsible for ten annual municipal budgets of approximately eight million dollars per year. Mr. Colavita formerly served as Special Counsel to the New York State Assembly for five years and as a Senior Attorney with the New York State Insurance Department. He was also formerly Chairman of the Westchester County Republican Party and the New York State Republican Party. Mr. Colavita received his Bachelor of Arts from Fairfield University and his Juris Doctor from Fordham University School of Law.

*James P. Conn.* Mr. Conn, the lead independent Trustee of the Fund, is a member of the Fund's Proxy Voting Committee. Mr. Conn also serves on comparable or other board committees for other funds in the Fund Complex on whose boards he sits. He was a senior business executive of an insurance holding company for much of his career, including service as Chief Investment Officer, and has been a director of several public companies in banking and other industries, for some of which he was lead Director and/or Chair of various committees. Mr. Conn received his Bachelor of Science in Business Administration from Santa Clara University.

*Mario d'Urso.* Mr. d'Urso was formerly a Senator and Undersecretary of Commerce in the Italian government. He is a member of the board of other funds in the Fund Complex. He is a former Chairman of Mittel Capital Market S.p.A., a boutique investment bank headquartered in Italy, and a former Partner and Managing Director of Kuhn Loeb & Co. and Shearson Lehman Brothers Co. He previously served as President of The Italy Fund, a closed-end fund investing mainly in Italian listed and non-listed companies. Mr. d'Urso received his Masters Degree in comparative law from George Washington University and was formerly a practicing attorney in Italy.

*Vincent D. Enright.* Mr. Enright was a senior executive and Chief Financial Officer (CFO) of an energy public utility for a total of four years. In accordance with his experience as a CFO, he is a member of the Fund's Audit Committee. Mr. Enright is also Chairman of the Fund's Proxy Voting Committee and a member of both multi-fund ad hoc Compensation Committees (described below under Trustees' Leadership Structure and Oversight Responsibilities) and serves on comparable or other board committees with respect to other funds in the Fund Complex on whose boards he sits. Mr. Enright is also a Director of a therapeutic and diagnostic company and serves as Chairman of its compensation committee and as a member of its audit committee. He was also a Director of a pharmaceutical company. Mr. Enright received his Bachelor of Science from Fordham University and completed the Advanced Management Program at Harvard University.



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*Frank J. Fahrenkopf, Jr.* Mr. Fahrenkopf is the President and Chief Executive Officer of the American Gaming Association (AGA), the trade group for the gaming industry. He is a member of the Fund's Audit Committee and serves in this same capacity with respect to other funds in the Fund Complex. He presently is Co-Chairman of the Commission on Presidential Debates, which is responsible for the widely-viewed Presidential debates during the quadrennial election cycle. Additionally, he serves as a board member of the International Republican Institute (IRI), which he founded in 1984. He served for many years as Chairman of the Pacific Democrat Union and Vice Chairman of the International Democrat Union, a worldwide association of political parties from the United States, Great Britain, France, Germany, Canada, Japan, Australia, and 20 other nations. Prior to becoming the AGA's first chief executive in 1995, Mr. Fahrenkopf was a partner in the law firm of Hogan & Hartson, where he chaired the International Trade Practice Group and specialized in regulatory, legislative, and corporate matters for multinational, foreign, and domestic clients. He also served as Chairman of the Republican National Committee for six years during Ronald Reagan's presidency. He is the former Chairman and remains a member of the Finance Committee of the Culinary Institute of America. He additionally has over 20 years' experience as a member of the board of directors of a bank. Mr. Fahrenkopf received his Bachelor of Arts from the University of Nevada, Reno and his Juris Doctor from Boalt Hall School of Law, U.C. Berkeley.

*Michael J. Melarkey.* Mr. Melarkey is a practicing attorney specializing in business, estate planning and gaming regulatory work with over 34 years of experience. He is a member of the Fund's Nominating Committee. Mr. Melarkey also serves in this same capacity with respect to some of the other funds in the Fund Complex on whose boards he sits. Mr. Melarkey also is a member of the multi-fund ad hoc Compensation Committee relating to certain officers of the closed-end funds in the Fund Complex. He is currently a Director of a natural gas utility company and chairs its Nominating and Corporate Governance Committee. Mr. Melarkey also acts as a Trustee and officer for several private charitable organizations, is an owner of two northern Nevada casinos and a real estate development company, and acts as a Trustee of one and an officer of another private oil and gas company. Mr. Melarkey received his Bachelor of Arts from the University of Nevada, Reno, his Juris Doctor from the University of San Francisco School of Law and his Masters of Law in Taxation from New York University Law School.

*Salvatore M. Salibello.* Mr. Salibello is a Certified Public Accountant and Managing Partner of an independent registered public accounting firm with 43 years of experience in public accounting. He is currently a director of a group of companies in infant and juvenile products and chairs its audit committee. Mr. Salibello was formerly a director of an independent community bank and chaired its audit committee. He is a member of the board of other funds in the Fund Complex. Mr. Salibello received his Bachelor of Business Administration in Accounting from St. Francis College and his Masters in Business Administration in Finance from Long Island University.

*Anthonie C. van Ekris.* Mr. van Ekris has been the Chairman and Chief Executive Officer of a global import/export company for 19 years. Mr. van Ekris serves on the boards of other funds in the Fund Complex and is the Chairman of one such fund's Nominating Committee and is also a member of the Proxy Voting Committee of some funds in the Fund Complex. He has over 55 years of experience as Chairman and/or Chief Executive Officer of public and private companies involved in the international trading or commodity trading businesses and had also served in both these capacities for nearly 20 years for a large public jewelry chain. Mr. van Ekris was formerly a Director of an oil and gas operations company and served on the boards of a number of public companies, and served for more than 10 years on the Advisory Board of the Salvation Army of Greater New York.

*Salvatore J. Zizza.* Mr. Zizza is the Chairman of a consulting firm. He is the Chair of the Fund's Audit Committee and has been designated the Fund's Audit Committee Financial Expert. Mr. Zizza is also a member of the Fund's Nominating Committee and both multi-fund ad hoc Compensation Committees. In addition, he serves on comparable or other board committees, including as lead independent director, with respect to other funds in the Fund Complex on whose boards he sits. Besides serving on the boards of many funds within the Fund Complex, he is currently a

Director of two other public companies and has previously served on the boards of several other public companies. He also previously served as the Chief Executive of a



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large NYSE-listed construction company. Mr. Zizza received his Bachelor of Arts and his Master of Business Administration from St. John's University, which also has awarded him an Honorary Doctorate in Commercial Sciences.

### **Trustees Leadership Structure and Oversight Responsibilities**

Overall responsibility for general oversight of the Fund rests with the Board of Trustees. The Board of Trustees does not have a Chairman. The Board of Trustees has appointed Mr. Conn as the lead independent Trustee. The lead independent Trustee presides over executive sessions of the Trustees and also serves between meetings of the Board of Trustees as a liaison with service providers, officers, counsel and other Trustees on a wide variety of matters including scheduling agenda items for Board meetings. Designation as such does not impose on the lead independent Trustee any obligations or standards greater than or different from other Trustees. The Board of Trustees has established a Nominating Committee and an Audit Committee to assist the Board of Trustees in the oversight of the management and affairs of the Fund. The Board of Trustees also has an ad hoc Proxy Voting Committee that exercises beneficial ownership responsibilities on behalf of the Fund in selected situations. From time to time the Board of Trustees establishes additional committees or informal working groups, such as pricing committees related to securities offerings by the Fund, to deal with specific matters or assigns one of its members to participate with Trustees or directors of other funds in the Gabelli/GAMCO Fund Complex on special committees or working groups that deal with complex-wide matters, such as the multi-fund ad hoc Compensation Committee relating to the compensation of the Chief Compliance Officer for all the funds in the Fund Complex and a separate multi-fund ad hoc Compensation Committee relating to certain officers of the closed-end funds in the Fund Complex.

All of the Fund's Trustees other than Mr. Salibello are independent Trustees, and the Board of Trustees believes they are able to provide effective oversight of the Fund's service providers. In addition to providing feedback and direction during Board meetings, the Trustees meet regularly in executive session and chair all committees of the Board of Trustees.

The Fund's operations entail a variety of risks including investment, administration, valuation and a range of compliance matters. Although the Investment Adviser, the sub-administrator and the officers of the Fund are responsible for managing these risks on a day-to-day basis within the framework of their established risk management functions, the Board of Trustees also addresses risk management of the Fund through its meetings and those of the committees and working groups. In particular, as part of its general oversight, the Board of Trustees reviews with the Investment Adviser at Board meetings the levels and types of risks, including options risk, being undertaken by the Fund, and the Audit Committee discusses the Fund's risk management and controls with the independent registered public accounting firm engaged by the Fund. The Board of Trustees reviews valuation policies and procedures and the valuations of specific illiquid securities. The Board of Trustees also receives periodic reports from the Fund's Chief Compliance Officer regarding compliance matters relating to the Fund and its major service providers, including results of the implementation and testing of the Fund's and such providers' compliance programs. The Board of Trustees' oversight function is facilitated by management reporting processes that are designed to provide visibility to the Board of Trustees about the identification, assessment, and management of critical risks and the controls and policies and procedures used to mitigate those risks. The Board of Trustees reviews its role in supervising the Fund's risk management from time to time and may make changes in its discretion at any time.

The Board of Trustees has determined that its leadership structure is appropriate for the Fund because it enables the Board of Trustees to exercise informed and independent judgment over matters under its purview, allocates responsibility among committees in a manner that fosters effective oversight and allows the Board of Trustees to devote appropriate resources to specific issues in a flexible manner as they arise. The Board of Trustees periodically reviews its leadership structure as well as its overall structure, composition and functioning and may make changes in its discretion at any time.



**Table of Contents****Board Committees**

The Trustees serving on the Fund's Nominating Committee are Anthony J. Colavita (Chair), Michael J. Melarkey and Salvatore J. Zizza. The Nominating Committee is responsible for recommending qualified candidates to the Board of Trustees in the event that a position is vacated or created. The Nominating Committee would consider recommendations by shareholders if a vacancy were to exist. Such recommendations should be forwarded to the Secretary of the Fund.

Vincent D. Enright, Frank J. Fahrenkopf, Jr. and Salvatore J. Zizza (Chair), who are not interested persons of the Fund as defined in the 1940 Act, serve on the Fund's Audit Committee. The Audit Committee is generally responsible for reviewing and evaluating issues related to the accounting and financial reporting policies and internal controls of the Fund and, as appropriate, the internal controls of certain service providers, overseeing the quality and objectivity of the Fund's financial statements and the audit thereof and acting as a liaison between the Board of Trustees and the Fund's independent registered public accounting firm.

The Trustees serving on the Fund's Proxy Voting Committee are Anthony J. Colavita, James P. Conn and Vincent D. Enright (Chair). If so determined by the Board of Trustees, the Proxy Voting Committee is authorized to exercise voting power and/or dispositive power over specific securities held in the Fund's portfolio for such period as the Board of Trustees may determine.

For the fiscal year ended December 31, 2010, the Board of Trustees held one (1) Nominating Committee meeting and two (2) Audit Committee meetings. The Proxy Voting Committee did not meet during the fiscal year ended December 31, 2010.

The Fund does not have a standing compensation committee, but does have representatives on a multi-fund ad hoc Compensation Committee relating to compensation of the Chief Compliance Officer for the funds and certain officers of the closed-end funds in the Fund Complex.

**Beneficial Ownership of Shares Held in the Fund and the Family of Investment Companies for each Trustee**

Set forth in the table below is the dollar range of equity securities in the Fund beneficially owned by each Trustee and the aggregate dollar range of equity securities in the Fund Complex beneficially owned by each Trustee.

Name of Trustee	Dollar Range of Equity Securities Held in the Fund	Aggregate Dollar Range of Equity Securities Held in Family of Investment Companies(1)(2)
<b>Interested Trustee</b>		
Salvatore M. Salibello	none	over \$100,000
<b>Independent Trustees</b>		
Anthony J. Colavita	\$1-\$10,000	over \$100,000
James P. Conn	\$50,001-\$100,000	over \$100,000
Mario d'Urso	none	over \$100,000
Vincent D. Enright	none	over \$100,000
Frank J. Fahrenkopf, Jr.	none	\$1-\$10,000
Michael J. Melarkey	\$10,001-\$50,000	over \$100,000
Anthonie C. van Ekris*	\$10,001-\$50,000	over \$100,000

Salvatore J. Zizza	\$10,001-\$50,000	over \$100,000
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All shares were valued as of December 31, 2010

\* Mr. van Ekris beneficially owns less than 1% of the common stock of LICT Corp., having a value of \$63,600 as of December 31, 2010. LICT Corp. may be deemed to be controlled by Mario J. Gabelli and in that event would be deemed to be under common control with the Fund's Investment Adviser.

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- (1) This information has been furnished by each Trustee as of December 31, 2010. Beneficial Ownership is determined in accordance with Rule 16a-1(a)(2) of the Securities Exchange Act of 1934, as amended (the 1934 Act ).
- (2) The term Family of Investment Companies includes two or more, registered funds that share the same investment adviser or principal underwriter and hold themselves out to investors, as related companies for purposes of investment and investor services. Currently the registered funds that comprise the Fund Complex are identical to those that comprise the Family of Investment Companies.

As of December 31, 2010, the Trustees and officers of the Fund as a group owned less than 1% of the outstanding common shares or preferred shares of the Fund. There are no control persons of the Fund.

**Remuneration of Trustees**

The Fund pays each Trustee who is not an officer or employee of the Investment Adviser or its affiliates a fee of \$6,000 per annum plus \$1,000 per Board meeting attended and \$500 per standing committee meeting attended, together with each Trustee's actual out-of-pocket expenses relating to attendance at such meetings. In addition, the Audit Committee Chairman receives an annual fee of \$3,000, the Nominating Committee Chairman receives an annual fee of \$2,000, and the Lead Trustee receives an annual fee of \$1,000. A Trustee may receive a single meeting fee, allocated among the participating funds, for participation in certain meetings held on behalf of multiple funds.

The following table shows the compensation that the Trustees earned in their capacity as Trustees during the year ended December 31, 2010. The table also shows, for the year ended December 31, 2010, the compensation Trustees earned in their capacity as Trustees for other funds in the Gabelli Fund Complex.

**COMPENSATION TABLE FOR THE YEAR ENDED DECEMBER 31, 2010**

Name of Trustee	Compensation From the Fund	Total Compensation from the Fund and Fund Complex Paid to Trustees <sup>(1)(2)</sup>
<b>Interested Trustee</b>		
Salvatore M. Salibello	\$ 10,333	\$ 37,000
<b>Independent Trustees</b>		
Anthony J. Colavita	\$ 12,611	\$ 254,500
James P. Conn	\$ 12,125	\$ 144,500
Mario d'Urso	\$ 10,125	\$ 46,500
Vincent D. Enright	\$ 11,250	\$ 131,000
Frank J. Fahrenkopf, Jr.	\$ 11,100	\$ 73,500
Michael J. Melarkey	\$ 11,750	\$ 50,000
Anthonie C. van Ekris	\$ 10,250	\$ 124,000
Salvatore J. Zizza	\$ 15,778	\$ 212,000
Total	\$ 105,322	\$ 1,073,000

- (1) Represents the total compensation paid to such persons during the year ended December 31, 2010 by investment companies (including the Fund) or portfolios thereof from which such person receives compensation that are considered part of the same fund complex as the Fund because they have common or affiliated investment advisers. The total does not include, among other things, out-of-pocket Trustee expenses.
- (2) No Trustees deferred any portion of compensation paid in calendar year 2010.

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### **Indemnification of Officers and Trustees; Limitations on Liability**

The Agreement and Declaration of Trust of the Fund provides that the Fund will indemnify its Trustees and officers and may indemnify its employees or agents against liabilities and expenses incurred in connection with litigation in which they may be involved because of their positions with the Fund to the fullest extent permitted by applicable law. However, nothing in the Agreement and Declaration of Trust of the Fund protects or indemnifies a trustee, officer, employee or agent of the Fund against any liability to which such person would otherwise be subject in the event of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her position.

### **Investment Advisory and Administrative Arrangements**

Gabelli Funds, LLC acts as the Fund's Investment Adviser pursuant to the Investment Advisory Agreement with the Fund and the Investment Adviser (the "Investment Advisory Agreement"). The Investment Adviser is a New York limited liability company with principal offices located at One Corporate Center, Rye, New York 10580-1422 and is registered under the Investment Advisers Act of 1940. The Investment Adviser was organized in 1999 and is the successor to Gabelli Funds, Inc., which was organized in 1980. As of September 30, 2010, the Investment Adviser acted as registered investment adviser to 25 management investment companies with aggregate net assets of \$16.6 billion. The Investment Adviser, together with the other affiliated investment advisers noted below had assets under management totaling approximately \$30.2 billion as of September 30, 2010. GAMCO Asset Management Inc., an affiliate of the Investment Adviser, acts as investment adviser for individuals, pension trusts, profit sharing trusts and endowments, and as a sub adviser to management investment companies having aggregate assets of \$12.4 billion under management as of September 30, 2010. Gabelli Securities, Inc., an affiliate of the Investment Adviser, acts as investment adviser for investment partnerships and entities having aggregate assets of approximately \$466 million as of September 30, 2010. Teton Advisors, Inc., an affiliate of the Investment Adviser, acts as investment manager to the GAMCO Westwood Funds and separately managed accounts having aggregate assets of approximately \$667 million under management as of September 30, 2010.

Affiliates of the Investment Adviser may, in the ordinary course of their business, acquire for their own account or for the accounts of their investment advisory clients, significant (and possibly controlling) positions in the securities of companies that may also be suitable for investment by the Fund. The securities in which the Fund might invest may thereby be limited to some extent. For instance, many companies in the past several years have adopted so-called "poison pill" or other defensive measures designed to discourage or prevent the completion of non-negotiated offers for control of the company. Such defensive measures may have the effect of limiting the shares of the company which might otherwise be acquired by the Fund if the affiliates of the Investment Adviser or their investment advisory accounts have or acquire a significant position in the same securities. However, the Investment Adviser does not believe that the investment activities of its affiliates will have a material adverse effect upon the Fund in seeking to achieve its investment objectives. Securities purchased or sold pursuant to contemporaneous orders entered on behalf of the investment company accounts of the Investment Adviser or the investment advisory accounts managed by its affiliates for their unaffiliated clients are allocated pursuant to procedures, approved by the Board of Trustees, believed to be fair and not disadvantageous to any such accounts. In addition, all such orders are accorded priority of execution over orders entered on behalf of accounts in which the Investment Adviser or its affiliates have a substantial pecuniary interest. The Investment Adviser may on occasion give advice or take action with respect to other clients that differs from the actions taken with respect to the Fund. The Fund may invest in the securities of companies that are investment management clients of GAMCO Asset Management Inc. In addition, portfolio companies or their officers or directors may be minority shareholders of the Investment Adviser or its affiliates.

The Investment Adviser is a wholly-owned subsidiary of GAMCO Investors, Inc., a New York corporation, whose Class A Common Stock is traded on the New York Stock Exchange (the NYSE ) under the symbol GBL. Mr. Mario J. Gabelli may be deemed a controlling person of the Investment Adviser on



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the basis of his ownership of a majority of the stock and voting power of GGCP, Inc., which owns a majority of the capital stock and voting power of GAMCO Investors, Inc.

Under the terms of the Investment Advisory Agreement, the Investment Adviser manages the portfolio of the Fund in accordance with its stated investment objectives and policies, makes investment decisions for the Fund, places orders to purchase and sell securities on behalf of the Fund and manages its other business and affairs, all subject to the supervision and direction of the Fund's Board of Trustees. In addition, under the Investment Advisory Agreement, the Investment Adviser oversees the administration of all aspects of the Fund's business and affairs and provides, or arranges for others to provide, at the Investment Adviser's expense, certain enumerated services, including maintaining the Fund's books and records, preparing reports to the Fund's shareholders and supervising the calculation of the net asset value of the Fund's shares. Expenses of computing the net asset value of the Fund, including any equipment or services obtained solely for the purpose of pricing shares or valuing its investment portfolio, underwriting compensation and reimbursements in connection with sales of its securities, the costs of utilizing a third party to monitor and collect class action settlements on behalf of the Fund, compensation to an administrator for certain SEC filings on behalf of the Fund, the fees and expenses of Trustees who are not officers or employees of the Investment Adviser or its affiliates, compensation and other expenses of employees of the Fund as approved by the Trustees, the pro rata costs of the Fund's Chief Compliance Officer, charges of the custodian, any sub-custodian and transfer agent and dividend paying agent, expenses in connection with the Automatic Dividend Reinvestment and Voluntary Cash Purchase Plan, accounting and pricing costs, membership fees in trade associations, expenses for legal and independent accountants' services, costs of printing proxies, share certificates and shareholder reports, fidelity bond coverage for Fund officers and employees, Trustee and officers' errors and omissions insurance coverage, and stock exchange listing fees will be an expense of the Fund unless the Investment Adviser voluntarily assumes responsibility for such expenses.

The Investment Advisory Agreement combines investment advisory and certain administrative responsibilities into one agreement. For services rendered by the Investment Adviser on behalf of the Fund under the Fund's Investment Advisory Agreement, the Fund pays the Investment Adviser a fee computed weekly and paid monthly at the annual rate of 1.00% of the average weekly net assets of the Fund. The Fund's average weekly net assets will be deemed to be the average weekly value of the Fund's total assets minus the sum of the Fund's liabilities (such liabilities exclude the aggregate liquidation preference of outstanding preferred shares and accumulated dividends, if any, on those shares and the outstanding principal amount of any debt securities the proceeds of which were used for investment purposes, plus accrued and unpaid interest thereon). For purposes of the calculation of the fees payable to the Investment Adviser by the Fund, average weekly net assets of the Fund are determined at the end of each month on the basis of its average net assets for each week during the month. The assets for each weekly period are determined by averaging the net assets at the end of a week with the net assets at the end of the prior week.

The total investment advisory fees were \$8,147,057, \$4,105,926 and \$5,343,714 for the twelve months ended December 31, 2010, December 31, 2009 and December 31, 2008, respectively.

The Investment Advisory Agreement provides that, in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard for its obligations and duties thereunder, the Investment Adviser is not liable for any error of judgment or mistake of law or for any loss suffered by the Fund. As part of the Investment Advisory Agreement, the Fund has agreed that the name Gabelli is the Investment Adviser's property, and that in the event the Investment Adviser ceases to act as an investment adviser to the Fund, the Fund will change its name to one not including Gabelli.

Pursuant to its terms, the Investment Advisory Agreement will remain in effect with respect to the Fund from year to year if approved annually (i) by the Fund's Board of Trustees or by the holders of a majority of its outstanding voting securities and (ii) by a majority of the Trustees who are not interested persons (as defined in the 1940 Act) of any party to the Investment Advisory Agreement, by vote cast in person at a meeting called for the purpose of voting on

such approval.

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The Investment Advisory Agreement was most recently approved by a majority of the Fund's Board of Trustees, including a majority of the Trustees who are not interested persons as that term is defined in the 1940 Act, at an in person meeting of the Board of Trustees held on February 24, 2010.

The Investment Advisory Agreement terminates automatically on its assignment and may be terminated without penalty on 60 days' written notice at the option of either party thereto or by a vote of a majority (as defined in the 1940 Act) of the Fund's outstanding voting securities.

**Portfolio Manager Information*****Other Accounts Managed***

The information below lists the number of other accounts for which each portfolio manager was primarily responsible for the day-to-day management as of the fiscal year ended December 31, 2010.

Name of Portfolio Manager or Team Member	Type of Accounts	Number of Accounts Managed		Total Assets		Number of Accounts Managed with Advisory Total Assets	
		Number of Accounts Managed	Total Assets	Fee Based on Performance	with Advisory fee Based on Performance		
1. Caesar M.P. Bryan	Registered Investment Companies:	4	\$ 852.0 million	0	\$ 0	0	\$ 0
	Other Pooled Investment Vehicles:	2	\$ 10.4 million	2	\$ 10.4 million	2	\$ 10.4 million
	Other Accounts:	10	\$ 64.3 million	0	\$ 0	0	\$ 0
2. Barbara G. Marcin	Registered Investment Companies:	3	\$ 2.0 billion	1	\$ 1.9 billion	1	\$ 1.9 billion
	Other Pooled Investment Vehicles:	1	\$ 36.0K	1	\$ 36.0K	1	\$ 36.0K
	Other Accounts:	48	\$ 157.8 million	0	\$ 0	0	\$ 0
3. Vincent Hugonnard-Roche	Registered Investment Companies:	0	\$ 0	0	\$ 0	0	\$ 0
	Other Pooled Investment Vehicles:	1	\$ 25.4 million	0	\$ 0	0	\$ 0
	Other Accounts:	1	\$ 339.9K	0	\$ 0	0	\$ 0

**Potential Conflicts of Interest**

Actual or apparent conflicts of interest may arise when a portfolio manager for a fund also has day-to-day management responsibilities with respect to one or more other funds or accounts. These potential conflicts include:

*Allocation of Limited Time and Attention.* A portfolio manager who is responsible for managing multiple funds or other accounts may devote unequal time and attention to the management of those funds or accounts. As a result, the portfolio manager may not be able to formulate as complete a strategy or identify equally attractive investment opportunities for each of those accounts as might be the case if he or she were to devote substantially more attention to the management of a single fund.

*Allocation of Limited Investment Opportunities.* If a portfolio manager identifies an investment opportunity that may be suitable for multiple funds or other accounts, a fund may not be able to take full advantage of that opportunity because the opportunity may be allocated among several of these funds or accounts.

*Pursuit of Differing Strategies.* At times, a portfolio manager may determine that an investment opportunity may be appropriate for only some of the funds or accounts for which he or she exercises investment responsibility, or may decide that certain of the funds or accounts should take differing positions with respect to a particular security. In these cases, the portfolio manager may place separate transactions for one or more funds or accounts which may affect the market price of the security or the execution of the transaction, or both, to the detriment of one or more other funds or accounts.

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*Selection of Broker/Dealers.* Portfolio managers may be able to select or influence the selection of the brokers and dealers that are used to execute securities transactions for the funds or accounts that they supervise. In addition to providing execution of trades, some brokers and dealers provide portfolio managers with brokerage and research services which may result in the payment of higher brokerage fees than might otherwise be available. These services may be more beneficial to certain funds or accounts than to others. Although the payment of brokerage commissions is subject to the requirement that the portfolio manager determine in good faith that the commissions are reasonable in relation to the value of the brokerage and research services provided to the fund, a portfolio manager's decision as to the selection of brokers and dealers could yield disproportionate costs and benefits among the funds or other accounts that he or she manages. In addition, with respect to certain types of accounts (such as pooled investment vehicles and other accounts managed for organizations and individuals) the Investment Adviser may be limited by the client concerning the selection of brokers or may be instructed to direct trades to particular brokers. In these cases, the Investment Adviser or its affiliates may place separate, non-simultaneous transactions in the same security for a fund and another account that may temporarily affect the market price of the security or the execution of the transaction, or both, to the detriment of the fund or the other accounts.

*Variation in Compensation.* A conflict of interest may arise where the financial or other benefits available to the portfolio manager differ among the funds or accounts that he or she manages. If the structure of the Investment Adviser's management fee or the portfolio manager's compensation differs among funds or accounts (such as where certain funds or accounts pay higher management fees or performance-based management fees), the portfolio manager may be motivated to favor certain funds or accounts over others. The portfolio manager also may be motivated to favor funds or accounts in which he or she has an investment interest, or in which the Investment Adviser or its affiliates have investment interests. Similarly, the desire to maintain assets under management or to enhance a portfolio manager's performance record or to derive other rewards, financial or otherwise, could influence the portfolio manager in affording preferential treatment to those funds or other accounts that could most significantly benefit the portfolio manager.

The Investment Adviser and the Fund have adopted compliance policies and procedures that are designed to address the various conflicts of interest that may arise for the Investment Adviser and its staff members. However, there is no guarantee that such policies and procedures will be able to detect and prevent every situation in which an actual or potential conflict may arise.

## **Compensation Structure**

The compensation of the portfolio managers is reviewed annually and structured to enable the Investment Adviser to attract and retain highly qualified professionals in a competitive environment. The portfolio managers named above receive a compensation package that includes a minimum draw or base salary, equity-based incentive compensation via awards of stock options, and incentive based variable compensation based on a percentage of net revenues received by the Investment Adviser for managing the Fund to the extent that it exceeds a minimum level of compensation. This method of compensation is based on the premise that superior long-term performance in managing a portfolio will be rewarded through growth of assets through appreciation and cash flow. Incentive based equity compensation is based on an evaluation of quantitative and qualitative performance evaluation criteria. Mr. Hugonnard-Roche also may receive a discretionary bonus based primarily on qualitative performance evaluation criteria.

Compensation for managing other accounts is based on a percentage of net revenues received by the Investment Adviser for managing the account. Compensation for managing the pooled investment vehicles and other accounts that have a performance-based fee will have two components. One component of the fee is based on a percentage of net revenues received by the Investment Adviser for managing the account or pooled investment vehicle. The second component of the fee is based on absolute performance from which a percentage of such fee is paid to the portfolio

manager.

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### **Portfolio Holdings Information**

Employees of the Investment Adviser and its affiliates will often have access to information concerning the portfolio holdings of the Fund. The Fund and the Investment Adviser have adopted policies and procedures that require all employees to safeguard proprietary information of the Fund, which includes information relating to the Fund's portfolio holdings as well as portfolio trading activity of the Investment Adviser with respect to the Fund (collectively, Portfolio Holdings Information). In addition, the Fund and the Investment Adviser have adopted policies and procedures providing that Portfolio Holdings Information may not be disclosed except to the extent that it is (a) made available to the general public by posting on the Fund's website or filed as part of a required filing on Form N-Q or N-CSR or (b) provided to a third party for legitimate business purposes or regulatory purposes, that has agreed to keep such data confidential under terms approved by the Investment Adviser's legal department or outside counsel, as described below. The Investment Adviser will examine each situation under (b) with a view to determine that release of the information is in the best interest of the Fund and their shareholders and, if a potential conflict between the Investment Adviser's interests and the Fund's interests arises, to have such conflict resolved by the Chief Compliance Officer or those Directors who are not considered to be interested persons, as defined in the 1940 Act (the Independent Directors). These policies further provide that no officer of the Fund or employee of the Investment Adviser shall communicate with the media about the Fund without obtaining the advance consent of the Chief Executive Officer, Chief Operating Officer, or General Counsel of the Investment Adviser.

Under the foregoing policies, the Fund currently may disclose Portfolio Holdings Information in the circumstances outlined below. Disclosure generally may be either on a monthly or quarterly basis with no time lag in some cases and with a time lag of up to 60 days in other cases (with the exception of proxy voting services which require a regular download of data):

- (1) To regulatory authorities in response to requests for such information and with the approval of the Chief Compliance Officer of the Fund;
- (2) To mutual fund rating and statistical agencies and to persons performing similar functions where there is a legitimate business purpose for such disclosure and such entity has agreed to keep such data confidential until at least it has been made public by the Investment Adviser;
- (3) To service providers of the Fund, as necessary for the performance of their services to the Fund and to the Board of Trustees, where such entity has agreed to keep such data confidential until at least it has been made public by the Investment Adviser. The Fund's current service providers that may receive such information are its administrator, sub-administrator, custodian, independent registered public accounting firm, legal counsel, and financial printers;
- (4) To firms providing proxy voting and other proxy services provided such entity has agreed to keep such data confidential until at least it has been made public by the Investment Adviser;
- (5) To certain broker dealers, investment advisers, and other financial intermediaries for purposes of their performing due diligence on the Fund and not for dissemination of this information to their clients or use of this information to conduct trading for their clients. Disclosure of Portfolio Holdings Information in these circumstances requires the broker, dealer, investment adviser, or financial intermediary to agree to keep such information confidential until it has been made public by the Investment Adviser and is further subject to prior approval of the Chief Compliance Officer of the Fund and shall be reported to the Board of Trustees at the next quarterly meeting; and
- (6) To consultants for purposes of performing analysis of the Fund, which analysis may be used by the consultant with its clients or disseminated to the public, provided that such entity shall have agreed to keep such information confidential until at least it has been made public by the Investment Adviser.

As of the date of this SAI, the Fund makes information about portfolio securities available to its administrator, sub-administrator, custodian, and proxy voting services on a daily basis, with no time lag, to its typesetter on a quarterly basis with a ten day time lag, to its financial printers on a quarterly basis with a



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forty-five day time lag, and its independent registered public accounting firm and legal counsel on an as needed basis with no time lag. The names of the Fund's administrator, custodian, independent registered public accounting firm, and legal counsel are set forth in this SAI. The Fund's proxy voting service is Broadridge Investor Communication Services. Bowne & Co., Inc. provides typesetting services for the Fund and the Fund selects from a number of financial printers who have agreed to keep such information confidential until at least it has been made public by the Investment Adviser. Other than those arrangements with the Fund's service providers and proxy voting service, the Fund has no ongoing arrangements to make available information about the Fund's portfolio securities prior to such information being disclosed in a publicly available filing with the SEC that is required to include the information.

Disclosures made pursuant to a confidentiality agreement are subject to periodic confirmation by the Chief Compliance Officer of the Fund that the recipient has utilized such information solely in accordance with the terms of the agreement. Neither the Fund, nor the Investment Adviser, nor any of the Investment Adviser's affiliates will accept on behalf of itself, its affiliates, or the Fund any compensation or other consideration in connection with the disclosure of portfolio holdings of the Fund. The Board of Trustees will review such arrangements annually with the Fund's Chief Compliance Officer.

**Ownership of Shares in the Fund**

As of December 31, 2010, the portfolio managers of the Fund own the following amounts of equity securities of the Fund.

Caesar M.P. Bryan	\$ 10,000-25,000
Barbara G. Marciniak	\$ 25,001-50,000
Vincent Hugonnard-Roche	None

**DIVIDENDS AND DISTRIBUTIONS**

The Fund is subject to Section 19(b) of the 1940 Act and Rule 19b-1 thereunder which restricts the ability of the Fund to make distributions of long-term capital gains.

To the extent the Fund's total distributions for a year exceed its net investment company taxable income (interest, dividends and net short-term capital gains in excess of expenses) and net realized long-term capital gains for that year, the excess would generally constitute a tax-free return of capital up to the amount of a shareholder's tax basis in the common shares. Any distributions which (based upon the Fund's full year performance) constitute a tax-free return of capital would reduce a shareholder's tax basis in the common shares, thereby increasing such shareholder's potential gain or reducing his or her potential loss on the sale of the common shares. Any amounts distributed to a shareholder in excess of the basis in the common shares would generally be taxable to the shareholder as capital gain. See

Taxation. Distribution notices provided by the Fund to its shareholders will clearly indicate what portion of each distribution would constitute net income, net capital gains, and return of capital based on information available to the Fund for the relevant period at the time the distribution is declared. The final determination of the source of such distributions for federal income tax purposes will be made shortly after year end based on the Fund's actual net investment company taxable income and net capital gain for that year and would be communicated to shareholders promptly. In the event that the Fund distributes amounts in excess of its investment company taxable income and net capital gain, such distributions will decrease the Fund's total assets and, therefore, have the likely effect of increasing the Fund's expense ratio, as the Fund's fixed expenses will become a larger percentage of the Fund's average net assets. In addition, in order to make such distributions, the Fund may have to sell a portion of its investment portfolio at a time when independent investment judgment may not dictate such action.



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**PORTFOLIO TRANSACTIONS**

Subject to policies established by the Board of Trustees of the Fund, the Investment Adviser is responsible for placing purchase and sale orders and the allocation of brokerage on behalf of the Fund. Transactions in equity securities are in most cases effected on U.S. stock exchanges and involve the payment of negotiated brokerage commissions. There may be no stated commission in the case of securities traded in over-the-counter markets, but the prices of those securities may include undisclosed commissions or mark-ups. Principal transactions are not entered into with affiliates of the Fund. However, Gabelli & Company, Inc. may execute transactions in the over-the-counter markets on an agency basis and receive a stated commission therefrom. To the extent consistent with applicable provisions of the 1940 Act and the rules and exemptions adopted by the SEC thereunder, as well as other regulatory requirements, the Fund's Board of Trustees has determined that portfolio transactions may be executed through Gabelli & Company, Inc. and its broker-dealer affiliates if, in the judgment of the Investment Adviser, the use of those broker-dealers is likely to result in price and execution at least as favorable as those of other qualified broker-dealers, and if, in particular transactions, the affiliated broker-dealers charge the Fund a rate consistent with that charged to comparable unaffiliated customers in similar transactions and comparable to rates charged by other broker-dealers for similar transactions. The Fund has no obligations to deal with any broker or group of brokers in executing transactions in portfolio securities. In executing transactions, the Investment Adviser seeks to obtain the best price and execution for the Fund, taking into account such factors as price, size of order, difficulty of execution and operational facilities of the firm involved and the firm's risk in positioning a block of securities. While the Investment Adviser generally seeks reasonably competitive commission rates, the Fund does not necessarily pay the lowest commission available.

Subject to obtaining the best price and execution, brokers who provide supplemental research, market and statistical information, or other services (e.g., wire services) to the Investment Adviser or its affiliates may receive orders for transactions by the Fund. The term "research, market and statistical information" includes advice as to the value of securities, and advisability of investing in, purchasing or selling securities, and the availability of securities or purchasers or sellers of securities, and furnishing analyses and reports concerning issues, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts. Information so received will be in addition to and not in lieu of the services required to be performed by the Investment Adviser under the Investment Advisory Agreement and the expenses of the Investment Adviser will not necessarily be reduced as a result of the receipt of such supplemental information. Such information may be useful to the Investment Adviser and its affiliates in providing services to clients other than the Fund, and not all such information is used by the Investment Adviser in connection with the Fund. Conversely, such information provided to the Investment Adviser and its affiliates by brokers and dealers through whom other clients of the Investment Adviser and its affiliates effect securities transactions may be useful to the Investment Adviser in providing services to the Fund.

Although investment decisions for the Fund are made independently from those for the other accounts managed by the Investment Adviser and its affiliates, investments of the kind made by the Fund may also be made for those other accounts. When the same securities are purchased for or sold by the Fund and any of such other accounts, it is the policy of the Investment Adviser and its affiliates to allocate such purchases and sales in a manner deemed fair and equitable over time to all of the accounts, including the Fund.

**PORTFOLIO TURNOVER**

Portfolio turnover rate is calculated by dividing the lesser of an investment company's annual sales or purchases of portfolio securities by the monthly average value of securities in its portfolio during the year, excluding portfolio securities the maturities of which at the time of acquisition were one year or less. A high rate of portfolio turnover involves correspondingly greater brokerage commission expense than a lower rate, which expense must be borne by

the Fund and indirectly by its shareholders. The portfolio turnover rate may vary from year to year and will not be a factor when the Investment Adviser determines that portfolio changes are appropriate. For example, an increase in the Fund's participation in risk arbitrage situations would increase

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the Fund's portfolio turnover rate. A higher rate of portfolio turnover may also result in taxable gains being passed to shareholders sooner than would otherwise be the case. The investment policies of the Fund, including its strategy of writing covered call options on securities in its portfolio, is expected to result in portfolio turnover that is higher than that of other investment companies, and is expected to be higher than 100%. For the years ending December 31, 2009 and 2010, the portfolio turnover rates were 61.0% and 51.5%, respectively.

## **TAXATION**

The following discussion is a brief summary of certain U.S. federal income tax considerations affecting the Fund and the purchase, ownership and disposition of the Fund's shares. This discussion assumes you are a U.S. person and that you hold your shares as capital assets. This discussion is based upon current provisions of the Internal Revenue Code of 1986, as amended (the Code), the regulations promulgated thereunder and judicial and administrative authorities, all of which are subject to change or differing interpretations by the courts or the Internal Revenue Service (the IRS), possibly with retroactive effect. No ruling has been or will be sought from the IRS regarding any matter discussed herein. Counsel to the Fund has not rendered and will not render any legal opinion regarding any tax consequences relating to the Fund or an investment in the Fund. No attempt is made to present a detailed explanation of all U.S. federal tax concerns affecting the Fund and its shareholders (including shareholders owning large positions in the Fund).

**The discussions set forth herein and in the prospectus do not constitute tax advice and potential investors are urged to consult their own tax advisers to determine the tax consequences to them of investing in the Fund.**

### **Taxation of the Fund**

The Fund has elected to be treated and has qualified, and intends to continue to qualify annually, as a regulated investment company under Subchapter M of the Code. Accordingly, the Fund must, among other things, meet the following requirements regarding the source of its income and the diversification of its assets:

(i) The Fund must derive in each taxable year at least 90% of its gross income from the following sources, which are referred to herein as Qualifying Income: (a) dividends, interest (including tax-exempt interest), payments with respect to certain securities loans, and gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including but not limited to gain from options, futures and forward contracts) derived with respect to its business of investing in such stock, securities or foreign currencies; and (b) net income derived from interests in publicly traded partnerships that are treated as partnerships for U.S. federal income tax purposes and that derive less than 90% of their gross income from the items described in clause (a) above (each a Qualified Publicly Traded Partnership).

(ii) The Fund must diversify its holdings so that, at the end of each quarter of each taxable year (a) at least 50% of the market value of the Fund's total assets is represented by cash and cash items, U.S. government securities, the securities of other regulated investment companies and other securities, with such other securities limited, in respect of any one issuer, to an amount not greater than 5% of the value of the Fund's total assets and not more than 10% of the outstanding voting securities of such issuer and (b) not more than 25% of the market value of the Fund's total assets is invested in the securities of (I) any one issuer (other than U.S. government securities and the securities of other regulated investment companies), (II) any two or more issuers (other than regulated investment companies) that the Fund controls and that are determined to be engaged in the same business or similar or related trades or businesses or (III) any one or more Qualified Publicly Traded Partnerships.

Income from the Fund's investments in grantor trusts and equity interest of MLPs that are not Qualified Publicly Traded Partnerships (if any) will be Qualifying Income to the extent it is attributable to items of income of such trust

or MLP that would be Qualifying Income if earned directly by the Fund.

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The Fund's investments in partnerships, including in Qualified Publicly Traded Partnerships, may result in the Fund being subject to state, local or foreign income, franchise or withholding tax liabilities.

As a regulated investment company, the Fund generally will not be subject to U.S. federal income tax on income and gains that the Fund distributes to its shareholders, provided that it distributes each taxable year at least the sum of (i) 90% of the Fund's investment company taxable income (which includes, among other items, dividends, interest and the excess of any net short-term capital gain over net long-term capital loss and other taxable income, other than any net long-term capital gain (as defined below), reduced by deductible expenses) determined without regard to the deduction for dividends paid and (ii) 90% of the Fund's net tax-exempt interest income (the excess of its gross tax-exempt interest over certain disallowed deductions). The Fund intends to distribute substantially all of such income at least annually. The Fund will be subject to income tax at regular corporate rates on any taxable income or gains that it does not distribute to its shareholders.

The Code imposes a 4% nondeductible federal excise tax on the Fund to the extent the Fund does not distribute by the end of any calendar year an amount at least equal to the sum of (i) 98% of its ordinary income (not taking into account any capital gain or loss) for the calendar year, (ii) 98% of its capital gain in excess of its capital loss (adjusted for certain ordinary losses) for a one-year period generally ending on October 31 of the calendar year (unless an election is made to use the Fund's fiscal year), and (iii) certain undistributed amounts from previous years on which the Fund paid no U.S. federal income tax. In addition, the minimum amounts that must be distributed in any year to avoid the federal excise tax will be increased or decreased to reflect any under-distribution or over-distribution, as the case may be, from the previous year. While the Fund intends to distribute any income and capital gain in the manner necessary to minimize imposition of the 4% federal excise tax, there can be no assurance that sufficient amounts of the Fund's taxable income and capital gain will be distributed to entirely avoid the imposition of the federal excise tax. In that event, the Fund will be liable for the federal excise tax only on the amount by which it does not meet the foregoing distribution requirement.

A distribution will be treated as paid during the calendar year if it is paid during the calendar year or declared by the Fund in October, November or December of the year, payable to shareholders of record on a date during such a month and paid by the Fund during January of the following year. Any such distributions paid during January of the following year will be deemed to be received by the Fund's shareholders on December 31 of the year the distributions are declared, rather than when the distributions are actually received.

If for any taxable year the Fund does not qualify as a regulated investment company, all of its taxable income (including its net capital gain) will be subject to tax at regular corporate rates without any deduction for distributions to shareholders, and such distributions will be taxable to the shareholders as ordinary dividends to the extent of the Fund's current or accumulated earnings and profits. Such dividends, however, would be eligible (i) to be treated as qualified dividend income in the case of shareholders taxed as individuals and (ii) for the dividends received deduction in the case of corporate shareholders. The Fund could be required to recognize unrealized gains, pay taxes and make distributions (which could be subject to interest charges) before requalifying for taxation as a regulated investment company. If the Fund fails to qualify as a regulated investment company in any year, it must pay out its earnings and profits accumulated in that year in order to qualify again as a regulated investment company. If the Fund failed to qualify as a regulated investment company for a period greater than two taxable years, the Fund may be required to recognize and pay tax on any net built-in gains with respect to certain of its assets (i.e., the excess of the aggregate gains, including items of income, over aggregate losses that would have been realized with respect to such assets if the Fund had been liquidated) or, alternatively, to elect to be subject to taxation on such built-in gain recognized for a period of ten years, in order to qualify as a regulated investment company in a subsequent year.

Certain of the Fund's investment practices 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 gains and qualified dividend income into higher



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taxed short-term capital gains or ordinary income, (iii) convert ordinary loss or a deduction into 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 requirement 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.

The MLPs in which the Fund intends to invest are expected to be treated as partnerships for U.S. federal income tax purposes. The cash distributions received by the Fund from an MLP may not correspond to the amount of income allocated to the Fund by the MLP in any given taxable year. If the amount of income allocated by an MLP to the Fund exceeds the amount of cash received by the Fund from such MLP, the Fund may have difficulty making distributions to its shareholders in the amounts necessary to satisfy the requirements for maintaining its status as a regulated investment company or avoiding U.S. federal income or excise taxes. Accordingly, the Fund may have to dispose of securities under disadvantageous circumstances in order to generate sufficient cash to satisfy the distribution requirements.

The Fund expects that the income derived by the Fund from the MLPs in which it invests will be Qualifying Income. If, however, an MLP in which the Fund invests is not a Qualified Publicly Traded Partnership, the income derived by the Fund from such investment may not be Qualifying Income and, therefore, could adversely affect the Fund's status as a regulated investment company. The Fund intends to monitor its investments in MLPs to prevent the disqualification of the Fund as a regulated investment company.

The U.S. tax classification of the Canadian Royalty Trusts in which the Fund invests and the types of income that the Fund receives may have an impact on the Fund's ability to qualify as a regulated investment company. In particular, securities issued by certain Canadian Royalty Trusts (such as Canadian Royalty Trusts which are grantor trusts for U.S. federal income tax purposes) may not produce qualified income for purposes of determining the Fund's compliance with the tax rules applicable to regulated investment companies. Additionally, the Fund may be deemed to directly own the assets of each Canadian Royalty Trust, and would need to look to such assets when determining the Fund's compliance with the asset diversification rules applicable to regulated investment companies. To the extent that the Fund holds such securities indirectly through investments in a taxable subsidiary formed by the Fund, those securities may produce qualified income. However, the net return to the Fund on such investments would be reduced to the extent that the subsidiary is subject to corporate income taxes. The Fund shall monitor its investments in the Canadian Royalty Trusts with the objective of maintaining its continued qualification as a regulated investment company.

Gain or loss on the sales of securities by the Fund will generally be long-term capital gain or loss if the securities have been held by the Fund for more than one year. Gain or loss on the sale of securities held for one year or less will be short-term capital gain or loss.

The premium received by the Fund for writing a call option is not included in income at the time of receipt. If the option expires, the premium is short-term capital gain to the Fund. If the Fund enters into a closing transaction, the difference between the amount paid to close out its position and the premium received is short-term capital gain or loss. If a call option written by the Fund is exercised, thereby requiring the Fund to sell the underlying security, the premium will increase the amount realized upon the sale of the security and any resulting gain or loss will be long-term or short-term, depending upon the holding period of the security. With respect to a put or call option that is purchased by the Fund, if the option is sold, any resulting gain or loss will be a capital gain or loss, and will be short-term or long-term, depending upon the holding period for the option. If the option expires, the resulting loss is a

capital loss and is short-term or long-term, depending upon the holding period for the option. If the option is exercised, the cost of the option, in the case of a call option, is added to the basis of the purchased security and, in the case of a put option, reduces the amount

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realized on the underlying security in determining gain or loss. Because the Fund does not have control over the exercise of the call options it writes, such exercises or other required sales of the underlying securities may cause the Fund to realize capital gains or losses at inopportune times.

The Fund's transactions in foreign currencies, forward contracts, options, futures contracts (including options and futures contracts on foreign currencies) and short sales, to the extent permitted, will be subject to special provisions of the Code (including provisions relating to hedging transactions, straddles and constructive sales) that may, among other things, affect the character of gains and losses realized by the Fund (i.e., may affect whether gains or losses are ordinary or capital), accelerate recognition of income to the Fund and defer Fund losses. These rules could therefore affect the character, amount and timing of distributions to shareholders. Certain of these provisions may also (a) require the Fund to mark-to-market certain types of the positions in its portfolio (i.e., treat them as if they were closed out at the end of each year), (b) cause the Fund to recognize income without receiving cash with which to pay dividends or make distributions in amounts necessary to satisfy the distribution requirements for avoiding income and excise taxes, (c) treat dividends that would otherwise constitute qualified dividend income as non-qualified dividend income and (d) treat dividends that would otherwise be eligible for the corporate dividends-received deduction as ineligible for such treatment.

The Fund's investment in so-called section 1256 contracts, such as regulated futures contracts, most foreign currency forward contracts traded in the interbank market, options on most stock indices and any non equity options, are subject to special tax rules. All section 1256 contracts held by the Fund at the end of its taxable year are required to be marked to their market value, and any unrealized gain or loss on those positions will be included in the Fund's income as if each position had been sold for its fair market value at the end of the taxable year. The resulting gain or loss will be combined with any gain or loss realized by the Fund from positions in section 1256 contracts closed during the taxable year. Provided such positions were held as capital assets and were not part of a hedging transaction nor part of a straddle, 60% of the resulting net gain or loss will be treated as long-term capital gain or loss, and 40% of such net gain or loss will be treated as short-term capital gain or loss, regardless of the period of time the positions were actually held by the Fund.

If the Fund purchases shares in certain foreign investment entities, called passive foreign investment companies (PFICs), 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 the shareholders. Additional charges in the nature of interest may be imposed on the Fund in respect of deferred taxes arising from such distributions or gains. Elections may be available to the Fund to mitigate the effect of this tax, but such elections generally accelerate the recognition of income without the receipt of cash. Dividends paid by PFICs are not treated as qualified dividend income, as discussed below under Taxation of Shareholders.

If the Fund invests in the stock of a PFIC, or any other investment that produces income that is not matched by a corresponding cash distribution to the Fund, the Fund could be required to recognize income that it has not yet received. Any such income would be treated as income earned by the Fund and therefore would be subject to the distribution requirements of the Code. This might prevent the Fund from distributing 90% of its net investment income as is required in order to avoid Fund-level U.S. federal income taxation on all of its income, or might prevent the Fund from distributing enough ordinary income and capital gain net income to avoid completely the imposition of the excise tax. To avoid this result, the Fund may be required to borrow money or dispose of securities to be able to make required distributions to the shareholders.

The Fund may invest in debt obligations purchased at a discount with the result that the Fund may be required to accrue income for U.S. federal income tax purposes before amounts due under the obligations are paid. The Fund may also invest in securities rated in the medium to lower rating categories of nationally recognized rating organizations, and in unrated securities (high yield securities). A portion of the interest payments on such high yield securities may

be treated as dividends for certain U.S. federal income tax purposes.

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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.

Dividends or other income (including, in some cases, capital gains) received by the Fund from investments in foreign securities may be subject to withholding and other taxes imposed by foreign countries. Tax conventions between certain countries and the U.S. may reduce or eliminate such taxes in some cases. If more than 50% of the Fund's total assets at the close of its taxable year consists of stock or securities of foreign corporations, the Fund may elect for U.S. federal income tax purposes to treat foreign income taxes paid by it as paid by its shareholders. The Fund may qualify for and make this election in some, but not necessarily all, of its taxable years. If the Fund were to make such an election, shareholders of the Fund would be required to take into account an amount equal to their pro rata portions of such foreign taxes in computing their taxable income and then treat an amount equal to those foreign taxes as a U.S. federal income tax deduction or as a foreign tax credit against their U.S. federal income liability. Shortly after any year for which it makes such an election, the Fund will report to its shareholders the amount per share of such foreign income tax that must be included in each shareholder's gross income and the amount that may be available for the deduction or credit.

## **Taxation of Shareholders**

The Fund will either distribute or retain for reinvestment all or part of its net capital gain, which is the excess of net long-term capital gains over net short-term capital losses. If any such gain is retained, the Fund will be subject to a tax of 35% of such amount. In that event, the Fund expects to designate the retained amount as undistributed capital gain in a notice to its shareholders, each of whom (i) will be required to include in income for tax purposes as long-term capital gain its share of such undistributed amounts, (ii) will be entitled to credit its proportionate share of the tax paid by the Fund against its U.S. federal income tax liability and to claim refunds to the extent that the credit exceeds such liability and (iii) will increase its basis in its common shares of the Fund by an amount equal to 65% of the amount of undistributed capital gain included in such shareholder's gross income.

Distributions paid by the Fund from its investment company taxable income, which includes net short-term capital gain, generally are taxable as ordinary income to the extent of the Fund's earnings and profits. Such distributions (if designated by the Fund) may, however, qualify (provided holding period and other requirements are met by both the Fund and the shareholder) (i) for the dividends received deduction available to corporations, but only to the extent that the Fund's income consists of dividend income from U.S. corporations and (ii) in the case of individual shareholders, for taxable years through December 31, 2012, as qualified dividend income eligible to be taxed at long-term capital gains rates) to the extent that the Fund receives qualified dividend income. If the Fund's qualified dividend income is less than 95% of its gross income, a shareholder of the Fund may only include as qualified dividend income that portion of the dividends that may be and are so designated by the Fund as qualified dividend income. There can be no assurance as to what portion of the Fund's distributions will qualify for favorable treatment as qualified dividend income.

Qualified dividend income is, in general, dividend income from taxable domestic corporations and certain qualified foreign corporations (e.g., generally, foreign corporations incorporated in a possession of the United States or in certain countries with a qualifying comprehensive tax treaty with the United States, or whose 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 a foreign corporation that for the taxable year of the corporation in which the dividend was paid, or the preceding taxable year, is a passive foreign investment company, as defined in the Code. If

the Fund lends portfolio securities, the amount received by the Fund that is the equivalent of the dividends paid by the issuer on the securities loaned will not be eligible for qualified dividend income treatment.

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Distributions of net capital gain designated as capital gain distributions, if any, are taxable to shareholders at rates applicable to long-term capital gain, whether paid in cash or in stock, and regardless of how long the shareholder has held the Fund's shares. Capital gain distributions are not eligible for the dividends received deduction. Unrecaptured Section 1250 gain distributions, if any, will be subject to a 25% tax. For non-corporate taxpayers, investment company taxable income (other than qualified dividend income) will currently be taxed at ordinary income rates, while net capital gain generally will be taxed at long-term capital gains rates. For corporate taxpayers, both investment company taxable income and net capital gain are taxed at ordinary income rates.

The IRS currently requires that a regulated investment company that has two or more classes of stock allocate to each such class proportionate amounts of each type of its income (such as ordinary income and net capital gain) based upon the percentage of total dividends paid to each class for the tax year. Accordingly, because the Fund issues preferred shares, the Fund will allocate its ordinary income, net capital gain and other relevant items (if any) between its common shares and preferred shares in proportion to the total dividends paid to each class with respect to such tax year.

If, for any calendar year, the total distributions exceed both current earnings and profits and accumulated earnings and profits, the excess will generally be treated as a tax-free return of capital up to the amount of a shareholder's tax basis in the common shares. The amount treated as a tax-free return of capital will reduce a shareholder's tax basis in the common shares, thereby increasing such shareholder's potential gain or reducing his or her potential loss on the sale of the common shares. Any amounts distributed to a shareholder in excess of his or her basis in the common shares will be taxable to the shareholder as capital gain (assuming your common shares are held as a capital asset).

Shareholders may be entitled to offset their capital gain distributions (but not distributions eligible for qualified dividend income treatment) with capital loss. There are a number of statutory provisions affecting when capital loss may be offset against capital gain, and limiting the use of loss from certain investments and activities. Accordingly, shareholders with capital loss are urged to consult their tax advisers.

An investor should be aware that if Fund common shares are purchased shortly before the record date for any taxable distribution (including a capital gain dividend), the purchase price likely will reflect the value of the distribution and the investor then would receive a taxable distribution that is likely to reduce the trading value of such Fund common shares, in effect resulting in a taxable return of some of the purchase price.

Certain types of income received by the Fund from real estate investment trusts ( REITs ), real estate mortgage investment conduits ( REMICs ), taxable mortgage pools or other investments may cause the Fund to designate some or all of its distributions as excess inclusion income. To Fund shareholders such excess inclusion income will (i) constitute taxable income, as unrelated business taxable income ( UBTI ) for those shareholders who would otherwise be tax-exempt such as individual retirement accounts, 401(k) accounts, Keogh plans, pension plans and certain charitable entities; (ii) not be offset against net operating losses for tax purposes; (iii) not be eligible for reduced U.S. withholding for non-U.S. shareholders even from tax treaty countries; and (iv) cause the Fund to be subject to tax if certain disqualified organizations, as defined by the Code (such as certain governments or governmental agencies and charitable remainder trusts), are Fund shareholders.

Upon a sale, exchange or other disposition of common shares, a shareholder will generally realize a taxable gain or loss equal to the difference between the amount of cash and the fair market value of other property received and the shareholder's adjusted tax basis in the common shares. Such gain or loss will be treated as long-term capital gain or loss if the common shares have been held for more than one year. Any loss realized on a sale or exchange of common shares of the Fund will be disallowed to the extent the common shares disposed of are replaced by substantially identical common shares within a 61-day period beginning 30 days before and ending 30 days after the date that the

common shares are disposed of. In such a case, the basis of the common shares acquired will be adjusted to reflect the disallowed loss.



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Any loss realized by a shareholder on the sale or exchange of Fund common shares held by the shareholder for six months or less will be treated for tax purposes as a long-term capital loss to the extent of any capital gain distributions received by the shareholder (or amounts credited to the shareholder as an undistributed capital gain) with respect to such common shares.

Ordinary income distributions and capital gain distributions also may be subject to state and local taxes. Shareholders are urged to consult their own tax advisers regarding specific questions about U.S. federal (including the application of the alternative minimum tax rules), state, local or foreign tax consequences to them of investing in the Fund.

A shareholder that is a nonresident alien individual or a foreign corporation (a foreign investor ) generally will be subject to U.S. withholding tax at the rate of 30% (or possibly a lower rate provided by an applicable tax treaty) on ordinary income dividends (except as discussed below). Different tax consequences may result if the foreign investor is engaged in a trade or business in the United States or, in the case of an individual, is present in the United States for 183 days or more during a taxable year and certain other conditions are met. Foreign investors should consult their tax advisors regarding the tax consequences of investing in the Fund's common shares.