CITY OF LONDON
Investment Management Company Limited

Annual Stewardship Report 2017

March 2018

City of London Investment Management Company Limited's (CLIM) second Annual Stewardship Report provides a summary of our voting record in 2017. We also 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 is contributing to the performance of their portfolios. Finally, we review the results of our research into the ESG characteristics of our CEF investments.

CLIM's 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 is established as an authority on best practice 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 complete record of how we voted since January 2016 is available on our website and the background relating to specific meetings 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 2017 and 2016

	2017	%	2016	%		2017	%	2016	%
United States	91	39.2	111	44.0	Malaysia	2	0.9	1	0.4
United Kingdom	66	28.4	56	22.2	South Africa	2	0.9	2	0.8
Romania	15	6.5	17	6.7	Sweden	2	0.9	2	0.8
Guernsey	11	4.7	12	4.8	Canada	1	0.4	2	0.8
Ireland	8	3.4	11	4.4	France	1	0.4	-	-
Cayman	7	3.0	7	2.8	Korea	1	0.4	1	0.4
Isle of Man	5	2.2	4	1.6	Kuwait	1	0.4	1	0.4
Luxembourg	5	2.2	7	2.8	Mexico	1	0.4	1	0.4
Bermuda	3	1.3	5	2.0	Belgium	-		2	0.8
China	3	1.3	3	1.2	Brazil	-		1	0.4
Pakistan	3	1.3	1	0.4	Hong Kong	-		1	0.4
Australia	2	0.9	1	0.4	Turkey	-		1	0.4
Jersey	2	0.9	2	0.8					

In 2017, CLIM voted at 232 meetings in 25 separate domiciles. The US was the largest market and accounted for 39% of the meetings. The UK was the second largest market with 28% of meetings, which rises to 36% 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 232 meetings involved voting on 1,697 resolutions. Figure 2 below shows how these votes were cast.

Figure 2: CLIM's Voting Record

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

CLIM only abstains as a result of a conscious decision. Abstentions were reduced in 2017 and over 90% are with respect to US shareholder meetings. In the US, in certain circumstances, a vote against a resolution can help that resolution pass. In other words in these instances, it is more effective to abstain (or withhold) from voting than to register a vote 'against'. CLIM has campaigned to encourage US boards to adopt the majority voting standard (to replace plurality voting) so that a 'withhold' vote has the same effect as a vote 'against' a director. The significant progress that we have made on this issue is likely to result in a further decline in abstentions in 2018. More detailed analysis of votes 'against' shows that we opposed 21 resolutions in the UK and 18 resolutions in the US. These were respectively 33% and 28% of the total number of resolutions opposed. Examples of CLIM's voting policies 'in action' are given below.

Rigorous Voting Policies

A notable highlight in 2017 was a webinar presented in March, by Mr. Barry Olliff, CLIM's CEO and CIO, on '*Emerging Markets Closed-End Funds as a Legacy Product*'. The purpose of the webinar was to put US emerging market CEFs on notice that we would henceforth exercise our voting rights according to a more rigorous application of our long established policies.

CLIM therefore set out 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 of the investment adviser, such as Standard Life and Aberdeen.

The messages were received very favourably by other US CEF investors. Discounts in US-listed EM CEFs narrowed subsequent to the webinar and created a platform for further initiatives which remain work in-progress.

Taking the Message to Malaysia

In September 2017 CLIM again opposed a director's re-election at iCapital.biz Bhd (ICAP), a Malaysian listed CEF, mainly on account of the lack of discount narrowing initiatives. CLIM set out the detailed reasons for its decision in an open letter to the board and also attended the AGM in Kuala Lumpur to explain in person the rationale to the estimated 2,000 Malaysian retail shareholders who were present. The relevant director, in this instance, was re-elected but we remain confident that our consistent and persistent approach to improve ICAP's governance will ultimately be rewarded.

Conditional Tenders

CLIM has continued to encourage boards to adopt, where legally possible, conditional tender mechanisms 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.

JPMorgan Russian Securities (JRS), which is listed in London, announced in January 2017 an obligation on the Board to make a tender offer to shareholders for up to 20% of the outstanding shares if JRS' NAV return fails to exceed the benchmark total return over a five year period to end October 2021. The Board adopted this measure to further incentivise the manager to focus on long-term investment performance.

JPMorgan Chinese Investment Trust (JMC), also London listed, announced a similar obligation with its final results in December 2017: that the Board will implement a 15% tender if JMC's NAV performance lags its benchmark over the five year period to end September 2022.

Creating Attractive CEFs

Aberdeen is proposing, subject to receipt of necessary shareholder approvals by each CEF, to merge seven country-specific and regional US-listed CEFs into a larger, global EM CEF to be called the Aberdeen Emerging Markets Equity Income Fund. This transaction will create a dividend generating EM CEF which, compared to the individual merged funds, should provide improved liquidity, a lower expense ratio and improved market awareness.

CLIM has agreed to support the Boards of the Aberdeen funds in order to effect this merger, which is beyond the scope of anything previously attempted in the US emerging markets CEF industry. The merger, if approved, will be effected in 2018 and will be accompanied by capital gains distributions and a significant initial tender by the merged fund. It is also intended to establish a target discount policy for the merged fund.

This is an excellent example of CLIM's support for best practices to strengthen the industry, for the benefit of CLIM clients and the industry as a whole.

2. Corporate Engagement

CLIM engaged with the boards of 41 CEFs in 2017. 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: Numbers of Boards (by market listing)

Board Engagement	Face-to-Face Meetings	Email/Letter	Phone Calls
US	7	11	9
UK	17	11	4
Hong Kong	1	-	-
Malaysia	-	1	-
Romania	3	-	1
South Africa	-	1	-
Sweden	-	1	1
Total	**28**	**25**	**15**

Source: City of London Investment Management

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.

3. 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. 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 requested that Sustainalytics' ESG reporting be focused on emerging markets portfolios but developed market securities have been included since Q4 2017. The small number of developed portfolios analysed in the final quarter of 2017 generally scored higher than the average EM portfolio, although they are behind their benchmark indices, which typically score more highly than indices that track emerging markets.

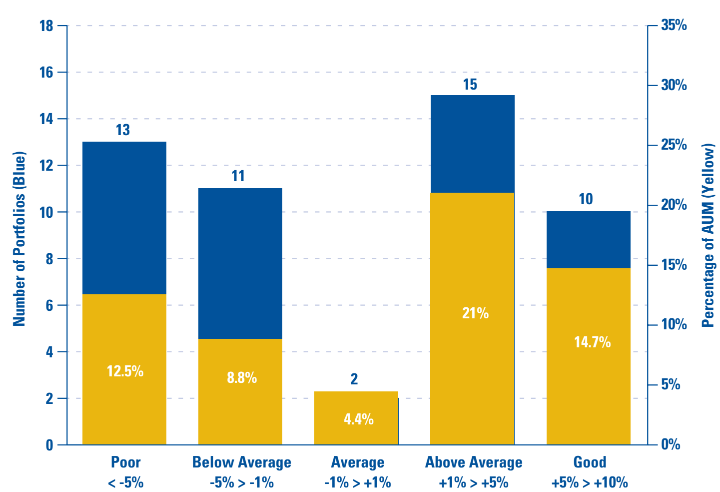
ESG scores are measured for each portfolio on a relative basis against the comparable score for its relevant benchmark. A persistent theme over 2017 has been that index ESG scores have increased compared with 12 months previously. This general trend of improved ESG disclosure and performance reflects, at least in part, reporting growth and investor pressure to address material key ESG issues. For the MSCI EM Index, the trend has been driven by governance and social themes. The scores for the portfolios that CLIM has analysed in aggregate are broadly unchanged; hence the relative scores for CLIM's portfolios, on average, have declined.

Due to the above factors, CLIM's portfolios, on a size weighted average basis, scored 0.4% ahead of their benchmarks as at end 2017, compared to 6% ahead of benchmark at the end of 2016. This result is based on 51 CEF portfolios that accounted for 61% of CLIM's AUM. Sustainalytics research covers on average 86% of the portfolio holdings. Average coverage increased in 2017, partly due to an underlying improvement but also a reflection of higher coverage of securities held by developed CEFs.

CLIM has also extended its ESG engagement to holding companies. For example, First Pacific's investments include an Indonesian based palm oil production business which has attracted criticism for its ESG record, notably regarding labour relations. CLIM has raised these issues both with First Pacific's management and with the management of Indofood Agri Resources, the palm oil subsidiary. First Pacific has since published its first ESG report and CLIM has given additional feedback to encourage best practice and improved transparency in future reports.

Figure 4 below shows the distribution of securities held in client portfolios as at end 2017 according to their overall ESG rating. It is interesting that although, as previously noted, CLIM's size weighted score is marginally above average, CLIM's exposure is skewed towards funds with above average ESG scores distribution.

Figure 4: Overall ESG Percentile Ranking vs Benchmark



Source: City of London Investment Management, Sustainalytics

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