

ABERDEEN AUSTRALIA EQUITY FUND INC
Form 40-17G
May 30, 2018

May 30, 2018

VIA EDGAR

Attention: Filing Desk

Securities and Exchange Commission

100 F Street, N.E.

Washington, D.C. 20549

RE: Aberdeen Australia Equity Fund, Inc. (the Fund) (File Number 811-04438)

Ladies and Gentlemen:

Pursuant to Rule 17g-1 under the Investment Company Act of 1940, as amended (1940 Act), enclosed for filing on behalf of the Fund please find: (i) a copy of the Fund 's Financial Institutions Bond, Policy Number B080120420P18 (the Bond); and (ii) a copy of the resolutions approved by the Board of Directors of the Fund at a Board meeting on March 7, 2018, which authorize the purchase of the Bond in a form and in an amount which is consistent with Rule 17g-1(d) under the 1940 Act.

Premiums have been paid for the period from May 14, 2018 to May 14, 2019. The bond is written for a \$1,250,000 limit of liability.

Sincerely,

/s/ Alan Goodson
Alan Goodson, Vice President
Aberdeen Australia Equity Fund, Inc.
Enclosures

1735 Market Street, 32nd Floor

Philadelphia, PA 19103

Resolution for Approval of Fidelity Bond

After discussion, upon motion duly made and seconded, the following resolutions were unanimously adopted at the March 7, 2018 Board meeting:

RESOLVED, that the Board of Directors of the Fund, including all the Directors who are not interested persons of the Fund (as that term is defined by Rule 2(a)(19) under the 1940 Act), hereby determines that a fidelity bond issued by Axis Specialty Europe Limited, for a one year period covering officers and employees of the Fund in accordance with the requirements of Rule 17g-1 promulgated by the Securities and Exchange Commission under Section 17(g) of the 1940 Act, in the amount of \$1,250,000, is reasonable in form and amount, after having given due consideration to the value of the aggregate assets of the Fund to which any such covered person may have access, the type and terms of the arrangements made for the custody and safekeeping of such assets and the nature of the securities in the Fund's portfolio; and it is further

RESOLVED, that each of the officers of the Fund is hereby designated to make all filings with the Securities and Exchange Commission and to give all notices on behalf of the Fund required by paragraph (g) of Rule 17g-1 promulgated under the 1940 Act.

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Policy Number: B080120420P18

Item 1. **Named Insured:** **ABERDEEN AUSTRALIA EQUITY FUND INC.**

Principal Address: 1735 Market Street,
32nd Floor,
Philadelphia PA, 19103,
USA.

Item 2. **Policy Period:** From: 14th May, 2018 To: 14th May, 2019

both days at 12:01 a.m. local time at the Principal Address
stated in Item 1 above.

Item 3. **Limit of Liability:** USD1,250,000 in the aggregate.

Item 4. **Single Loss Limit:** USD1,250,000, each **Single Loss** reducing to:

- 4.1 USD100,000 each **Single Loss** under Insuring Agreement 1.8 (Stop Payment Order Liability);
 - 4.2 USD100,000 each **Single Loss** under Insuring Agreement 1.9 (Uncollectable Items of Deposit); and
 - 4.3 USD100,000 each **Single Loss** under Insuring Agreement 1.10 (Audit Expense); and
 - 4.4 USD100,000 each **Single Loss** under Insuring Agreement 1.11 (Unauthorized Signatures); and
 - 4.5 USD100,000 each **Single Loss** in respect of the cover provided by sub-clause (e) of the definition of **Computer or Telephonic Fraud**.
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Item 5. **Sub-Limits:** The following sub-limit applies to the stated cover.

Insuring Agreement 1.13 (Fraudulent Retention of Funds or Property):

USD 1,000,000 in the aggregate

The amount shown above shall be a part of, and not in addition to, the **Limit of Liability**.

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- Item 6. **Single Loss
Deductible:** USD 0, increasing to:
- 6.1 USD 5,000 each **Single Loss** under Insuring Agreement 1.8 (Stop Payment Order Liability);
 - 6.2 USD 5,000 each **Single Loss** under Insuring Agreement 1.9 (Uncollectable Items of Deposit); and

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6.3 USD 5,000 each **Single Loss** under Insuring Agreement 1.10 (Audit Expense); and

6.4 USD 5,000 each **Single Loss** under Insuring Agreement 1.11 (Unauthorized Signatures).

Item 7. **Premium:** Included in the premium set forth in the Declarations of Section A.

Item 8. **Amount of Fund Assets:** USD 148,200,000.

Item 9. **Responsible Person:** The **First Named Insured**'s Chief Compliance Officer (or designated alternate).

Item 10. **Prior Policy:** Section 2 of Investment Company Insurance Policy and Financial Institutions Bond - Policy Number B080120420P15.

The **Insurer** hereby undertake and agree, in consideration of the payment, or promise to pay, to the premium specified in the Declarations to indemnify the **Insured** for **Loss Discovered** during the **Policy Period** or the **Extended Reporting Period** (if applicable), up to an amount not exceeding the **Limit of Liability**, to the extent and in the manner provided in this policy.

1.1 Fidelity

Loss resulting from dishonest or fraudulent acts or **Theft** committed by an **Employee** acting alone or in collusion with others.

However, with regards to **Loans** and **Trading**, such dishonest or fraudulent acts or **Theft** must be committed by the **Employee** with the intent to obtain financial benefit for:

- (a) the **Employee**; or
- (b) any person or organization in collusion with such **Employee**; or
- (c) any other person or organization (who were not a counterparty) intended by such

Employee to make an improper financial benefit.

As used in this Insuring Agreement, financial benefit does not include any employee benefits earned in the normal course of employment including: salaries, commissions, fees, bonuses, promotions, awards, profit sharing or pensions other than bonuses, commissions or profit sharing paid to an **Employee** for a specific transaction with which such **Employee** was involved and in respect of which that **Employee** had committed a dishonest or fraudulent act covered under this policy.

1.2 On Premises

- (a) **Loss** resulting from the physical loss of, destruction of, damage to, or mysterious unexplainable disappearance of **Property** while such **Property** is lodged or deposited within offices or premises located anywhere.

- (b) **Loss** resulting from the loss of or damage to:
 - (i) furnishings, fixtures, supplies or equipment within an office of the **Insured** covered under this policy resulting directly from larceny or theft in or by burglary or robbery of such office, or attempt thereat, or by vandalism or malicious mischief; or

 - (ii) such office resulting from larceny or theft in, or by burglary or robbery of such office or attempt thereat, or to the interior of such office by vandalism or malicious mischief,

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provided that:

- 1) the **Insured** is the owner of such furnishings fixtures, supplies, equipment, or office or is liable for such loss or damage; and
- 2) the loss is not caused by fire.

1.3 **In Transit**

Loss resulting from the physical loss of, destruction of, damage to, or mysterious unexplainable disappearance of **Property** while such **Property** is in transit anywhere.

Special Condition

Coverage under this Insuring Agreement begins immediately upon the receipt of such **Property** by the transporting person or organization and ends immediately upon delivery to the designated recipient or its agent.

1.4 **Forgery or Alteration**

Loss resulting from:

- (a) **Forgery** or alteration of, on or in any **Negotiable Instrument** (except an **Evidence of Debt**), **Acceptance**, **Withdrawal Order**, receipt for the withdrawal of funds or **Property**, **Certificate of Deposit** or **Letter of Credit**;
- (b) transferring, paying, redeeming or delivering funds or **Property** or establishing any credit or giving any value on the faith of any written or printed instructions, advices, requests or applications directed to the **Insured** or any **Financial Organization** acting on behalf of the **Insured**, which instructions, advices, requests or applications purport to have been signed or endorsed by:
 - (i) any customer or client of the **Insured**;
 - (ii) any shareholder of or subscriber to shares issued by any **Fund**; or
 - (iii) any financial institution,

but which instructions, advices, requests or applications either bear a signature which is a **Forgery** or have been altered without the knowledge and consent of such customer, client, shareholder, subscriber or financial institution;

- (c) any **Financial Organization** transferring, paying, redeeming or delivering funds or **Property** or establishing any credit or giving any value on the faith of any written or printed instructions, advices requests or applications which instructions, advices, requests or applications purport to have been signed by or on behalf of the **Insured** but which instructions, advices, requests or applications either bear a signature which is a **Forgery** or have been fraudulently altered.

Special Condition

For the purposes of this Insuring Agreement 1.4, a mechanically reproduced facsimile signature is treated the same as a handwritten signature.

1.5 **Securities**

Loss resulting from the **Insured**, or any **Financial Organization** acting on behalf of the **Insured**, having in good faith for its own account or for the account of others:

- (a) acquired, sold or delivered, or given value, extended credit or assumed liability on the faith of any original:
- (i) **Certificated Security;**
 - (ii) deed, mortgage or other instrument conveying title to or creating or discharging a lien upon real property;
 - (iii) **Evidence of Debt;**
 - (iv) **Instruction to an Issuer;** or

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(v) **Statement of Uncertificated Security,**

which

- (1) bears a signature of any maker, drawer, issuer, endorser, assignor, lessee, transfer agent, registrar, acceptor, surety, guarantor, or of any person signing in any other capacity which is a forgery; or
 - (2) is altered; or
 - (3) is lost or stolen:
- (b) guaranteed in writing or witnessed any signature upon any transfer, assignment, bill of sale, power of attorney, **Guarantee** or any items listed in (i) through (v) above;
- (c) acquired, sold or delivered, or given value, extended credit or assumed liability on the faith of any item listed in (i) through (v) above which is counterfeit.

Special Condition

For the purposes of this Insuring Agreement 1.5, a mechanically reproduced facsimile signature is treated the same as a handwritten signature.

1.6 Counterfeit Currency

Loss resulting from the receipt or acceptance by the **Insured**, in good faith, of:

- (a) any money orders which prove to be **Counterfeit** or to contain an alteration; or
- (b) any **Counterfeit Money** of any country.

1.7 Computer or Telephonic Fraud and Malware

Loss resulting from:

- (a) **Computer or Telephonic Fraud**; and/or
- (b)

the modification or deletion of any **Electronic Data** or **Computer Program** due to **Malware**.

Special Condition

It is agreed that:

- 1) those **Electronic Communications** which are transmitted through touch tone telephone communication systems or by telex, TWX or telefacsimile; and
- 2) all **Telephonic Communications**,
must be **Tested**.

1.8 **Stop Payment Order Liability**

Loss resulting from any and all sums which the **Insured** shall become obligated to pay by reason of liability imposed upon the **Insured** by law for damages:

- (a) for having either complied with or failed to comply with any written notice of any customer or client of the **Insured**, any shareholder of or subscriber to shares issued by any **Fund** or any authorized representative of such customer, client, shareholder or subscriber to stop payment of any check or draft made or drawn by such customer, client, shareholder or subscriber or any authorized representative of such customer, client, shareholder or subscriber; or
- (b) for having refused to pay any check or draft made or drawn by any customer or client of the **Insured**, any shareholder of or subscriber to shares issued by any **Fund** or any authorized representative of such customer, client, shareholder or subscriber.

1.9 **Uncollectable Items of Deposit**

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Loss resulting from:

- (a) payments of dividends or fund shares, or withdrawals permitted from an account of a customer or client of the **Insured** or any shareholder of or subscriber to shares issued by any **Fund** based upon uncollectible items of deposit of a customer, client, shareholder or subscriber credited by the **Insured** or the **Insured** s agent to the Mutual Fund Account of such customer, client, shareholder or subscriber; or
- (b) any item of deposit processed through an automated clearing house which is reversed by a customer or client of the **Insured** or a shareholder of or subscriber to shares issued by any **Fund** and deemed uncollectible by the **Insured**.

Loss includes dividends and interest accrued not to exceed fifteen per cent (15%) of the uncollectible items which are deposited.

This Insuring Agreement applies to all Mutual Funds with exchange privileges if all Fund(s) in the exchange program are insured by a National Union Fire Insurance Company of Pittsburgh, PA for uncollectible items of deposit. Regardless of the number of transactions between Fund(s), the minimum number of days of deposit within the Fund(s) before withdrawal as declared in the Fund(s) prospectus shall begin from the date a deposit was first credited to any **Insured** Fund(s).

1.10 **Audit Expense**

Loss resulting from expense incurred by the **Insured** for that part of audits or examinations required by any governmental regulatory authority or **Self-Regulatory Organization** to be conducted by such governmental regulatory authority or **Self-Regulatory Organization** or by an independent accountant or other person, by reason of the discovery of **Loss** sustained by the **Insured** and covered by this policy.

1.11 **Unauthorized Signatures**

Loss resulting from the **Insured** having accepted, paid or cashed any check or withdrawal order made or drawn on an account of a customer or client of the **Insured** or any shareholder of or subscriber to shares issued by any **Fund** which bears the signature or endorsement of one other than a person whose name and signature is on file with the **Insured** as a signatory on such account.

Special Condition

The **Insured** shall have on file signature of all persons who are signatories on such account.

1.12 **Larceny and Embezzlement**

Loss and costs directly arising from larceny and embezzlement, covering each officer and employee of the **Insured**, who may singly, or jointly with others, have access to securities or funds of the **Insured**, either directly or through authority to draw upon such funds or to direct generally the disposition of such securities.

1.13 **Fraudulent Retention of Funds or Property**

Loss resulting from the **Fraudulent Retention** by a third party recipient of any funds or **Property**, as a direct result of:

- (a) the misdirection or erroneous transfer of such funds or **Property** by the **Insured** or by a **Financial Organization** acting upon instructions from the **Insured**, to a third party recipient account other than that actually intended; or
- (b) the transfer of such funds or **Property** by the **Insured** or by a **Financial Organization** acting upon instructions from the **Insured**, to a third party recipient account in an amount greater than that actually intended.

Special Condition

The **Insured** shall make reasonable efforts to secure the recovery of such funds or **Property**.

Sub-Limit of Liability

The **Insurer**'s maximum aggregate limit of liability under this Insuring Agreement shall be sub-limited to the amount stated under Item 5 of the Declarations.

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1.14 **Extortion**

Loss resulting from the loss of **Property** surrendered away from an office of the **Insured** or the transfer of funds as a result of a threat communicated to the **Insured**:

- (a) to do bodily harm to a director, officer, trustee or **Employee** of the **Insured**, or a relative or an invitee of such director, officer, trustee, **Employee**, who is, or allegedly is, being held captive or under threat;
- (b) to damage the premises, property (including **Property**) or other assets of the **Insured** or for which the **Insured** are legally liable;
- (c) to delete or modify the **Insured** s **Computer Programs** or the **Insured** s **Electronic Data**;
- (d) to sell or disclose confidential information to another person or party by reason of having gained unauthorised access to the **Insured** s **Computer System**;
- (e) to compromise the security, confidentiality or integrity of confidential information stored within the **Insured** s **Computer System**;
- (f) to cause the **Insured** to transfer, pay or deliver any funds or property (including **Property**) by means of a **Computer System** used or operated by the **Insured**;
- (g) to spread **Malware** from the **Insured** s **Computer System** to the **Computer Systems** of others;
- (h) to interrupt the **Insured** s normal operations by means of a denial of service attack on the **Insured** s **Computer System**.

Special Conditions

It is agreed that prior to the surrender of such **Property** or transfer of funds:

- (i) in relation to the threats set out in sub-clauses (a) through (h) above inclusive - the person receiving the threat has made a reasonable effort to report the extortionist s threat to a director of the **Insured**;
- (ii) in relation to the threats set out in sub-clauses (a) and (b) above - a reasonable effort has been made to report the extortionist s threat to local law enforcement authorities; and

- (iii) in relation to the threats set out in sub-clauses (c) through (h) above inclusive - the aforementioned director is satisfied that the person making the threat is both capable of carrying it out and reasonably likely to do so and that the threatened action is technologically feasible.

1.15 Fraudulently Induced Instructions (Social Engineering Fraud)

Loss resulting from a **Fraudulently Induced Instruction**.

Special Exclusion

This Insuring Agreement does not cover **Loss** which is covered by any other Insuring Agreement within this policy.

2.1 Interpretation

This policy shall be interpreted with due regard to the purpose of fidelity bonding under Rule 17g-1 of the Investment Company Act of 1940 (i.e., to protect innocent third parties from harm) and to the structure of the investment management industry (in which a loss of **Property** resulting from a cause described in

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any Insuring Agreement ordinarily gives rise to a potential legal liability on the part of the **Insured**), such that the definition of **Loss** herein shall include an **Insured**'s legal liability for direct compensatory damages resulting directly from a misappropriation, or measurable diminution in value, of **Property**.

2.2 Difference in Conditions

If the **Insurer** is not liable for **Loss** under this policy, but cover for the same **Loss** would (but for the time at which such **Loss** was **Discovered**) have been available to any **Insured** based upon the terms, conditions and exclusions of the **Prior Policy**, then this policy shall provide cover in accordance with the terms, conditions and exclusions of the **Prior Policy**.

If the amount of any sub-limit or any single loss limit under the **Prior Policy** for any **Loss** is greater than any sub-limit or any single loss limit provided by this policy for the same **Loss**, then the sub-limit or any single loss limit under this policy for such **Loss** shall be increased to the same amount as that provided under the **Prior Policy**.

The Declarations shall be deemed to be amended accordingly in accordance with this provision with respect to the relevant **Loss**.

In no way shall this extension serve to increase the **Limit of Liability**, and all sub-limits and single loss limits payable under this policy shall be part of, and not in addition to, the **Limit of Liability**.

3.1 Nominees

Loss sustained by any nominee organized by the **Insured** for the purpose of handling certain of its business transactions and composed exclusively of its **Employees** shall, for all the purposes of this policy and whether or not any partner of such nominee is implicated in such **Loss**, be deemed to be **Loss** sustained by the **Insured**.

3.2 Additional Exposures

(a) Additional Offices

Except as provided in sub-clause (b) below, this **policy** shall apply to any additional office(s) established by the **Insured** during the **Policy Period** and to all **Employees** during the **Policy Period**, without the need to give notice thereof or pay additional premiums to the **Insurer** for the **Policy Period**.

(b) Merger or Consolidation

If during the **Policy Period**, an **Insured** shall merge or consolidate with an institution in which such **Insured** is the surviving entity, or purchase substantially all the assets or capital stock of another institution, or acquires or creates a separate investment portfolio, and shall within sixty (60) days notify the **Insurer** thereof, then this policy shall automatically apply to the **Property** and **Employees** resulting from such merger, consolidation, acquisition or creation from the date thereof; provided, that the **Insurer** may make such coverage contingent upon the payment of an

additional premium.

(c) Acquisition or Creation of Funds

- (i) If during the **Policy Period**, an **Insured** creates or acquires a fund, other than by reason of the events described in sub-clause (b) above; and if the total consolidated assets of such fund are less than or equal to the amount set forth in Item 8 of the Declarations then, subject to all the other provisions of this policy, coverage shall automatically apply to any **Loss** sustained by that fund.

- (ii) If during the **Policy Period**, an **Insured** creates or acquires a fund, other than by reason of the events described in sub-clause (b) above; and if the total consolidated assets of such fund are greater than the amount set forth in Item 8 of the Declarations, no coverage shall apply to any **Loss** sustained by that fund unless the **Insured** provides the **Insurer** with full particulars of such acquisition or creation, agrees to any additional premium and/or amendment of the provisions of this policy the **Insurer** requires and pays any premium required.

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- (iii) There shall be no coverage for:
- 1) any **Loss** sustained by any such fund resulting from an act committed or an event occurring prior to the consummation of a transaction described in (i) or (ii) above; or
 - 2) any **Loss** sustained by any such fund resulting from an act whenever committed or an event whenever occurring, which together with an act committed or an event occurring prior to the consummation of such transaction, would constitute a **Single Loss**.

In no event shall any transaction among **Insureds** constitute an acquisition or creation of funds.

(d) Fund Name Changes

If during the **Policy Period**, a fund changes its legal name in accordance with the organizational documents of such fund and, if applicable, in accordance with state law, and such name change does not occur in connection with a transaction described in sub-clauses (b) or (c) above, then such fund shall automatically qualify as an insured fund under its new name, in addition to its prior name.

3.3 **Representation of Insured**

The **Insured** represents that the information furnished in the **Application** is complete, true and correct, to the best of the knowledge of the person who completed such **Application**.

Any misrepresentation, omission, concealment or incorrect statement of a material fact, in the **Application** or otherwise, which was deliberately made with the intent to deceive, shall be grounds for the rescission of this policy.

3.4 **Joint Insured**

If two or more **Insureds** are covered under this policy, the **First Named Insured** shall act for all **Insureds**. Payment by the **Insurer** to the **First Named Insured** of **Loss** sustained by any **Insured** shall fully release the **Insurer** on account of such **Loss**. If the **First Named Insured** ceases to be covered under this policy, the remaining **Named Insured** shall agree with the **Insurer** as to which one of them shall act on behalf of the all of the remaining **Insureds** (including but not limited to the receipt of any **Loss** payments). The liability of the **Insurer** for **Loss** which the **Insurer** would have been liable had all such **Loss** or **Losses** been sustained by one **Insured** will not exceed the **Limit of Liability**.

3.5 **Legal Proceedings Against the Insured**

The **Insurer** will indemnify the **Insured** against court costs and reasonable legal costs, charges, fees, disbursements and expenses incurred and paid by the **Insured** in defense of any **Legal Proceeding**.

The **Insureds**, and not the **Insurer**, have the duty to defend any **Legal Proceeding**. The **Insurer** shall be entitled to effectively associate with the **Insured** in the defense and the negotiation of any settlement of such **Legal Proceeding**

if it that appears reasonable likely that such **Legal Proceeding** will involve the **Insurer** making payment under this policy. The **Insured** shall provide all reasonable information and assistance required by the **Insurer** in connection with such **Legal Proceeding**.

This policy does not cover:

- 4.1 **Loss** resulting directly or indirectly from forgery or alteration, except when covered under Insuring Agreement 1.1, 1.4, 1.5 or 1.7.
- 4.2 **Loss** due to military, naval or usurped power, war or insurrection unless such **Loss** occurs in transit in the circumstances recited in Insuring Agreement 1.3, and unless, when such transit was initiated there was no knowledge of such riot, civil commotion, military, naval or usurped power, war or insurrection on the part of any person acting for the **Insured** in initiating such transit.
- 4.3 **Loss** resulting directly or indirectly from the effects of nuclear fission or fusion or radioactivity. This exclusion shall not apply to **Loss** resulting from industrial uses of nuclear energy.

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4.4 **Loss** resulting directly or indirectly from any director or trustee of the **Insured** (other than one employed as a salaried, pensioned or elected official or an **Employee** of the **Insured**), except:

- (a) when performing acts coming within the scope of the usual duties of an **Employee**; or
- (b) while acting as a member of any committee duly elected or appointed by resolution of the board of directors or trustees of the **Insured** to perform specific, as distinguished from general, directorial acts on behalf of the **Insured**.

4.5 **Loss** resulting directly or indirectly from the complete or partial non-payment of, or default upon, any loan or transaction involving the **Insured** as a lender or borrower, or extension of credit, including the purchase, discounting or other acquisition of false or genuine accounts, invoices, notes, agreements or **Evidences of Debt**, whether such loan, transaction or extension was procured in good faith or through trick, artifice, fraud or false pretences; except when covered under Insuring Agreements 1.1, 1.4, 1.5, 1.7 or 1.15.

4.6 **Loss** resulting from any violation by the **Insured** or by any **Employee**:

- (a) of any law regulating:
 - (i) the issuance, purchase or sale of securities;
 - (ii) securities transactions upon security exchanges or over the counter market;
 - (iii) investment companies; or
- (b) of any rule or regulation made pursuant to any such law, unless it is established by the **Insured** that the act or acts which caused the said loss involved fraudulent or dishonest conduct which would have caused a loss to the **Insured** in a similar amount in the absence of such laws, rules or regulations,

unless such loss, in the absence of such law, rule or regulation, would be covered under Insuring Agreement 1.1, 1.4 or 1.5.

4.7 **Loss** resulting directly or indirectly from the failure of a financial or depository institution, or its receiver or liquidator, to pay or deliver, on demand of the **Insured**, funds or **Property** of the **Insured** held by it in any capacity, except when covered under Insuring Agreements 1.1, 1.2 or 1.7.

4.8 **Loss** caused by a dishonest, fraudulent, malicious or criminal act of an **Employee**, except when covered under Insuring Agreement 1.1 or when covered under Insuring Agreement 1.2 or 1.3 and resulting directly from misplacement, mysterious unexplainable disappearance or destruction of or damage to the **Property**.

4.9 **Loss** resulting directly or indirectly from transactions in an account of a customer or client of the **Insured** or any shareholder of or subscriber to shares issued by any **Fund**, whether authorized or unauthorized.

This exclusion does not apply:

(a) when such **Loss** results directly or indirectly from unlawful withdrawal and conversion of **Money**, securities or precious metals, directly from an account of a customer or client of the **Insured** or any shareholder of or subscriber to shares issued by any **Fund** by an **Employee**, provided such unlawful withdrawal and conversion is covered under Insuring Agreement 1.1;

(b) when such **Loss** is covered by Insuring Agreement 1.7.

4.10 damages resulting from any civil, criminal or other legal proceeding in which the **Insured** is adjudicated to have engaged in racketeering activity, except when the **Insured** establishes that the act or acts giving rise to such damages were committed by an **Employee** under circumstances which result directly in a loss to the **Insured** covered by Insuring Agreement 1.1. For the purposes of this exclusion racketeering activity is defined in 18 United States Code 1961 et seq., as amended.

4.11 **Loss** through the surrender of property away from an office of the **Insured** as a result of a threat: