CITY OF LONDON
Investment Management Company Limited

Overview of the Changes to the Statement on Corporate Governance and Voting Policy for Closed-End Funds

October 2016

Introduction

- Tenth edition extends beyond our traditional focus on Emerging Markets CEFs (p. 2)
- Expanded universe includes Frontier and Developed CEFs (p. 2)
- Discusses limits to define reasonable discount ranges (p. 3)
- Graphical depiction of discount history for these asset classes (p. 3)
- Updates on plurality voting, Board refreshment, unitary Boards, NAV releases in London (p. 4-5)
- Highlights five current CG examples – both good and bad (p. 5-7)

Firm-Centric Changes to the Statement

- Environmental, Social and Governance – A new section was added to more fully describe our views (p. 20)
- At a minimum a CEF benchmark should be: (a) unambiguous and transparent with clearly defined constituent weights and identities and a clear methodology (b) investable – an investor could effectively purchase all the securities in the index (c) measurable – calculated and publicized on a frequent basis (d) appropriate - to the Manager's investment style or area of expertise (e) specified in advance (p. 16)
- A CEF should be considered an institutional client and the investment management fee negotiated by the Board should therefore be competitive with similar sized institutional mandates at the management company (p. 18)

London-Centric Changes to the Statement

- Conditional tenders triggered by poor performance over an investment cycle provide a fairer deal for long term investors (p. 12-13)
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US-Centric Changes to the Statement

- Current Directors should not be overlooked when a new Chairman is being selected (p. 10)
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- In the US, the 'plurality' voting standard for proxy votes is an anachronism (p. 16)
- Shareholders should always be given the option to receive distributions in full in cash (p. 13)
- The addendum on the back of this page replaces the prior version of CLIM's Proxy Voting Policy (p. 16)

Proxy Voting Policy Addendum to the Statement on Corporate Governance and Voting Policy for Closed-End Funds

Policy on Proxy Voting

- The accompanying Statement on Corporate Governance and Voting Policy describes in detail CLIM's approach to the corporate governance of CEFs and, by extension, the parameters that are deemed important in determining how we will vote proxy ballots.
- Clients may obtain a copy of CLIM's proxy voting record upon request from their usual contact at the Firm or upon request at info@citlon.co.uk or client.servicing@citlon.com.
- Potential conflicts of interest are addressed as below.

Addressing Potential Conflicts of Interest

- CLIM reviews each proxy to assess the extent, if any, to which there may be a material conflict between the interests of clients and CLIM's interests (including those of our affiliates, directors, employees and other similar persons). If CLIM determines that a potential conflict may exist, it will promptly report the matter to the Compliance Department who determine whether a potential conflict exists. The Compliance Department is authorized to resolve any such conflict in a manner that is in the collective best interests of clients (excluding any client that may have a potential conflict).
- If the proposal that is the subject of the potential conflict is specifically addressed in this Statement on Corporate Governance and Voting Policy for Closed-End Funds, CLIM will generally vote the proxy in accordance with such pre-determined guidelines.
- CLIM may disclose the potential conflict to its clients and obtain direction regarding how the proxy should be voted.
- CLIM may engage an independent third-party to recommend how the proxy should be voted.
- CLIM may establish an ethical wall or other informational barriers between the person(s) involved in the potential conflict and the person(s) making the voting decision in order to insulate the potential conflict from the decision-maker.
- CLIM uses available resources to determine whether a potential conflict may exist, and a potential conflict will be deemed to exist if and only if one or more of CLIM's Investment Management Team actually knew, or reasonably should have known, of the potential conflict.

CITY OF LONDON
Investment Management Company Limited

Statement on Corporate Governance and Voting Policy for Closed-End Funds

Tenth Edition, March 2016

Contents

I. Preface

City of London Investment Management Company Limited ("City of London") is focused on continuing to achieve superior investment performance for institutional clients. We are a significant long-term investor in closed-end funds ("CEFs") and seek to promote growth in the industry by encouraging CEFs to make their product more attractive for investors. Good corporate governance is a vital element of this process. Our updated *Statement on Corporate Governance and Voting Policy for Closed-End Funds*, which was first published in 1999, identifies the current 'best practices' in the corporate governance of CEFs. It is addressed to Boards, Managers, Shareholders, and the professional investment community.

On our clients' behalf, City of London invests primarily in CEFs. The firm has been an investor in closed-end funds since 1991, and we have five offices (in London; Coatesville, Pennsylvania; Seattle, Washington; Singapore; and Dubai) from which we research and invest in CEFs in markets around the globe.

City of London's Approach to Corporate Governance

Our approach to corporate governance is a collective process involving the investment management teams in each of our five offices. Our approach is not generally prescriptive and City of London would normally support a Board that attempts to 'do the right thing.' Exceptions to our stated policy are always considered on a case-by-case basis using a collegiate approach. We invite Boards to discuss important issues with our firm and we will endeavor to carefully consider each situation.

City of London 'core values' for Corporate Governance

- First, this is a very old industry. Its origins in the UK were circa 150 years ago and our interest is in supporting it. We would like to see it grow.
- Second, as with anything that is old it is possible to develop bad habits. Our job as an engaged shareholder is to ensure that Boards are aware of our views and that they consider some of the wider implications of their actions.
- Third, we are not an activist; rather, we consider our position within the context of an ongoing relationship with the Manager and also the Board of a Fund. We are long-term investors and often can demonstrate that we have been longer-term in our ownership than the average retail Shareholder.
- Fourth, whilst we avoid conflict we will stand up for our (Clients') rights.
- Fifth, we will review on a regular basis the ongoing performance of Boards in what we consider to be their Continuing Obligations.
- Sixth, we expect to meet with Boards. We do not expect them to undertake their work in isolation. We understand that they are part-time and that they might not have the commitment to our industry that we do, but in our opinion the role is no different from a conventional Independent (US) or Non-Executive (UK) Director of a conventional US or UK Corporation.

II. Introduction

The Influence of Good Corporate Governance Extends Beyond Emerging Markets CEFs

Barry M. Olliff, CEO & Chief Investment Officer

This document marks the Tenth Edition of the *Statement on Corporate Governance and Voting Policy for Closed-End Funds.* The First Edition was published in 1999, eight years after our firm's founding in 1991. As such, 2016 represents City of London Investment Management Company Limited's (CLIM's) 25th year and provides reasons for both celebration and contemplation about the state of the CEF industry.

While most financial practitioners will know that it predates ETFs, many would not appreciate that the CEF industry predates mutual funds (unit trusts). While old can be good and reflective of experience, it is also possible that the industry has developed bad habits, some of which are possibly unacceptable in today's competitive marketplace.

The influence of good corporate governance extends beyond emerging markets CEFs, in a couple of distinctly different ways:

- Broad changes in the governance of large corporations (especially in the US) trickle downwards to smaller entities, which include CEFs.
- CLIM is growing and diversifying beyond emerging markets CEFs, which extends the scope of our CEF investment universe.

Broad Changes in Corporate Governance

The corporate governance standards at Fortune 500 companies in the US have materially improved in the period since the financial crisis in 2008. Pressure from institutional investors has raised awareness of the importance of issues such as majority voting (versus the plurality standard) and proxy access. Although these advances do not automatically flow through to the Boards of CEFs, CLIM has taken an active role in encouraging CEF Boards to consider such improvements. In the UK, where the Association of Investment Companies (AIC) sets corporate governance standards for investment trusts, the standards are already higher for CEFs and consequently less change is underway.

Engaging with an Expanded CEF Investment Universe

At CLIM, we have diversified our business beyond the focus on the emerging market CEFs in which we had exclusively invested. We began our efforts to diversify in 2005, however it was not until 2012 that we seemed likely to gain traction in developed, frontier and US fixed income CEF products. These efforts have now borne fruit and so this Tenth Edition reflects our experience in the corporate governance of CEFs in a greatly expanded investment universe.

Back to the Drawing Board

Engaging with the Boards of these additional CEFs has been a process of going 'back to the drawing board' both in terms of awareness and education. From our point of view, this is a good thing because we are prompted to reexamine the principles of supply and demand for developed, frontier and US fixed income CEFs. Prior editions of this *Statement on Corporate Governance and Voting Policy for Closed-End Funds* outlined standards to which we expect CEF Directors to adhere under virtually any set of circumstances. While these new CEF areas expand the scope of this document, it has to be said that the principles that we follow are the same.

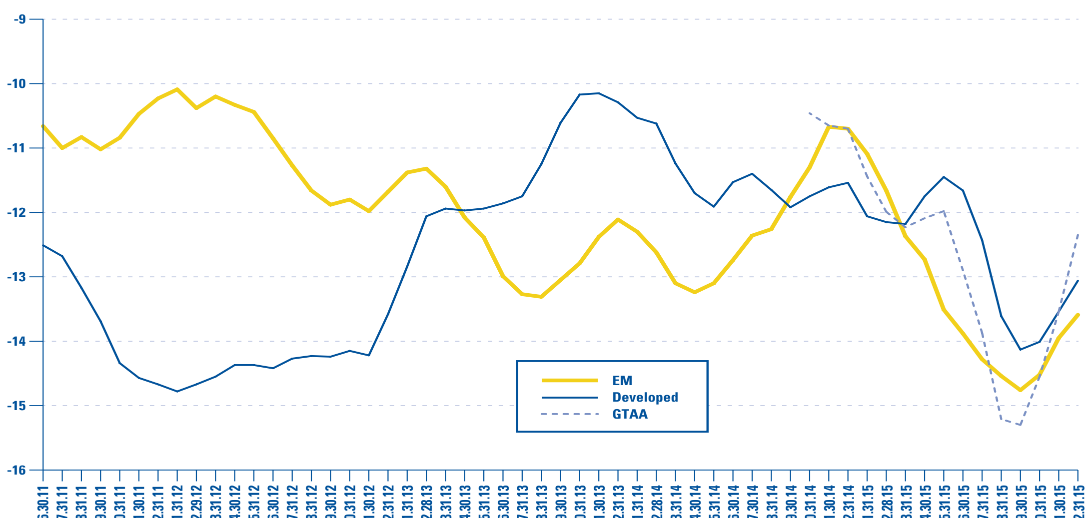
Limits Around Discount Ranges

As a firm which specializes in CEF investing, we focus not only on the investment performance of the underlying securities ('NAV performance') but also on how that NAV performance manifests itself in the share price of the fund. Our general rule of thumb is that it is understandable that a portfolio of fully fungible (listed) securities could, in extreme circumstances, trade at a discount of c10%. This is based on our view that we are long term, patient investors and that for a Fund to be liquidated at a 10% discount could undermine not just a tax paying investor's investment, but could be seen, particularly in volatile markets, as a potential risk to all shareholders.

This risk is reduced significantly, however, by each potential 1% increase in discount. Once over 11%, we look to a CEF's Board to correct what we consider to be not just a valuation issue but a credibility problem. At the point that a discount has reached c13%, we are quite likely to ask why there is a Board in place at all because if the Directors are not there to work on the shareholders' behalf, then what are they being paid for?

As with most investors, when CLIM makes an investment decision we like to review what is disclosed 'on the can.' With a CEF, we assume that we will receive an investment return that is proximate to the NAV performance and, at the point that this return diverges significantly, we start to make some inquiries. These inquiries are normally via letters and meetings – very rarely do we go public.

3-Month Rolling Average Portfolio Discounts by Strategy (June 2011 - December 2015)



Source: City of London Investment Management

As can be seen from the above chart, our clients have recently experienced discount widening. Fungible securities, when valued in the marketplace, should not be trading at a discount of c14% to their underlying NAV. While we can discuss, inform, educate and write letters, the bottom line is that most decisions regarding supply and demand — and this *is* what determines the discount — are in the hands of CEF Directors.

US CEF Corporate Governance

Broadly, across US corporations, the 'plurality' standard has given way to recognition of the need for 'majority' voting to give shareholders a voice in proxy elections.

In the US, changes in the qualifications and election of Directors of large US corporations provide a roadmap for areas where CEF governance can be improved. We have focused on the voting standard ('majority' versus 'plurality') employed, guidelines to ensure Board refreshment (term limits), and limits on the number of Boards upon which Directors serve (including publicizing the weaknesses of the 'unitary' approach for CEFs, in particular).

The anachronistic 'plurality' proxy voting standard allows that one single vote in favor of a Director is sufficient to elect the nominee, which ensures that the election of Directors becomes a meaningless formality. Broadly, across US corporations, the 'plurality' standard has given way to recognition of the need for 'majority' voting to give shareholders a voice in proxy elections. We are gratified that substantial progress is being made in this area as a result of our efforts. Several CEFs have announced that the standard is being changed and we will continue to press other funds and fund complexes to adopt the majority standard.

The change to majority voting is an area that we believe is a step towards making other significant improvements in corporate governance standards, most specifically relating to Board "refreshment." Our longstanding view has been that the regular turnover of CEF Directors (Board "refreshment") is central to the good management of CEFs going forward. Far too often we see Boards where Directors have become entrenched after 20 or more years and where shareholders' interests have not been well-served.

Unitary Board Structure

The unitary structure for Boards of Directors within a US fund complex presents a challenge for CEFs that does not necessarily arise in the context of open-end funds. The most obvious difference is that CEF investors do not possess a mechanism to redeem shares at the net asset value of the underlying CEF portfolio, which means that the shareholders of a CEF are much more reliant upon the Board of Directors to champion their interests. This arises specifically in the context of ensuring that the CEF's discount is adequately managed over time to provide a means to sell shares at a narrow discount. If such a discount level cannot be achieved through the use of a discount control mechanism ("DCM"), then the Board should seek to provide some other means to enable shareholders to exit (e.g. a tender, merger or open-ending).

NAV Releases in London

NAVs for London-listed CEFs are, in some instances, not released until well after the market opens the following day.

We have also had a project running in London which has involved us trying to get Managers to release NAVs earlier. We have had some success but it's very difficult to get them released at a similar time. In the US, NAVs are released by around 7.00PM each evening and while this is the end of the day in terms of a 24-hour clock, it seems extraordinary that, with London claiming to be the financial center of the world, it can take an additional 15 hours to calculate an NAV.

Prospects for the Future of the CEF Industry

We would like to see the CEF industry remain competitive and launch new CEFs that meet shareholders' needs.

We are passionate regarding the CEF industry. We would like to see it survive and become 200 years old, but the industry needs to remain competitive. Weak CEFs will inevitably succumb to competitive pressures but, if the industry remains disciplined and competitive, new CEFs will be launched that meet shareholders' needs.

Examples That Bring Corporate Governance Concepts to Life

What follows are a few anecdotes from the past year that bring to life both good and bad examples of CEF governance.

An Example of a Late NAV Release

One of the World's largest investment managers releases the NAV for its London-listed CEFs late in the afternoon, sometimes with less than 45 minutes left in the trading day. The NAV is calculated as at the close of business the previous day and results in a potentially misleading situation in which retail investors have to make their trading decisions on unnecessarily dated information. We know the information is unnecessarily dated because other managers do release similarly calculated NAVs prior to the market opening. Furthermore, the asset manager in question owns a significant ETF business which releases its NAVs before the market opens!

Who decides when a Board member deserves a pay raise?

The answer is, of course, fellow Directors decide. At one US CEF's December Board meeting, the Board approved a 50% increase in the Audit Committee Chairman's annual fee. On this Board, Directors are also paid $3,000 on a per-meeting basis. Meetings can be face-to-face or by telephone, and multiple meetings can be held on the same day. In the most recently completed fiscal year that Audit Committee Chairman was deemed to have attended 15 "directors' and committee meetings", and the aggregate of all per-meeting fees was more than twice his annual fee. There is no way for shareholders to see the details (date, time, topic) of these meetings. This same Fund is guilty of breaching another guideline as well – we object to situations where Boards travel to far-flung locales in order to see first-hand companies in the emerging markets in which the manager invests. While this may seem logical at first glance, the reality is that these annual trips are junkets that provide no value to the Fund's shareholders. The investment manager should visit and assess these companies. The Directors should ensure that the manager is performing up to par and that the Fund's assets are safeguarded. A trip to Asia for the whole Board every year is a waste of Fund resources.

A Frontier CEF 'that does the right thing'

In December 2012, a London (AIM) listed closed-end investment company that invests in frontier markets announced two shareholder proposals to be made at the Company's annual general meeting in 2016. First, the Company would offer shareholders an opportunity to fully realize the investment in the Company at the then prevailing Net Asset Value less costs. Second, the same opportunity would be provided at five-year intervals thereafter. Prior to the proposal, the Fund had traded at a 3-year average discount to NAV of approximately 13%, and as wide as 18%. The one year average discount prior to the announcement was approximately 14%, and again as wide as 18%. Subsequent to the announcement, the discount to NAV averaged approximately 8% through the end of 2015. For the year 2015, the average discount has been 8%, and has rarely exceeded 10%.

Unitary Boards Organized for the Benefit of the Manager

We will continue to push for the separation of closed-end fund Boards from other Boards within a fund complex.

What we typically see in the US when a unitary board structure is in place can be summarized in one example which is a current "work-in-progress" for us: a CEF with an "interested" Chairman and where the four "independent" Directors oversee 100+ funds within one fund complex and are each paid, in the aggregate across the funds, in excess of $300,000 per annum for their efforts. In this context, it is difficult to imagine how a so-called "independent" Director could place the interests of the shareholders of one of those 100+ funds ahead of the interests of the Chairman and the fund complex that provides such a substantial compensation package. We will continue to push for the separation of closed-end fund Boards from other Boards within a fund complex.

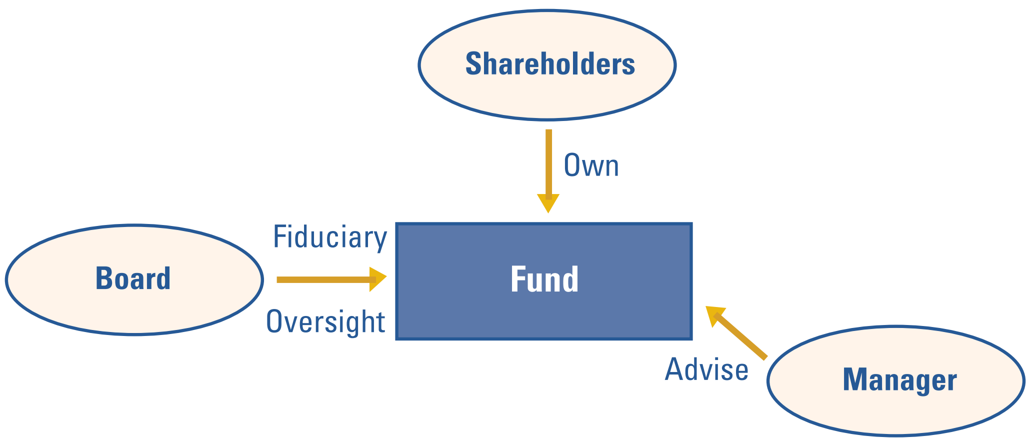
A High-yield Bond Fund Board in Self-preservation Mode

The Board of one US high-yield bond fund implicitly acknowledges – via inclusion of an open-ending provision in the fund's prospectus – that discounts need to be managed and are deleterious to shareholders' interests if allowed to widen uncontrolled. In the period since May 31, 2013, the CEF's shares have traded at a material discount. In 2014 and again in 2015, the fund triggered its open-ending provision because the discount averaged over 10% for the measurement period. For the period from May 31, 2013, to December 31, 2015, the total return of the CEF, measured in price terms, underperformed an ETF with the same benchmark by 387bps despite the CEF's NAV outperforming by 327bps [Source: Bloomberg]. Clearly, the widening discount damaged shareholder returns, precisely the situation the open-ending provision was intended to ameliorate. In 2014, the Board recommended that shareholders vote against open-ending. Investors took the message to heart and the CEF's discount widened to more than 14% in the year subsequent to the meeting. We believe the Board should refrain from recommending a course of action in the forthcoming shareholder vote. Update: Just before going to press, the Board announced that the fund would be liquidated.

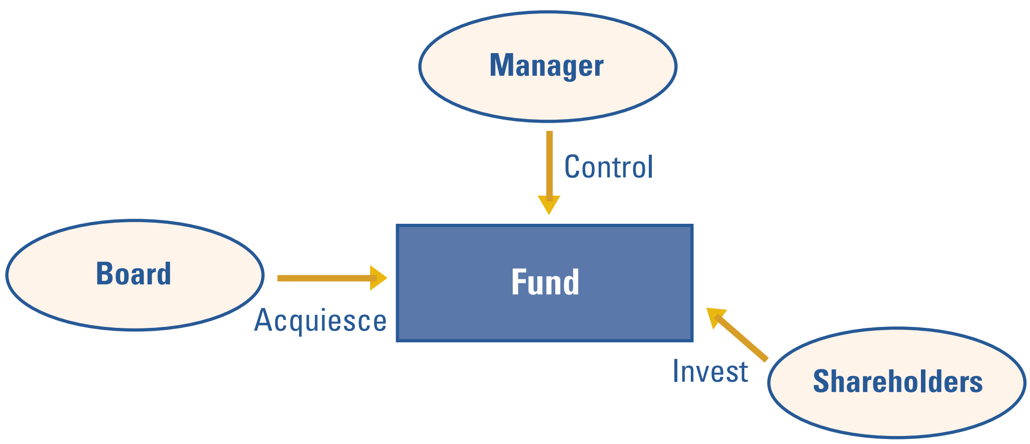
III. Ideal Stakeholder Relationship

The Ideal Stakeholder Relationship is a partnership between Shareholders, the Board and the Manager.

Ideal Relationship



Historic Relationship



We always approach discussions with Directors and Managers from the point of view of these relationships. Inevitably, the discussions are compromised when a Manager has representatives sitting on the Board of a CEF.

IV. The Board

1. Role of the Board

a. Fiduciary Duty to Shareholders

Boards owe a fiduciary duty to shareholders

We believe that the Board owes a fiduciary duty to the Shareholders of the Fund. We believe this should be viewed as the fundamental principal upon which the role of the Board should be based.

b. Importance of Independence from the Manager

We believe the ideal Board is 100% independent of the Manager. A representative from the Manager could routinely be invited to attend Board meetings, but should not possess the automatic right to attend. This arrangement allows the Board to communicate more fully and productively with the Manager due to the less personal nature of any criticism leveled directly at the Manager.

In the US in particular, the Board tends to include employees or former employees of the Manager, or "friends" of the Manager. This makes it far less likely that the ongoing review of the Manager's performance will be impartial.

c. Discount Management

All closed-end funds should have a discount control

All closed end funds should have a discount control mechanism. The discount management policy is a primary responsibility of the Board which should not be delegated to the Manager. The adoption of formal discount control measures, where the market's perception is that the Board will honour its commitment, leads to significant narrowing with discount volatility constrained within a tighter range, therefore enhancing shareholder value. Experience has shown, however, that where a buyback is applied tentatively, the desired effect will not be achieved.

d. Role of the Chairman

The Chairman, who should not be a Director of another fund with the same Manager, plays a key role in ensuring that the Board meets its fiduciary obligations to Shareholders. The Chairman's responsibilities include Directors' appraisals, Board succession planning, and oversight of the regular assessment of the investment Manager (ideally via a management engagement committee as discussed in VI.1.c. below). The quality of the Chairman's leadership is a significant factor in our assessment of the investment potential of a CEF.

e. Overseas Board Meetings

As a general rule, Board meetings should not be held overseas. Occasionally, it may be necessary to hold meetings overseas at the office of the Manager in order for the Board to complete its due diligence or for regulatory reasons. Where feasible, overseas Board meetings should be infrequent to protect shareholders from excessive cost.

2. Composition of the Board

a. Experience and Qualifications

Requisite experience and understanding of CEFs is more relevant than knowledge of the country or region in which the Fund invests. The latter is the responsibility of the Manager, who is contracted by the Board and is being paid to supply this skill.

A Board should provide Shareholders with brief CVs of proposed new Board members. Simply disclosing a name, age and number of board positions held is insufficient to enable Shareholders to make an informed decision. Current Directors should not be overlooked when a new Chairman is being selected.

Directors should not start a new term in office if they have been retired from active employment for more than 5 years. City of London believes that the skills and contributions of a Director outside this criterion may be too far removed from current business practices or thinking to truly add value to the Board over the long term.

b. Limitations on Directors' Tenure

City of London believes that if a Director serves for more than ten years (three terms), then his or her independence may have become compromised. Assuming a term of three years, one would expect that there should be at least one Director seeking re-election every year. A balance of tenure among Directors is desirable: the introduction of new Board members encourages both the development of fresh ideas and serves to challenge the status quo. Where a Director serves beyond three terms, the Director should stand for reelection annually.

City of London holds the view that a Director should normally hold a maximum of four Board positions, although we realise that there are factors that should be considered in making any final determination.

c. Board Remuneration

City of London believes that Board members should be adequately rewarded for their service. In particular, we acknowledge that the Chairman should be adequately rewarded for these added responsibilities, and it is therefore vital to attract an individual of the relevant caliber. Directors should not be paid on a per-meeting basis.

d. Definition of Independence

Boards should comprise only independent directors

An independent Board is crucial for the effective corporate governance of a CEF. We expect that a person nominated for appointment to a CEF Board will have been selected by a committee of other independent, non-executive Directors. In the absence of evidence to the contrary, City of London's initial premise is that a prospective Director is independent.

While independence can be hard to assess objectively, consensus generally emerges when a Director is not independent. City of London believes that any Director who falls within one of the following categories is not independent:

- current directors, officers and other personnel of the Manager or its affiliates, and their relatives;

- former directors, officers and other personnel of the Manager or its affiliates (within the previous 5 years);
- individuals with an on-going financial link to the Manager or its affiliates or the Fund;
- representatives of a Shareholder, or a Concert Party of Shareholders, with a significant holding in the Fund;
- individuals currently or previously associated with a firm that currently has, or during the past five years has had, a material business or other financial relationship providing services to the Fund, the Manager, or an affiliate of the Manager ;
- individuals whose independence may be compromised by service on multiple Boards of funds with the same Manager (i.e., complex) or its affiliates. In our view, such a Director has a potential conflict of interest arising from this relationship with the Manager, because the per fund stipends, when accumulated, may end up being a significant source of income; and
- individuals with cross-directorships with executives of the Fund, the Manager or Manager affiliates, or similar arrangements.

For the avoidance of doubt, City of London will normally oppose the election or re-election of Directors who fall into the above-listed categories.

3. Safeguarding Assets

Boards ‘contract out’ the physical safeguarding of securities to recognized global custodians. Problems in this area are relatively rare, and are usually a result of direct fraud or malpractice. Boards should continuously ensure that adequate steps are taken to recognize and control exposure to counter-party risks as part of the safeguarding process.

V. The Board and Shareholders

1. The Board/Shareholder Contract

A Board, in the promotion of a new Fund, enters into an ongoing contract with Shareholders, the terms of which are both explicitly stated in the prospectus and implied through asking Shareholders to acquire shares initially at net asset value.

a. Awareness of the Discount –‘an implied term’

When a CEF is launched a Board implicitly promises Shareholders that net asset value is a fair market price for the shares. A Board is therefore under an obligation to monitor the Fund’s discount, and to take action if it persists at a significant level for a substantial period of time. We view the failure by a Board to address a persistent discount as a breach of the implicit Board/Shareholder contract.

When a Board introduces discount control measures and the market's perception is that the Board will honour its commitment, the result leads to significant narrowing with discount volatility constrained within a tighter range. Where discounts remain persistently wide, it is the Board's responsibility to consider all options to enhance shareholder value, potentially including the ultimate liquidation of the fund.

b. Prospectus Commitments

Many CEF prospectuses and annual reports contain statements by Boards along the lines that "if the Fund's shares trade at a substantial discount to the Fund's NAV for a significant length of time, the Fund's Board of Directors will consider taking such actions as may seem appropriate to eliminate or reduce the discount." Such policy statements are generally discretionary to the Board. We contend that Boards owe an obligation to Shareholders to give unambiguous guidance about what is meant by a "substantial discount." A Board may reasonably retain discretion, but Board credibility is enhanced by explaining the meaning of potentially vague statements.

c. Treasury Shares

In certain jurisdictions, Boards have the power to buy back shares, take them into treasury and re-issue these shares at a later date, when there is demand. Treasury shares should never be re-issued at a discount and shares held in treasury should be cancelled after 12 months.

The CEF should disclose leverage that will arise on purchases, and the cost of the borrowing to purchase Treasury shares should be disclosed. In our experience, Boards too often purchase shares when markets are high using borrowed money which has cost shareholders from both a capital and a revenue account perspective.

d. Share Issues

Issuing shares at a discount is unacceptable

An issue of shares at a discount to NAV, whether via rights or a sale of treasury shares, is unacceptable. The Board's objective should be to promote NAV as a fair price for the shares. This means both that share issues are appropriate only at NAV or higher and also that Boards have an obligation to issue shares to prevent an unacceptably high premium from developing. Shelf offerings in the US are ideal for this purpose while UK companies can maintain shares in treasury to offer for sale at NAV or higher.

e. Pre-emptive Rights

City of London will routinely vote against any resolution that empowers a Board to allot new shares, other than to Shareholders pro rata to their existing holding, unless the resolution expressly states that such issues cannot be at a price less than the net asset value per share.

f. Tender Offers

Regular tender offers prevent wide discounts

Tender offers at close to NAV are a fair and effective means of removing persistent stock overhangs which adversely affect the discount. It is preferable, however, to prevent a persistent discount from arising via a program of regular tender offers, conditional upon the average discount falling below a certain threshold or performance falling behind the Fund's benchmark. Conditional tenders triggered by poor performance over an investment cycle provide a fairer deal for long term investors.

g. Funds in Liquidation

While cost is a consideration, it is important that a CEF which has been put into liquidation continues to communicate with its Shareholders. Often, at the point that the liquidator is appointed, virtually all communication with Shareholders ceases. We would advocate that, as part of the liquidator's contract, the Board negotiates a clause whereby Shareholders are kept informed regularly (e.g. quarterly) of an estimated NAV and a timetable for future payments, even if this announcement is via a website or newswire.

In addition, where a Board is recommending liquidation, it should publish a likely schedule of asset realisations and subsequent return of capital in consultation with the Manager and liquidator prior to any Shareholder vote.

h. Dividend and Capital Gains Distribution Policies

As is the case in US CEF prospectuses, the Board should disclose the intended Dividend Policy with Shareholders, including how frequently the Fund intends to pay shareholders a dividend and what factors affect the dividend distribution. The Board should monitor the amount of unrealised capital gains in the portfolio and announce the terms at which these will be realised and distributed to shareholders, especially when a CEF is trading at a large discount to NAV. Shareholders should always be given the option to receive distributions 100% in cash.

i. Continuation Votes

A commitment to NAV should accompany continuation votes

It is our view that continuation votes should normally be accompanied by a commitment to an event such as a partial tender offer. In adopting such a policy, the Board is signaling to Shareholders that they can vote in favour of continuation, confident of being given the opportunity in the future to realise value at close to net asset value. This policy is a vital part of the ongoing discount management process.

2. Communication with Shareholders

a. General Communication

To the extent permitted by applicable law, Boards should take responsibility for ensuring that Shareholders automatically receive annual and interim reports and copies of other major announcements directly.

In most jurisdictions, the Board is required to notify both Shareholders and the market of significant events, such as when a company repurchases its own shares. However, in the US the notification is not required to be made directly to the marketplace nor in a timely manner. This is unacceptable; timely market disclosure of all relevant facts (e.g. number of shares repurchased, date and price paid, as well as the accretion to NAV) is necessary for evidencing the transparent nature of Board actions, and for calculating the actual investment performance of the Manager.

City of London believes that Boards should consult Shareholders well in advance of announcing, for example, a change of the Investment Manager, a new benchmark index, changes to discount management controls, or granting of a sub-advisory contract. The rationale for proposals that require approval at a Shareholders' meeting should be clearly disclosed at the time of the proxy mailing.

b. Contact with the Board

The Chairman should be readily contactable and the Manager should not act as an obstructive sentry to Shareholders wishing to contact him. The Chairman should be available to deal with Shareholder requests and be a conduit for Shareholders' views. In addition, the Chairman should give a prompt, reasoned response to Shareholders' questions. City of London believes that Boards in the US should be more willing to consult with Shareholders when considering such matters as changes to the Manager, benchmark, investment guidelines, and discount control measures.

c. Regulation FD (Fair Disclosure)

In the US, Regulation FD (Fair Disclosure) provides that, prior to disclosure by an issuer of material non-public information, the issuer must either obtain a commitment from that party that it will neither trade on nor divulge that information or the issuer must publicly disclose the information. In the case of an intentional disclosure, public disclosure must be simultaneous. For an unintentional disclosure, the public disclosure must be made promptly.

Regulation FD does not prohibit Directors or Managers from answering questions. Where the information has been disclosed in the past, a question should be answered directly. Where a question touches on an important topic which has been hitherto undisclosed, it should be answered via a public disclosure, or after an explicit agreement that the party will be brought 'inside.' The intent of Regulation FD was clearly not to provide a shield for a Board to avoid accountability to Shareholders, or to excuse Managers from scrutiny. In certain instances, City of London has been prepared to sign a confidentiality letter or be made 'inside' regarding specific proposals.

d. Shareholder Meetings

i. Before the Meeting

The Annual General Meeting should be publicised well in advance. The agenda should be circulated prior to the meeting and should include a detailed description of the resolutions. Boards should explain clearly why Shareholders should support each resolution thus allowing Shareholders an opportunity to cast an informed vote. The brief descriptions found in proxy statements sometimes provide too little information for Shareholders to make informed decisions. If a meeting is to be adjourned, as much notice as possible should be given and the reconvened meeting should be well publicised.

Consideration should be given to the practicalities of the slow and inefficient distribution of materials by custodians. While the Board will no doubt be advised as to an appropriate timetable, they must take responsibility for the final decision. Similarly, while the Board may delegate various duties to third parties (e.g. the distribution of proxy materials), it cannot avoid responsibility for ensuring satisfactory performance of those tasks.

ii. At the Meeting

The Meeting agenda should be strictly followed. To the extent possible, City of London will not permit its proxy to be used to approve motions raised under 'Any Other Business' as Shareholders are not given time to make considered judgments.

In the UK, the voting rights of Shareholders who have declined to vote should not be exercised unless they are cast pro rata to the overall result of voting shareholders. This is especially pertinent to the savings schemes operated by some UK Trusts in which management and director votes may disproportionately influence the overall result.

The Board should announce the results of any Shareholder meeting where Shareholders have voted. This disclosure should include the number of votes cast 'For', 'Against' and 'Abstentions' (where applicable). Most jurisdictions provide for this at the shareholder meeting but there are notable exceptions.

iii. After the Meeting

A public announcement should be made as soon as possible after the meeting declaring the results and disclosing the voting pattern. The most efficient distribution media for this is via the newswires and recognised news services. In our opinion, it is not sufficient to wait for the next (possibly semi-annual) document to be produced by the Fund.

Where Shareholders have voted approving a motion, the Board should take steps, and be seen to be taking steps, to implement their wishes as soon as is practicable.

e. Responsibility for Published NAV

NAVs should be published as soon as possible following the market close, and certainly before the market opens on the following day. This would apply even if the NAV is released less frequently than daily. Adequate procedures and controls are required to ensure the accuracy of the published NAV. Investors, who are making buy and sell decisions based on this published information, should not suffer from human error in an environment of systems, controls, double-checks, and management oversight. CEFs should not adopt fair value pricing for quoted assets when markets are closed as investors could be misled by this practice. To the extent FVP is used, the procedure should be clearly spelt out and the difference between the FVP estimate and the actual NAV should be disclosed.

3. Measurable Targets

Action required to correct underperformance

The Board should provide a commentary on the Fund's performance against its objectives, from both an NAV and share price perspective. If appropriate it should indicate what action is being taken to correct any under-performance. The Board should also set out the circumstances under which the Manager's appointment would be reviewed and the procedure that would be followed for such a review. City of London is a long term investor and encourages Managers to embrace a philosophy and process that maximizes relative returns over the long term. We measure performance over a market cycle – typically 3-5 years – and would suggest that underperformance over longer time periods should trigger a review of the Management arrangements.

4. Voting

We always consider how to vote at a general meeting though it is not usually practicable to attend in person. We exercise our votes in accordance with this published policy. We value our right to vote and will abstain only as a result of a conscious decision. Where possible we will give Boards notice of our intention to vote against their recommendation, along with an explanation.

We cannot vote in instances where proxy materials are not received on a timely basis and may otherwise be prevented from voting by administrative matters beyond our control. City of London maintains a Proxy Voting Policy which can be provided upon request and meets the US requirement for "written policies and procedures" as described under Rule 206(4)-6 of the Investment Advisers Act of 1940.

In the US, the 'plurality' voting standard for proxy votes is an anachronism. CEF Boards should take the necessary steps to adopt majority voting.

VI. The Board and the Manager

1. The Board's Relationship with the Manager

a. Independence

A fully independent Board is better able to exercise robust oversight of the Manager. Regular meetings between both parties should provide an opportunity to review the performance and activities of the Manager. The Manager should furnish the Board with sufficiently detailed and accurate information to allow the Board to fulfill its duties.

b. Investment Policy and Benchmark Index

Compliance with the Fund's stated investment objectives and restrictions is to be expected from the Manager. It is the Board's obligation to ensure that Shareholder assets are not adversely affected by investment outside those parameters.

In order to facilitate a meaningful measure of the Manager's performance it is imperative that relevant benchmark index is chosen. At a minimum the benchmark should be: (a) unambiguous and transparent with clearly defined constituent weights and identities and a clear methodology (b) investable – an investor could effectively purchase all the securities in the index (c) measurable

– calculated and publicized on a frequent basis (d) appropriate - to the Manager's investment style or area of expertise (e) specified in advance. The Manager should accept accountability for the performance of the mandate relative to the chosen benchmark. It goes without saying that the benchmark and associated performance comparisons are made on a total return basis. This becomes of particular concern when the Manager is to be paid a performance-related fee. The Board should periodically review the continuing relevance of the chosen benchmark.

c. Independent Review of Manager

City of London strongly supports the establishment of a Management Engagement Committee, consisting solely of Directors independent of the Manager. The Committee should formally review the performance of the Manager annually, and describe its conclusion and rationale in the annual or semi-annual report.

The Management Engagement Committee should ideally:

- Meet quarterly (the current requirement in the US is for a meeting at least annually), and be comprised only of Directors who are independent (to the extent the entire Board is not independent), and who do not accept any direct or indirect consulting, advisory or other compensatory fees from the Fund, the Manager or any affiliate of the Manager other than in the Director's capacity as a Board member;
- Agree in advance upon a relevant benchmark against which the Manager will be assessed;
- Specify the periods over which the Manager's performance will be assessed;
- Specify the level of volatility that is acceptable in achieving out-performance of the benchmark;
- Specify the periodicity that NAVs will be released to investors – preferably daily – and the methodology for calculation of NAVs;
- Monitor and assess the Manager's use of gearing/leverage, particularly with a view to rollover risk and covenants;
- Review performance/attribution reports;
- Monitor portfolio characteristics (e.g. market capitalization) versus the Fund's investment guidelines;
- Review performance relative to an appropriate peer group, in addition to benchmark comparisons;
- Specify and assess the Manager's fulfillment of its marketing obligation;
- Ensure that all information distributed by third parties is accurate and up to date;
- Closely monitor those expenses which the Manager passes to the investment company.

Where portfolio investments are illiquid, and infrequently or fair valued, the Committee must satisfy itself that the valuations are prudent, particularly where they are relevant to the calculation of performance fees. Any NAV accretion resulting from buying back shares at a discount should be removed when assessing the Manager's performance.

The Manager's performance should be critically assessed against the Fund's benchmark and consistent underperformance (over a reasonable period as determined by the Board) should result in the Board selecting and recommending a new Manager to Shareholders.

d. The Name of the Fund

The Fund exists for the benefit of its shareholders

By naming a Fund after a Manager, City of London believes that all parties – the Board, the Manager and Shareholders – can lose sight of the fact that the Fund exists and is managed for the benefit of the Shareholders. The argument is sometimes advanced that attaching the Manager's name gives a marketing edge which helps avoid discounts developing and creates an incentive for a Manager to address issues of poor performance which may reflect badly on the Manager's other Funds. The evidence, in City of London's view, does not support either contention.

2. The Investment Management Contract

a. The Manager's Tenure

As a matter of principle, any management contract in place should not preclude the Board from terminating the Manager with immediate effect. In such an instance, the terminated Manager's fees should cease to be paid upon an orderly and expedient transition to the successor Manager.

When a new CEF is launched, City of London will be receptive to the needs of the Manager for some degree of security of tenure to compensate for the expenses incurred in the early years of a Fund's life. As a general rule, however, City of London believes it is appropriate for a Manager to have no more than two years security of tenure at the launch of a new CEF or the fundamental restructuring of an existing Fund. Thereafter, Shareholders would ideally be given an annual opportunity to re-appoint the Manager. This should serve to focus the Manager on the need to provide Shareholders with good performance and competitive investment management fees.

b. The Manager's Remuneration

The level of compensation payable to the Manager must be appropriate for the particular type of Fund. It is to be generally assumed that a lower level of remuneration would be payable for a passive, index tracking Fund than for an actively managed Fund with a high level of complexity. The Board should ensure that Shareholders benefit from the economies of scale as a Fund grows. Compensation payable to the Manager should always be calculated on the basis of net assets under management. Under no circumstances should the CEF pay compensation on geared (i.e. leveraged) assets. The CEF should be considered an institutional client of the Fund Management Company. The investment management fee negotiated by the Board should therefore be competitive with similar sized institutional mandates at the management company.

Performance fees discouraged

In the UK, we discourage performance fees for long-only relative strategies. Where a performance fee is payable, the hurdle level should be set high enough to encourage genuine outperformance, attributable to the Manager, against both a peer group and a market benchmark. Managers should not be incentivised – and therefore rewarded – for achieving what is to be expected from an average investment Manager with reasonable skill and diligence. Where relevant, a high watermark should also be in place so that a period of good performance subsequent to a period of under-performance is not rewarded, and to discourage use of excessive risk or leverage.

We also believe that Managers should not, as a matter of course, charge fees on cash, where such balances are substantial and have been held for periods of time longer than referenced in the Prospectus. If the investment environment is such that the Manager cannot deploy Shareholders' assets in accordance with the mandate, Shareholders should be consulted regarding a return of their investment or a change of mandate.

c. Transfer of the Investment Contract

When the Board, with Shareholder approval, determines that the investment management contract will be transferred to a new Manager, we do not agree with any arrangement whereby the departing Manager receives payment of a fee from the incoming Manager. The Contract is an asset of the Fund and, as such, is owned by Shareholders. The Shareholder vote at this juncture also provides natural opportunity for the Board to offer a means by which Shareholders could exit with at least a portion of their holdings at close to NAV.

d. The Manager's Personnel

Many Funds become associated, in Shareholders' eyes, with a particular individual within the Manager. Such association will often prompt Shareholders' investment decisions. City of London regards the timely public dissemination of information concerning such individuals and their involvement with the Fund and/or the Manager as a paramount obligation of both the Board and the Manager. In the event that such individuals cease to be involved with the management of the Fund, the Board should formally review the appropriateness of the prevailing management arrangements for the Fund.

e. Cross Shareholdings

In the UK, the use of cross shareholdings to frustrate the wishes of a majority of the Shareholders in a Fund has received much attention in recent years. City of London believes that if there is to be any investment into a Fund by another Fund under the control of the same Manager, it should be limited to 5% of a Fund's voting equity. Further, the rights of the investing Fund as a Shareholder should not be used to prejudice other Shareholders.

Therefore, a Fund's Board should consider restricting, to the extent permitted by applicable law, the indirect voting rights of the Manager exercised by virtue of managing another investment vehicle that is a Fund Shareholder. It may, in some circumstances, be appropriate that the Manager voluntarily abstains from any vote pertaining to the continuation or reconstruction of a Fund where they have an economic interest in the maintenance of the status quo. We believe Boards should encourage recognition of such circumstances. Of course, care should be taken to ensure there is no double charging of fees by the Manager.

3. Ancillary Services

a. Value and Quality

The Board should exercise prudence and monitor all expenses to prevent the total expense ratio from rising above an acceptable level. Good practice requires that the Board should periodically seek competing tenders for the provision of professional services to ensure that the Fund is not being over-charged. This process should be transparent and reported to Shareholders.

The Board should exercise care when employing the services of support functions such as the company secretariat, proxy solicitation agents, and fund administration.

When support services are provided by subsidiaries of the Manager, these issues are especially sensitive. Provision of support services from affiliated entities should not be viewed as a way for the Manager to supplement its management fee. Alternative third party suppliers should regularly be considered.

b. Control and Supervision

The Board of Directors retains ultimate responsibility for the adequacy of procedures to ensure proper control and supervision of ancillary service providers.

c. Launch of New Funds

The Board of a CEF should be kept apprised of the Manager's plans to launch new funds and a Manager should not launch a new closed-end fund when their existing funds with similar mandates trade at a discount. The Board should also monitor the Manager's fund launches and ensure that the existing CEF also benefits from any enhanced discount controls introduced in newly-launched funds.

4. The Manager's Communication with Shareholders

a. Portfolio Transparency

Transparency reduces discounts

The Manager should provide regular updates, preferably monthly, detailing the Fund's portfolio, which should include information on the underlying holdings and the level of any gearing (i.e. leverage). Information on the underlying holdings should include, at the very least, the Fund's top ten portfolio investments and their percentage weightings, the amount of any private equity, real estate or any other illiquid holdings held in the Fund (where the Fund is not a specialist investor in the relevant sector), and the extent of investment in holdings outside the Fund's benchmark index.

Derivative positions should be disclosed, whether for hedging purposes or otherwise. OTC derivative positions should have their counterparty disclosed. Information on gearing should include the nature and tenure of any debt, as well as how fund assets are secured, including repurchase agreements. The Manager should also detail the nature of any unfunded future commitments or contingent liabilities. The update should be made freely available, in a timely manner, to all interested parties and preferably on the Fund's web site.

b. Environmental, Social and Governance Metrics

Managers should disclose the ESG characteristics of their portfolios. Such transparency should be a natural aspiration for most CEF managers who are also signatories to the UN supported Principles for Responsible Investment. PRI signatories are committed to seeking appropriate disclosure on ESG issues from the entities in which they invest. Signatories should therefore be expected to make the same disclosures themselves.

VII. Contrasts in Corporate Governance: the UK and the US

The two main centres where we trade CEFs are in the UK and US and, as can be seen from the table below, there are some differences within the CEF industry between the US and the UK. In our opinion, we would like to see the highest standards from both survive.

Characteristic	London	US
Industry groups	The AIC's (Association of Investment Companies) mission is to help its members add value for Shareholders	The ICI (Investment Company Institute) is an industry group representing Managers which is sometimes at odds with shareholders' interests
Industry groups' position on Corporate Governance	The AIC has a detailed Corporate Governance Guide for Investment Companies	The ICI has no published policy with respect to corporate governance other than to support the NYSE Corporate Governance Report
Relationships between Board, Manager and Shareholders	Industry is disciplined; responsibilities are clearly defined	The rules are opaque; boundaries are blurred
'Rules of Engagement'	Directors act as fiduciaries	The rule seems to be tilted more towards a 'buyer beware' approach
CEFs' interaction with Shareholders	Boards and Managers regularly visit major Shareholders	Managers and Boards rarely visit major shareholders or allow major shareholders to meet with them
CEFs' approach to Shareholder meetings	London is significantly more shareholder-focused. Boards and Managers listen to Shareholders	The rules are opaque and what we undertake is far higher risk. There are conflicts galore and lawyers rule the roost
The ability to vote 'against'	Shareholders can vote directly against a Director's candidacy	Where the plurality standard is in place, shareholders cannot vote against a Director, only 'for' or 'abstain'
Potential for dilution of shares	Pre-emptive rights protect Shareholders from dilutive issues	There is little or no Shareholder protection against dilutive share issuance
Directors' ability to make binding commitments	Directors can enshrine whatever they want into the prospectus in terms of future commitments	It is almost impossible for Directors to promise to undertake anything in the future
Commitment to discount control measures	There is a growing commitment to discount control measures	Discount control measures are adopted as a last resort and are often discontinued as a result
Directors' fiduciary duty	Directors have a fiduciary duty to protect shareholders	Directors' fiduciary duty is to the investment company itself
Capital gains distributions	There is no requirement to distribute gains; thus there is no conflict regarding distributions and fees	The Manager faces a conflict between taking profits and thus making 'distributions' as a result of the capital gains tax rules. Obviously distributions reduce fees
Legal fees as an Institutional shareholder working with CEF Boards	City of London's need for legal advice is negligible	Significant focus on legal issues

While we acknowledge that some progress has been made in recent years, this table demonstrates that there are still too many gaps in best practice between the two centres.

We welcome your comments and questions about this Statement on Corporate Governance and Voting Policy for Closed-End Funds.

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Important Notice

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