CITY OF LONDON
Investment Management Company Limited

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

Eleventh Edition, June 2019

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NOTE: 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 at client.servicing@citlon.com.

I. Preface

City of London Investment Management Company Limited ("CLIM") is focused on continuing to achieve superior investment performance for our 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 Proxy Voting Policy for Closed-End Funds, which was first published in 1999, identifies our beliefs regarding current 'best practice' in the corporate governance of CEFs. It is addressed to Boards, Managers, Shareholders, and the professional investment community.

On our clients' behalf, CLIM invests primarily in CEFs. The firm has been an investor in CEFs 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 CLIM 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.

CLIM's "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 CEF. 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 do not seek 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

a. Introduction *by Barry Olliff*

This is the Eleventh Edition of our Statement on Corporate Governance and Proxy Voting Policy for Closed-End Funds, a document first published in 1999. We hope the document will benefit CEF valuations and will enable CEFs to remain competitive products in the investment marketplace.

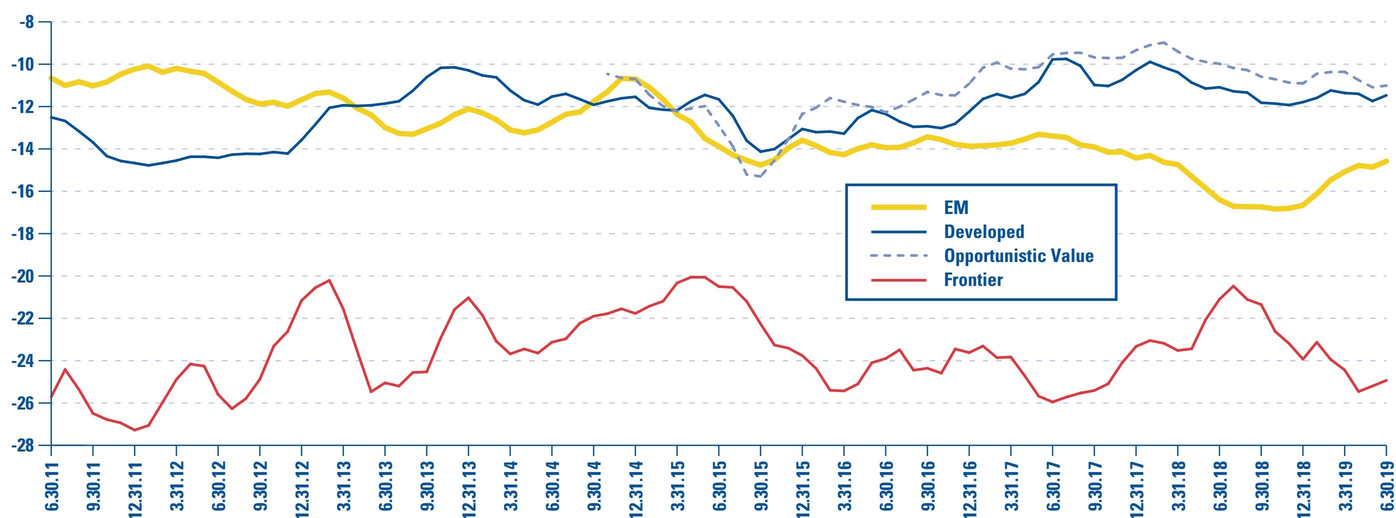
While over the years we have been focused on Emerging Market CEFs, as a result of the diversification of our business, this document should be read within the context of all CEFs. We now have significant AUM in US Bond CEFs, Developed Market and Frontier CEFs, and have recently launched two REIT products.

Representative SWAD Chart

CEF discounts have remained volatile in recent years. While many CEFs have taken action to address consistently wide discounts, some have not, which is to the detriment of all Shareholders.

As we engage with Boards in these areas, it has often been a case, from our perspective, of "back to the drawing board" in terms of both awareness and education. This is good from our point of view as it causes us to investigate again the principles of supply and demand, and to make comparisons between not just the valuations of EM CEFs in London and New York, but also US Bond Funds, Developed Market and Frontier CEFs. In terms of this document, our approach to governance and voting is consistent across the CEF strategies.

3-Month Rolling Average Portfolio Discounts by Strategy (June 2011 - June 2019)



Source: City of London Investment Management

Different Approaches in the US and UK

One development that transpired since CLIM published the Tenth Edition of this statement is that a more openly assertive approach was adopted specifically in the US from March 2017 in response to discounts that had widened materially across the US EM CEF sector. When we determined that Boards were not going to act to address the underlying problems, we took steps to protect our clients' interests. As detailed in the table on p. 17 entitled "Contrasts in Corporate Governance: the UK and the US", we have long highlighted the differences between UK and US corporate governance norms and practices, but March 2017 marked a point where those differences became extreme. To a large extent, the

divergence is now less pronounced because Boards got the message that discounts must be managed via control of the supply of outstanding shares, due partly to growing pressure from low cost ETFs offering similar exposure.

In the UK, Boards continue to be more engaged with investors and typically more focused on longer-term investment performance when determining whether the supply of a CEF is in line with demand. Our longer time horizon has proven an effective tool in controlling discounts for the CEFs traded in London for the reasons that appear in the table on p. 17.

The CEF Industry

Financial practitioners know that the CEF industry predates ETFs but might not appreciate that it also predates mutual funds (unit trusts). This heritage might demonstrate experience but it is also possible to have bad habits – some of which are possibly unacceptable.

As with most investors, when we are making the decision to invest we like to review what is disclosed 'on the tin', so to speak. In the case of a CEF, we assume that we will receive a return that is proximate to the NAV return. As stated in the prior edition of this Statement, the general rule of thumb that we apply is that it is understandable that a fully-fungible (listed) portfolio of securities could, in extreme circumstances, trade at a discount of circa 10%. Over an extended period, however, we believe that CEFs that trade at a discount wider than 10% are not acceptable to long-term Shareholders who seek to realise their investment and risk attracting short-term, opportunistic Shareholders.

At the point that the NAV return combined with the effect of discount changes diverges significantly from reasonable expectations, we will engage with the Board, normally via letters and meetings – very rarely do we go public. In the end, this Statement is about the standards to which we expect Directors will be held accountable under virtually any set of circumstances, and about our core values as investors.

We demonstrated our core values and our resolve to defend and promote those values in 2017 and especially in 2018 through our engagement with The China Fund (CHN). The outcome of our efforts is that the Manager has been changed, the expense ratio has been significantly reduced and, via resignations and retirements, the Board has been reduced from seven members to three. Apart from our response to being sued by CHN, which was to defend ourselves, our final action that potentially worked as the catalyst for change was our public statement that we would not vote for any of the Directors. CHN now demonstrates better corporate governance and is more competitive in the marketplace with a credible discount control mechanism in place.

b. Corporate Governance Developments in the US *by Jeremy Bannister*

Over a period stretching back 8-10 years, CLIM's US Corporate Governance team has achieved success in reshaping the landscape in the US EM CEF sector at a time when the sector came under significant competitive pressure. The advent of ETFs changed the playing field for US EM CEFs, while the ongoing levels of investment in EM ETFs demonstrate that the overall appetite for EM equities has not diminished.

The Manager of a country- or region-specific EM CEF is in direct competition with one or more equivalent passive ETF products. These specialized ETFs often have relatively high fees compared to the more well-known and larger generalist ETFs, and can generate higher tracking errors relative to their target indices. Nonetheless, these ETF products represent a real threat to active management.

We have contended, since the Statement on Corporate Governance and Proxy Voting Policy for Closed-End Funds was first published in 1999, that a wide CEF discount is a function of over-supply in the marketplace. Too often US CEF Boards chose not to confront that reality. Instead, Boards projected an attitude of "If you don't like it, then sell your shares." Our view is that Shareholders have a voice, and that their votes should effect change where warranted.

The fundamental precepts laid down in the first Statement have stood the test of time. Director independence, limits on Director tenure and the importance of refreshment, discount controls including the buy-back of shares or tender offers, clear attribution regarding the Manager's investment performance relative to an appropriate benchmark index, and a focus on cost control, are all aspects that have been consistent over time. These precepts are of even more importance in this increasingly competitive environment and should be shown as a CEF's competitive advantage if fully embraced.

Making Shareholder Votes Count

Through continuous improvement, CLIM has become more adept and assertive in making Shareholders' voices heard in the last 8-10 years. We have been careful to ensure that the interests of all Shareholders have been represented in our work with CEFs which has guided us towards solutions that help smaller, retail Shareholders as well as institutions.

We have been careful to maintain a consistent message throughout the process as well, using this Statement as a means to achieve this. We write detailed letters when a telephone call or email might be easier. We maintain careful records of all letters, emails and telephone calls that include hand-written notes. As a firm we have engaged with many CEF Boards over a period of 10, 15, 20 or more years and have a documented history of those interactions. Simply stated, we are long-term investors in CEFs.

One of the first CEFs that CLIM publicly confronted was the Greater China Fund (GCH) in 2010. After the GCH Board submitted an SEC filing for permission to conduct a rights offering despite the Fund trading at a double-digit discount, we informed the Board that taking such an action would not be in Shareholders' best interests. The Board nevertheless proceeded with the highly dilutive rights offering and a protracted dispute ensued. Ultimately, the Manager was replaced, the Chairman resigned and the Fund conducted a substantial tender offer. Later, GCH merged with a group of other CEFs to create a generalist EM CEF.

Sweeping Out Plurality Voting

Investing within the US EM CEF sector, there were a few specific tools that we developed and refined as we progressed. One basic change, that mirrored developments in large-cap US companies, was for CLIM to encourage the adoption of the 'majority' voting standard to replace the old-fashioned 'plurality' standard. EM CEFs were not necessarily eager to make this change, but over time we convinced many CEFs to require that a Director only be elected (or re-elected) if a majority of the votes cast were in his or her favor.

This seemingly simple and 'binary' (you either garnered a majority or you didn't) situation was still ripe for 'gaming' by US Boards. In some instances, a Director who failed to achieve a majority tendered his resignation which the rest of the Board refused to accept on the grounds that the Director was too important to leave the Board. In one instance a Director resigned but was hired back as a consultant to attend every Board meeting and be paid the same fee as he had received while still a Director. Over time, we believe we have closed most of the loopholes that were used by Directors to protect their own vested interests.

The Right to Make a Shareholder Proposal

Another tool that has been effective in prompting changes in the US EM CEF sector was the right of Shareholders to submit proposals to appear in the CEF's proxy. These can be for a wide range of matters, such as suggesting that a Board take steps to narrow a discount. They are generally advisory in nature, but there is an exception in the form of a proposal to terminate the investment management contract which can be binding upon the CEF. Through careful, responsible and fair use of the ability to make proposals, we have been able to effect change.

The China Fund Proxy

In early 2018, the Board of CHN filed suit against CLIM and related parties in Federal Court challenging a CEF Shareholder's right to propose termination of an investment advisory agreement. The CHN Board engaged in corporate governance practices that we have opposed for 20+ years. The Chairman was a Director of the Fund at inception in 1992 through 2018. The lack of Board refreshment and the deeply entrenched team of service providers steered CHN into a situation where it used approximately $2 million of Shareholders' assets (circa 65 basis points of the Fund's NAV) to fight against the right of all Shareholders to propose the termination of the investment management contract.

In its complaint, the Board demanded that CLIM amend its proxy statement. Separately, CLIM brought suit in Maryland State Court to forestall anticipated delaying tactics (having seen the Board repeatedly postpone Shareholder meetings the prior summer in an unsuccessful attempt to pass an unpopular Board proposal). In Federal Court, the Board lost its argument surrounding the Shareholders' right to decide on the investment manager of their own fund and was then

ordered by the Maryland Court to move ahead with a vote that resulted in the replacement of two incumbent Directors (including the Chairman).

In recent years, some US CEF Boards have become much more attuned to the marketplace and CEFs have become better managed. In other instances, CEFs have been liquidated, merged or converted to open-end funds. Over the years, significant alpha has been delivered back to US EM CEF investors as a result of narrowing discounts or returning capital at NAV that otherwise was captive and languishing at wide discounts.

c. Corporate Governance Developments in the UK *by Simon Westlake*

CLIM has focused in London on encouraging Boards to adopt conditional tender mechanisms, which have become an increasingly common feature of the investment trust landscape, because they provide a fairer deal for long-term Shareholders. The ideal mechanism is a significant tender triggered by poor performance, whether an underperforming NAV or by wide discounts over a three to five year investment cycle. Conditional tenders impose market disciplines by ensuring that assets are removed from underperforming managers.

A key benefit of CEFs for long-term investors such as CLIM is that Managers are protected from large swings in short-term fund flows. Any sustainable structure, however, should also meet the performance objectives of long-term investors over their investment time horizon. Conditional tender mechanisms neatly bridge this gap, ensuring that Managers' interests are more closely aligned with Shareholders' while still preserving the benefits of a closed-end structure.

Poor NAV performance typically leads to wider discounts so that investors whose only option is to sell in the secondary market suffer further loss. A conditional tender mechanism offsets this to the extent that Shareholders are able to partially exit via the tender at close to NAV. In CLIM's opinion this is clearly a fairer deal for long-term Shareholders.

Our further contention is that a conditional tender mechanism is itself an effective form of discount control. Boards naturally dislike giving up discretion but too often discretion results in no action. That surely is a root cause of unacceptable discounts and why we believe that a clearly specified course of action in certain circumstances is such an attractive option.

Along with Boards and Managers, our expectation is that our CEF investments will perform well. The purpose of the conditional tender mechanism is to ensure a fairer outcome in the event that the investment does not meet expectations but we hope that the tenders will not be triggered. Pacific Horizon (PHI) is an example of a CEF where a premium developed from the combination of robust discount control, including conditional tenders, and good NAV performance. CLIM has exited its position, having previously been a significant Shareholder. In PHI's last annual report, the Chairman reported that 7.5% of shares were issued at a premium over the year resulting in 0.2% uplift to NAV. In CLIM's opinion, that is real success.

Redemption Opportunities

A striking feature of many new CEF launches is a redemption opportunity at a specified time such as four years after launch and subsequently at regular intervals. CLIM does not generally invest at launch but there have been exceptions to this when such an exit at NAV is promised. For obvious reasons, such CEFs generally trade at close to NAV. Redemption opportunities, however, need not be restricted to new CEFs. They are a good option, for example, where liquidation is the only viable alternative, because they provide space for a CEF to prove its performance credentials and to attract Shareholder support at a narrower discount.

Share Buybacks

All Boards renew annually their authority to repurchase up to 15% of outstanding shares but this is another area where Board discretion too often results in too little action. JPMorgan Russia (JRS) has broken this mold by promising to repurchase at least 6% of its outstanding shares each year provided that JRS shares trade at a discount to NAV. We urge other CEFs to follow JRS' example: buybacks provide liquidity for Shareholders who wish to sell and enhance NAV for those that remain.

Fondul Proprietatea (FP) is a Romanian CEF that has gone further in a different way by acknowledging that its discount should affect its own investment policy. FP is mandated by its investment management agreement to return disposal proceeds to Shareholders by buybacks, tenders and dividends as long as its discount exceeds 15%.

The buyback rate has increased in response to the recent wide discount environment. Some CEFs are still halfhearted in using their authority or in a few cases obstinately refuse to buyback shares and CLIM will not support Boards in such cases.

Dividends

CLIM's investment objectives are expressed in terms of total returns but we acknowledge that higher distributions in some cases have resulted in lower discounts. A trend to pay enhanced dividends, sometimes quarterly, has been increasingly evident in recent years and we have supported Boards with such proposals. There are few examples but it is unacceptable for a CEF not to pay a dividend if the discount is wide.

Fund Raising

CLIM generates alpha by investing at wide discounts to NAV but in principle we support issuing shares at NAV or higher. We have also supported convertible issues in certain circumstances. However, we do believe that when raising more assets for the Manager, a Board should also adopt strong policies to protect Shareholders from possible future discount widening. Examples of acceptable policies are appropriately structured conditional tender mechanisms and robust buyback policies.

Monitoring Discounts

Historically it was common for NAVs to be calculated on an ex income basis but this is no longer considered best practice. NAVs are now generally understood to include income and we encourage all CEFs to monitor their discounts on a cum income basis.

Board Independence

Manager employees should not serve on CEF boards. CLIM always opposes the very few Directors still serving who are employed by the CEF Manager. A more significant, albeit diminishing problem, is excessive tenure. The gathering momentum in favour of regular refreshment has been a welcome trend. It is also poor practice to rely on contacts of existing Directors when considering nominations. We urge CEF boards to update their nomination procedures to provide for better diversity.

d. US – View Ahead

The over-supply of EM CEFs that led to wide discounts in the sector has been addressed to an extent as reflected in the narrower discounts for US EM CEFs. Of course, we continue to focus on those CEFs trading at wider discounts where there is alpha to be realized via measures such as a discount control mechanism, providing active buybacks or tender offers to keep supply matched to demand. Board refreshment and diversity will continue to be an area of focus for us. We are also focused on reducing the total expense ratios of the CEFs in our investment universe.

We would only press for the return of capital at NAV in instances where a Board is unwilling or unable to control the discount, and will continue to support those Directors who take steps to effectively manage CEF discounts. We are committed to the CEF industry and we want to see it face the competitive environment head-on and thrive going forward.

e. UK – View Ahead

CLIM's message is being heard, not just by Boards and their advisers, but increasingly by other Shareholders in the CEF sector whose own voting activities are coming under greater scrutiny.

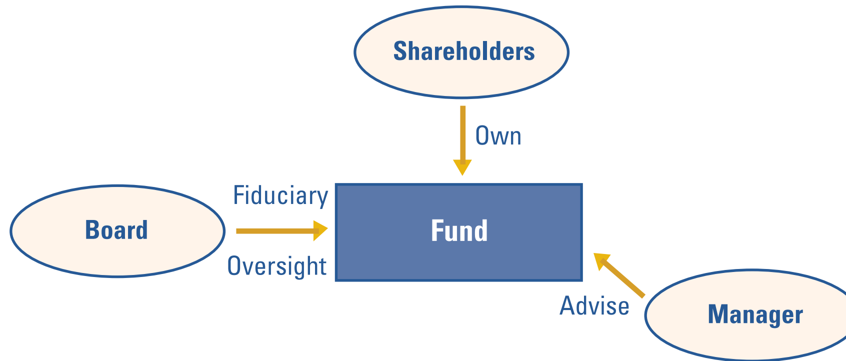
The growing adoption of conditional tender mechanisms certainly augurs well for the future. Directors and Boards are demonstrating greater strength of purpose to give due consideration to Shareholders' interests. This can be observed in better cost control, a growing appetite to exercise buyback authority and greater willingness to discuss Board refreshment.

However, we are not complacent and recognise that much remains to be achieved. Inevitably, NAV performance does not always meet expectations and it is at this time that independent minded Boards demonstrate their true worth. CLIM will always confront Boards who respond with more hand wringing and insufficient action. We expect to continue making progress.

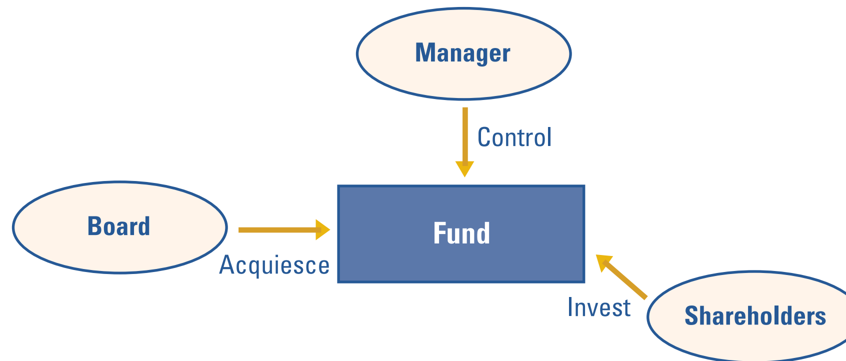
III. Ideal Stakeholder Relationship

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

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 CEFs 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 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.

Due consideration should be given to Board diversity when considering nominations for new directors. 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. CLIM 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

CLIM 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. Ideally all directors should stand for annual re-election.

CLIM 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

CLIM believes that Board members should be adequately compensated for their service. In particular, we acknowledge that the Chairman should be adequately compensated 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

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, CLIM'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. CLIM 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, CLIM will normally oppose the election or re-election of Directors who fall into the above-listed categories. By the same token, where we have deemed it appropriate, we have only ever nominated Directors who are wholly independent of our firm as per these same criteria.

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 (NAV).

a. Awareness of the Discount – 'an implied term'

When a CEF is launched a Board implicitly promises Shareholders that NAV 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 some jurisdictions, Boards 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

An issue of shares at a discount to NAV, whether via a rights offering 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 issuance is 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

CLIM 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 NAV per share.

f. Tender Offers

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

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 NAV. 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 in all jurisdictions 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 and in a timely manner. This is unacceptable; timely market disclosure of all relevant facts (e.g. number of shares repurchased, when, 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.

To the extent permitted, CLIM believes that Boards should consult Shareholders well in advance of announcing, for example, a change of the 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 ahead of the proxy mailing where possible.

b. Contact with the Board

The Chairman should be readily accessible 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. CLIM 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, CLIM has been prepared to sign a confidentiality letter or be made 'inside' regarding specific proposals.

d. Shareholder Meetings

i. Before the Meeting

To the extent possible, the Annual General Meeting should be announced 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, CLIM 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. 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. To the extent that fair value pricing (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

CLIM is a long-term investor and encourages Managers to embrace a philosophy and process that maximizes relative returns. 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.

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 in response to underperformance. 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. The Board's annual investment performance review should not be treated as a box ticking formality.

4. Voting

We always consider how to vote at a general meeting though it is not always practicable to attend in person. We exercise our votes in accordance with this published policy. We value our right to vote and will abstain from specific resolutions 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. A record of how we have voted is published on our website.

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

5. 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 Proxy 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.

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 measure the Manager's performance it is imperative that a relevant benchmark index is chosen. At a minimum, the benchmark should be: (a) unambiguous and transparent with clearly defined constituent weights, 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 and (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-based fee. The Board should periodically review the continuing relevance of the chosen benchmark.

c. Independent Review of Manager

CLIM 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 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, and who do not accept any direct or indirect consulting, advisory or other compensatory fee 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 tracking error that is acceptable in achieving out-performance of the benchmark;
- Specify the frequency 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 subjectively 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

By naming a Fund after a Manager, CLIM 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 CLIM'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, CLIM 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 across all jurisdictions, however, CLIM 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 approve 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

Investment management fees should be regularly reviewed to ensure that they are competitive with market norms. 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 Manager. The investment management fee negotiated by the Board should therefore be competitive with similar sized institutional mandates of the Manager.

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 a 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. CLIM 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. CLIM 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 proposals 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 CEF 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. At a minimum, CEF fees should be competitive with open-end fund fees for a comparable strategy managed by the same Manager, while also considering appropriate fees for a similar institutional mandate. The management fee on a new open-end fund advised by the same Manager should not be less than that of the existing CEF.

4. The Manager's Communication with Shareholders

a. Portfolio Transparency

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. Bond funds should disclose their effective duration versus benchmark and the weighted average life of the portfolio.

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 website.

Managers should disclose any holdings that become subject to sanctions and any subsequent actions taken as a result of the sanctions.

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	Lawyers are not typically involved in meetings	Lawyers are more involved in working with CEF Boards

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 document.

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