



CITY OF LONDON
Investment Management Company Limited

Annual Stewardship Report 2018

Incorporating

Policy Statement and Principles on Responsible Investment

February 2019



City of London Investment Management Company Limited's (CLIM) third Annual Stewardship Report provides a summary of our voting record in 2018 and includes an updated Policy Statement and Principles on Responsible Investment. We record our engagement with the boards of the closed-end funds (CEFs) in which we invest on our clients' behalf and give examples of how this engagement has contributed to the performance of their portfolios. We also review the results of our research into the ESG characteristics of our CEF investments.

CLIM is a long term investor in CEFs and our commitment to responsible stewardship dates from the foundation of the business. Our Statement on Corporate Governance and Voting Policy for Closed-End Funds was first published in 1999. This established CLIM's core approach in the governance of CEFs and is currently in its 10th edition. In 2015 we launched an ESG initiative, aimed at understanding better the environmental, social and governance (ESG) characteristics of the underlying CEF portfolios. This initially focused on emerging market CEFs but in 2017 the initiative was extended to include developed market CEFs. We have significantly expanded the material on our website that is devoted to ESG issues, from the perspective of all stakeholders in our business.

1. Voting

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 2018 is published in the ESG section of our website. Further information regarding the background of any meeting may be disclosed to clients 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, while First Pacific is domiciled in Bermuda but listed in Hong Kong.

Figure 1: Meetings Voted by CEF Domicile in 2018 and 2017

	2018	%	2017	%		2018	%	2017	%
United States	98	43.4	91	39.2	South Africa	2	0.9	2	0.9
United Kingdom	50	22.1	66	28.4	U.A.E.	2	0.9		
Guernsey	17	7.5	11	4.7	Jersey	1	0.4	2	0.9
Romania	13	5.8	15	6.5	Lithuania	1	0.4	-	
Luxembourg	8	3.5	5	2.2	Mexico	1	0.4	1	0.4
Isle of Man	6	2.7	5	2.2	Sweden	1	0.4	2	0.9
Cayman	5	2.2	7	3.0	Virgin Islands	1	0.4	-	
Bermuda	4	1.8	3	1.3	Turkey	1	0.4	-	
Korea	4	1.8	1	0.4	Singapore	1	0.4		
Kuwait	3	1.3	1	0.4	Australia			2	0.9
Pakistan	3	1.3	3	1.3	Canada			1	0.4
Ireland	2	0.9	8	3.4	China			3	1.3
Malaysia	2	0.9	2	0.9	France			1	0.4

In 2018 CLIM voted at 226 meetings in 22 separate domiciles. The US was the largest market and accounted for 43% of the meetings. The UK was the second largest market with 22% of meetings, which rises to 33% including the Channel Islands and Isle of Man. 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 226 meetings involved voting on 1,499 resolutions. Figure 2 below shows how these votes were cast.

Figure 2: CLIM's Voting Record 2016 - 2018

	Resolutions Voted 2018		Resolutions Voted 2017		Resolutions Voted 2016	
	Number	%	Number	%	Number	%
For	1,231	82	1,401	82	1,239	77
Against	62	4	64	4	99	6
Abstain / Withhold	206	14	232	14	271	17
Total	1,499	100	1,697	100	1,609	100

The percentage share of votes cast for, against and abstentions was unchanged in 2018 compared with 2017. The US accounted for 85% of abstentions, a slight reduction from over 90% in 2017. This partly reflects a slight increase in UK abstentions in respect of certain funds failing to take sufficient action to address wider discounts. CLIM only abstains as a conscious decision. In the US, in certain circumstances, a vote against a resolution can help that resolution pass. In these instances, it is more effective to abstain (or withhold) from voting than to register a vote 'against'. Many US boards have now adopted the majority standard in response to CLIM's representations. We continue to encourage all US CEFs that still use plurality voting to follow suit.

Votes registered 'against' declined in both the US and UK. These two jurisdictions represented 44% of votes 'against' in 2018 (versus 61% in 2017). A significant portion (21%) of votes 'against' related to Naspers' AGM in August 2018. CLIM has been encouraging Naspers management to adopt bold measures in order that Naspers' share price might more fully reflect the underlying value in the company. We have written both to Naspers' board and to other Naspers shareholders about this matter and at the AGM we opposed resolutions in respect of directors' re-election, the company's remuneration policy and its authority to issue shares. Naspers has since announced its intention to list its video entertainment business separately on the Johannesburg Stock Exchange and simultaneously to unbundle the shares in this business to its shareholders.

Further examples of CLIM's voting policies 'in action' are given below.

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 results from buying back shares at a discount. CLIM encourages boards to

make full use of their buyback authority and opposes or abstains from supporting the re-election of directors at CEFs that either do not buy back any shares or do so but only in small quantities. Many CEFs significantly increased their buyback activity in 2018 following representations from CLIM, notably a 78% increase from UK listed securities.

Of special note, in January 2018 the JPMorgan Russian (JRS) board initiated a policy that it would buy back each year at least 6% of its outstanding shares, provided JRS traded at a discount to NAV. This policy broke new ground as a solid commitment to use the buyback and in its first year resulted in JRS repurchasing approximately 6.1% of its issued shares. Unfortunately the political background in Russia meant that JRS' discount remained stubbornly wide but shareholders nevertheless benefitted as the buyback enhanced JRS' NAV returns by 1.0% in the first financial year of its operation.

Rigorous Voting Policies

In 2018 in the US market, CLIM continued to press forward with the effort commenced in the 2017 webinar entitled 'Emerging Markets Closed-End Funds as a Legacy Product'. At that point, Barry Olliff, CLIM's CIO, said CLIM's core values had in some instances become compromised over time as a result of a flexible approach in the application of our voting policy for CEFs, for example to accommodate "special situations."

CLIM therefore set out its clear intentions to oppose the re-election of directors of US funds who exceed a nine year tenure limit; oppose directors whose oversight has resulted in a discount exceeding 10% over the previous 12 months; and propose termination of the investment management agreement in the event that a director is 'held over' after failing to gain a majority of the votes cast in an election. Finally, Mr. Olliff also stated CLIM's opposition to the assignment of investment advisory contracts in the event of merger or takeover. In 2018 CLIM continued to follow the path charted by Mr. Olliff in the 2017 webinar and US CEFs saw changes to board composition as a result.

Conditional Tenders

CLIM continues to encourage boards to adopt conditional tender mechanisms, where legally possible, in which under certain circumstances shareholders are promised a return of capital at close to NAV. The principal is to align more closely shareholders' interests with those of the manager. US corporate law restricts boards' capacity to make such undertakings but these restrictions do not apply in other jurisdictions.

Genesis Emerging Markets (GSS), which is listed in London, announced in June 2018 an immediate 10% tender and a further obligation on the board to make a tender offer to shareholders for up to 25% of the outstanding shares if the NAV return fails to exceed the benchmark total return over a five year period to end June 2021. GSS' two year NAV performance was behind benchmark at the point of the announcement and hence must deliver significant outperformance over the balance of the measurement period in order to avoid the 2021 tender. This was a welcome response from the board which reassures shareholders that action will be taken in the event of poor investment performance.

BlackRock Latin America Investment Trust's (BRLA's) board wished to assess performance over a longer period, having previously adopted a conditional tender mechanism using a two year measurement period. In March 2018 the board therefore proposed a four year measurement period with significantly more demanding metrics. As a result, the BRLA board has undertaken to offer shareholders a 25% tender in the event that either NAV performance fails to outperform benchmark by 1% per annum or the average discount to NAV exceeds 12% over the same period.

The China Fund Inc.

The China Fund (CHN) had been trading at a double-digit discount over a prolonged period. CLIM identified a lack of board refreshment and a deeply entrenched team of service providers and therefore undertook an initiative to force the board to effect change, which was initially resisted but ultimately successful.

As a result of CLIM's efforts, the composition of the board changed dramatically, a new investment manager is in place, and a review of the service provider contracts is underway. A tender offer was announced in January 2018 which gives shareholders the opportunity to realise a significant part of their investment in CHN at close to NAV. Significant cost-savings have also been announced that will benefit all shareholders.

CHN is an example of CLIM's engagement leading to improved governance and better value for all shareholders. CLIM's engagement demonstrates our commitment to the stewardship of our clients' assets and our desire to help Boards create more competitive investment vehicles.

2. Corporate Engagement

CLIM engages with boards as part of its 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. In 2018 CLIM addressed a seminar in London attended by approximately

50 investment trust chairmen, outlining why boards should take a firm line on discount control. We also engaged with regulators in the UK and Malaysia regarding issues related to CEF shareholders' rights.

Over the calendar year, CLIM engaged directly with 43 CEF boards. The table in 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. Only phone calls that involved substantive discussion have been recorded. The table does double count 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: 2018 Board Engagement: Numbers of Boards by Market Listing

Board Engagement	Face-to-Face Meetings	Email and/or Letter	Phone Calls
US	6	9	12
UK	19	10	4
Egypt	1	-	-
Hong Kong	1	1	-
Korea	1	1	-
Mauritius	1	-	-
Romania	2	-	1
South Africa	-	1	-
Total	31	22	17

Source: City of London Investment Management

CLIM's engagement is mostly with CEFs but we also apply the same stewardship principles to our holding company investments. In 2018 we encouraged the First Pacific board to consider more radical action in order to address its wide discount and we made some suggestions to Samsung C&T regarding that Company's dividend policy. In these instances we await concrete results. However, a letter to Naspers' board requesting action to ensure that Naspers' share price more fully reflects the excellent returns being achieved by the company's management was followed by the proposal to IPO and then distribute to shareholders Multichoice TV, the company's largest unlisted investment.

3. ESG Reporting

CLIM has included ESG analysis in its research process since 2015 when we partnered with Sustanalytics, 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. As

a signatory to the UN supported Principles for Responsible Investment, CLIM is also 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 but developed market securities have been included since Q4 2017. We expect to further expand coverage to include our recently launched REIT product. Seventy portfolios were analysed in 2018 which represented 58% of CLIM's AUM at the calendar year end: 65% and 49% 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, probably due to lack of resources to develop relevant policies as opposed to poor practice. Nevertheless, coverage of the underlying securities in those portfolios that were analysed increased to 94% overall from 86% in 2017, on a size weighted basis.

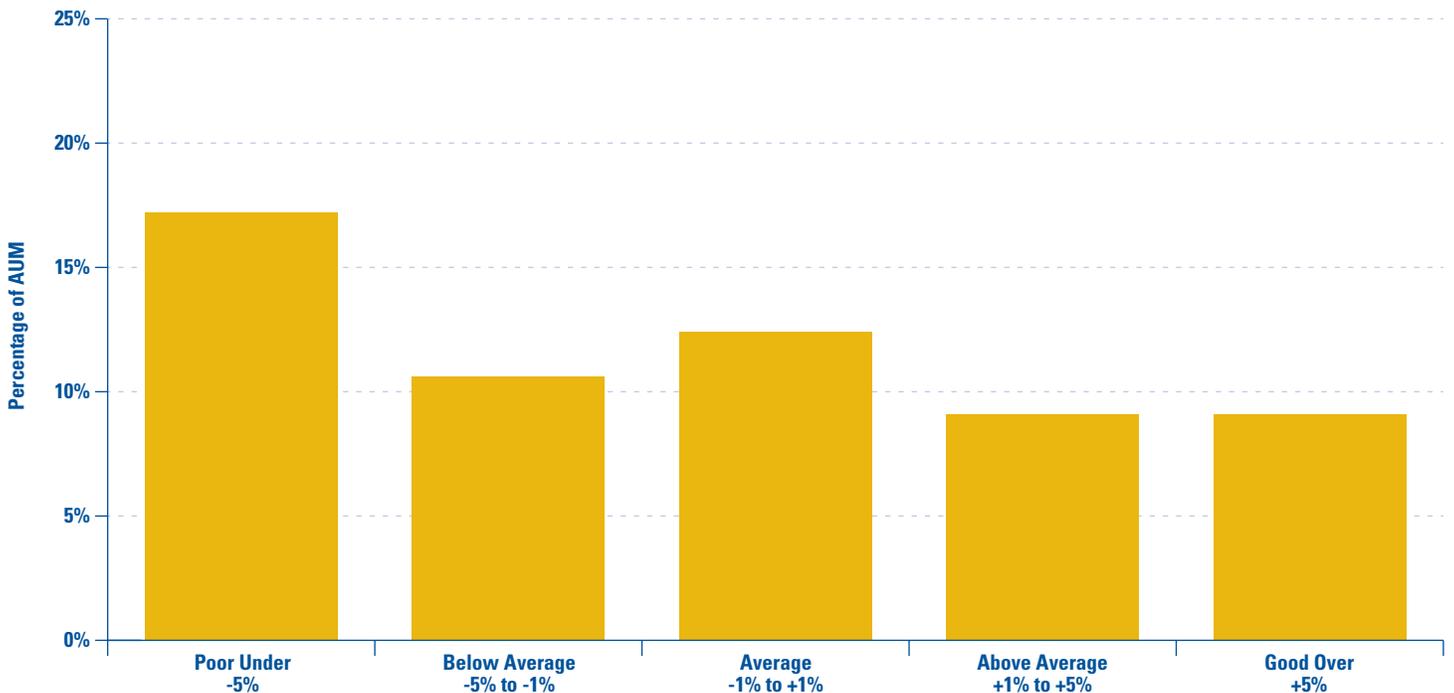
CLIM's process is to measure ESG scores for each CEF portfolio on a relative basis against the comparable score for its relevant benchmark. In relative terms the ESG scores for CoL portfolios deteriorated slightly, reflecting a continued trend in 2018 of increased ESG scores for both CoL's portfolios and the key emerging market benchmarks. Generally ESG disclosure is improving, as investor interest in this area continues to grow and this is clearly evident in higher absolute scores, a trend that is more pronounced in larger companies. The CEFs in which CLIM invests are typically overweight smaller companies and in 2019 we will examine further the extent to which ESG scoring systems favour larger companies.

Due to the above factors, CLIM's portfolios, on a size weighted average basis, scored 2.4% behind their benchmarks as at end 2018, compared to 0.4% ahead of benchmark at the end of 2017. This result is based on 57 CEF portfolios that accounted for 58% of CLIM's AUM. The emerging and developed market portfolios scored respectively 1.3% and 10.5% behind their benchmarks. The score for the developed portfolios reflects their more significant small cap bias.

CLIM's key objective is superior investment performance. However, these ESG results are discussed with managers where relevant, as we encourage better ESG transparency and seek better insight into the execution of managers' investment strategies.

Figure 4 below shows the distribution of securities held in client portfolios as at end 2018 according to their overall ESG rating.

Figure 4: Overall ESG Percentile Ranking vs Benchmark

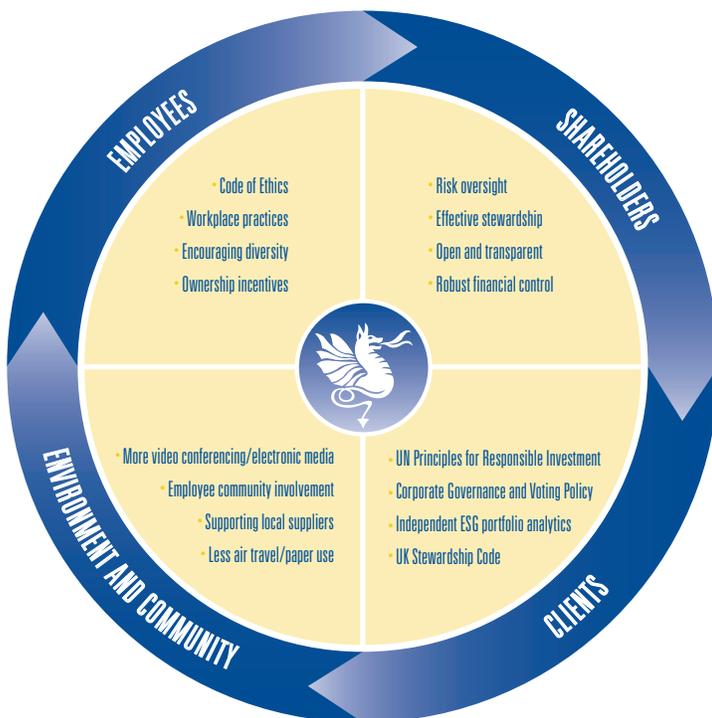


Source: City of London Investment Management, Sustainalytics



- CLIM is an institutional asset manager focused on investing in listed closed-end funds whose objective is to achieve superior long term investment performance for clients.
- We are committed to responsible investment and effective stewardship as a means of achieving this objective.
- Our Statement of Corporate Governance and Voting Policy for Closed-End Funds, which is regularly updated, was first published in 1999.
- We are a signatory to the UK Stewardship Code and to the United Nations supported Principles for Responsible Investment (PRI).
- We promote responsible investment in closed-end funds by challenging boards and managers to raise the transparency of environmental, social and governance factors in their portfolios.
- We recognise our obligation to meet the highest standards of corporate responsibility to our key stakeholders: clients, shareholders and employees.
- Our responsibilities extend further in the management of our own business to care for and protect the environment in which we operate.

CLIM Principles for Responsible Investment



▶ Responsible Investment for Clients

CLIM's key client objective is outperformance. Our investment proposition is to add value relative to our clients' benchmarks primarily by capitalising on closed-end fund discount volatility and secondly via active asset allocation. CLIM achieves effective stewardship by promoting strong corporate governance. The guiding principles of our corporate governance and voting policy are independence and transparency. This policy is integral to our investment process and it is important in helping us to add value for our clients.

a) Closed-end fund governance

Investment returns for CEF investors are the product of the net asset value (NAV) return, for which the manager is responsible,

and the discount movement. CLIM's investment strategy is distinctive because it capitalises on pricing inefficiencies and discount anomalies in the closed-end fund market as opposed to traditional analysis of equities. CLIM believes that discount management is a core responsibility for CEF boards and that all CEFs should have a discount control mechanism (DCM) in order that the manager's NAV performance is fully reflected in the returns that shareholders receive. CLIM discharges its stewardship responsibilities via regular engagement with both CEF managers and their boards. Promoting best practice corporate governance in closed-end funds is an essential element of CLIM's investment process. Our focus in this respect is on promoting fully independent boards and transparency. CLIM monitors the governance of all companies in which it is invested and regularly meets boards as part of the investment process. A record is kept of what is discussed. CLIM will, where appropriate, also set out its position formally via letter to the board to ensure that it is discussed at a full board meeting.

The discount to NAV is a key measure of governance effectiveness for a CEF. Factors that contribute to wide discounts include poor NAV performance, weak risk controls, high expense ratios, irrelevant benchmarks and product oversupply. Wide discounts reduce investment returns for shareholders and escalation is triggered if the board takes insufficient action to address these underlying factors.

CLIM always votes at shareholder meetings unless, exceptionally, consciously abstaining. We do not use the services of proxy advisors but we vote according to our published Statement on Corporate Governance and Voting Policy for Closed-End Funds. Our voting record is published on the CLIM website.

b) Portfolio ESG characteristics

CLIM's influence over specific stock selection in each underlying closed-end fund is extremely limited and encouraging managers to buy or sell specific stocks is not therefore part of CLIM's investment process. Outperforming their specific benchmarks is the proper responsibility of each closed-end fund investment manager and CLIM's fiduciary responsibility is to focus on adding value as previously described. CLIM does, however, undertake due diligence to understand each manager's investment philosophy and values consistency of principle and execution. CLIM's due diligence includes an assessment of the extent to which ESG factors are integrated into each manager's research and investment processes.

CLIM does believe that businesses which adhere to best practice in respect of ESG issues will ultimately earn superior returns. CLIM therefore encourages closed-end fund investment managers to be more transparent regarding the ESG characteristics of their portfolios. Improved disclosure should be a natural aspiration for most closed-end fund investment managers, who are themselves also signatories to the PRI.

CLIM exercises influence to improve transparency as a significant investor in closed-end funds via its engagement with CEF boards and investment managers. An ESG assessment of the relevant CEF portfolio forms the basis for engagement on responsible investment. CLIM's approach is to measure at least annually the ESG characteristics of its clients' CEF investments. This is done via a portfolio analytics report that compares the portfolio characteristics against those of its relevant benchmark, using a framework provided by Sustainability. CEFs are not screened in or out based only on these evaluations but the information is used to help validate portfolios against each manager's stated investment philosophy.

Corporate and Social Responsibility Policy

CLIM seeks to meet the highest standards of corporate responsibility for our shareholders, our employees and the communities in which our Company operates.

Our policies are focused on the workplace, environment, ethics and the community.

• Workplace

In addition to our statutory obligations we are committed to diversity through recruitment and promotion based on merit, without regard to ethnicity, gender, religion, sexual orientation, physical ability or age. CLIM's whistleblowing policy allows employees to raise in confidence any matters or impropriety, in order that suitable remedial action is taken. Share ownership arrangements encourage employee retention and minimise turnover. We are committed to ensuring good practices and creating a workplace free of harassment and bullying, where everyone is treated with dignity and respect. A high level of health and safety is maintained by conducting internal reviews to improve ergonomics throughout our offices.

In 2018 we introduced a working from home policy for all employees, in response to technology advances, changes in culture, and the changing family circumstances of our employees, while retaining teamwork as one of our core values.

All staff are encouraged to complete professional qualifications relevant to their role, in order to progress and realise their full potential. We partner with our employees and contribute towards their development by sponsoring their studies and providing study leave.

We recognise the value of cross-training across our offices and regularly transfer employees to other offices to build experience.

• Environment

Our activities as an investment manager have a relatively modest direct environmental impact but we follow a pro-active approach to

measure and, wherever commercially possible, improve our overall environmental impact. CLIM complies with the regulations applicable to UK listed companies to disclose its greenhouse gas emissions and is committed to minimise its intensity ratio of tonnes of CO₂e per FTE. CLIM limits its carbon footprint through a series of group-wide initiatives which reduce absolute levels of emissions and waste volumes:

- Maximise use of video-conferencing facilities in all office locations, which helps limit employees' inter-office air travel.
- Use electronic media across the Group in place of paper reports.
- Shred and recycle all confidential waste. Recycle paper, card board, glass and printer toner cartridges.
- Our 'everyday paper' across the Group is exclusively paper certified by the Forest Stewardship Council.
- Comply with all relevant environmental legislation and regulations.
- Continually assess environmental impact and identify areas for improvement.
- Communication of our environmental policies to all stakeholders.

A UK office refurbishment in 2018 included the first stage installation of a second video conferencing facility which will be completed in 2019 and full low energy LED lighting.

• Ethics

All CLIM employees are required to act in accordance with the Group's Code of Ethics ("the Code"). This lays out minimum standards of conduct to ensure that employees act ethically when dealing with our various stakeholders. It also seeks to ensure that all actual and potential conflicts of interest are identified, mitigated, and monitored on an ongoing basis. Any breaches of the Code are reported to the Board of Directors. All employees re-certify on an annual basis that they have read and understood the Code, and agree that they will abide by it.

• Community

CLIM encourages employees to regularly participate in community support activities across a wide spectrum of causes that encompass both monetary and non-monetary efforts to help raise awareness. In turn, this fosters a culture of leadership, teamwork and appreciation within our firm and community. Our long-term goals include:

- Encouraging employee volunteer work in community activities.
- Engaging in programmes that make communities better places to live and work.
- Using local suppliers to help support businesses within the community.
- COLeague News, an internal CLIM document which helps raise awareness, share efforts and spread participation across all our offices.

As a matter of policy, CLIM does not make donations to any client related charity, event or activity, or to any political party or candidate.



CITY OF LONDON
Investment Management Company Limited

Contacts

Philadelphia Office

The Barn, 1125 Airport Road
Coatesville, PA 19320
United States
Phone: 610 380 2110
Fax: 610 380 2116
E-Mail: info@citlon.com

Seattle Office

Plaza Center
10900 NE 8th Street, Suite 1414
Bellevue, WA 98004
United States
Phone: 206 830 9986

London Office

77 Gracechurch Street
London EC3V 0AS
United Kingdom
Phone: 011 44 20 7711 0771
Fax: 011 44 20 7711 0772
E-Mail: info@citlon.co.uk

Singapore Office

20 Collyer Quay
10-04
Singapore 049319
Phone: 011 65 6236 9136
Fax: 011 65 6532 3997

Dubai Office

Unit 2, 2nd Floor
The Gate Village Building 1
Dubai International Financial Centre
P.O. Box 506695, Dubai, United Arab
Emirates
Phone: 011 971 4 249 8402
Fax: 011 971 4 437 0510

Website

www.citlon.com
www.citlon.co.uk

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