CITY OF LONDON
Investment Management Company Limited

Annual Stewardship Report 2019

February 2020

City of London Investment Management Company Limited (CLIM) is a long term investor in closed-end funds and has focused on responsible stewardship since the business was founded in 1991. CLIM published its first Statement on Corporate Governance and Voting Policy for Closed-End Funds in 1999 and our first Annual Stewardship Report appeared in 2017. This Annual Stewardship Report covers our stewardship activities in 2019, but has been expanded to provide greater context to our business and a more detailed account of the principles underlying our approach to stewardship.

CLIM is a signatory to the UK Stewardship Code and its holding company, City of London Investment Group PLC (CLIG), is a signatory to the Principles for Responsible Investment (PRI). We recognise our obligation to meet the highest standards of corporate responsibility to our clients, shareholders and employees as well as our responsibility in managing our own business to care for and to protect the environment in which we operate.

Overall Approach to Stewardship

I. CLIM's Purpose, Strategy and Culture

CLIM's objective is to deliver superior investment performance for its institutional clients, compared to a specified benchmark. Relative value added is achieved primarily by capitalising on closed-end fund (CEF) discount volatility. CEFs often trade at a meaningful discount or premium to their net asset values (NAVs), depending ultimately on the relevant supply and demand factors. Since these factors are subject to the vagaries of 'market sentiment', CEFs typically exhibit persistent and significant discount volatility, though with a tendency towards mean reversion. CLIM achieves its objective via rigorous peer analysis of prevailing discounts compared to their historic means. CLIM is a firm advocate of a team oriented investment process and rejects the cult of the individual or "star" fund manager.

CLIM's 'Statement on Corporate Governance and Proxy Voting Policy for Closed-End Funds' sets out how CLIM hopes to achieve effective stewardship for CEFs by promoting strong corporate governance and is regularly updated: having published the eleventh edition in 2019. The guiding principles of our corporate governance and voting policy are fully independent boards and transparency. The policy is integral to our investment process and continues to help us add value for our clients.

II. CLIM's Governance, Resources and Incentives

CLIM is the principal operating subsidiary of CLIG which is a UK company listed on the London Stock Exchange. The executive directors include CLIM's chief investment officer (CIO) who is ultimately responsible for stewardship across CLIM's investment strategies.

Each of the investment teams implement stewardship for their respective strategies, with assistance from one of two governance specialists who are based in CLIM's US and UK offices. The governance specialists are senior individuals, each with over 30 years' investment experience. This structure ensures a co-ordinated response where an asset is held across multiple strategies.

As part of its investment manager due diligence, CLIM measures the environmental, social and governance characteristics of CEF's underlying portfolios using Sustainalytics' data.

CLIM operates an employee incentive scheme for all employees, including executive directors, linked to CLIG's profitability and employees may elect to receive their bonus partially in CLIG shares which vest over a three year period. CLIM encourages participation in this optional scheme via a matched contribution to any such election. This remuneration policy aligns the interests of all stakeholders and motivates all staff as evidenced by high employee retention rates: 40% of all employees have been at CLIG for over ten years.

CLIM's engagement process has been effective at promoting high governance standards in the CEF universe. This is evidenced by a steady flow of corporate actions by CEFs that are generally undertaken to address persistently wide discounts. Until persistent discounts are eliminated, there is always room for improvement.

CLIM has recently improved its investment manager due diligence process with an increased focus on ESG issues, including climate change. In 2020 CLIM will incorporate Sustainalytics' Risk Ratings in order to understand better the sustainability performance of the underlying CEF portfolios.

III. Conflicts of Interest

CLIM has a fiduciary duty to always act in clients' best interests. CLIM's approach to conflicts of interest is publicly disclosed in its Form ADV Part 2A (Item 11) at https://www.citlon.com/reg-reports/ADV_Part2.pdf.

CLIM does not have a client relationship with any CEF. However, CLIG's shareholders do include asset managers who are also CEF managers. CLIM places its clients' interests first in the event that a conflict of interest arises as a result of this relationship. An example is when CLIM wrote an open letter to a CEF board, which was managed by CLIG's largest independent shareholder at that point, criticising aspects of the CEF's governance.

CLIM typically exercises control over clients' proxy voting and votes according to a common policy. Potential conflicts between clients due to a proxy proposal would be resolved by CLIM's Compliance Department in clients' collective best interests, excluding any client that may have a potential conflict.

IV. How CLIM Identifies and Responds to Market-Wide and Systemic Risk

Risk management is part of CLIM's culture, especially in respect of risks that could exacerbate client loss in the event of market-wide and systemic crisis. Hence, CLIM does not engage in stock lending, trades only cash against delivery and undertakes a comprehensive semi-annual counterparty review. CLIM maintains internal risk limits for counterparty exposures.

Interest rates, geopolitical issues and currency rates are considered by CLIM's macro-economic research team in their asset allocation recommendations. CEF investment managers' approach to climate change risks are considered as part of CLIM's investment manager due diligence. CLIM does not encourage investment managers to invest in or to divest specific assets but promotes transparency. CLIM does discourage CEFs from excessive gearing.

A significant element of CLIM's investment process is focused on promoting best practices in corporate governance to boards of its CEF holdings. In CLIM's view this makes an important contribution to the efficient functioning of the CEF sector of listed equities.

V. Reviewing Policies to Ensure Effective Stewardship

CLIM formally reviews its proxy voting policy approximately every two years. The review is undertaken by a team that includes the CIO, senior fund managers, governance specialists and compliance staff. CLIM's Statement on Corporate Governance and Proxy Voting Policy for Closed-End Funds is a public document and available on CLIM's website. Proxy voting is conducted electronically via a web based platform; CLIM's voting record is also published on its website.

CLIM's stewardship policies are otherwise updated as required but are formally reviewed annually as part of the process for producing this Annual Stewardship Report, which is signed off by CLIM's CIO and compliance.

VI. Client Communications

CLIM's client base is overwhelmingly institutions that are based in the US. CLIM does not market to retail clients. CLIM had $6.0bn in assets under management (AUM) as at 31 December 2019 on behalf of approximately 200 investors. Further information regarding the profile of CLIM's clients by AUM is disclosed in the following tables:

Strategy	
Emerging Market Equities	74%
Developed Market Equities	18%
Opportunistic Value	4%
Frontier Markets and Other	4%

Investor Type	
Pension	36%
Foundation	25%
Endowment	19%
Healthcare	10%
Other	10%

CLIM's investment time horizon is typically five years which it considers an investment cycle to meet its clients' investment objectives. CLIM's standard reporting package for institutional clients includes detailed performance and attribution data. However, reporting is customised according to each client's requirements. CLIM determines a common approach to corporate governance and ESG issues for CEFs which applies to all clients, subject to specific exclusion requirements for certain segregated clients. CLIM's proxy voting responsibilities and policy are specified by the investment management agreements for segregated clients and in the relevant prospectus for commingled funds. The Annual Stewardship Report is sent to all clients and is presented at regular reporting meetings to clients that require such updates.

VII. Integrating Stewardship, Including ESG Factors

CLIM prioritises governance over environmental and social issues when assessing a CEF prior to establishing a holding. Relevant governance factors are monitored closely through the holding period and can provide a catalyst for exit. Managers' ESG activities, including the management of climate change risk, are monitored as part of CLIM's investment manager due diligence. In addition, CLIM uses data from Sustainalytics to monitor ESG characteristics of the underlying CEF portfolios during the holding period.

CLIM believes that a CEF's discount to NAV is a key measure of governance effectiveness. CLIM's investment process is therefore closely focused on monitoring discounts. More active corporate engagement is triggered by a relatively wide discount over a prolonged period. Hence, CLIM's approach to stewardship and investment for CEFs is a fully integrated process.

VIII. Monitoring Service Providers

CLIM reviews at least annually the performance of all its service providers including fees payable to ensure that they remain competitive. Market counterparties are reviewed in detail every six months, including research agreements. CLIM does not use proxy advisers.

IX. Engagement with CEF Boards

Engaging with CEF boards is an important element of CLIM's investment process. CLIM's preference is to maintain a constructive relationship with boards via regular meetings. In CLIM's opinion the discount to NAV is an indicator of governance effectiveness. CLIM will expect action from a board of a CEF that persistently trades at an excessively wide discount to NAV.

X. Collaborative Engagement with CEF Boards

For reasons of commercial confidentiality, CLIM does not routinely collaborate with other shareholders as part of its engagement strategy with CEF boards. However, in certain instances CLIM has informed other shareholders of concerns regarding CEF governance, either on a selective basis or by making correspondence public. CLIM has also participated in collective actions organised by other shareholders.

XI. Escalating Stewardship Activities

CLIM initially communicates concerns to boards in private meetings which are invariably followed up via formal letter. A further escalatory step may be a collaborative strategy as described above, although this is not typical. CLIM will also resort to legal action to protect its clients' interests though this is also exceptional. Ultimately, CLIM's policy is to oppose directors who do not take adequate action to protect shareholders' interests.

XII. Proxy Voting

CLIM's proxy voting policy is set out in its Statement on Corporate Governance and Voting Policy for Closed-End Funds, which is available at the following link: https://www.citlon.com/esg-reports/Corp_Governance2019.pdf

CLIM does not use proxy advisers but considers carefully how to vote at each shareholder meeting according to its published policy. CLIM aims to vote every proxy, though this is not always practicable. Investors may not direct voting in pooled accounts. CLIM's standard investment management agreement provides for CLIM to exercise voting rights. CLIM has, however, agreed with one segregated client that voting shall be the client's responsibility.

CLIM does not engage in stock lending. Segregated clients may have their own stock lending programs and, in this event, CLIM does not normally recall lent stock for voting.

Stewardship Activity

I. Voting

In 2019 CLIM voted at 343 meetings (2018: 226 meetings) in 34 separate domiciles (2018: 22). Under normal circumstances, CLIM votes at a general shareholders' meeting in accordance with our published policy. The full record of how we voted at each meeting in 2019 is published on the ESG page of our website. Further information regarding the background of any meeting may be disclosed to clients / investors upon request.

Figure 1 shows the votes by CEF domicile, which is often different to the market of listing. For example, several London listed securities are domiciled in the Cayman and Channel Islands.

Figure 1: Meetings Voted by CEF Domicile in 2019 and 2018

	2019		2018			2019		2018	
	#	%	#	%		#	%	#	%
United States	132	38.5	98	43.4	Jersey	3	0.9	1	0.4
United Kingdom	62	18.1	50	22.1	Korea	3	0.9	4	1.8
Guernsey	19	5.5	17	7.5	Malaysia	3	0.9	2	0.9
Romania	17	5.0	13	5.8	Mexico	3	0.9	1	0.4
Ireland	15	4.4	2	0.9	Kuwait	2	0.6	3	1.3
Australia	10	2.9			Lithuania	2	0.6	1	0.4
Cayman	8	2.3	5	2.2	Mauritius	2	0.6		
South Africa	7	2.0	2	0.9	Philippines	2	0.6		
Brazil	6	1.7			China	1	0.3		
Singapore	6	1.7	1	0.4	Cook Is. (NZ)	1	0.3		
Hong Kong	5	1.5			Kenya	1	0.3		
Japan	5	1.5			Netherlands	1	0.3		
France	4	1.2			Spain	1	0.3		
Indonesia	4	1.2			Sweden	1	0.3	1	0.4
Luxembourg	4	1.2	8	3.5	U.A.E.	1	0.3	2	0.9
Bermuda	3	0.9	4	1.8	Pakistan			3	1.3
Canada	3	0.9			Turkey			1	0.4
Germany	3	0.9			Virgin Islands			1	0.4
Isle of Man	3	0.9	6	2.7					

Voting activity increased in 2019 reflecting growth in CLIM's business, notably growth in the developed market strategies and REIT product launch. CLIM's more diverse business profile has also resulted in a wider range of domiciles. However, while the US and UK are less dominant, they remain the largest markets. CLIM votes via an electronic proxy system as it is often not possible for us to attend shareholder meetings in person, although we do attend a significant portion of meetings held in London. We also try to attend meetings where the agenda is particularly contentious or we disagree with management recommendations on any agenda items.

In total these 343 meetings involved voting on 2,538 resolutions. Figure 2 below shows how these votes were cast in 2019, as well as the previous two years.

Figure 2: CLIM's Voting Record 2017 - 2019

	Resolutions Voted 2019		Resolutions Voted 2018		Resolutions Voted 2017	
	Number	%	Number	%	Number	%
For	1,985	78	1,231	82	1,401	82
Against	101	4	62	4	64	4
Abstain / Withhold	452	18	206	14	232	14
Total	**2,538**	**100**	**1,499**	**100**	**1,697**	**100**

The share of votes against management was unchanged in 2019 at 4%. However abstentions rose slightly to 18% from 14% in 2018. The US accounted for 90% of abstentions, similar to the previous two years. CLIM only abstains as a conscious decision. In the US there is no 'vote against' option when a CEF employs plurality voting. In these instances, CLIM withholds its votes. Many US boards have now adopted the majority standard in response to CLIM's representations and we continue to encourage all US CEFs that still use plurality voting to follow suit.

Further examples of CLIM's stewardship activities in 2019 are given below.

- **Conditional Tender Mechanisms**

CLIM encourages boards to adopt conditional tender mechanisms, where legally possible, so that under certain circumstances shareholders are promised a return of capital at close to NAV. The principle is to align more closely shareholders' interests with those of the CEF manager. US corporate law restricts boards' capacity to make such undertakings but these restrictions do not apply in other jurisdictions. JPMorgan India (JII) was an example of how this policy can protect shareholders. JII's three year performance conditional tender mechanism was triggered in 2019 and will enable shareholders to sell back to the Company 25% of outstanding shares at NAV less costs in Q1 2020.

Conditional tender mechanisms are growing in popularity. A significant event in 2019 was the decision by Templeton Emerging Markets (TEM), one of the largest London listed CEFs, to introduce a five year performance-related conditional tender offer. CLIM assisted TEM with the development of this policy by providing an irrevocable undertaking to vote in favour of the Continuation Resolution at the 2019 AGM.

- **The Importance of the Share Buyback**

The share buyback is an essential tool for managing discounts. Its primary purpose is to address supply / demand imbalances but a further advantage is the NAV enhancement that arises from buying back shares at a discount. CLIM has significant engagement with boards in relation to their buyback and opposes or abstains from supporting the re-election of directors at CEFs that make insufficient use of their buyback authority.

Increased investor risk appetite resulted in narrower discounts and hence we observed a decline in buyback activity over the course of 2019. Two CEFs, however, deserve special mention. First, JPMorgan Emerging Markets broadened the scope of its buyback policy and increased purchases which helped to narrow the discount by c. 440bps. Second, JPMorgan Russian Securities (JRS) continued its policy to buyback at least 6% per annum of its outstanding shares helping JRS' discount to narrow over 5% points and adding 1% to the Company's NAV. These CEFs are good examples of how the share buyback can be deployed to significantly improve returns to shareholders.

CLIM has also engaged with holding company boards on this issue, including Naspers. It is pleasing to note that Naspers listened to CLIM, and other investors, when the Company announced plans for a buyback in January 2020.

- **Cost Control**

Effective cost control is a key agenda item when CLIM engages with CEF boards. CLIM had engaged extensively on this issue with The Mexico Fund, Inc. which announced an expense limitation arrangement in March 2019. Other CEFs which took proactive action to reduce costs in 2019, with CLIM's encouragement, included JPMorgan Chinese Investment Trust, Schroder Asia Pacific and Genesis Emerging Markets Fund.

- **Tenders and Liquidations**

CLIM supports tenders as an appropriate response to an imbalance between supply and demand for CEF shares. A tender facilitates a partial exit by shareholders at close to NAV and thereby offers an uplift to a market price that is likely to be significantly lower. In January 2019 Asia Dragon Trust shareholders approved proposals for a 30% tender. The Mexico Equity and Income Fund also announced a significant tender for 65% of its outstanding shares at 98% of NAV, which is being implemented in 2020.

- **Investor Rights in Bangladesh**

Certain CEFs in Bangladesh announced in 2019 a plan to extend their lives without obtaining the required shareholder consent. CLIM is taking legal action to reverse this flagrant disregard of shareholder rights. We are seeking an order against EBL 1st Mutual Fund, whose original tenure has expired, for the fund to be liquidated.

CLIM also supported mandate changes in Bangladesh, joining other shareholders in two CEFs to propose that the managers be replaced. The manager changes have been approved by the Bangladesh SEC and are expected to be implemented in Q1 2020.

II. Corporate Engagement

CLIM directly engaged with 42 CEF boards in 2019. Board engagement is part of our regular investment process and commitment to responsible stewardship. Our engagement strategy is to be patient but persistent advocates of sound corporate governance principles that we believe will help create long term value for our clients, along with all shareholders.

Figure 3 shows how this engagement was conducted. More than one meeting with a specific board is counted only once; the same with emails and phone calls. The table double counts to the extent that engagement with some boards has involved face-to-face meetings, emails or letters and phone calls but it nevertheless gives a flavour of the depth and breadth of our board engagement.

Figure 3: 2019 Board Engagement: Numbers of Boards by Market Listing

Board Engagement	Face-to-Face Meetings	Email and/or Letter	Phone Calls
US	1	6	5
UK	34	3	3
Bangladesh		2	
Egypt	1		
Korea	1		
Lithuania	1		
Malaysia		1	
Romania	2		
Total	**40**	**12**	**8**

Source: City of London Investment Management

CLIM's engagement has previously been focused mostly on emerging and frontier market CEFs. There was a notable increase in 2019, however, in engagement activity with developed CEFs, which accounted for 28% of total face-to-face meetings. An example is CLIM's participation in The European Investment Trust's (EUT) consultation regarding its future, which resulted in EUT's mandate being transferred to Baillie Gifford as well as a 10% tender offer. CLIM also applies its stewardship principles to holding companies. For example, CLIM has encouraged Naspers' to implement a share buyback, as referenced above and has also made representations to Samsung C&T regarding dividend policy and share buybacks.

ESG Reporting

CLIM has included ESG analysis in its research process since 2015 when we partnered with Sustainalytics, a leading independent ESG research specialist, to aggregate ESG information from the underlying CEF portfolios. The insights from this research provide evidence to challenge portfolio construction from a fresh perspective and have helped CLIM to maintain its research advantage. CLIM is committed to encourage greater transparency from CEF managers in respect of the ESG characteristics of their portfolios.

CLIM initially focused ESG reporting on emerging markets portfolios. However, developed market securities have been included since Q4 2017 and in 2019 coverage was expanded further to include our REIT products. Not all CEFs are suited to Sustainalytics analysis. The portfolios analysed in 2019 represented 60% of CLIM's AUM at the calendar year end: 66% and 58% of the emerging and developed markets' AUM respectively.

Sustainalytics does not cover unlisted companies and has limited small cap coverage. Small cap securities generally exhibit lower ESG scores. In our view, this smaller company effect can reflect less full disclosure by these securities and a lack of resources to develop relevant policies as opposed to poor practice. Hence, it is not necessarily indicative of higher ESG risk. Nevertheless, coverage of the underlying securities in those portfolios that were analysed increased to 95% overall on a size weighted basis.

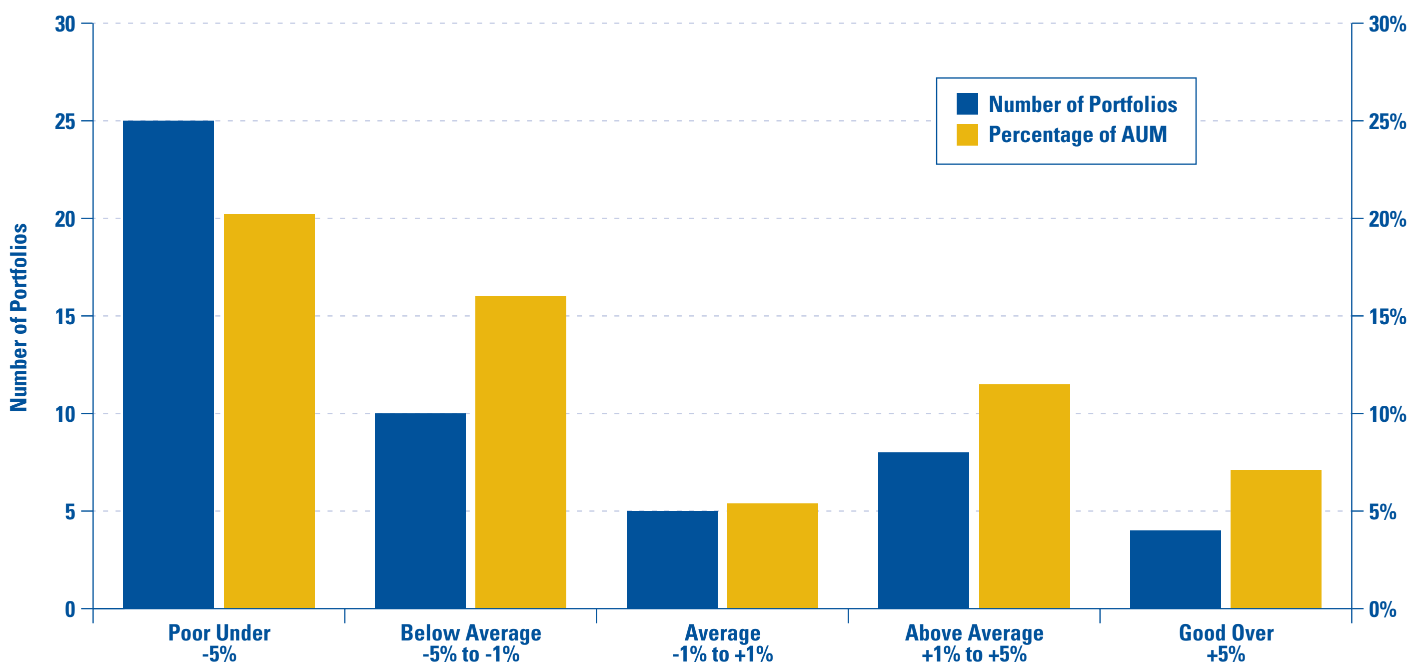
CLIM's process is to measure ESG scores for each CEF portfolio on a relative basis against the comparable score for its relevant benchmark. In relative terms, the ESG scores for CoL portfolios deteriorated in 2019. Several factors account for this outturn. Increased developed exposure has been a bigger influence on the overall outcome because CLIM's developed holdings typically have low ESG scores. This stock selection effect reflects valuation anomalies in that part of the CEF universe as well as a material small cap overweight in the developed strategies. CLIM's CEF investments in aggregate are overweight smaller companies.

The outcome therefore is that CLIM's portfolios, on a size weighted average basis, scored 4.4% behind their benchmarks as at end 2019, compared to 2.4% behind benchmark at the end of 2018. This result is based on 52 CEF portfolios. The emerging and developed market portfolios scored overall respectively 1.9% and 13.6% behind their benchmarks.

CLIM's key objective is superior investment performance. However, these ESG results are discussed with CEF managers where relevant, as we encourage better ESG transparency and seek better insight into the execution of managers' investment strategies. ESG disclosure is getting better at many CEFs. JPMorgan Emerging Markets and Baring Emerging Europe, for example, both disclose their carbon footprints relative to their respective benchmark indices. There is however scope for improvement.

Figure 4 below shows the distribution of securities held in client portfolios as at end 2019 according to their overall ESG rating.

Figure 4: Overall ESG Percentile Ranking vs Benchmark



Source: City of London Investment Management, Sustainalytics

Any forward looking statements or forecasts are based on assumptions and actual results may vary from any such statements or forecasts.

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