

CENTRAL EUROPEAN EQUITY FUND INC /MD/
Form DEFA14A
July 09, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only
(as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to (S)240.14a-12

The Central European Equity Fund, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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

- 1) Title of each class of securities to which transaction applies:
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- 1) Amount Previously Paid:
- 2) Form, Schedule or Registration Statement No.:
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4) Date Filed:

Form of stockholder letter and Institutional Shareholder Services Proxy Analysis

The enclosed form of stockholder letter, together with the proxy analysis of Institutional Shareholder Services dated May 24, 2002, was released to the following stockholders on May 30, 2002:

Harvard Management Inc.
600 Atlantic Avenue
Boston, MA 02210
Att: Mr. Jeff Larson

GSG Capital Advisors
16830 Adlon Road
Encino, CA 91436

Madison Ltd.
170 Avenue C, Suite 16-F
New York, NY 10009
Att: Mr. Dennis Teng

City of London Investment Management
1125 Airport Road
Coatesville, PA 19320
Att: Mr. Barry Olliff

Tattersall Advisory Group
6802 Paragon Place
Richmond, VA 23230
Att: Mr. Jim Mallery

Lazard Asset Management
30 Rockefeller Center
New York, NY 10112
Att: Mr. Kun Deng

Deep Discount Advisors
One West Pack Square
Asheville, NC 28801
Att: Mr. Ron Olin

Opportunity Partners LP
60 Heritage Drive
Pleasantville, NY 10570
Att: Mr. Phil Goldstein

Horowitz & Company Inc.
1555 North Park Drive #102
Weston, FL 33326
Att: Mr. Roy Ward

Croft-Leominster Inc.
207 East Redwood Drive
Baltimore, MD 21202
Att: Mr. Kent Croft

THE CENTRAL EUROPEAN EQUITY FUND, INC.

/s/ Robert R. Gambee

Robert R. Gambee
Chief Operating Officer and Secretary

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May 30, 2002

Dear

Enclosed is a copy of the Institutional Shareholder Services report in which they comment on the shareholder proposal for CEE. Perhaps you have already seen it.

The ISS recognizes the proponent really wants an open-ending of the Fund. In their review, ISS determined that there was no affiliation between the board and DeAM, the fund's advisor, since the audit and advisory committees are all comprised of independent directors. CEE's performance has been in line with its benchmark since inception and its expense ratio is also in line (they even say many non-US equity CEFs have higher expense ratios.) They cite favorably the board's repurchase program as tangible evidence of trying to tackle the discount. But they further say that, in their view, discounts are cyclical and are based on investor sentiment and public opinion. As investment styles and geographic regions come in and out of favor, CEF discounts respond accordingly. They add that the argument that a discount represents a loss in value from NAV is not necessarily true for most investors who purchased at a discount, and thus the discount is not the basis from which their investment should be judged. They conclude there is no direct linkage between the discount, a possible open-ending, and the advisor. They thus recommend voting against the proposal.

As professional money managers, I hope you share their views. Please call me with any comments you may have.

Sincerely,

/s/ Robert Gambee

Robert Gambee
Chief Operating Officer
Tel: (212) 454-1695
Fax: (212) 454-1706

[LOGO] ISS

Proxy Analysis:

The Central European Equity Fund, Inc.

Ticker: CEE

Annual Meeting: June 13, 2002

Record Date: May 10, 2002

Security ID: 153436100 (CUSIP)

MEETING AGENDA

Item	Code	Proposals	Mgt. Rec.	ISS REC.
_ 1	M0201	Elect Directors	For	SPLIT*
_ 2	M0101	Ratify Auditors	For	FOR

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|_ 3 S0810 Terminate Advisory Agreement Against AGAINST

* WITHHOLD votes from Juergen Strube for poor attendance.

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BUSINESS: Closed-end investment company

STATE OF INCORPORATION: Maryland

ACCOUNTANTS: PricewaterhouseCoopers LLP

AUDIT FEES: Pursuant to the SEC's revised Auditor Independence Requirements and revised proxy disclosure rules, the company has reported fees paid to the auditors in the last fiscal year. These fees are reflected in the table below.

Audit fees:	\$ 55,000.00
Financial information systems design and implementation fees:	\$ 0.00
All other fees:	\$ 11,733.00
Percentage of total fees attributable to nonaudit work:	17.58%

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BOARD SUMMARY

	Insiders -----	Affiliated Outsiders -----	Independent Outsiders -----
Full Board	3	0	6
Audit Committee	0	0	4
Compensation Committee	0	0	0

We prefer that companies do not engage their auditor for work unrelated to the audit function. This safeguards shareholders' interest by avoiding potential conflicts that might interfere with the auditor's independent judgment.

Vote FOR Item 2.

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|_| Item 3: Terminate Advisory Agreement

A shareholder proposes that the fund terminate its investment advisory agreement with Deutsche Asset Management International GmbH (Dami). Explicit in this proposal is the belief that Dami is responsible for the prevailing discount and the main impediment to its reduction. The proponent would like an eventual open-ending of the fund and believes that the termination of the advisor is the first step. As of May 22, 2002, the fund was trading at a 13.81-percent discount to net asset value (NAV).

Background

The Central European Equity Fund primarily invests in Central and Eastern European equities. Its benchmark is the CECE index published by the Vienna Stock Exchange covering Poland, Hungary, the Czech Republic, and Slovenia. The fund offers exposure to these markets that have lower P/E's than the developed markets and less instability than other emerging markets. The majority of the fund's holdings are in the Polish and Hungarian markets. The fund believes that as Eastern Europe moves closer to the EU, the economies will continue their expansion and attract new investment.

The Fund has a Management Agreement with Deutsche Bank Securities, Inc. (the "Manager"), and an Investment Advisory Agreement with Dami. The Manager and the Investment Adviser are affiliated companies.

The Management Agreement provides the Manager with a fee, computed weekly and payable monthly, at the annual rates of 0.65 percent of the fund's average weekly net asset up to \$100 million, and 0.55 percent of such assets in excess of \$100 million.

The investment advisory agreement provides Dami with a fee, computed weekly and payable monthly, at the annual rates of 0.35 percent of the fund's average weekly net assets up to \$100 million and 0.25 percent of such assets in excess of \$100 million.

When seeking a termination of an advisory agreement, several factors need be examined. In this case, it seems important to examine the relationship between the board and Dami. Ultimately, the board has control over the discount and any possible open-ending and only if one can prove collusion between the board and advisor would the proposal offer possible relief from the discount. Of course, it is also useful when judging the advisor to examine the performance of the fund and the fund expenses relative to

peers. Finally, the root and importance of the discount must also be examined.

The Board

The proponent seems to believe that fundamentally there are not sufficient firewalls between the board and the investment advisor to the detriment of shareholders. The general argument is grounded in the contention that the board and the advisor are, in essence, the same entity and that in order to effect change, Dami should be removed. The advisory agreement was last submitted to a shareholder vote on June 21, 1991.

However, ISS finds no reason to suspect that the board is "affiliated" with the advisor. As shown above, the board contains six independent directors and fully independent Audit and Nominating committees. Past share repurchases also demonstrate that the board may take action that decrease the advisor's fee if they believe it to be in the interests of the shareholder.

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Advisor Performance

Over the course of the fund's life (inception: 02/01/1990) the fund has annualized NAV total returns of 4.06 percent. Over this time, the fund has performed roughly in line with its relevant index (although the index has changed several times over the life of the fund). This undermines the possible argument that fund performance has been significantly below par. According to Wiesenberger data, the fund's performance over the last ten year's ranks in the top half of all Non-U.S. Equity Closed-end Funds. The fund also has a reasonable total expense ratio, currently at 1.66 percent of the fund's NAV. The expense ratio indicates that the fund and its advisor are not collecting exceptional fees from fund investors. Many Non-U.S. equity Closed-end Funds maintain a higher expense ratio.

The Matter of the Discount

Closed-end funds (CEFs) are fundamentally different from the more popular open-end mutual fund. Unlike a mutual fund, closed-end funds issue a limited number of shares that are then traded on an exchange. The value of fund shares may therefore trade at a level different from the value of the underlying portfolio. The share price can trade at a premium, above the fund's net asset value (NAV), or at a discount, below the fund's NAV. Most closed-end funds, particularly country funds, trade at a discount to NAV.

If the fund were to open-end, shares would be exchangeable at their NAV price. Unfortunately however, such a conversion to open-ending often leads to a run on fund shares. Investors redeem fund shares as they seek to profit from the new share price. This may lead to large outflows, which in turn causes a forced sell-off of securities within the fund's portfolio. Remaining shareholders are left with a newly open-ended fund with reduced assets, increased portfolio turnover, capital gains, and a corresponding

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increase in expenses/share. The remaining fund, if it remains at all, is likely a far less attractive investment than the closed-end fund that originally existed.

The Closed-end Advantage

The advantages of closed-end funds are oft reported. Since the funds do not have to meet redemptions, closed-end funds do not have to keep cash on hand, allowing their portfolios to be more fully invested. Similarly, CEFs do not have to sell out of positions at inopportune moments and may invest for the longer-term, more fully meeting their investment objective. This last fact helps CEFs hold down portfolio turnover and related expense as well as making CEFs outstanding vehicles for investment in less liquid markets. Further, there is no need for 12b-1 fees as the fund does not have to match outflows with new fund sales. These factors help CEFs maintain generally lower expenses than their open-end brethren.

CEFs also allow investors to place orders throughout the business day, as opposed to mutual funds where all orders are placed at the close of business. Investors might also benefit from the CEFs use of leverage through the issuance of senior securities. However, leverage comes with increased risk.

Drawbacks

Of course, CEFs are not without their drawbacks. Many of these funds are thinly traded, making it difficult for a large investor to "get out" without radically altering the share price. In fact, low liquidity is often a reason cited by dissidents and shareholders for open-ending and tender offer proposals. Of course, a

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persistent discount is still the number one complaint of investors in CEFs. In this case, it is the discount that is the cause for concern.

Discounts

The majority of closed-end funds trade at a discount; causing some investors to feel they are "missing" value in their investment. ISS however, does not view the discount as such a large problem so long as it is not persistent and a reasonable expectation exists for its eventual narrowing. ISS views discounts as cyclical, based on the vagaries of investor sentiment and popular opinion. As investment styles and geographic regions come in and out of favor, CEF discounts usually respond accordingly. So, while the fund does have a relatively high discount, though not completely out of line with its peers, it is not likely to be a permanent condition.

Discounts may also provide opportunity for the savvy investor. Buying a fund when it trades at a discount may help the investor achieve higher yields on their investment and the narrowing of a discount may increase

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the capital gains a shareholder might earn over a given holding period. Finally, it is worth noting that when dissident shareholders describe the discount, it is always described as a loss in value from NAV. However, it is highly unlikely that all investors, including the proponent, actually purchased all shares at NAV. Many investors would have purchased shares at a discount, meaning NAV is not the basis from which their investment should be judged.

Conclusion:

While ISS understands it may be difficult for a shareholder to effect change, and that the advisor may be one of the few areas where a tangible influence can be felt, there is really no direct linkage between the discount, a possible open-ending, and the advisor. Further, while the Investment Company Act of 1940 very clearly delineates the relationship between the board and the advisor, there is insufficient evidence to support the proponent's implicit belief that the entire organization is a "club" and that Dami is an impediment to a possible open-ending. It is therefore difficult to justify the disruption in the investment program that a termination of the advisory agreement would portend. There also seems little reason to terminate the advisory agreement on the grounds of performance or expense. Finally, even the eventual goal of narrowing the discount, while well intentioned, may not be important for the long-term health of the fund.

Vote AGAINST Item 3.

The Central European Equity Fund, Inc.
31 West 52nd Street
New York NY 10019
(212) 474-7000

Shareholder Proposal Deadline: January 14, 2003

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Solicitor: Morrow & Co.

This vote recommendation has not been submitted to, nor received approval from, the Securities and Exchange Commission. While ISS exercised due care in compiling this analysis, we make no warranty, express or implied, regarding the accuracy, completeness, or usefulness of this information and assume no liability with respect to the consequences of relying on this information for investment or other purposes.

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Vote Record Form:

The Central European Equity Fund, Inc.

Ticker: CEE

Annual Meeting: June 13, 2002

Record Date: May 10, 2002

Account ID Code:

Shares Held on Record Date:

Shares Voted:

Date Voted:

MEETING AGENDA

Item	Code	Proposals	Mgt. Rec.	ISS REC.	Vote Cast
_ 1	M0201	Elect Directors	For	SPLIT	
_ 2	M0101	Ratify Auditors	For	FOR	
_ 3	S0810	Terminate Advisory Agreement	Against	AGAINST	

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