CITY OF LONDON
Investment Management Company Limited

Annual Stewardship Report 2020

October 2021

City of London Investment Management Limited (CLIM) is a long term investor in closed-end funds and has been focused on responsible stewardship since the business was founded in 1991. CLIM is a subsidiary of City of London Investment Group (CLIG), a UK company that is listed on the London Stock Exchange. 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, which covers our stewardship activities in 2020, has been revised to better address the reporting requirements of the UK Stewardship Code. It comprises two sections:

- *Overall Approach to Stewardship following the format set out by the UK Stewardship Code by addressing each of the Code's twelve principles;*
- *Stewardship Activity which provides an overview of CLIM's voting record, its corporate engagement and ESG reporting.*

CLIM 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, employees and CLIG's shareholders, 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 purpose is to serve the interests of its clients, employees and CLIG shareholders by executing a business strategy focused on advising institutional investors. Our objective is to deliver superior long term total returns for clients, by investing primarily in closed-end funds (CEFs). Value added is achieved primarily by capitalising on 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 which has a tendency towards mean reversion. CLIM's strategy achieves its objective via rigorous peer analysis of prevailing discounts compared to their historic means.

CLIM has a strong, team oriented culture and firmly rejects the cult of the individual or "star" fund manager. CLIM is risk averse with a collegiate culture that promotes robust and effective debate within the investment team. This culture is underpinned by CLIM's values of honesty, fairness and transparency to all stakeholders.

Effective stewardship is achieved by regular engagement with CEF boards and by exercising clients' voting rights to promote best practice corporate governance. CLIM's 'Statement on Corporate Governance and Proxy Voting Policy for Closed-End Funds' provides a template for this engagement. It is regularly updated and the twelfth edition is available at https://www.citlon.co.uk/esg-reports/Corp_Governance2021.pdf.

In summary, the guiding principles of our corporate governance and voting policy are fully independent boards and transparency. CLIM considers the two key roles of a CEF board are oversight of the investment manager and discount management. A CEF's discount to NAV is an important and clearly visible measure of governance effectiveness. CLIM does not support boards that take insufficient action to address a persistently wide discount to NAV.

Stewardship is the responsibility of CLIM's chief investment officer, who participates directly in CLIM's engagement with CEF boards. The involvement of senior executives enhances the long term effectiveness of CLIM's stewardship activities. This engagement in 2020 served the best interests of our clients, with the results being most clearly evident in UK listed CEFs, via reduced investment management fees and increased board independence. Examples of the latter are discussed below in the section on Stewardship Activity. Limited progress has been made in the US on these issues. However, as also discussed below, more CEFs in both the US and the UK have adopted performance conditional tenders. This growing trend protects the interests of CLIM's clients, as well as all CEF shareholders.

II. CLIM's Governance, Resources and Incentives

CLIM's Senior Management Team comprises three executive directors, who are members of the CLIG board, plus ten senior executives representing finance, compliance, investment management, information technology, operations, client servicing and performance measurement. Their average tenure at CLIM is 15 years. CLIM's 12 portfolio managers also have 15 years average tenure. CLIM acknowledges the importance of a diverse workforce and in 2020 implemented a policy specifically committing to foster a culture of diversity, equity and inclusion. Training was also provided to all employees covering fairness and respect in the workplace. CLIM has a remote working policy to enable each employee to achieve his or her appropriate work / life balance. The gender profile of CLIM employees as at 31 December 2020 is shown below.

	Female	Male	Total
Directors	0	3	3
Senior Executives	3	7	10
All Other Employees	20	39	59
TOTAL	**23**	**49**	**72**

Each of CLIM's investment teams implements 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 coordinated response where an asset is held across multiple strategies. CLIM has not used external training to strengthen the stewardship credentials of its investment team, though this is being addressed.

CLIM's research team conducts annual due diligence on the investment manager of each CEF investment. ESG issues, including climate change, are considered as part of this process, with the assistance of Sustainalytics' ESG Risk Ratings. This work is undertaken in order to understand better the sustainability performance of the underlying CEF portfolios. CLIM's investment process is to select securities predominantly based on their discount to NAV. However, investment managers are encouraged to disclose ESG characteristics of their strategies such as carbon emissions and ESG ratings.

CLIM's bonus scheme does not target specific KPIs such as stewardship integration but it is linked to overall profitability and includes all employees. Improved ESG, particularly CEF governance, is a factor in this value chain because it results in better outcomes for client portfolios, which improves client retention and CLIM's profitability. The bonus scheme encourages employee share ownership via an option for a matched equity contribution which vests over three years. CLIM's remuneration policy aligns the interests of all stakeholders and its success at motivating all staff is evidenced by high employee retention rates: 40% of all employees have been with CLIM for over ten years.

CLIM has a standard agenda to ensure a consistent approach to Manager due diligence. Board engagement is conducted by a senior team that generally includes the CIO. CLIM believes that this approach maximises the impact of its stewardship activities. This process has been effective at promoting high governance standards in the CEF sector, resulting in a steady flow of corporate actions that CEF's have undertaken to address persistently wide discounts. In 2020 CLIM also presented its governance message at the London Stock Exchange Group's investment fund conference and at a separate industry conference of UK based CEF NEDs.

III. Conflicts of Interest

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. This Policy sets out the principles observed by CLIM in dealing with potential or actual conflicts of interest between CLIM and its clients and between one client and another. CLIM has a fiduciary duty to clients that requires all employees to act solely for their benefit, which is also the objective of our stewardship activities. CLIM maintains a Register of potential conflicts. Both the Policy and the Register are reviewed at least annually by CLIM's Risk & Compliance Committee (RCC).

The RCC is chaired by CLIM's Head of Compliance and its members include the US Chief Compliance Officer, CLIM's Executive Directors and CLIG's Internal Counsel. Their quarterly meetings are also attended by all members of CLIM's compliance team.

CLIM has adopted a trade aggregation and fair allocation policy to ensure that clients are treated fairly. Employees are prohibited from purchasing for their personal account any security that is within CLIM's investable universe. CLIM's Code of Ethics requires staff to make quarterly declarations of any potential conflicts which, once identified, are added to the Register.

CLIM's Code of Ethics further requires staff to avoid situations that have even the appearance of conflict or impropriety. This policy covers the notification of gifts received in the course of business, for which pre-approval must be sought for any gift valued in excess of £50, or local currency equivalent. Employees are not permitted to receive certain gifts such as cash, any lodging, and rail or air travel.

An identified conflict that cannot be satisfactorily managed is disclosed to clients though no such disclosure was required in 2020. CLIM does not have a client relationship with any CEF, though CLIG's shareholders do include asset managers who are also CEF managers. CLIM places its clients' interests first in the event that a conflict arises as a result of this relationship, though no such conflict arose in 2020. CLIM typically exercises control over clients' proxy voting and votes according to a common policy. No conflict arising from a proxy proposal was identified in 2020.

An example of a potential conflict of interest followed the merger in 2020 between CLIG and Karpus Management Inc. (KMI), a US business that provides CEF strategies to wealth management clients. This was addressed by establishing an information barrier between the investment teams of CLIM and KMI so that they could continue to operate independently.

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

Identifying market wide and systemic risk is principally the responsibility of a macro research team which comprises three economists. CLIM's macro process incorporates a rigorous top-down analysis and considers, among other factors, interest rates and currency rates in its asset allocation recommendations. In 2020 the macro team developed an analytical framework to evaluate market and systemic risks arising from the Covid-19 pandemic. This focused on how countries were controlling the pandemic and the measures their governments were taking to alleviate market stress. The analysis was updated and shared with the investment team weekly. This systematic approach allowed the investment teams to see through the day to day noise of increased market volatility and was a factor in a decision to reduce exposure to China in favour of Korea and Vietnam.

A specific risk for CLIM's clients is a general widening in CEF discounts. A cardinal element of CLIM's stewardship policy is therefore to encourage each CEF board to specify the action they will take to protect their shareholders from wide discounts. This is discussed at every routine meeting that CLIM conducts with CEF boards and their response is an important factor when considering whether to support their re-election. An example of a CEF addressing CLIM's concerns in 2020 was Aberdeen New India's initiation of a share buyback programme. In CLIM's view, credible discount management policies make an important contribution to the efficient functioning of the CEF sector of listed equities.

CLIM is risk averse, 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 limits for counterparty exposure risks. Key counterparty risk factors are monitored daily and reviewed by CLIM's CIO. CLIM did not participate in 2020 in any industry initiative that specifically concerned market wide and systemic risks.

CLIM's annual investment manager due diligence includes consideration of their approach to climate change risks. An exclusion policy is not practical in a CEF strategy and CLIM does not encourage investment managers to invest in or to divest specific assets but promotes transparency, as explained above. CLIM favours moderate long term structural gearing, but does not invest in CEFs that consistently use excessive gearing, generally considered in excess of 30%.

V. Reviewing Policies to Ensure Effective Stewardship

CLIM's Statement on Corporate Governance and Proxy Voting Policy is reviewed approximately every two years. The review is undertaken by a team that includes the CIO, senior fund managers, governance specialists and compliance staff. The most recent review was completed in September 2021. CLIM's stewardship policies are otherwise updated as required and are formally reviewed annually, with any changes being signed off by CLIM's CIO and compliance. Proxy voting and corporate actions decisions are made by the investment team but in 2020 the oversight of these processes was improved by transferring their internal management to CLIM's operations department.

Proxy voting is conducted electronically via ProxyEdge, a web based platform; CLIM's voting record is published monthly on its website. CLIM maintains an internal log of its engagement activities and examples are given in the section below on Stewardship Activity. In order to provide a fair and balanced selection of specific engagements in 2020, this section describes both where progress has been made and also where CLIM has not yet achieved its objectives.

CLIM's Board is responsible for overseeing and approving the Firm's business processes, including those that are stewardship related. The Board has delegated direct oversight of certain processes to sub-committees which report to the Board. CLIM's external auditors request documents from CLIM on a sample basis, as part of their annual audit to check that policies and processes are being followed as established. No significant finding arose from the 2020 audit.

VI. Client Communications

CLIM's client base is overwhelmingly US based institutions. CLIM does not market to retail clients. CLIM had $7.2bn in assets under management (AUM) as at 31 December 2020 on behalf of approximately 200 clients, which includes segregated accounts and investors in CLIM's US domiciled pooled investment vehicles. CLIM manages assets principally to the three CEF based strategies shown in the table below. The International Equity CEF strategy is predominantly focused on (non-US) developed markets and the Opportunistic Value strategy on global equity and fixed income markets.

Strategy*

Emerging Market Equity CEF Strategy	72%
International Equity CEF Strategy	24%
Opportunistic Value Strategy	4%

**As at 31 December 2020*

Clients' exposure in each strategy is achieved primarily via CEFs that are listed in the UK or US (as at 31 December 2020 approximately 60% and 25% respectively of overall AUM).

Client Type*

Pension	33%
Foundation	25%
Endowment	16%
Healthcare	12%
Other	13%

**As at 31 December 2020. Figures do not sum due to rounding. Clients include segregated accounts and investors in CLIM's US domiciled pooled investment vehicles.*

CLIM's investment time horizon is three to five years which is a typical investment cycle to meet clients' investment objectives. CLIM's standard quarterly reporting package for institutional clients includes valuations, geographical and/or sectoral exposures, portfolio detail regarding top holdings, average discounts and comprehensive portfolio and market commentary. Detailed bespoke performance and attribution data is also provided with appropriate commentary. Reporting can be customised according to each client's requirements and CLIM responds promptly to ad hoc client requests.

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. It is not possible, because of the nature of CEF strategies, for CLIM to accommodate all exclusion requests. A zero carbon policy is presently such an example and clients are advised clearly where this is the case. CLIM's proxy voting responsibilities and policy are specified by the investment management agreements with both segregated clients and pooled investment vehicles.

Clients are asked for their communication preferences at the outset. In addition to regular written reporting, face-to-face or teleconference updates are available on request. Feedback is encouraged at these meetings on all aspects of CLIM's service. The Annual Stewardship Report is sent to all clients and is formally presented to clients that require such updates. CLIM offers regular webinars that cover investment matters, including stewardship and an opportunity for questions. In 2020, feedback was further sought from certain clients' consultant advisers regarding the frequency of CLIM's client reporting and this did not result in significant changes. CLIM considers these client communication methods to be effective, in addition to email and phone opportunities, because they provide for multiple points of contact.

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, for example via redemption offers or tenders at close to NAV.

Investment managers' ESG activities, including the management of climate change risk, are monitored as part of CLIM's investment manager due diligence. CLIM does not select securities according to their environmental and social characteristics as this is not practical within the context of a CEF investment strategy but investment managers are encouraged to be more transparent about these aspects of their portfolios. CLIM uses Sustainalytics' data to monitor ESG characteristics of the underlying CEF portfolios during the holding period and to challenge CEF investment managers directly on their ESG activities at regular due diligence meetings.

CLIM believes that a CEF's discount to NAV is a key measure of governance effectiveness. CLIM's investment process therefore focuses on monitoring discounts. CLIM's approach to stewardship and investment for CEFs is a fully integrated process precisely because a relatively wide discount over a period commensurate with clients' investment horizons, is a trigger for more active engagement. There are barriers to more effective engagement, such as legal and regulatory issues in the US. Engagement with Asian holding companies, which tend to favour the interests of minority family shareholders, has so far been relatively fruitless. Finally a Malaysian CEF reacted to CLIM's overtures by taking legal action, which is ongoing, to stop CLIM's clients from acquiring more shares. However, our approach has been more effective for UK listed securities.

VIII. Monitoring Service Providers

CLIM reviews the performance of its service providers at least annually including fees payable to ensure that they remain competitive. Market counterparties are reviewed in detail every six months, including research agreements, based on certain observable criteria from portfolio managers, traders and support staff. This review did not identify in 2020 any counterparty that fell short in terms of service provision. 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 follows a consistent approach in all jurisdictions to maintain a constructive relationship with boards via regular meetings with CEFs and the focus is on effective measures that are appropriate to clients' 5 year investment horizon. An overriding objective is to encourage boards to take action to address a persistently excessive discount to NAV. This role is best performed by fully independent non-executive boards.

X. Collaborative Engagement with CEF Boards

CLIM is frequently a significant shareholder in its CEF investments. Its board engagement contributes to investment performance and is often commercially sensitive. Hence, although CLIM is willing to collaborate with fellow shareholders in the interests of effective stewardship, this is not a routine part of its engagement strategy with CEF boards. As an escalatory step, CLIM informs other shareholders of concerns regarding CEF governance, either on a selective basis or by making correspondence public. A discussion with a large UK wealth manager in 2020 about a governance issue at an Asian focused CEF did not achieve the desired objective. Collaborative actions tend to be limited in the CEF sector and CLIM did not participate in any in 2020.

XI. Escalating Stewardship Activities

CLIM takes a consistent approach to escalating its engagement activities, irrespective of jurisdiction. Concerns are initially communicated to boards in private meetings. If there is no satisfactory response the board is sent a formal letter. The Stewardship Activity section below gives example of letters sent to the boards of Korean holding companies. In rare circumstances CLIM may send open letters but none were sent in 2020. CLIM's policy, in the event that constructive engagement does not bring results, is to oppose directors' re-election. In 2020 CLIM again (unsuccessfully) opposed directors' re-election at icapital.biz, a Malaysian CEF. The ultimate escalatory step available to CLIM, to requisition for a shareholder meeting, was not taken in 2020.

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.co.uk/esg-reports/Corp_Governance2021.pdf. The policy is based on an understanding of CEF directors effectively as fiduciaries on behalf of their shareholders. CLIM therefore believes that all directors should be independent of the investment manager, that they should be appropriately qualified and that their tenure should not exceed 9 years. A further key element of CLIM's policy is that all CEFs should have a discount control mechanism.

CLIM does not use proxy advisers but considers carefully how to vote at each shareholder meeting according to this published policy. CLIM aims to vote every proxy, though this is not always practicable. For example, certain Latin American jurisdictions restrict the voting rights of foreign shareholders or voting a particular security may be uneconomic because of the associated costs. Investors may not direct voting in pooled investment vehicles. CLIM's standard investment management agreement provides for CLIM to exercise voting rights though, in rare instances, segregated clients can retain this 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. CLIM monitors clients' voting rights via ProxyEdge, which is updated daily by their custodians and in 2020 over 95% of clients' holdings were voted.

Stewardship Activity

I. Voting

In 2020 CLIM voted at 351 meetings (2019: 343 meetings) in 32 separate domiciles (2019: 34). 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 2020 is published in the ESG section of our website at the following link: https://www.citlon.co.uk/esg-clients.php. 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 Guernsey and Cayman.

Figure 1: Meetings Voted by CEF Domicile in 2020 and 2019

	2020		2019			2020		2019	
	#	%	#	%		#	%	#	%
United States	130	37.0	132	38.5	Japan	2	0.6	5	1.5
United Kingdom	86	24.5	62	18.1	Korea	2	0.6	3	0.9
Guernsey	20	5.7	19	5.5	Lithuania	2	0.6	2	0.6
Romania	18	5.1	17	5.0	Malaysia	2	0.6	3	0.9
Brazil	13	3.7	6	1.7	Mexico	2	0.6	3	0.9
Luxembourg	11	3.1	4	1.2	Cook Is. (NZ)	1	0.3	1	0.3
Australia	10	2.8	10	2.9	Germany	1	0.3	3	0.9
Cayman	7	2.0	8	2.3	Indonesia	1	0.3	4	1.2
France	5	1.4	4	1.2	Mauritius	1	0.3	2	0.6
Philippines	5	1.4	2	0.6	Singapore	1	0.3	6	1.7
South Africa	5	1.4	7	2.0	Sweden	1	0.3	1	0.3
Hong Kong	4	1.1	5	1.5	Thailand	1	0.3		
Bermuda	3	0.9	3	0.9	U.A.E.	1	0.3	1	0.3
Canada	3	0.9	3	0.9	Virgin Islands	1	0.3		
China	3	0.9	1	0.3	Kenya			1	0.3
Ireland	3	0.9	15	4.4	Kuwait			2	0.6
Isle of Man	3	0.9	3	0.9	Netherlands			1	0.3
Jersey	3	0.9	3	0.9	Spain			1	0.3

CLIM votes via an electronic proxy system and the increased voting activity in 2020 reflects growth in CLIM's business. The US and UK remain the most important jurisdictions for CLIM's CEF investments. Notwithstanding COVID related restrictions, it is often not possible for us to attend shareholder meetings in person, although prior to the pandemic we attended a significant portion of meetings held in London. In normal circumstances, we have also prioritised attendance at meetings where the agenda is contentious or we have disagreed with management recommendations on any agenda items.

In total these 351 meetings involved voting on 2,805 resolutions. Figure 2 below shows how these votes were cast in 2020, as well as the previous two years.

Figure 2: CLIM's Voting Record 2018 - 2020

	Resolutions Voted 2020		Resolutions Voted 2019		Resolutions Voted 2018	
	Number	%	Number	%	Number	%
For	2,333	83	1,985	78	1,231	82
Against	109	4	101	4	62	4
Abstain / Withhold	359	13	452	18	206	14
Total	**2,805**	**100**	**2,538**	**100**	**1,499**	**100**

The share of votes against management was unchanged in 2020 at 4%. The most common reason for CLIM to vote against management is a lack of director independence, generally due to excessive tenure or, less frequently, a connection with the investment manager. CLIM's policy is to oppose continuation resolutions where insufficient action has been taken to address a persistently wide discount to NAV.

CLIM sometimes decides to abstain from specific resolutions at shareholder meetings. Abstentions fell to 13% of resolutions in 2020 from 18% in 2019. The US accounts for approximately 90% of abstentions, reflecting the prevalence of plurality voting, where there is no option to vote 'against'. 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. Abstentions in other jurisdictions are mostly where CLIM has abstained in respect of directors' re-election as an interim step, pending continuing engagement.

II. Corporate Engagement

Inevitably, CLIM held only 9 face-to-face meetings with CEF boards in 2020, reduced from 40 in 2019. However, the pandemic has not adversely affected this important aspect of our process and overall engagement activity increased as a result of meetings held virtually. This is likely to be a permanent fixture of our modus operandi, in view of how easily virtual meetings can be arranged and conducted. CLIM directly engaged with 47 CEF boards in 2020, versus 42 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, such as the US listed CEF which CLIM met virtually seven times in 2020, is counted only once; the same with emails and phone calls. Only phone calls that involved substantive discussion have been recorded. 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: 2020 Board Engagement by Market Where Listed

Market where CEF is Listed	Boards Engaged	Face-to-Face Meetings	Email and/or Letter	Phone or Virtual Meeting
UK	34	8	7	26
US	7		5	6
South Korea	2		2	
Australia	1			1
Mexico	1		1	
Romania	1	1		1
Sweden	1			1
Total	**47**	**9**	**15**	**34**

Source: CLIM. Note that the engagements do not total horizontally if boards were engaged by multiple means

CLIM's engagement has continued to broaden from the emerging and frontier market strategies and included eleven developed market CEFs. These accounted for approximately one quarter of CEFs which CLIM engaged with in 2020 and which is proportionate to the strategy's relative AUM. CLIM also applies its stewardship principles to holding companies such as the South Korean example described below.

- **Board Independence**

CLIM's policy is to promote fully independent CEF boards and CLIM notifies boards, usually by letter, where its intention is not to support directors. Templeton Emerging Markets Fund is an example of a US listed CEF where CLIM opposed, in Q1 2020, all four directors slated for re-election due to their excessive tenure and because of the unitary board structure whereby each director served on over 100 boards. All directors were re-elected. In contrast, Franklin Resources' Executive Chairman declined to seek re-election at the London listed Templeton Emerging Markets Investment Trust (TEMIT) 2020 AGM. TEMIT now has a fully independent board, having been pressed by CLIM on this issue for many years. Aberdeen Standard Asia Focus Trust is also a UK listed example where CLIM had notified the board of its intention to oppose a connected party. In that instance the connected party declined to stand and the resolution proposing his re-election was withdrawn shortly before the AGM in December 2020.

- **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 manager. In 2020 HSBC China Dragon, listed in Hong Kong, implemented a 20% tender according to the terms of a conditional tender mechanism that the company had introduced several years previously following CLIM's input. JP Morgan India (JII) also implemented a 25% tender following three years of poor NAV performance. China Dragon's mechanism is ongoing and JII renewed its mechanism for a five year period following engagement with CLIM.

Conditional tender mechanisms continue to attract support from CEF boards and their shareholders. In 2020 CLIM assisted UK listed Schroder Japan Growth and the US listed Taiwan Fund and Korea Fund with the introduction of performance-related conditional tender offers.

- **The Importance of the Share Buyback**

Buying back and issuing shares is an essential tool for managing discounts and premiums. Its primary purpose is to address supply / demand imbalances but a further advantage is the permanent NAV enhancement that arises from buying back shares at a discount and issuing shares at a premium. CLIM has significant engagement with boards in relation to their share buyback programmes and opposes or abstains from supporting the re-election of directors at CEFs that make insufficient use of their buyback authority to address persistently wide discounts. Several CEF boards responded positively in 2020 to CLIM's request for a more active policy.

CLIM has also engaged with holding company boards on this issue, notably in South Korea, urging the boards of both Samsung C&T and LG Corp to take firm action, including repurchasing shares, to address their wide discounts to NAV. These engagements remain ongoing.

- **Cost Control**

Effective cost control is a key agenda item when CLIM engages with CEF boards. CEFs which took proactive action to reduce costs in 2020, with CLIM's encouragement, included Schroder Asia Pacific, JP Morgan India and Templeton Emerging Markets. Some CEFs continue to drag their feet on this issue. Subsequent to the reporting period, Vietnam Enterprise Investments Ltd, with whom CLIM had held several meetings, also brought forward a proposal for reduced fees.

- **Tenders and Liquidations**

Periodic redemption opportunities are the ultimate test that a CEF remains relevant and is meeting its shareholders' needs. CLIM therefore supports periodic redemption offers. In 2020 Aberdeen Frontier Markets Investment Company (AFMC) and Gulf Investment Fund (GIF) both fulfilled promises made following engagement with CLIM in previous years and offered 100% redemptions. AFMC entered voluntary liquidation as too many shareholders sought to redeem following three years NAV performance that was short of target by a wide margin. In contrast GIF, which has performed relatively well, was able to meet its redemption demand and GIF now offers redemption every six months. CLIM had also encouraged the board of Aberdeen New Thai (ANW) to consider a redemption arrangement. ANW's board announced in 2020 that if performance over the three years to 28 February 2023 has not exceeded the benchmark it may review ANW's investment management arrangements, including a redemption option.

III. ESG Reporting

CLIM has incorporated ESG analysis into its research process since partnering with Sustainalytics, a leading independent ESG research specialist, in 2015 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 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. However, developed market securities have been included since Q4 2017 and in 2019 coverage was expanded further to include our REIT products. The 59 portfolios analysed in 2020 represented 61% of CLIM's AUM at the calendar year end: 65% and 54% of the emerging and developed markets' AUM respectively.

Sustainalytics does not cover unlisted companies and has limited small cap coverage. Small cap securities tend to exhibit lower ESG scores. In CLIM's view, this smaller company effect can reflect less full disclosure by these securities and less resources available to develop relevant policies, as opposed to poor practice. Hence, lower scores for smaller companies are not necessarily indicative of higher ESG risk. Nevertheless, 93% of the underlying securities in those portfolios that were analysed are covered 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 overall ESG risk for all CLIM's portfolios as at end December 2020 was 0.5% higher than their respective benchmarks. By strategy, overall ESG risk for the EM strategy was 0.9% above benchmark and for the developed strategy it was 0.7% lower.

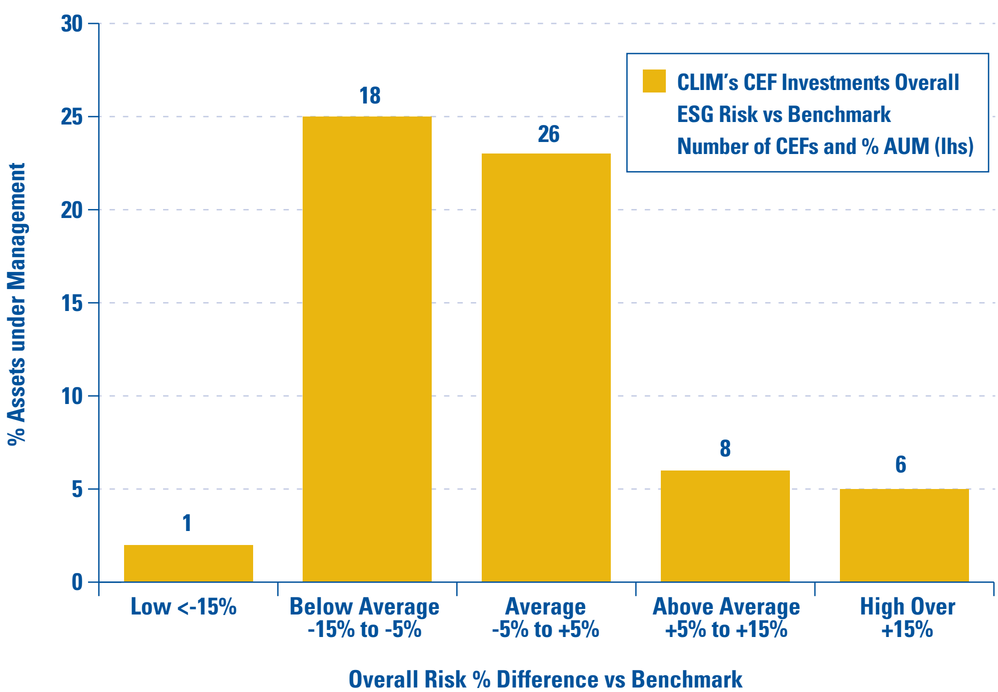
The higher ESG risk attributed to the Korean holding companies was a significant factor in this outcome for the EM strategy. For example, Samsung C&T's largest asset is a holding in Samsung Electronics, whose Vice Chairman, JY Lee, was accused in 2017 of bribery, embezzlement and perjury. JY Lee is currently serving a prison sentence in

South Korea. Samsung C&T is held because its market capitalisation is a wide discount to its asset value but it ranks poorly for ESG, mostly on account of its bribery, corruption and business ethics policies. CLIM has engaged with Samsung C&T with suggestions to improve the company's governance and has also urged action to improve the applicable policies.

CLIM's objective is to achieve superior investment performance by exploiting discount volatility. However, due diligence on CEF investment managers undertaken by CLIM's research team includes investment managers' processes for incorporating ESG considerations and for mitigating climate change risks. CLIM encourages better transparency both in private meetings with investment managers and, when the opportunity arises, from public platforms. An example of the continuing improvement in disclosure is JPMorgan's welcome decision to publish ESG reports for its CEFs that summarise MSCI's ESG assessment of their portfolios including metrics relating to carbon emissions and intensity.

Figure 4 below shows the distribution of securities held in client portfolios as at end 2020 according to their overall ESG risk compared to their specific benchmark.

Figure 4: Overall ESG Percentile Ranking vs Benchmark



Source: CLIM, 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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