FIRST OPPORTUNITY FUND INC
Form PRER14A
February 03, 2010

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No. 2)

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

Check the appropriate box:

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

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

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Boulder, Colorado 80302
(303) 442-2156
(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

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2) Aggregate number of securities to which transaction applies:

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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Suite A
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www.firstopportunityfund.com

[GRAPHIC OMITTED]
First Opportunity Fund, Inc.

_____________, 2010

Dear Fellow Stockholder,

You are invited to attend the 2010 Annual Meeting of Stockholders of First Opportunity Fund, Inc. (the "Fund"), which will be held on _____ , 2010 at 9:00 a.m. _________ Standard Time (local time), at _____________________________. Details of the business to be presented at the meeting can be found in the accompanying Notice of Annual Meeting and Proxy Statement. This is a very important meeting at which the Fund's board of directors (the "Board") is asking you to approve significant, and we believe, positive changes to the Fund.

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

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

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

You are also being asked to consider a proposal which would classify or "stagger" the Board. And finally, the Proxy Statement includes a proposal for the election of the members of the Board. The enclosed Proxy Statement gives details about each proposal which requires your approval and should be carefully read and considered before you vote.

As Chairman of the Board, I encourage you to support all of the proposals. After careful and extensive review, the members of the Board, including the independent directors, unanimously approved and recommended to stockholders that they approve all of the proposals as detailed in the Proxy Statement. We hope you plan to attend the Annual Meeting. Your vote is important. Whether or not you are able to attend, it is important that your shares be represented at the Annual Meeting. Accordingly, we ask that you please sign, date, and return the enclosed Proxy Card or vote via telephone or the Internet at your earliest convenience.

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

Sincerely,

/s/Joel W. Looney

Joel W. Looney

Chairman of the Board

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First Opportunity Fund, Inc.

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Boulder, Colorado 80302
www.firstopportunityfund.com

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held on ________, 2010

To the Stockholders:

The Annual Meeting of Stockholders (the "Meeting") of First Opportunity Fund, Inc., a Maryland corporation (the "Fund"), will be held on _________ 2010 at 9:00 a.m. ________ Standard Time (local time), at ________________________________, to consider and vote on the following proposals, all of which are more fully described in the accompanying Proxy Statement:

1. To approve or disapprove the proposed investment advisory agreement with Rocky Mountain Advisers, L.L.C. ("RMA") (Proposal 1);

2. To approve or disapprove the proposed investment advisory agreement

with Stewart Investment Advisers ("SIA") (Proposal 2);

3. To approve or disapprove the proposed investment sub-advisory agreement with Wellington Management Company, LLP ("Wellington") (Proposal 3);

4. To approve or disapprove eliminating the Fund's fundamental policy of investing at least 65% of its assets in financial services companies (the "Concentration Policy") (Proposal 4);

5. To approve or disapprove amending the Concentration Policy to reduce the Fund's minimum threshold for investing in financial services companies to 25% (Proposal 5);

6. To approve or disapprove an amendment to the Fund's charter classifying the board of directors of the Fund (the "Board") into three separate classes and making related changes to the charter (Proposal 6);

7. The election of directors of the Fund (Proposal 7); and

8. To transact such other business as may properly come before the Meeting or any adjournments and postponements thereof.

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

By Order of the Board of Directors,

/s/Stephanie Kelley

STEPHANIE KELLEY

Secretary

_____, 2010

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

INSTRUCTIONS FOR SIGNING PROXY CARDS

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

1. Individual Accounts: Sign your name exactly as it appears in the registration on the proxy card.

2. Joint Accounts: Either party may sign, but the name of the party signing should conform exactly to a name shown in the registration.

3. All Other Accounts: The capacity of the individual signing the proxy card should be indicated unless it is reflected in the form of registration. For example:

Registration	Valid Signature
Corporate Accounts	
(1) ABC Corp.	ABC Corp.
(2) ABC Corp.	John Doe, Treasurer
(3) ABC Corp., c/o John Doe Treasurer	John Doe
(4) ABC Corp. Profit Sharing Plan	John Doe, Trustee
Trust Accounts	
(1) ABC Trust	Jane B. Doe, Trustee
(2) Jane B. Doe, Trustee, u/t/d 12/28/78	Jane B. Doe
Custodian or Estate Accounts	
(1) John B. Smith, Cust., f/b/o John B. Smith, Jr. UGMA	John B. Smith
(2) John B. Smith	John B. Smith, Jr., Executor

[GRAPHIC OMITTED]
First Opportunity Fund, Inc.

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Boulder, Colorado 80302
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QUESTIONS & ANSWERS REGARDING THE MEETING AND PROPOSALS

Question 1: What changes are being proposed?

Answer: In addition to electing the Fund's board of directors (the "Board"), stockholders are being asked to vote on other significant proposals: approving new investment co-advisory agreements, approving a new investment sub-advisory agreement and eliminating the Fund's fundamental policy of investing at least 65% of its assets in financial services companies (together, the "Restructuring"). In addition, the Board is asking stockholders to approve an amendment to the Fund's charter (the "Charter") so as to classify or "stagger" the Board into three separate classes.

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

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

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

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

Question 4: Why are there two co-advisers?

Answer: The Restructuring contemplates RMA and SIA acting as investment co-advisers to the Fund. This arrangement is similar to that currently existing between BIA and SIA (collectively, the "Boulder Advisers") in their relationship with the Boulder Funds whereby a single advisory fee is paid to, but split between, the co-advisers. Mr. Horejsi is the primary investment manager for the New Advisers and BIA and, together with Carl Johns, will be responsible for the day-to-day management of the Fund's assets and primarily responsible for the Fund's asset allocation. The reason for two advisers is that Mr. Horejsi spends a substantial portion of his time residing in Barbados, during which he is employed exclusively by SIA, which is a resident Barbados international business company. If the Restructuring is approved by stockholders, when Mr. Horejsi resides in the U.S., he will be employed exclusively by the "on-shore" adviser (i.e., RMA) with respect to his efforts on behalf of the Fund. From the Fund's point of view, the economics and practicalities of the co-advisory arrangement are no different than they would be if Mr. Horejsi worked exclusively for RMA under a single advisory contract (i.e., the Fund would still pay the same advisory fee (discussed below in Question 10:) but only to a single adviser). See "Proposals 1 and 2 - The Advisory Agreements" below.

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

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

"Effective Date"). Under the terms of the Sub-Advisory Agreement, Wellington Management would be responsible for managing the Legacy Holdings with a view towards continuing to hold the securities, selling them in its discretion and assisting the New Advisers in gaining familiarity with the Legacy Holdings.

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

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

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

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

Beginning in late 2008, in evaluating the Fund's alternatives to employ a broader array of investment strategies and retain the investment management services of Wellington Management, the Board considered the feasibility of the Fund investing directly in the WHM Hedge Funds which would, on a look-through basis, give the Fund, at least with respect to a significant portion of its portfolio, the same flexibility as the WHM Hedge Funds. However, under the Fund's current structure with Wellington Management as the sole adviser, the Fund is prohibited by provisions of the 1940 Act from investing any of its assets in a hedge fund managed by any affiliate of Wellington Management. Appointing the New Advisers as the Fund's primary investment advisers, and segregating the Fund's assets temporarily into two portions - one managed by the

New Advisers and the other, the Legacy Holdings, that would be temporarily managed by Wellington Management with the investment discretion to only hold or sell such holdings- would permit the New Advisers, independent of Wellington Management's influence or control, to invest significantly in private funds including the WHM Hedge Funds.

The New Advisers anticipate, in the near term and based on current market conditions and the number of WHM Hedge Funds currently available for investment, that they would invest as much as 50% of the Fund's assets in certain WHM Hedge

Funds, several of which emphasize investments in the financial services sector and are managed in whole or part by the Fund's current portfolio manager. This percentage could increase or decrease over time. The Board and New Advisers believe that investments in the WHM Hedge Funds offer the Fund the potential for superior risk-adjusted returns arising from the added flexibility and broader investment options available to the WHM Hedge Funds.

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

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

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

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

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

Answer: Under the terms of the Advisory Agreements, RMA and SIA would serve as co-advisers to the Fund and would be jointly and severally responsible for making investment decisions with respect to the Fund's holdings other than the

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

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

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

Answer: Yes. The Fund currently pays Wellington Management an advisory fee of 1.125% on the Fund's net assets up to and including $150 million; 1.00% on net assets between $150 million and $300 million; and 0.875% on net assets exceeding $300 million (the "Current Fee"). As proposed, the Advisory Agreements contemplate the New Advisers being paid an investment advisory fee of 1.25% on the Fund's net assets, including leverage, although the Fund currently has no leverage. However, under the Advisory Agreements, the New Advisers would waive

(i) up to 1.00% on the "look-through" advisory fees (but not the performance fees) paid to WHM with respect to any investment by the Fund in any WHM Hedge Fund and (ii) all fees paid by the Fund to Wellington under the Sub-Advisory Agreement. WHM charges an asset-based fee of 1.00% to the WHM Hedge Funds presently under consideration for investment by the New Advisers. Under the Sub-Advisory Agreement, Wellington Management would receive fees from the Fund based on the Current Fee schedule, as applied only with respect to the assets represented by the Legacy Holdings.

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

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

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

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

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

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

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

Answer: As discussed above, Proposal 4 contemplates the removal of the Concentration Policy in its entirety as part of the Restructuring so that the New Advisers will have additional flexibility when investing the Fund's assets.

Proposal 5 is a precautionary proposal which would become effective only if stockholders do not approve the Restructuring (i.e., Proposals 1 through 4).

Proposal 5 would amend the Concentration Policy to reduce the Fund's minimum holdings in financial services companies from 65% to 25% (subject to the Fund's ability to take defensive measures to preserve value). Regardless of whether Wellington Management or the New Advisers are the primary advisers to the Fund, the Board believes that the 65% investment requirement in financial services companies places a disproportionate industry risk on the Fund and stockholders and needs to be eliminated or at the very least significantly reduced.

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

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

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

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

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

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

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

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

|X| Hedge funds may be leveraged and their performance may be volatile. Employing leverage amplifies the potential gain of an investment but also amplifies the potential loss. In addition, a hedge fund's cost of

leverage (e.g., interest expense) may be subject to increase and may be higher than the fund's investment returns.

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

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

|X| Hedge funds typically provide limited transparency regarding underlying investments. Hedge funds in which the New Advisers may invest will generally permit the Fund to publish only limited financial information about the holdings and performance of those hedge funds.

|X| Hedge funds may execute a substantial portion of trades on foreign exchanges which could mean higher risk because they are subject to less regulation than U.S. exchanges and are subject to adverse political or economic events in their respective markets.

|X| When the Fund values its securities, market prices may not be readily available for a substantial portion of its investments. Securities for which market prices are not readily available (as is expected to be the case with respect to the Fund's investments in the WHM Hedge Funds) will be valued by the Fund at fair value as determined in good faith in accordance with procedures approved by the Board. As the New Adviser and the Board anticipate that market prices will not be readily available for the hedge funds in which the Fund might invest, the Fund's valuation procedures provide that the fair value of the Fund's investments in hedge funds ordinarily will be the value determined for each such fund in accordance with that fund's own valuation policies. Although the Fund will receive periodic information from each hedge fund regarding its investment performance and investment strategy, the New Adviser may have little or no means

of independently verifying valuation information. Investors should be aware that situations involving uncertainties as to the value of portfolio positions could have an adverse effect on the Fund's net assets if the judgments of the Board, the New Advisers or investment advisers to hedge funds in which the Fund invests should prove incorrect. Also, investment advisers to hedge funds typically provide determinations of the net asset value on a monthly basis, in which event, the Fund's weekly reporting of net asset value may be based on information that is not current and could fluctuate significantly when the Fund updates its portfolio valuations to reflect updated values for its hedge fund investments. See "Net Asset Valuation."

|X| The Fund's investment in a hedge fund may be illiquid and there may be significant restrictions on liquidating or transferring interests in a hedge fund.

|X| There are no secondary markets for the Fund's investment in any hedge fund and none are expected to develop.

|X| A hedge fund's ongoing advisory and performance fees and expenses may be substantial regardless of positive trading profits.

|X| Hedge funds may invest in startup, small cap and distressed companies all of which may have limited liquidity and volatile market dynamics which may result in volatile performance by the hedge funds.

|X| Hedge funds may engage in investment techniques that are viewed as speculative such as short selling and investing in futures contracts and may invest in certain securities such as options, warrants, convertible securities and non-U.S. securities. Certain short selling and futures contracts expose hedge funds to potentially unlimited losses.

|X| Hedge funds may invest in interest rate and credit default swaps and other derivative instruments. Derivative instruments can be volatile and involve various degrees of risk depending on the characteristics of the particular derivative and the characteristics of the investing hedge fund's portfolio.

|X| Hedge funds may invest in securities denominated in foreign currencies thus exposing their investors to foreign currency risk.

This summary is not a complete list of the risks involved in investing in a hedge fund. Stockholders should review the section entitled "Risks and Special Considerations Associated with the Restructuring Proposals - Risks Associated with Investments by Hedge Funds" under Proposal 1 and 2 which contains a more in depth discussion of the risks and considerations identified above.

Question 16: Describe the manner in which the current investment portfolio of the Fund would be modified in connection with the Restructuring and whether there will be any associated adverse costs or tax consequences.

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

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

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

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

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

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

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

Answer: No. Presently, there are no NYSE listing standards affecting NYSE members that invest in hedge funds. However, in 2008, the American Stock Exchange ("AMEX") filed a proposed rule change with the Securities and Exchange Commission concerning a "generic" listing standard for closed-end management investment companies of hedge funds (the "AMEX Standard"). As proposed, the AMEX Standard would have imposed significant obligations on member companies that make investments of any size in any private investment vehicle (e.g., hedge funds, private equity funds, pooled investment vehicles, etc.). As proposed, the AMEX Standard would require, as a condition of listing, that a member closed-end investment company (i) invest only in hedge funds that independently report their net asset values weekly, and (ii) publicly disclose all material information that an investee hedge fund makes available to its investors (e.g., financial statements and holdings). As discussed above, neither of these conditions is likely to be feasible under the Restructuring. The AMEX Standard was not adopted prior to the acquisition of the AMEX by the NYSE, and has not subsequently been adopted by the NYSE. However, officials at the NYSE have informed the Fund that the SEC is encouraging the NYSE to adopt a listing standard substantially similar to the AMEX Standard. Such a listing standard would be subject to the NYSE normal rulemaking procedures (i.e., publication, public comment, adoption, etc.) and could take some time. However, if such a listing standard is eventually adopted and the Restructuring is approved by stockholders and implemented by the New Advisers (i.e., a portion of the Fund's assets is invested in the WHM Hedge Funds or any other private investment vehicle), the Fund likely would not be able to satisfy the newly-adopted listing standard and thus could become subject to de-listing by the NYSE unless the Fund receives an exemption from the NYSE. In this event, the Fund may seek to list its shares on another domestic exchange (e.g., NASDAQ or OTCBB) or foreign exchange (e.g., Toronto Stock Exchange, London Stock Exchange or AIM).

If the Fund is required to de-list from the NYSE, the market liquidity for the Fund's common shares would likely be negatively affected, which may make it more difficult for stockholders to sell their securities in the open market and may negatively affect the market price of the Fund's common shares and/or increase the discount between the Fund's net asset value and the market price of its common shares. Even if the Fund is successful in listing its shares on another domestic exchange or a foreign exchange, stockholders could experience inconvenience and higher costs in trading their shares in the Fund, particularly if the shares are listed on a foreign exchange. If the Fund elects to list its shares on a foreign exchange, the Fund may be subject to higher listing fees and other operating costs than those to which it is currently subject. In addition, the Fund may become subject to corporate governance standards that are potentially more restrictive and costly than the NYSE corporate governance standards. The Fund is currently exempt from state securities regulation because of its NYSE listing. Upon de-listing, if the Fund issues new securities it would be required to make state notice filings and pay state blue sky fees if it does not list its shares on another exchange that continues this exemption.

Question 19: What are the characteristics of the hedge funds in which the New

Advisers anticipate investing?

Answer: Presently, the New Advisers are considering several WHM Hedge Funds for investment. The two WHM Hedge Funds in which the Fund is most likely to invest if the Restructuring is approved have the following characteristics:

- The first fund takes aggressive, long positions in undervalued companies in the financial services and related sectors that the fund's manager believes offer attractive investment opportunities. Such opportunities may be created by market fragmentation, the trend toward consolidation in the financial services sector, the relative obscurity of smaller companies, or investor misunderstanding of fundamental financial characteristics. The fund may also take short positions in financial services companies and related sectors as a hedge against specific long positions and to take advantage of specific opportunities created by market disequilibrium. Securities for the portfolio are selected primarily on the basis of fundamental value. The fund's manager focuses on companies with strong fundamental characteristics that are undervalued relative to their long-term potential, specifically analyzing the relationship between a company's underlying earnings power and the market price of the stock. Attractive valuations are often found in securities issued by institutions that are not widely followed by institutional research analysts. The key objective of the fund is to achieve superior total returns on an absolute basis. In order to achieve this goal, the fund makes investments throughout the capital structure (e.g., preferred stock, convertible securities, fixed income securities) and invests in companies with solid fundamentals and attractive valuations, while shorting securities in those companies with unsustainable valuations. The fund may also utilize leverage and derivatives, including listed and unlisted index and stock options, to hedge positions and enhance returns.

- The second fund seeks capital appreciation through investments in both long and short positions in the financial services sector as well as through the use of leverage. The fund is managed by four experienced investment managers as a team. The investment team takes a broad approach to the global finance sector and invests in insurance companies, securities brokers, asset management companies, thrifts/building societies, banks, and companies that serve the finance sector. Portfolio concentration in a sub-sector or sub-sectors is determined by the number and risk/reward profiles of available opportunities as well as general market conditions. The managers employ a strict bottom-up approach and make investment decisions based upon market valuations relative to company fundamentals. The objective of the fund is to seek capital appreciation over the long-term. The fund's manager uses allocation of capital, leverage, and the ability to short sell securities as its primary tools in implementing investment conclusions as to the relative attractiveness of individual securities. The fund may also utilize derivatives, including listed and unlisted index and stock options, to hedge positions and enhance returns. It is expected that the fund's portfolio will generally be net long.

Question 20: What will be the investment approach of the New Advisers?

Answer: In the near term, in addition to the anticipated investments in the WHM Hedge Funds, the New Advisers expect to invest primarily in common stocks, including dividend paying common stocks such as those issued by utilities, real estate investment trusts ("REITs") and regulated investment companies under the Code (as defined below) ("RICs"). The Fund may also invest in fixed income securities such as U.S. government securities, preferred stocks and bonds. Although the Fund expects to invest primarily in securities of U.S.-based companies, it may invest without limitation in foreign equity securities and sovereign debt, in each case denominated in foreign currency.

The New Advisers intend to focus on securities issued by companies across a broad range of industries. The Fund will not necessarily be a "large-cap", "mid-cap" or "anything-cap" fund since the New Advisers believe it is unwise to restrict investments to any particular size company. When the Fund makes an investment in a common stock, it may take large positions consistent with its status as a "non-diversified" investment company. It is also likely to hold on to its investments for a long time, allowing the investments to do what they are expected to do - earn money and grow. The New Advisers believe such an approach is in the long-term best interest of stockholders as, the longer stockholders hold their investment without selling, the longer they defer paying taxes on any gains. Since the Horejsi Affiliates own such a large stake in the Fund, the New Advisers are not likely to invest in anything the Horejsi Affiliates would not buy for themselves. In the long run, the New Advisers think that flexibility and value-type investing will produce the best overall total return.

Question 21: What is a "classified board" and why is the Board recommending stockholders approve a classified structure to the Board?

Answer: A "classified board", also referred to as a "staggered board", consists of members who are elected to separate classes, with each class of directors serving a staggered three-year term. Each class of directors is elected in successive terms (i.e., one class is elected in 2010 to serve through 2013, one class is elected in 2011 to serve until 2014, and so on). The Board recognizes that the overall effect of Proposal 6 will be to make any hostile attempt to take control of the Fund through a proxy contest more difficult. In order to change the membership of a majority of the Directors, at least two years will be required. The Board believes that this will encourage persons seeking to acquire control of the Fund to engage in good-faith, arm's-length negotiations with the Board. The Board also believes that ensuring continuity of service among the Board members and three-year commitments for Board service is desirable and that the Proposal will facilitate the Fund's attracting and retaining qualified Board candidates and hiring and retaining competent management personnel by increasing the likelihood of a stable employment environment.

The Board understands that the Fund's largest stockholders have a long-term investment horizon and its remaining stockholder base generally is comprised of many stockholders holding smaller positions who similarly have a long-term investment horizon. A primary reason that these stockholders invest with the Fund is the potential for long-term capital appreciation coupled with responsible and deliberative asset management. Neither the Board nor the Fund's stockholders contemplate or desire sudden, drastic changes in the makeup of the Fund's investment portfolios.

Question 22: How do the Fund's largest stockholders intend to vote on these Proposals?

Answer: The Fund's largest stockholders (described above as the "Horejsi Affiliates") intend to vote in favor of the Restructuring and each of the Proposals.

[GRAPHIC OMITTED]
First Opportunity Fund, Inc.

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

ANNUAL MEETING OF STOCKHOLDERS

________, 2010

PROXY STATEMENT

This proxy statement ("Proxy Statement") for First Opportunity Fund, Inc., a Maryland corporation (the "Fund"), is furnished in connection with the solicitation of proxies by the Fund's board of directors (collectively, the "Board" and individually, the "Directors") for use at the Annual Meeting of Stockholders of the Fund to be held on ____________ at 9:00 a.m. Pacific Standard Time (local time), at ___________________ and at any adjournments and postponements thereof (the "Meeting"). A Notice of Annual Meeting of Stockholders and proxy card for the Fund accompany this Proxy Statement. Proxy solicitations will be made, beginning on or about _____, 2010, primarily by mail, but proxy solicitations may also be made by telephone, by Internet on the Fund's website, or through email communications with stockholders who have enrolled in the Fund's electronic duplicate communications service+/-, telegraph or personal interviews conducted by officers of the Fund, _______________________, the Fund's proxy solicitor and Computershare Trust Company, N.A., the transfer agent of the Fund. The costs of proxy solicitation are expected to be approximately $________. Proxy solicitation expenses as well as expenses incurred in connection with the preparation of this Proxy Statement and its enclosures will be paid by the Fund. The Fund also will reimburse brokerage firms and others for their expenses in forwarding solicitation material to the beneficial owners of its shares. The Board has fixed the close of business on __________, 2010 as the record date (the "Record Date") for the determination of stockholders entitled to notice of and to vote at the Meeting and any postponements or adjournments thereof.

The Annual Report of the Fund, including audited financial statements for the fiscal year ended March 31, 2009, has been mailed to stockholders. Additional copies of the Fund's most recent Annual Report are available upon request, without charge, by writing to First Opportunity Fund, Inc., 2344 Spruce Street, Suite A, Boulder, Colorado 80302 or by calling (877) 561-7914. The report is also viewable online at the Fund's website at www.firstopportunityfund.com. The Annual Report is not to be regarded as proxy solicitation material.

One Proxy Statement is being delivered to multiple stockholders sharing an address, unless the Fund has received contrary instructions from one or more of the stockholders. The Fund will undertake to deliver promptly, upon written or oral request, a separate copy of the proxy statement to any stockholder who contacts the Fund in writing, or by phone, as stated above. Similarly, stockholders sharing an address can request single copies of a future proxy statement or annual report by contacting the Fund in writing or by contacting the Fund's transfer agent.

+/- Stockholders can receive timely information about the Fund quickly and conveniently! The Fund offers the option for electronic delivery of DUPLICATE copies of all stockholder communications. You can choose the timeliness and convenience of receiving and reviewing stockholder communications, such as annual reports and proxy statements, online in addition to, but more quickly than, the hard copies you currently receive in the mail. If you sign up for the option, you will receive an e-mail notification when stockholder communications are available, containing a link to those communications on the Internet. HOWEVER, presently you will not be able to vote your shares using these links and will have to wait to vote using the hard copies you receive in the mail or electronically from your broker, the transfer agent or proxyvote.com. For more information, please visit the Fund's website at www.firstopportunityfund.com.

An electronic copy of the Notice of Annual Meeting of Stockholders, the Proxy Statement, and a proxy card for the Fund for your vote at the Meeting is available online at www.firstopportunityfund.com.

Wellington Management Company, LLP ("Wellington Management") at 75 State Street, Boston, Massachusetts 02109, currently serves as the investment adviser to the Fund. Fund Administrative Services, L.L.C. ("FAS"), 2344 Spruce Street, Suite A, Boulder, Colorado 80302, and ALPS Fund Services, Inc., 1290 Broadway, Suite 1100, Denver, Colorado 80203, serve as co-administrators to the Fund. Computershare Trust Company, N.A. acts as the transfer agent to the Fund and is located at 250 Royall Street, Canton, Massachusetts 02021.

If the enclosed proxy is properly executed and returned by ______________, 2010, in time to be voted at the Meeting, the Shares (as defined below) represented thereby will be voted in accordance with the instructions marked thereon. Unless instructions to the contrary are marked thereon, a proxy will be voted FOR each of the Proposals and, in the discretion of the proxy holders, on any other matters that may properly come before the Meeting. Any stockholder who has given a proxy has the right to revoke it at any time prior to its exercise either by attending the Meeting and casting his or her votes in person or by submitting a letter of revocation or a later-dated proxy to the Fund's secretary at the above address prior to the date of the Meeting.

A quorum of the Fund's stockholders is required for the conduct of business at the Meeting. Under the bylaws of the Fund (the "Bylaws"), a quorum is constituted by the presence in person or by proxy of the holders of a majority of the outstanding shares of the Fund as of the Record Date. In the event that a quorum is not present at the Meeting, the persons named as proxies may propose and vote for one or more adjournments of the Meeting. An adjournment for lack of a quorum requires the affirmative vote of the holders of a majority of the shares entitled to vote at the Meeting and present in person or by proxy. In the event that a quorum is present but sufficient votes to approve one or more Proposals are not received, the persons named as proxies may propose and vote for one or more adjournments of the Meeting to permit further solicitation of proxies with respect to any Proposal that did not receive the votes necessary for its passage. With respect to those Proposals for which there is represented a sufficient number of votes in favor, actions taken at the Meeting will be approved and implemented irrespective of any adjournments with respect to any other Proposals. Any such adjournment will require the affirmative vote of a majority of votes cast on the matter at the Meeting. If a quorum is present, the persons named as proxies will vote those proxies which they are entitled to vote FOR any Proposal in favor of such an adjournment and will vote those proxies required to be voted AGAINST any Proposal against any such adjournment.

The Fund has one class of stock: common stock, par value $0.001 per share (the "Common Stock" or the "Shares"). On the Record Date, there were 28,739,389

Shares issued and outstanding. Each Share is entitled to one vote at the Meeting and fractional Shares are entitled to proportionate shares of one vote.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS. The following table sets forth certain information regarding the beneficial ownership of the Shares as of the Record Date by each person who is known by the Fund to beneficially own 5% or more of the Common Stock.

Name of Owner	Number of Shares Directly Owned (1)	Number of Shares Beneficially Owned	B
Stewart R. Horejsi Trust No. 2 (1)*	2,169,602	2,169,602	
Lola Brown Trust No. 1B (1)*	4,272,118	4,272,118	
Mildred B. Horejsi Trust (1)*	2,025,122	2,025,122	
Susan L. Ciciora Trust (1)*	1,737,573	1,737,573	
Aggregate Shares Owned by Horejsi Affiliates (defined below)	10,204,415	10,204,415	
T. Rowe Price Associates, Inc.**	2,171,631	2,171,631	

Solely for ease of reference, the Susan Trust, Mildred Trust, Brown Trust, ATC, SRH Trust, as well as other trusts and entities associated with the Horejsi family are collectively referred to herein as the "Horejsi Affiliates". Information as to beneficial ownership above has been obtained from a representative of the beneficial owners; all other information as to beneficial ownership is based on reports filed with the Securities and Exchange Commission (the "SEC") by such beneficial owners.

As of the Record Date, Cede & Co., a nominee partnership of the Depository Trust Company, held of record, but not beneficially, ___________ shares or _________% of Common Stock outstanding of the Fund.

As of the Record Date, the Trusts, executive officers and directors of the Fund, as a group, owned 10,254,741 shares of Common Stock (this amount includes the aggregate shares of Common Stock owned by the Horejsi Affiliates set forth above), representing 35.68% of Common Stock.

OVERVIEW OF PROPOSALS

This Proxy Statement describes seven proposals (together the "Proposals"). The first four Proposals (the "Restructuring Proposals"), if approved, will provide enhanced investment flexibility to the New Advisers (defined below) and expand the universe of investments in which the Fund may invest. Proposals 1 and 2 ask stockholders to approve new advisory agreements between the Fund and the New Advisers (the "Advisory Agreements") and Proposal 3 asks stockholders to approve a new sub-advisory agreement between Wellington Management, the New Advisers and the Fund (the "Sub-Advisory Agreement"). Proposal 4 asks stockholders to remove the Fund's fundamental policy of investing at least 65% of its assets in financial services companies (the "Concentration Policy"). Proposal 5 is a precautionary proposal which, if the Restructuring Proposals fail to pass, will amend the Concentration Policy such that the threshold for investing in financial services companies will be reduced to 25% from its current threshold of 65%. Proposal 6 recommends amending the Fund's charter in order to classify the Board into three separate classes. And finally, Proposal 7 is for the election of Directors. The Board, including the Directors who are not "interested persons" of the Fund within the meaning of Section 2(a)(19) of the Investment Company Act of 1940, as amended (the "1940 Act") (the "Independent Directors"), unanimously recommends that you vote "FOR" all the Proposals. The Horejsi Affiliates, which hold approximately 35.51% of the Fund's outstanding Common Stock, have informed the Board that they will vote their Shares FOR all the Proposals.

PROPOSALS 1 AND 2

TO APPROVE OR DISAPPROVE THE PROPOSED INVESTMENT ADVISORY AGREEMENTS WITH RMA AND SIA

Background of the Proposals. Wellington Management has managed the Fund since its inception in 1986. Over this term of management, the Fund has significantly outperformed its peer groups and the relevant indices. During the past several years, in response to material changes in the financial services industry since the Fund was initially launched, the Board has reviewed a number of options to seek to improve the risk-adjusted return of the Fund by initially removing certain investment restrictions. In 2008, the Board encouraged management to identify unnecessary investment restrictions and streamline the Fund to provide Wellington Management with additional investment flexibility to take advantage

of investment opportunities. In April 2008, Fund management, in conjunction with Wellington Management, conducted a comprehensive survey of the investment restrictions imposed on the Fund, and Fund management recommended fundamental changes to the Fund's diversification status and investment policies. In May 2008, the Board held a special meeting to consider a set of proposals to eliminate or revise the Fund's investment restrictions and policies, some of which would be submitted to stockholders for consideration at the annual meeting in July 2008. In particular, management recommended changing the name of the Fund to eliminate the term "Financial", changing the investment objective to "total return" and changing the Fund from a "diversified" to a "non-diversified" investment company, the latter two requiring a vote of a majority of the Fund's outstanding shares. In July 2008, stockholders approved changing the Fund's investment objective to "total return" and reclassifying the investment objective as non-fundamental. In addition, stockholders approved changing the Fund's classification and related fundamental investment restriction to "non-diversified" and approved elimination of the Fund's fundamental investment restriction regarding the ability to hold greater than 5% in a single issuer. Although these changes provided Wellington Management significantly more investment latitude, they still fell short of providing the flexibility utilized by the WHM Hedge Funds.

In the past, at the Board's request in conjunction with the Board's annual consideration of Wellington Management's investment advisory contract, Wellington Management has provided the investment returns of certain hedge funds sponsored by an affiliate of Wellington Management, Wellington Hedge Management LLC ("WHM") (the "WHM Hedge Funds") and managed by Wellington Management and the Fund's current portfolio manager. Even though these hedge funds have investment objectives similar to the Fund's, these private funds employ different investment strategies, including short selling and have at times outperformed the Fund. This was especially the case during the most recent market downturn when the Fund, having a "long only" investment approach, was not able to take advantage of the many short selling opportunities offered by the financial industry. Wellington Management does not engage in short selling in portfolios that require public disclosure of its short positions. Thus, the Fund cannot take advantage of short selling and retain Wellington Management as the investment adviser under its current structure. In addition, compared to registered investment companies, hedge funds have fewer regulatory constraints which permits them greater flexibility to engage in a broader array of, and less constrained, investment strategies, such as the use of short sales, leverage and derivatives. The Board then asked management to review options that would allow the Fund to take greater advantage of the talents of Wellington Management and its investment personnel, and the broader array of, and less constrained, investment strategies that hedge funds may offer, to seek to improve the risk-adjusted return of the Fund for the benefit of stockholders.

In October 2008, representatives of the Fund and Wellington Management met to discuss the feasibility, and technical, operational and legal issues in connection with a direct investment by the Fund in the WHM Hedge Funds. It was quickly determined that, because of the affiliate restrictions under the 1940 Act, the Fund could not invest in any Wellington Management-affiliated hedge funds while Wellington Management was the primary adviser to the Fund. As an alternative, the parties discussed the possibility of Wellington Management being replaced by the Board with the New Advisers as investment adviser, and then the New Advisers making the investment decision to invest in the WHM Hedge Funds. The Board believed this structure would indirectly provide stockholders with better access to the unrestricted investment tools of Wellington Management and its investment personnel. A set of issues arose out of the October discussions that Fund management and counsel for the Fund had to research and consider and, if feasible, present to the Board their recommendation at the next regular meeting in February 2009.

At the February 2009 meeting, the Board reviewed memoranda prepared by management and counsel addressing a number of technical, legal and tax issues identified during the preceding months. In particular, these memoranda addressed the threshold question of whether the Fund could make meaningful investments in WHM Hedge Funds. It was determined that, under the proposed restructuring (i.e., the Board replacing Wellington Management with the New Advisers as the primary advisers), the Fund would be able to make significant investments in the WHM Hedge Funds. Over the next three months, management and counsel continued their analysis of a potential restructuring and, at the Board's next regular meeting in April 2009, management presented a formal proposal which contemplated Wellington Management being replaced as the Fund's primary adviser, and the New Advisers being appointed to that role, Wellington Management becoming a sub-adviser to the Fund, and removing the Concentration Policy (together the "Restructuring"). The Board also considered a memorandum prepared by Wellington Management regarding issues to consider regarding the proposed Restructuring. The Board considered the Restructuring at a special meeting of the Board on April 16, 2009, and again at its regularly scheduled meetings on April 24, 2009 and July 24, 2009. At the meeting held on April 24, 2009, the Board, by unanimous vote (including a separate vote of the Independent Directors), approved the Advisory Agreements, Sub-Advisory Agreement and removing the Concentration Policy and recommended they be submitted to stockholders for approval. At the meeting held on July 24, 2009, the Board considered SEC Staff comments to the Fund's preliminary proxy statement concerning the extent to which the Fund could invest in WHM Hedge Funds or other hedge funds without having to provide disclosure with respect to investee hedge fund financial statements. In response to comments received by the SEC Staff, the Board adopted policies and procedures that would limit the Fund's initial investment in any single hedge fund to approximately 17% of the Fund's net asset value at the time of investment and would require affirmative steps to reduce the Fund's investment in any hedge fund when the value of any such investment exceeds 22% of the Fund's net asset value.

Summary of the Restructuring Proposals.

The Restructuring Proposals include three distinct proposals:

1. Approval of new co-advisory agreements (i.e., the Advisory Agreements) between the Fund and Rocky Mountain Advisers, L.L.C. ("RMA") and Stewart Investment Advisers ("SIA") (together, the "New Advisers");

2. Approval of a new sub-advisory agreement (i.e., the Sub-Advisory Agreement) between the Fund and Wellington Management, whereby Wellington Management will manage a discrete portfolio of securities (defined below as the "Legacy Holdings") for a period of two years after the effective date of the Restructuring (i.e., the date on which stockholders approve the Restructuring Proposals) (the "Effective Date"); and

3. Removing the Concentration Policy.

The Restructuring was conceived primarily to give the Fund significant access to the WHM Hedge Funds. In order to accomplish this and to comply with federal securities laws, the Restructuring contemplates segregating the Fund's assets into two discrete portfolios:

1. The first portfolio, which would include any investment in a WHM Hedge Fund, would be determined and managed by the New Advisers in their sole discretion. Because the WHM Hedge Funds and the Fund hold many of the same or similar securities, it is anticipated that the Fund will contribute "in-kind" some portion of its current holdings to the WHM Hedge Funds in exchange for an equity interest in the WHM Hedge Funds, although the extent of any in-kind contribution cannot be determined until after the Effective Date. In addition, the New Advisers would assume responsibility for all cash or cash equivalent assets, as well as certain of the Fund's large cap equity holdings familiar to the New Advisers. Finally, as Legacy Holdings (defined below) are liquidated, proceeds will be turned over to the New Advisers to be invested in accordance with the Fund's investment objective.

2. The second portfolio, which would include all the Fund's remaining assets not assumed by the New Advisers, anticipated to be fair-valued and other liquidity-challenged securities (the "Legacy Holdings"), would be managed by Wellington Management in accordance with the Fund's investment objective but with a view toward liquidating the assets to generate cash for the New Advisers to invest. Wellington Management's role would be limited solely to continuing to hold or selling the Legacy Holdings, and/or familiarizing the New Advisers with the Legacy Holdings. Any proceeds realized from the sale of Legacy Holdings would be turned over to the New Advisers to manage. After the Effective Date, Wellington Management would have no authority to directly purchase any security or investment for the Fund. The Restructuring contemplates Wellington Management managing the Legacy Holdings for a period not to exceed two years after the Effective Date, at which time any Legacy Holdings still held by the Fund would be turned over to the New Advisers and the Sub-Advisory Agreement would terminate.

The Board believes it is important to engage Wellington Management as a temporary sub-adviser because the Fund is presently invested primarily in securities issued by smaller financial services companies which were chosen and are overseen by Wellington Management in its current capacity as the Fund's sole adviser and with respect to which the New Advisers have limited familiarity. The two-year time limit is designed to give the New Advisers a chance to familiarize themselves with the remaining Legacy Holdings.

Reasons for the Restructuring Proposals. The Board and New Advisers firmly believe that increasing investment flexibility is crucial to maximizing stockholder value and that giving the Fund the capabilities to invest in the WHM Hedge Funds gives stockholders maximum flexibility. The Board and New Advisers also believe that restructuring the Fund so that it can invest significantly in the WHM Hedge Funds will provide the opportunity for superior risk-adjusted returns. Finally, the Board and the New Advisers believe that recent market events including the sub-prime fiasco and the banking, credit and liquidity

crisis, have disproportionately impacted the Fund under its Concentration Policy, and that the continuation of the Concentration Policy could expose the Fund to considerable risk and volatility should the financial services industry take a farther downturn.

Risks and Special Considerations Associated with the Restructuring Proposals. The Restructuring Proposals will necessarily change the risk profile of the Fund and stockholders should consider the following risks and special considerations in determining whether to vote in favor of the Restructuring Proposals or whether their investment in the Fund is suitable.

Risks Related to Types of Investments and Investment Strategies. Hedge fund investments selected by the New Advisers (collectively, "Hedge Funds") may invest and trade in a wide range of instruments and markets and thus give rise to the wide range of risks associated with such instruments and markets. For example:

- Hedge Funds may invest in all types of securities and financial instruments, including but not limited to equities, fixed income investments, options, futures, swaps and other derivatives or derivative transactions ("Derivatives"). Such investments may be illiquid and highly leveraged, or subject to extreme volatility.

- Hedge Funds may use a wide range of investment techniques, some of which may subject investors to heightened risk (e.g., leveraging, selling securities short, etc.).

- Hedge Funds are generally not limited in the markets in which they are expected to invest, or the investment discipline that their managers may employ, such as value or growth or bottom-up or top-down analysis.

- Hedge Funds may use various investment techniques for hedging and non-hedging purposes, some of which may subject investors to heightened risk (e.g., selling securities short, purchasing and selling options contracts and entering into other Derivatives).

Investment in a particular "type" of investment or the use of a particular technique may be an integral part of a Hedge Fund's investment strategy and may involve certain risks and result in significant losses. The above risk factors and considerations, as well as other risk factors and considerations associated with investing in Hedge Funds, are discussed in greater detail under the subheading "Investments by Hedge Funds" below.

There can be no assurance that WHM or other managers of Hedge Funds selected by the New Advisers will succeed in any of these investment types or techniques.

Hedge Fund Strategy Risk. The Fund will be subject to Hedge Fund strategy risk. Strategy risk refers to the failure or deterioration of investment or trading techniques employed within or across strategies, such that some or all managers employing such techniques may suffer significant losses.

- Losses associated with strategy risk may result from excessive concentration by multiple managers in the same or similar trading positions.

- Broad events or market dislocations, particularly those accompanied by illiquidity, may adversely affect a wide range of Hedge Funds in certain strategies.

- Many of the trading or investment strategies employed by Hedge Funds are speculative and involve substantial risks. Specific strategy risks relating to Hedge Fund strategies include, for example, strategies utilized by managers in the general hedged equity, event driven, distressed securities, short-selling, opportunistic/macro and international/emerging markets trading sectors.

The application of a particular strategy may be an integral part of a Hedge Fund's investment approach and may involve certain risks and result in significant losses. The above risk factors and considerations, as well as other risk factors and considerations associated with investing in Hedge Funds, are discussed in greater detail under the subheading "Investments by Hedge Funds" below. There can be no assurance that WHM or other managers of Hedge Funds selected by the New Advisers will succeed in any of these strategies.

Non-Diversified Status. As a non-diversified investment company, the Fund is not subject to percentage limitations imposed by the 1940 Act on the portion of its assets that may be invested in the securities of any one issuer. Also, there are no requirements under the 1940 Act that the investments of the Hedge Funds be diversified and the Hedge Funds may, in some cases, concentrate their investments in a single industry or group of related industries. As a result, the Fund's investment portfolio may be

subject to greater risk and volatility than if it were subject to the diversification requirements under the 1940 Act. Presently under the 1940 Act, there are no percentage limitations regarding the level of investment the Fund can make in Hedge Funds, although new laws or regulations may change this at any time.

The Fund is, however, subject to certain asset diversification requirements relating to its tax status as a regulated investment company (a "RIC") under the Internal Revenue Code (the "Code"). Management of the Fund will seek to satisfy these asset diversification requirements on a "look through" basis with respect to the Fund's investments in Hedge Funds, such that the Fund considers the underlying holdings of those Hedge Funds in measuring the Fund's diversification for this purpose. Hedge funds are not generally required to provide current complete holdings information regarding their investments to their investors (including the Fund). Thus, the Fund may not be able to determine whether such diversification requirements have been met on a "look-through" basis.

Lack of Liquidity. The Fund's interests in the Hedge Funds will generally be illiquid. The Fund may make investments in, or withdrawals from, the

Hedge Funds only at certain times specified in the governing documents of the Hedge Funds. The Fund will typically be able to dispose of Hedge Fund interests that it has purchased only on a periodic basis, subject to advance notice requirements. In addition, Hedge Funds may impose certain restrictions on withdrawals, such as lock-ups, gates, or suspensions of withdrawal rights under certain circumstances, during which time the Fund may not withdraw all or part of its interest in the Hedge Fund, or may withdraw only by paying a penalty. There may be times when the New Advisers intend to withdraw all or a portion of the Fund's investment in a Hedge Fund but cannot immediately do so even when other investors in the Hedge Fund are able to withdraw.

Fluctuations in Value. Since the New Advisers anticipate initially investing 50% of the Fund's assets in Hedge Funds, the value of the Fund's net assets will fluctuate significantly based on the fluctuation in the value of the Hedge Funds in which it invests. To the extent that the portfolio of a Hedge Fund is concentrated in securities of a single issuer or issuers in a single industry or market, the risk of the Fund's investment in that Hedge Fund will be increased. Hedge Funds may be more likely than other types of funds to engage in the use of leverage, short sales and Derivatives. A Hedge Fund's use of such transactions is likely to cause the value of the Fund's portfolio to appreciate or depreciate at a greater rate than if such techniques were not used. The investment environment in which the Hedge Funds invest may be influenced by, among other things, interest rates, inflation, politics, fiscal policy, current events, competition, productivity, technological and regulatory change.

Multiple Fees and Expenses. As discussed below under "Advisory Agreements", the New Advisers will be paid an asset-based fee (i.e., the Proposed Fee (described below)) on the Managed Assets (described below) including any investments in Hedge Funds. In addition, Hedge Fund managers typically are paid an asset-based fee in the range of 1.00% to 2.00% of total assets. Moreover, Hedge Fund managers typically are paid performance-based fees in the range of 20% of profits with respect to annual gains generated in their Hedge Funds. Thus, under the Restructuring, there is the potential for multiple advisory fees to be paid and consequently advisory-related fees could be significantly higher, especially when there are net gains in the Hedge Fund. However, as described below, the New Advisers have agreed to waive their fees in an amount equal to up to 1.00% of the Fund's assets invested in a WHM Fund to offset any asset-based fees (but not any performance-based fees) paid to WHM with respect to the Fund's assets. WHM charges an asset-based fee of 1.00% to the WHM Hedge Funds presently under consideration for investment by the New Advisers. In any event, an investor in the Fund may be subject to higher operating expenses than otherwise if invested in another closed-end fund with a different investment focus.

The receipt of a performance-based fee by a Hedge Fund manager may create an incentive for the manager to make investments that are riskier or more speculative than those that might have been made in the absence of such fees. Further, because a performance-based fee will generally be calculated on a basis that includes unrealized appreciation of the Fund's assets, such fee may be greater than if it were based solely on realized gains. In addition, a Hedge Fund manager will receive any performance-based fee to which it is entitled, irrespective of the performance of the other Hedge Funds in the Fund generally. Thus, a Hedge Fund manager with positive performance may receive compensation from the Fund even if the Fund's overall returns are negative.

Concentration. If stockholders approve Proposal 4, which would remove the Concentration Policy, the Fund would not concentrate, or invest 25% or more of the value of its total assets in the securities (other than U.S. Government securities) of issuers engaged in a single industry or group of related industries (but the Fund may and intends to invest 25% or more of the value of its total assets in Hedge Funds). Hedge Funds generally are not subject to similar industry concentration restrictions on their investments and, in some cases, may invest 25% or more of the value of their total assets in a single industry or group of related industries. It is possible that, at any given time, the assets of Hedge Funds in which the Fund has invested will have investments in a single industry or group of related industries that when combined with the direct holdings of the Fund in the same industry or group of industries might constitute 25% or more of the value of the Fund's total assets. Because these circumstances may arise, the Fund is subject to greater investment risk to the extent that a significant portion of its assets may at some times be invested, directly or indirectly, through Hedge Funds in which it invests, in the securities of issuers engaged in similar businesses that are likely to be affected by the same market conditions and other industry-specific risk factors. Hedge Funds are not generally required to provide current information regarding their investments to their investors (including the Fund). Thus, the Fund and the New Advisers may not be able to determine at any given time whether or the extent to which Hedge Funds, in the aggregate, have invested 25% or more of their combined assets in any particular industry or group of related industries.

If stockholders approve the Restructuring, including Proposal 4, the Fund would likely be concentrated in the securities of financial services companies immediately following the Effective Date, as a result of the current effectiveness of the Concentration Policy. However, the New Advisers would seek to reduce the Fund's holdings in financial services companies to below 25% of the Fund's assets in as prompt and prudent manner possible.

Duplicative Transaction Costs. Hedge Fund managers make the investment decisions of their Hedge Funds independently of each other. Consequently, at any particular time, one Hedge Fund may be purchasing interests in an issuer that at the same time are being sold by another Hedge Fund. Investing by the Hedge Funds in this manner will cause the Fund to indirectly incur certain transaction costs without accomplishing any net investment result. Similarly, Wellington Management, in its management of the Legacy Holdings or the New Advisers in managing non-Hedge Fund investments, may be selling interests in an issuer that at the same time are being purchased by another Hedge Fund, again causing the Fund to indirectly incur certain transaction costs without accomplishing any net investment results.

Hedge Funds Not Registered. The Hedge Funds generally will not be registered as investment companies under the 1940 Act and the Fund, as an investor in these Hedge Funds, will not have the benefit of the protections afforded by the 1940 Act to investors in registered investment companies. The 1940 Act provides certain protections to investors such as an independent board of directors and imposes certain investor protection restrictions on registered investment companies and their affiliates. These protections include: (i) the requirement that an investment company have an independent board of directors with fiduciary duties to shareholders to oversee, among other things, the activities of the investment advisor, including approval of management fees and the ability to remove the investment advisor; (ii) prohibitions on affiliated transactions; (iii) the requirement of a code of ethics; (iv) custody and safekeeping of assets; (v) disclosure and continuous reporting requirements; (vi) record keeping requirements; and (vii) general protections against wrongdoing. including requirements to provide investors with periodic reporting and certain standardized pricing and valuation information. Although the New Advisers will periodically receive information from each Hedge Fund regarding its investment performance and investment strategy, the New Advisers may have little or no means of independently verifying this information. Hedge Funds are not contractually or otherwise obligated to inform their investors, including the Fund, of details surrounding proprietary investment strategies. In addition, the Fund and the New Advisers will have no control over the Hedge Funds' investment management, brokerage, custodial arrangements or operations and must rely on the experience and competency of each Hedge Fund manager in these areas.

Special Tax Risks. The Fund has elected to, and intends to meet the requirements necessary to, qualify as a "regulated investment company" or "RIC" under Subchapter M of the Code. As such, the Fund must satisfy, among other requirements, certain ongoing asset diversification, source-of-income and annual distribution requirements. Each of these ongoing requirements for qualification for the favorable tax treatment available to RICs requires that the Fund obtain information from the Hedge Funds in which the Fund is invested. Management of the Fund will seek to satisfy the asset diversification requirements on a "look through" basis with respect to the Fund's investments in Hedge Funds, such that the Fund considers the underlying holdings of those Hedge Funds in measuring the Fund's diversification for this purpose.

If before the end of any quarter of its taxable year, the Fund believes that it may fail the asset diversification requirement, the Fund may seek to take certain actions to avert such a failure. The Fund may try to acquire additional interests in Hedge Funds to bring itself into compliance with the asset diversification test. However, the action frequently taken by RICs to avert such a failure, the disposition of non-diversified assets, may be difficult for the Fund to pursue because the Fund may redeem its interest in a Hedge Fund only at certain times specified by the governing documents of each respective Hedge Fund. While relevant provisions also afford the Fund a 30-day period after the end of the relevant quarter in which to cure a diversification failure by disposing of non-diversified assets, the constraints on the Fund's ability to effect a redemption from a Hedge Fund referred to above may limit utilization of this cure period.

If the Fund fails to satisfy the asset diversification or other RIC requirements, it may lose its status as a RIC under the Code. In that case, all of its taxable income would be subject to U.S. federal income tax at regular corporate rates without any deduction for distributions to the Fund's stockholders. In addition, all distributions (including distributions of net capital gain) would be taxed to their recipients as dividend income to the extent of the Fund's current and accumulated earnings and profits. Accordingly, disqualification as a RIC would have a material adverse effect on the value of the Fund's shares and the amount of the Fund's distributions.

Risks Associated with Investments by Hedge Funds.

Equity Securities. Hedge Funds may hold long and short positions in common stocks, preferred stocks and convertible securities of U.S. and non-U.S. issuers. Hedge Funds also may invest in depositary receipts or shares relating to non-U.S. securities. Equity securities fluctuate in value, often based on factors unrelated to the fundamental economic condition of the issuer of the securities, including general economic and market conditions, and these fluctuations can be pronounced. Hedge Funds may purchase securities in all available securities trading markets and may invest in equity securities without restriction as to market capitalization.

Leverage. Some or all of the Hedge Funds may make margin purchases of securities and, in connection with these purchases, borrow money from brokers and banks for investment purposes. This practice, which is known as "leverage," is speculative and involves certain risks. Although the New Advisers do not currently anticipate that the Fund will engage directly in leveraging, the Fund is permitted to deploy leverage and other investment companies managed by the Boulder Advisers are leveraged. So, it is likely that, eventually, the Fund will deploy leverage, but only to the extent permitted by the 1940 Act.

Trading equity securities on margin involves an initial cash requirement representing at least a percentage of the underlying security's value. Borrowings to purchase equity securities are typically secured by the pledge of those securities. Hedge Funds may also finance securities purchases through the use of reverse repurchase agreements with banks, brokers and other financial institutions. Although leverage will increase investment returns if a Hedge Fund earns a greater return on the investments purchased with borrowed funds than it pays for the use of those funds, the use of leverage will decrease the return on a Hedge Fund if the Hedge Fund fails to earn as much on investments purchased with borrowed funds as it pays for the use of those funds. The use of leverage will in this way magnify the volatility of changes in the value of an investment in the Hedge Funds. In the event that a Hedge Fund's equity or debt instruments decline in value, the Hedge Fund could be subject to a "margin call" or "collateral call," under which the Hedge Fund must either deposit additional collateral with the lender or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden, precipitous drop in value of a Hedge Fund's assets, the Hedge Fund might not be able to liquidate assets quickly enough to pay off its borrowing. Money borrowed for leveraging will be subject to interest costs that may or may not be recovered by return on the securities purchased. Hedge Funds may be required to maintain minimum average balances in connection with its borrowings or to pay a commitment or other fee to maintain a line of credit; either of these requirements would increase the cost of borrowing over the stated interest rate.

Section 18 of the 1940 Act requires a registered investment company such as the Fund to satisfy certain asset coverage requirements relative to its indebtedness. This limit is not expected to apply to any of the Hedge Funds in which the Fund intends to invest, so the Fund's portfolio may be exposed to the risk of highly leveraged investment programs of certain Hedge Funds and thus increase the volatility of the Fund's investment. In seeking "leveraged" market exposure in certain investments and in attempting to increase overall returns, a Hedge Fund may purchase options and other synthetic instruments that do not constitute "indebtedness" for purposes of the 1940 Act but may nevertheless involve significant economic leverage and may, in some cases, involve significant risks of loss.

Short Sales. A Hedge Fund may attempt to limit its exposure to a possible market decline in the value of its portfolio securities through short sales of securities that its manager believes possess volatility characteristics similar to those being hedged. A Hedge Fund may also use short sales for non-hedging purposes to pursue its investment objectives if, in the manager's view, the security is over-valued in relation to the issuer's prospects for earnings growth. Short selling is speculative in nature and, in certain circumstances, can substantially increase the effect of adverse price movements on a Hedge Fund's portfolio. A short sale of a security involves the risk of an unlimited increase in the market price of the security that can in turn result in an inability to cover the short position and a theoretically unlimited loss. There can be no assurance that securities necessary to cover a Hedge Fund's short position will be available for purchase.

A Hedge Fund may make "short sales against-the-box," in which it will sell short securities it owns or has the right to obtain without payment of additional consideration. If a Hedge Fund makes a short sale against-the-box, it will be required to set aside securities equivalent in kind and amount to the securities sold short (or securities convertible or exchangeable into those securities) and will be required to hold those securities while the short sale is outstanding. A Hedge Fund will incur transaction costs, including interest expenses, in connection with initiating, maintaining and closing out short sales against-the-box.

Special Investment Instruments and Techniques. Hedge Funds may utilize a variety of special investment instruments and techniques described below to hedge the portfolios of the Hedge Funds against various risks, such as changes in interest rates or other factors that affect security values, or for non-hedging purposes in seeking to achieve a Hedge Fund's investment objective. The New Advisers, on behalf of the Fund, may also use these special investment instruments and techniques for either hedging or non-hedging purposes. These strategies may be executed through Derivatives. The instruments used and the particular manner in which they are used may change over time as new instruments and techniques are developed or regulatory changes occur. Certain of these special investment instruments and techniques are speculative and involve a high degree of risk, particularly in the context of non-hedging transactions.

- Derivatives. Hedge Funds may invest in, or enter into, Derivatives. Derivatives are financial instruments that derive their performance, at least in part, from the performance of an underlying asset, index or interest rate. Derivatives entered into by a Hedge Fund can be volatile and involve various types and degrees of risk, depending upon the characteristics of a particular Derivative and the portfolio of the Hedge Fund as a whole. Derivatives permit a manager to increase or decrease the level of risk of an investment portfolio, or change the character of the risk, to which an investment portfolio is exposed in much the same way as the manager can increase or decrease the level of risk, or change the character of the risk, of an investment portfolio by making investments in specific securities. Derivatives may entail investment exposures that are greater than their cost would suggest, meaning that a small investment in Derivatives could have a large potential effect on performance of a Hedge Fund. The Hedge Fund manager's use of Derivatives may include total return swaps, options and futures designed to replicate the performance of a particular Hedge Fund or to adjust market or risk exposure. If a Hedge Fund invests in Derivatives at inopportune times or incorrectly judges market conditions, the investments may lower the return of the Hedge Fund or result in a loss. A Hedge Fund also could experience losses if Derivatives are poorly correlated with its other investments, or if the Hedge Fund is unable to liquidate the position because of an illiquid secondary market. The market for many Derivatives is, or suddenly can become, illiquid. Changes in liquidity may result in significant, rapid and unpredictable changes in the prices for Derivatives.

o Options and Futures. Hedge Funds may utilize options and futures contracts and so-called "synthetic" options or other Derivatives written by broker-dealers or other permissible financial intermediaries. Options transactions may be effected on securities exchanges or in the over-the-counter market. When options are purchased over-the-counter, the Hedge Fund's portfolio bears the risk that the counterparty that wrote the option will be unable or unwilling to perform its obligations under the option contract. Options may also be illiquid and, in such cases, the Hedge Fund may have difficulty closing out its position. Over-the-counter options also may include options on baskets of specific securities. Hedge Funds may purchase call and put options on specific securities, and may write and sell covered or uncovered call and put options for hedging purposes in pursuing the investment objectives of the Hedge Funds. A put option gives the purchaser of the option the right to sell, and obligates the writer to buy, the underlying security at a stated exercise price, typically at any time prior to the expiration of the option. A call option gives the purchaser of the option the right to buy, and obligates the writer to sell, the underlying security at a stated exercise price, typically at any time prior to the expiration of the option. A covered call option is a call option

with respect to which the seller of the option owns the underlying security. The sale of such an option exposes the seller during the term of the option to possible loss of opportunity to realize appreciation in the market price of the underlying security or to possible continued holding of a security that might otherwise have been sold to protect against depreciation in the market price of the security. A covered put option is a put option with respect to which cash or liquid securities have been placed in a segregated account on the books of or with a custodian to fulfill the obligation undertaken. The sale of such an option exposes the seller during the term of the option to a decline in price of the underlying security while depriving the seller of the opportunity to invest the segregated assets.

A Hedge Fund may close out a position when writing an option by purchasing an option on the same security with the same exercise price and expiration date as the option that it has previously written on the security. In such a case, the Hedge Fund will realize a profit or loss if the amount paid to purchase an option is less or more than the amount received from the sale of the option.

Hedge Funds may enter into futures contracts in U.S. markets or on exchanges located outside the United States. Non-U.S. markets may offer advantages such as trading opportunities or arbitrage possibilities not available in the U.S.. Non-U.S. markets, however, may have greater risk potential than U.S. markets. For example, some non-U.S. exchanges are principal markets in which no common clearing facility exists and an investor may look only to the broker for performance of the contract. In addition, any profits realized could be eliminated by adverse changes in the exchange rate, and the Fund or a Hedge Fund could incur losses as a result of those changes. Transactions on non-U.S. exchanges may include both commodities that are traded on U.S. exchanges and those that are not. Unlike trading on U.S. commodity exchanges, trading on non-U.S. commodity exchanges is not regulated by the U.S. Commodity Futures Trading Commission.

Engaging in transactions in futures contracts involves risk of loss to the Fund or the Hedge Fund that could adversely affect the value of the Hedge Fund's and the Fund's net assets. There can be no assurance that a liquid market will exist for any particular futures contract at any particular time. Many futures exchanges and boards of trade limit the amount of fluctuation permitted in futures contract prices during a single trading day. Once the daily limit has been reached in a particular contract, no trades may be made that day at a price beyond that limit or trading may be suspended for specified periods during the trading day. Futures contract prices could move to the limit for several consecutive trading days with little or no trading, preventing prompt liquidation of futures positions and potentially subjecting the Fund or the Hedge Funds to substantial losses. Successful use of futures also is subject to the New Advisers' or a Hedge Fund manager's ability to correctly predict movements in the direction of the relevant market, and, to the extent the transaction is entered into for hedging purposes, to determine the appropriate correlation between the transaction being hedged and the price movements of the futures contract.

Positions of the SEC and its staff may require the Hedge Fund managers to segregate permissible liquid assets in connection with their options and commodities transactions in amounts generally equal to the value of the underlying option or commodity. The segregation of these assets will have the effect of limiting the manager's ability to otherwise invest those assets. While the Hedge Funds may engage in transactions involving options and commodities, the Fund will not directly engage in, nor will it segregate assets in connection with, such transactions.

o Call and Put Options on Securities Indices. Hedge Funds may purchase and sell call and put options on stock indices listed on national securities exchanges or traded in the over-the-counter market for hedging purposes and non-hedging purposes in seeking to achieve the investment objectives of the Hedge Funds. A stock index fluctuates with changes in the market values of the stocks included in the index. Successful use of options on stock indices will be subject to the Hedge Fund manager's ability to correctly predict movements in the direction of the stock market generally or of a particular industry or market segment, which requires different skills and techniques from those involved in predicting changes in the price of individual stocks.

o Warrants and Rights. Hedge Funds may invest in warrants and rights. Warrants and rights may be purchased separately or may be received as part of a unit or attached to securities purchased. Warrants are Derivatives that permit, but do not obligate, their holders to subscribe for other securities or commodities. Rights are similar to warrants, but normally have shorter durations and are offered or distributed to stockholders of a company. Warrants and rights do not carry with them the right to dividends or voting rights with respect to the securities that they entitle the holder to purchase, and they do not represent any interest in the assets of the issuer. As a

result, warrants and rights may be more speculative than certain other types of equity-like securities. In addition, the values of warrants and rights do not necessarily change with the values of the underlying securities or commodities and these instruments cease to have value if they are not exercised prior to their expiration dates.

o Swap Agreements. Hedge Funds may enter into equity, interest rate, index and currency rate swap agreements in order to obtain a particular return when it is desirable to do so, possibly at a lower cost than if the Hedge Fund had invested directly in the asset that yielded the desired return. Swap agreements are two-party contracts entered into primarily by institutional investors for periods ranging from a few weeks to more than a year. In a standard swap transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments, which may be adjusted for an interest factor. The gross returns to be exchanged or "swapped" between the parties are generally calculated with respect to a "notional amount," that is, the return on or increase in value of a particular dollar amount invested at a particular interest rate, in a particular non-U.S. currency, or in a "basket" of securities representing a particular index. Most swap agreements entered into by a Hedge Fund would require the calculation of the obligations of the parties to the agreements on a "net basis." Consequently, current obligations (or rights) under a swap agreement generally will be equal only to the net amount to be paid or received under the agreement based on the relative values of the positions held by each party to the agreement (the "net amount"). The risk of loss with respect to swaps is limited to the net amount of interest payments that the Hedge Fund is contractually obligated to make. If the other party to a swap defaults, the Hedge Fund's risk of loss consists of the net amount of payments that the Hedge Fund contractually is entitled to receive.

o Lending Portfolio Securities. Hedge Funds may lend their securities to brokers, dealers and other financial institutions seeking to borrow securities to complete certain transactions. The lending Hedge Fund remains entitled to payments in amounts equal to the interest, dividends or other distributions payable in respect of the loaned securities, which affords the Hedge Fund an opportunity to earn interest on the amount of the loan and on the loaned secur