

# DG Capital Management

## Proxy Voting Policies and Procedures

### I. INTRODUCTION

Unless otherwise specifically directed by a client in writing, we are responsible for voting any proxies related to securities that we manage on behalf of our clients. Any directions from clients to the contrary must be provided in writing.

### II. STATEMENTS OF POLICIES AND PROCEDURES

- A. **Policy Statement.** The Investment Advisers Act of 1940, as amended (the “Advisers Act”), requires us to, at all times, act solely in the best interest of our clients. We have adopted and implemented these Proxy Voting Policies and Procedures which we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with our fiduciary duties and Rule 206(4)-6 under the Advisers Act.

We have established these Proxy Voting Policies and Procedures in a manner that is generally intended to support the ability of management of a company soliciting proxies to run its business in a responsible and cost effective manner while staying focused on maximizing shareholder value. Accordingly, we generally vote proxies in accordance with management’s recommendations. This reflects a basic investment criteria that good management is shareholder focused. However, all proxy votes are ultimately cast on a case-by-case basis, taking into account the foregoing principal and all other relevant facts and circumstances at the time of the vote. For this reason, consistent with our fiduciary duty to ensure that proxies are voted in the best interest of our clients, we may from time to time vote proxies against management’s recommendations, in accordance with the guidelines set forth in Part III of these Proxy Voting Policies and Procedures.

- B. **Conflicts of Interest.** We review each proxy to assess the extent, if any, to which there may be a material conflict between the interests of our clients on the one hand and our interests (including those of our affiliates, directors, officers, employees and other similar persons) on the other hand (a “potential conflict”). We perform this assessment on a proposal-by-proposal basis, and a potential conflict with respect to one proposal in a proxy shall not indicate that a potential conflict exists with respect to any other proposal in such proxy. If we determine that a potential conflict may exist, it shall

promptly report the matter to Mr. Manu Daftary. Mr. Daftary shall determine whether a potential conflict exists and is authorized to resolve any such conflict in a manner that is in the collective best interests of our clients (excluding any client that may have a potential conflict). Without limiting the generality of the foregoing, Mr. Daftary may resolve a potential conflict in any of the following manners:

1. If the proposal that is the subject of the proposed conflict is specifically addressed in these Proxy Voting Policies and Procedures, we may vote the proxy in accordance with such pre-determined policies and guidelines; provided that such pre-determined policy involves little discretion on our part;
2. We may disclose the potential conflict to our clients and obtain the consent of a majority in interest of our clients before voting in the manner approved by a majority in interest of our clients;
3. We may engage an independent third-party to determine how the proxy should be voted; or
4. We may establish an ethical wall or other informational barriers between the person(s) that are involved in the potential conflict and the person(s) making the voting decision in order to insulate the potential conflict from the decision maker.

We use commercially reasonable efforts to determine whether a potential conflict may exist, and a potential conflict shall be deemed to exist if and only if one or more of our senior investment staff actually knew or reasonably should have known of the potential conflict.

### **C. Limitations on Our Responsibilities**

1. Limited Value. We may abstain from voting a client proxy if we conclude that the effect on client's economic interests or the value of the portfolio holding is indeterminable or insignificant.
2. Unjustifiable Costs. We may abstain from voting a client proxy for cost reasons (*e.g.*, costs associated with voting proxies of non-U.S. securities). In accordance with our fiduciary duties, we weigh the costs and benefits of voting proxy proposals relating to foreign securities and make an informed decision with respect to whether voting a given proxy proposal is prudent. Our decision takes into account the effect that the vote of our clients, either by itself or together with other votes, is expected to have on the value

of our client's investment and whether this expected effect would outweigh the cost of voting.

3. Special Client Considerations.

- a. Mutual Funds. We vote proxies of our mutual fund clients subject to the funds' applicable investment restrictions.
- b. ERISA Accounts. With respect our ERISA clients, we vote proxies in accordance with our duty of loyalty and prudence, compliance with the plan documents, as well as our duty to avoid prohibited transactions.

4. Client Direction. Unless otherwise directed by a client in writing, we are responsible for voting all proxies related to securities that we manage for clients. A client may from time to time direct us in writing to vote proxies in a manner that is different from the guidelines set forth in these Proxy Voting Policies and Procedures. We will follow such written direction for proxies received after our receipt of such written direction.

- D. Disclosure.** A client for which we are responsible for voting proxies may obtain information from us regarding how we voted the client's proxies. Clients should contact their account manager to make such a request.
- E. Review and Changes.** We shall from time to time review these Proxy Voting Policies and Procedures and may adopt changes based upon our experience, evolving industry practices and developments in applicable laws and regulations. Unless otherwise agreed to with a client, these Proxy Voting Policies and Procedures may be changed by us from time to time without notice to, or approval by, any client. Clients may request a current version of our Proxy Voting Policies and Procedures from their account manager.
- F. Delegation.** We may delegate our responsibilities under these Proxy Voting Policies and Procedures to a third party, provided that we retain final authority and fiduciary responsibility for proxy voting. If we so delegate our responsibilities, we shall monitor the delegate's compliance with these Proxy Voting Policies and Procedures.
- G. Maintenance of Records.** We maintain at our principal place of business the records required to be maintained by us with respect to proxies in accordance with the requirements of the Advisers Act and, with respect to our fund clients, the Investment Company Act of 1940. We may, but need not, maintain proxy statements that we receive regarding client securities

to the extent that such proxy statements are available on the SEC's EDGAR system. We may also rely upon a third party to maintain certain records required to be maintained by the Advisers Act.

### **III. PROXY GUIDELINES**

The following sets forth certain significant proxy voting proposals and our general guidelines for voting these proposals in a particular manner. As noted in Part II of these Proxy Voting Policies and Procedures, we generally vote proxies in a manner intended to support the ability of management of a company soliciting proxies to run its business in a responsible and cost effective manner while staying focused on maximizing shareholder value. Accordingly, we generally vote proxies in accordance with management's recommendations. Nevertheless, our actual voting decisions are made on a case-by-case basis depending on the particular facts and circumstances of each proxy vote and Mr. Daftary has final authority with regard to how a particular proxy is voted.

#### **A. Annual Election of Directors**

DG Capital generally favors the annual election of directors and is generally opposed to staggered election systems for the following reasons:

- Election of directors based upon classes or staggered terms tends to entrench present management;
- Staggered terms for directors tend to make the company and management less responsible to shareholder interest; and
- Staggered terms might be deemed an anti-takeover measure and, therefore, they potentially may diminish the value of shareholder's investment.

#### **B. Board of Directors**

DG Capital favors independent directors and independent nominating, compensation, and audit committees for the following reasons:

- Independence is necessary for the effective functioning of the board and its committees.

DG Capital is in favor of directors being compensated reasonably for performance in cash or equity. DG Capital is generally not in favor of pension and benefit programs for outside directors for the following reasons:

- Helps to ensure that a director's interest is aligned with shareholders and may increase sensitivity to shareholder concerns; and

- Pension and benefit programs may compromise the independence of directors.

### **C. Confidential Voting**

DG Capital supports a system of confidential voting for the following reasons:

- Ensures confidentiality;
- Promotes corporate democracy and the integrity of the proxy system; and
- Avoids potential for coercion or improper influence.

### **D. Cumulative Voting**

DG Capital supports cumulative voting for the following reasons:

- Cumulative voting permits shareholders a greater opportunity than conventional voting to voice their opinions and to influence corporate management;
- Conventional voting may discourage the accumulation of large minority shareholding, and, therefore, may be considered an anti-takeover measure; and
- Conventional voting may have the effect of discouraging election contests, which can be costly, by shareholders and individuals.

### **E. Executive Compensation**

- DG Capital supports compensation plans that provide challenging performance objectives and serve to motivate executives to excellent performance.
- DG Capital does not support plans that exceed what is required to attract and retain skilled managers, that adversely affect shareholders, that are excessively generous, that lack clear performance goals or that adversely affect employee productivity and morale.
- DG Capital supports stock-based compensation plans which are broad-based.
- DG Capital does not support narrowly based plans with large dilution (more than 10%).

- DG Capital does not support replacement or repricing of “underwater” stock options.
- DG Capital supports shareholder proposals that link executive compensation to the company’s achievement of long term performance goals.

#### **F. Golden-Parachute Payments**

DG Capital does not support the compensation agreement known as golden parachutes for the following reasons:

- Tax penalties are imposed on corporations that award excess parachute payments and executives who receive such payments; and
- Excessive exit payments come at the expense of shareholders’ net worth and represents a waste of corporate assets.

#### **G. Placement of Securities**

DG Capital favors a policy that requires shareholder approval before corporate management places a significant amount of voting stock with any person or group for the following reasons:

- By the placement of a large amount of voting stock in “friendly hands,” management may effectively block shifts in control of the company;
- Such transactions might be deemed an anti-takeover measure and, therefore, they potentially may diminish the value of shareholders’ investment; and
- Shareholders should be given a voice in matters involving control of a company.

#### **H. “Poison Pill” Amendments or Proposals**

DG Capital believes that “poison pill” amendments to a company’s by-laws or charter must be presented to shareholders before incorporation or enactment for the following reasons:

- Poison pill provisions clearly affect shareholder interests and may harm shareholders by reducing the value of their shares;
- Such actions tend to entrench present management and might make them less receptive to shareholder concerns or interests;

- Poison pills seem to have no utility except to discourage third-party bids for a company's stock; and
- Many aspects of poison pills are discriminatory (*e.g.*, triggered dividends or distributions usually exclude the new large shareholder).

#### **I. Solicitation of Political Contributions**

DG Capital believes that it is inappropriate for a company to encourage, request or demand any financial contributions from its employees for the purpose of supporting any political candidate or Political Action Committee for the following reasons:

- Solicitation by management for political contributions may intimidate, threaten, or compromise employees and their beliefs;
- Solicitation by management may create the appearance of coercion, and it may hinder democratic practices; and
- Solicitation by management may expose a company to litigation and diminish shareholder value.

#### **J. Stock with Disproportionate Voting Rights**

DG Capital opposes the creation of new classes of common or preferred stock with disproportionate voting rights for the following reasons:

- Such common or preferred stock may tend to frustrate or circumvent the rights and desires of the majority of shareholders;
- Unequal classes of stock may tend to shelter management at the expense of the majority of shareholders;
- Stock with unequal voting rights violates the concept of shareholders' or corporate democracy; and
- Stock with unequal voting rights could be viewed as an anti-takeover measure and therefore, may potentially diminish the value of shareholders' investment.

#### **K. Stock Ownership for Directors**

DG Capital favors requiring directors to own some amount, however modest, of their company's stock for the following reasons:

- Helps to ensure that a director's interests coincide with the company's shareholders; and
- May increase management's sensitivity and responsiveness to shareholder concerns.

**L. Corporate/Social Responsibility**

DG Capital supports the idea that the companies we invest in should be both good corporate citizens and socially responsible. Therefore, DG Capital would generally support shareholder proposals that have a positive impact upon these issues.

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