CITY OF LONDON
Investment Management Company Limited

Annual Stewardship Report 2022

March 2023

City of London Investment Management Company Limited (CLIM) is a specialist investor in closed-end funds (CEFs). Promoting strong corporate governance at CEFs has been a central part of the investment process since the business was founded in 1991. CLIM's Proxy Voting Policy for closed-end funds, first published in 1998, is now incorporated in this Annual Stewardship Report in the first section below.

Our proxy voting policy forms the basis for our engagement with CEF boards. The second section describes CLIM's stewardship principles and our extensive engagement activity in 2022 in a format that is aligned with the twelve principles of the UK Stewardship Code.

CLIM is a signatory to the Principles for Responsible Investment (PRI) and fully supports the objectives of the UK Stewardship Code.

Mark Dwyer
Chief Investment Officer

1. Corporate Governance and Proxy Voting Policy for Closed-end Funds

I. The Board

• The Chairman

The Chairman should not be a director of another fund with the same Manager. The Chairman's responsibilities include engaging with shareholders on behalf of the board, directors' appraisals, board succession planning, and overseeing the regular assessment of the Manager, ideally via a Management Engagement Committee (MEC).

• Independence

CEF directors are fiduciaries with a responsibility to act in the best interests of their shareholders. It therefore follows that CEF directors should be 100% independent of the Manager and CLIM will not support the election of directors connected to the Manager.

Board nominees should be selected by a committee of independent, non-executive directors, assisted by a specialist search firm. CLIM will normally oppose individuals who

- are employed by the Manager or have been within the previous 5 years;
- have a financial link to the Manager within the previous 5 years;
- represent a shareholder, or a concert party of shareholders, with a significant holding in the Fund;
- hold more than five board positions;
- serve on multiple boards of funds with the same Manager; and
- have cross-directorships with executives of the Manager.

• Experience and Tenure

Due consideration should be given to board diversity. Requisite experience and understanding of CEFs is as relevant as knowledge of the country or region in which the Fund invests.

Directors should submit for annual re-election individually by a simple majority and their tenure should not normally exceed nine years. CLIM does not normally support boards of US CEFs which employ the 'plurality' voting standard.

• Board Remuneration

Director remuneration should be sufficient to attract high quality individuals and should not be paid on a per-meeting basis.

• Safe Custody

Boards 'contract out' the physical safeguarding of securities to recognized global custodians. Boards should ensure that adequate steps are taken to recognize and control exposure to counter-party risks as part of the safeguarding process.

• Control and Supervision

The board is ultimately responsible for the adequacy of procedures to ensure proper control and supervision of ancillary service providers. Consideration should be given to outsourcing administration and secretarial services, which are often provided by the investment manager. Service contracts should periodically be put out to tender to ensure providers remain competitive.

II. Manager Oversight

- **Tenure**

Notice periods for investment managers should not exceed 3 months, unless within five years from a CEF's launch. Following an initial period from launch, shareholders should be offered regular opportunities to approve the Manager via a continuation vote.

- **Investment Management Fees**

Fees should be competitive with market norms for comparable institutional mandates. Shareholders should share in the scale economies as a fund grows, via a tiered fee structure. Fees should be calculated on the basis of net assets though it is also acceptable to calculate fees on the lower of market capitalisation or net assets.

CLIM does not generally support performance fees. However, consideration may be given to symmetrical performance incentives, which provide for both downward and upward adjustment to the base fee. Fees should not be levied on cash, where such balances are substantial and have been held for periods longer than referenced in the Prospectus.

IM fees should include research and marketing expenses incurred by the Manager.

- **Investment Policy and Benchmark Index**

The investment policy and objective should be subject to annual review to ensure that it continues to meet shareholders' needs. Performance should be measured against a total return benchmark, based on an index that is investable, measurable and appropriate to the investment policy. Where applicable, boards should disclose the limit on out of benchmark exposure, including unlisted investments. CLIM discourages excessive leverage. In the interests of balance sheet flexibility, gearing should not be financed by long-term debt.

- **Performance Review**

Performance should be reviewed by the MEC primarily against the benchmark and excluding NAV accretion resulting from capital management. The MEC must satisfy itself that private and infrequently or subjectively valued investments are fairly valued and should disclose the valuation methodology and frequency.

The board should indicate a proposed course of action in response to underperformance. Performance that is behind benchmark over a three to five year investment cycle should trigger a tender offer so that shareholders can realise part or all of their holding at close to NAV. Management arrangements should be reviewed in instances of underperformance over longer time periods.

- **Cross Shareholdings**

Investment into another Fund under the control of the same Manager should be limited to 5% of a Fund's voting equity and such investment should not incur double fees.

- **Launch of New Funds**

The board should be kept apprised of the Manager's plans to launch new funds. A Manager should not launch a new CEF if their existing funds with comparable mandates trade at a discount. The board should ensure that the existing CEF benefits from improved terms introduced in newly launched funds.

III. Discount Control

- **A Fair Price**

Funds launch at NAV which is therefore the implied fair price. It is in shareholders' interests that a fund does not subsequently trade at a persistently wide discount. CLIM opposes directors' re-election where, in CLIM's opinion, prospectus commitments in respect of discount control are not met.

- **Policy Responsibility**

The board is responsible for developing and implementing a credible discount control policy. All CEFs should have a discount control mechanism. CEFs deemed too small for conventional discount control measures should seek merger partners or otherwise offer their shareholders redemption at NAV.

- **Capital Management**

CLIM supports boards whose objective is to grow the fund. A larger fund benefits investors via scale economies but a CEF can grow via share issuance only at NAV or above. Credible and sustainable discount control is thus necessary to achieve growth.

CEFs should not issue shares, including treasury shares, at a discount to NAV. In the event that a premium develops, consideration should be given to issuing shares to achieve growth and prevent an excessive premium developing.

The share buyback is an essential discount control tool, is NAV accretive and provides shareholders with liquidity. Boards should clarify their policy for buying back shares to the maximum extent possible. Funds should repurchase their own shares in favour of re-investment when the discount is unacceptably wide. Treasury shares should be cancelled within 12 months from purchase.

- **Continuation Votes**

It is good practice for CEFs to offer shareholders regular continuation votes, as is common in the UK. Continuation votes should normally be accompanied by a commitment to an event such as a performance conditional tender offers (CTOs) as part of the ongoing discount management process.

- **Tender Offers**

Tender offers at close to NAV are a fair and effective means of removing persistent stock overhangs which adversely affect the discount. Underperformance over a three to five year investment cycle should also be addressed by a partial tender offer at close to

NAV. CTOs in these circumstances provide a fairer deal for long-term investors.

IV. Shareholder Communication

- **Contact with the Board**

The Chairman should be readily accessible as a conduit for shareholder engagement, if necessary facilitated by the Manager. Boards should consult shareholders when considering, for example, changes to the Manager, benchmark, investment guidelines, and discount control measures.

- **Shareholder Meetings**

Agendas should be circulated well in advance, allowing for potential delay in the distribution of materials by custodians. The text of the resolutions should be accompanied by the board's recommendation, including a rationale.

The Manager should recuse itself from voting shares when there is a clear conflict of interest. Voting rights of shareholders who have not voted, for example in UK savings schemes, should not be exercised.

The meeting outcome should be announced promptly, including the number of votes cast 'For', 'Against' and 'Abstentions' (where applicable). Approved resolutions should be implemented as soon as practicable.

- **Portfolio Transparency**

Transparency helps to reduce the discount. It is preferable that full portfolios are disclosed monthly but at a minimum at least semi-annually. Monthly factsheets should be available on the CEF's website disclosing at least the top ten holdings and their weights, exposure to illiquid investments and exposure to securities outside the benchmark index. Bond funds should disclose their duration and credit quality versus benchmark and the weighted average life of the portfolio. Private investments should include valuation dates in their disclosures.

Derivative positions should be disclosed, including counterparty information in respect of OTC derivatives. Information on gearing should include the term of each facility, interest rates and fees, and relevant covenants. The Manager should also disclose future commitments or contingent liabilities.

- **Environmental, Social and Governance**

Managers should explain how ESG factors are considered in their investment process, including measures taken to mitigate climate change risks. CLIM encourages comprehensive disclosure of portfolio ESG characteristics, such as carbon intensity and ESG ratings. The management discussion in the Annual Report should disclose the investment rationale and engagement strategy for holdings with high ESG risks.

- **Funds in Liquidation**

CEFs proposing liquidation should publish an expected schedule of asset realisations and return of capital prior to the shareholder vote. The NAV should be published when the CEF enters liquidation and updated at least quarterly along with amendments to the distribution timetable.

- **Dividend and Capital Gains Distribution Policies**

Distribution policies should be fully disclosed including frequency and factors that will be considered to determine any distribution. Shareholders should always be given the option to receive distributions in cash. US CEFs should disclose the source or sources of distributions at the point the distribution is declared

- **General Communication**

Shareholders should automatically receive annual and interim reports and copies of other major announcements directly. These should be immediately available on the CEF's website.

The repurchase and issuance of shares should be disclosed promptly, including the number of shares and the price. Performance commentaries should identify separately the NAV accretion arising from such capital management.

The rationale for proposals that require shareholders' approval should be disclosed in the proxy mailing.

- **Non-Public Information**

CLIM is generally willing to be made 'inside' for a short period in order that a board can confirm sufficient shareholder support for a specific proposal.

- **NAV Releases**

NAVs for CEFs with portfolios of listed assets should be published daily as soon as possible following the relevant cut-off time, no later than the market open on the following day. Adequate procedures and controls are required to ensure the accuracy of the published NAV. Fair value pricing (FVP) procedures should be fully disclosed and, when invoked, a non-FVP NAV should be published alongside the official NAV.

V. Voting

- **Voting Rights**

Every share of stock issued by a CEF should have equal voting rights with every other voting stock. CLIM opposes any action by a CEF to disenfranchise or otherwise restrict the voting rights of certain shareholders. CLIM is opposed to US CEFs opting in to control share statutes.

- **The Voting Process**

CLIM does not use proxy advisers. Each proxy is reviewed by the relevant investment team which decides how to vote, including whether to abstain, in accordance with this published policy. Votes are submitted via a secure, web-based proxy voting service. Boards are usually given notice of an intention to vote against their recommendation, along with an explanation.

- **Non CEF Securities**

CLIM invests in holding companies and REITS and determines how to vote these securities by applying the same principles as for CEFs, where they are relevant. CLIM's voting decisions for holding companies and REITs are otherwise guided by the UK Corporate Governance Code and the best interests of its clients.

- **Conflicts of Interest**

CLIM will generally vote in accordance with this Statement on Corporate Governance and Proxy Voting Policy for Closed-End Funds. In the unlikely event of a material conflict of interest, CLIM's Compliance Department would determine how to vote in clients' collective best interests, excluding any client that may have a potential conflict. The potential conflict may be disclosed to clients and direction sought 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 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 only if one or more of CLIM's Investment Management Team actually knew, or reasonably should have known, of the potential conflict.

2. Stewardship Principles and Activity

2.1 CLIM's Purpose, Strategy and Culture

CLIM is a subsidiary of City of London Investment Group PLC (CLIG), a UK company that is listed on the London Stock Exchange. CLIM's purpose is to deliver excellent long term returns for its institutional clients. These returns are achieved by investing primarily in CEFs, capitalising on the discount inefficiencies in this asset class. CEFs often trade at a meaningful discount or premium to their net asset values (NAVs), depending ultimately on the relevant supply and demand factors. CEFs typically exhibit persistent and significant discount volatility, with a tendency towards mean reversion. CLIM's process revolves around rigorous peer analysis of prevailing discounts compared to their historic means.

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

Effective stewardship is achieved by regular engagement with CEF boards and by exercising clients' voting rights to promote best practices in corporate governance. CLIM's Corporate Governance and Proxy Voting Policy provides the template for this engagement.

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

Stewardship is the responsibility of CLIM's chief investment officer, who participates directly in CLIM's engagement with CEF boards. The involvement of senior executives enhances the long term effectiveness of CLIM's stewardship activities. Favourable outcomes from this engagement in 2022 include the wider adoption of performance conditional tender offers (CTOs) by US and UK listed CEFs and increased share buyback activity in 2022 as discounts widened in volatile markets.

2.2 CLIM's Governance, Resources and Incentives

CLIM's Investment Management Team include 16 portfolio managers with 13 years average tenure. Portfolio Managers are responsible for implementing stewardship for their respective strategies with the assistance of a UK based governance and ESG specialist. This ensures a coordinated response where an asset is held across multiple strategies.

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

CLIM's bonus scheme is linked to overall profitability and includes all employees. It does not target specific KPIs such as stewardship integration but improved ESG, particularly CEF governance, is a factor in this value chain where it results in better outcomes for client portfolios. The bonus scheme encourages employee share ownership via an option for a matched equity contribution which vests over three years. CLIM's remuneration policy aligns the interests of all stakeholders and its success at motivating all staff is evidenced by high employee retention rates: nearly 50% of employees at the end of December 2022 had over ten years tenure with CLIM.

CLIM ensures a consistent approach to Manager due diligence by a standardised meeting agenda. Board engagement is conducted by a senior team that generally includes the CIO. CLIM believes that this approach maximises the impact of its stewardship activities and is effective at promoting high governance standards in the CEF sector. This is evidenced by the steady flow of corporate actions that CEFs have undertaken to address persistently wide discounts.

CLIM maintains policies in its own business to foster a culture of diversity, equity and inclusion. These policies are supported by training for all employees which in 2022 covered the UK Equality Act and how to address unconscious biases. A remote working policy enables each employee to achieve a more appropriate work / life balance. The gender and racial profile of CLIM employees as at 31 December 2022 is shown below.

	Female	Male	Total
Directors	0	4	4
Senior Executives	3	5	8
All Other Employees	22	44	66
TOTAL	**25**	**53**	**78**

	Caucasian	Hispanic/ Latino	Asian	African	Total
Directors	3	0	1	0	4
Senior Executives	8	0	0	0	8
All Other Employees	52	1	9	4	66
TOTAL	**63**	**1**	**10**	**4**	**78**

2.3 Conflicts of Interest

CLIM's approach to conflicts of interest is disclosed in its Form ADV Part 2A (Item 11) at https://www.citlon.com/reg-reports/ADV_Part2.pdf. This Policy sets out the principles observed by CLIM in dealing with potential or actual conflicts of interest between CLIM and its clients and between one client and another. CLIM has a fiduciary duty to clients that requires all employees to act solely for clients' benefit. CLIM maintains a Register of potential and actual conflicts. Both the Policy and the Register are reviewed at least annually by CLIM's Risk & Compliance Committee (RCC).

The RCC is chaired by CLIM's Head of Compliance and its members include the US Chief Compliance Officer, CLIM's Executive Directors and CLIG's Internal Counsel. All members of CLIM's compliance team attend the RCC quarterly meetings. An identified conflict that cannot be satisfactorily managed is disclosed to clients.

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

CLIM's Code of Ethics further requires staff to avoid situations that have even the appearance of conflict or impropriety. This policy covers gifts received in the course of business, for which pre-approval must be sought if the value is in excess of £100, or local currency equivalent. Employees are not permitted to receive certain gifts such as cash, lodging and rail or air travel.

CLIM typically exercises control over clients' proxy voting and potential conflicts might arise where CLIG shareholders are also CEF managers. Clients' interests would be paramount but no such conflicts were identified in 2022.

CLIG has established an information barrier policy between itself and its two investment adviser subsidiaries including CLIM, so that both companies may continue to operate independently. A third party audit of this information barrier found no material breach for the 12-month period to the end of September 2022.

An external conflict of interest identified in 2022 concerned a director of Vietnam Enterprise Investments (VEIL). The investment manager, Dragon Capital, was a significant investor in a business that had been founded by the director and, following engagement by CLIM, agreed that the investment would be sold.

2.4 How CLIM Identifies and Responds to Market-Wide and Systemic Risk

Identifying market wide and systemic risk is principally the responsibility of a macro research team which comprises two economists. Relevant research in 2022 included potential consequences for asset markets from the withdrawal of central bank liquidity and growing US-China rivalry.

CLIM did not participate in 2022 in any industry initiative that specifically concerned market wide and systemic risks. CLIM is risk averse, especially in respect of risks that could exacerbate client loss in the event of market-wide and systemic crisis. Policies that demonstrate a risk averse approach include no stock lending and conservative counterparty exposure limits. Counterparties are monitored via a comprehensive semi-annual review.

A specific risk for CLIM's clients is a general widening in CEF discounts, which is frequently observed in periods of significant market downturns such as 2022. CLIM's stewardship policy encourages CEF boards to specify the action they will take to protect their shareholders from wide discounts. This is discussed at every CEF board update and their response is an important factor when CLIM considers whether to support directors' re-election. Several CEFs were contacted last year to urge greater use of their buyback authority, which was heeded in many instances, though not always. In CLIM's view, credible discount management policies make an important contribution to the efficient functioning of the CEF sector of listed equities.

CLIM engages with regulators in markets where its clients are invested to promote investor rights. In 2022, CLIM visited the Financial Supervisory Authority in Romania to encourage better protection for shareholders in Romanian CEFs. A lack of progress on this issue was factored into our valuation assessment of several Romanian CEFs.

Climate change risks are considered at the CEF level in the course of CLIM's annual due diligence on CEF investment managers. CLIM does not encourage investment managers to invest in or to divest specific assets but promotes transparency and welcomes the improved disclosure by CEFs on this issue. CLIM supports moderate long term structural gearing, but does not generally invest in equity CEFs that consistently use excessive gearing, considered to be in excess of 30%.

2.5 Reviewing Policies to Ensure Effective Stewardship

CLIM's stewardship, corporate governance and proxy voting policies are subject to annual review by a team that includes the CIO, senior fund managers, governance specialists and compliance staff. Any changes are subject to final approval by CLIM's CIO and compliance.

Proxy voting and corporate action decisions are determined by the investment team and implemented by CLIM's operations department. Proxies are voted electronically via ProxyEdge, a web-based platform.

CLIM's voting record is published monthly on its website. An internal log of engagement activities is maintained and a balanced selection of examples from 2022 is described in section 2.9, including instances where progress has been made and also where CLIM has not yet achieved its objectives.

CLIM's board is responsible for overseeing and approving the Firm's business processes, including those that are stewardship related. The board has delegated direct oversight of certain processes to sub-committees which report to the board. CLIM's external auditors request documents from CLIM on a sample basis, as part of their annual audit to check that policies and processes are being followed as established. No significant finding arose from the 2022 audit.

2.6 Client Communications

CLIM had $5.8bn in assets under management (AUM) as at 31 December 2022 on behalf of approximately 250 clients, who are overwhelmingly US based institutions, which is comprised of segregated accounts and investors in an Irish UCITS and CLIM's US domiciled pooled investment vehicles. CLIM does not market to retail clients or investors. Assets are managed principally to the three CEF based strategies shown in the table below. The International Equity CEF strategy is predominantly focused on non-US developed markets and the Opportunistic Value strategy on global equity and fixed income markets.

AUM by Strategy^

Emerging Market Equity CEF Strategy	62%
International Equity CEF Strategy	33%
Opportunistic Value Strategy	4%
Other	1%

^As at 31 December 2022

Clients' exposure in each strategy is achieved primarily via CEFs that are listed in the UK or US (as at 31 December 2022 approximately 73% and 22% respectively of overall AUM).

AUM by Client Type*

Pension	29%
Foundation	26%
Endowment	15%
Healthcare	19%
Other	11%

**As at 31 December 2022. Clients include segregated accounts and investors in an Irish UCITS and CLIM's US domiciled pooled investment vehicles.*

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

Clients specify their reporting requirements at the outset. In person or teleconference updates are available on request and feedback is encouraged at these meetings on all aspects of CLIM's service. The Annual Stewardship Report is sent to all clients and is formally presented to clients that require such updates. CLIM conducts regular webinars for clients covering investment matters, including stewardship and an opportunity for questions.

A common approach to ESG issues for CEFs applies to all clients, subject to specific exclusion requirements for certain segregated clients. It is not possible because of the nature of CEF strategies for CLIM to accommodate all exclusion requests, for example a zero carbon policy, and clients are advised where this is the case. CLIM's proxy voting responsibilities and policy are specified by the investment management agreements with both segregated clients and pooled investment vehicles.

2.7 Integrating Stewardship, Including ESG Factors

ESG is considered at the level of both the CEF corporate and the underlying CEF portfolio. CLIM is a large investor in CEFs and at the corporate level prioritises governance factors over underlying portfolio ESG issues when assessing a potential holding prior to purchase. Relevant governance factors are monitored closely through the holding period and can provide a catalyst for exit, for example via redemption offers or tenders at close to NAV.

CLIM believes a CEF's discount to NAV is a key measure of governance effectiveness. The investment process therefore focuses on monitoring discounts. CLIM's approach to stewardship and investment for CEFs is a fully integrated process precisely because a wide discount over a period that is relevant to clients' investment horizons is a trigger for more active engagement. Engagement with Asian holding companies, which tend to favour minority family shareholder interests, was stepped up in 2022 and is a long term project with a two to three year time scale. A Malaysian listed CEF has declined to engage with CLIM, resorting instead to legal action which is being resisted.

In respect of the underlying CEF portfolio, CLIM's research team undertakes due diligence annually on CEF investment managers which includes their processes for incorporating ESG and for mitigating climate change risks. CLIM believes that effective management of ESG risks results in better long term shareholder returns. CLIM's process, however, is overwhelmingly focused on identifying value in CEF's via their discounts. CEF investment managers are encouraged to be more transparent regarding the ESG aspects of their portfolios. CLIM uses Sustainalytics' data to monitor ESG characteristics of the underlying CEF portfolios during the holding period. At annual due diligence meetings, it provides the basis to challenge CEF investment managers directly on their ESG activities, including specific portfolio holdings that exhibit high ESG risks.

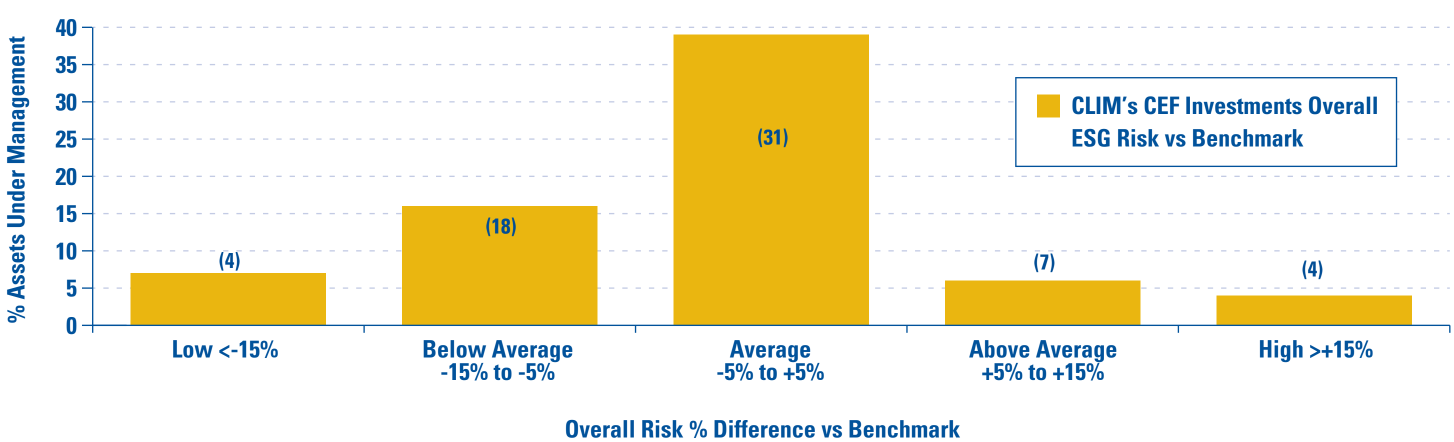
Overall ESG risk for all CLIM portfolios as at end December 2022, using Sustainalytics, was 1.4% lower than their respective benchmarks. By strategy, overall ESG risk for the EM strategy was 1.3% below benchmark and for the international equity and opportunistic value strategies it was 1.6% lower. CLIM does not set targets for these measures.

In 2022, 64 CEF portfolios were analysed (71 in 2021) using Sustainalytics data, representing 72% of CLIM's AUM at the calendar year end (vs 70%). In those CEF portfolios that were analysed, Sustainalytics covers 92% of the underlying securities on a size weighted basis.

Sustainalytics does not cover unlisted companies and has limited small cap coverage. Small cap securities tend to score poorly which, in CLIM's view, often reflects their weaker disclosure and a relative lack of resources available to develop relevant policies as opposed to poor ESG practices. Lower scores for smaller companies are not necessarily indicative of higher ESG risk. Given the fixed capital structure, CEF investment strategies generally have longer than average horizon and a majority employ active, fundamental, bottom-up processes that favour opportunities in smaller companies. Accordingly, CLIM's CEF portfolios are typically overweight smaller and mid cap securities.

Figure 4 below shows the distribution of securities held in client portfolios as at end 2022 according to their overall ESG risk compared to their specific benchmark.

Figure 4: CLIM's CEF Investments Overall ESG Risk vs Benchmark



Source: CLIM / Sustainalytics. AUM does not sum to 100% because not all CEFs can be analyzed by Sustainalytics.

2.8 Monitoring Service Providers

CLIM reviews the performance and fees of its service providers at least annually to ensure that they remain competitive. Market counterparties are reviewed in detail every six months, including research agreements, based on certain observable criteria from portfolio managers, traders and support staff. No counterparty was identified in 2022 that fell short in terms of service provision.

2.9 Engagement

Board engagement helps to fulfil CLIM's commitment to responsible stewardship and is an essential element of the investment process. A consistent approach is followed in all jurisdictions via regular meetings with boards. Our engagement strategy is to be patient but persistent advocates of sound corporate governance principles that we believe will help create long term value for our clients, along with all shareholders. The overriding objective is to encourage boards to take action to address persistently wide discounts. This role is best performed by fully independent, non-executive boards. CLIM's focus is on effective measures that are appropriate to clients' three to five year investment horizon.

CLIM directly engaged with 64 boards in 2022, compared with 46 CEF boards in 2021, with the relaxation of Covid restrictions enabling 44 in person meetings (vs 7). Two principal factors lie behind this increased engagement activity. First, CLIM was requesting boards to make fuller use of their buyback authority in response to wider discounts. The second is the significant growth in CLIM's international equity and opportunistic value strategies. CLIM met 21 boards of developed market CEFs in 2022, in person or virtually, compared with 14 in 2021.

The table below demonstrates the breadth of CLIM's engagement activities. Note that engagement with each board can include a mix of face-to-face meetings, emails or letters and phone calls.

Engagement Examples

Conditional Tender Mechanisms

CLIM supports performance conditional tender offers (CTOs) which provide for a partial return of capital, typically 25%, at close to NAV in the event that NAV performance falls short of the target benchmark over a three to five year investment cycle. A CTO aligns shareholders' interests with those of the manager and provides shareholders with a fairer deal in the event of poor performance. CTOs are now a common feature among UK and US CEFs. Aberdeen New India, Morgan Stanley China A Share Fund and abrdn Asia Focus introduced CTOs in 2022, each the fruit of engagement over several years. Blackrock Latin American renewed its CTO obligation on slightly revised terms in 2022 following engagement by CLIM.

The Importance of the Share Buyback

The share buyback is an essential tool to manage discounts by addressing supply / demand imbalances and also to improve shareholder returns by enhancing the NAV. CLIM does not support the re-election of directors at CEFs that make insufficient use of their buyback authority to address persistently wide discounts. Discounts often widen in significant market downturns, such as 2022, and CLIM was proactive urging boards to increase their buyback. The aggregate buyback by UK listed CEFs held in CLIM's strategies increased to \$3.5bn in 2022 compared to \$2.2bn in 2021, representing 2.2% of issued shares (2021: 1.3%).

An encouraging buyback development in 2022 was two holding companies which bowed to shareholder pressure, including repeated demands from CLIM, for more assertive action to address their discount problem. LG Corp announced a KRW 500bn buyback and Prosus went further by committing to an open-ended buyback,

2022 Board Engagement by Market Where Listed

Market Where CEF is Listed	Boards Engaged	Face-to-Face Meetings	Phone or Virtual Meeting	Email and/ or Letter
UK	47	36	12	6
US	12	4	9	4
Romania	2	2		
Hong Kong	1	1		
Malaysia	1			1
South Korea	1	1		1
Total	**64**	**44**	**22**	**12**

Source: CLIM. Note that the engagements do not sum horizontally if boards were engaged by multiple means funded by sales of its holding in Tencent. Prosus' announcement had an immediate positive and sustained impact on the discount which narrowed, in broad terms, to approximately 30% from 50%.

Mergers

Effective discount control can be more achievable by larger CEFs. CLIM is an advocate for mergers and is in discussions on this issue with several CEFs. Larger funds are favoured by investors for their scale economies and liquidity advantages but mergers are notoriously hard to bring to fruition. For example, CLIM is a substantial shareholder in Securities Equity Capital (SEC) which received an unsolicited merger proposal from the board of Odyssean Investment Trust in December 2021. CLIM eventually decided to support SEC's counter proposal, in part because of Odyssean's reluctance to sufficiently reflect the scale economies in their management fee proposal, and the merger did not proceed.

Tenders and Liquidations

Periodic redemption opportunities are the ultimate test that a CEF remains relevant and is meeting its shareholders' needs. For example, CLIM is a substantial shareholder in Gulf Investment Fund (GIF) which offers 100% tenders every 6 months. As a result GIF trades close to NAV and recent tenders have attracted a low take up. CLIM was also consulted by the boards of NB Global Monthly Income and Starwood European Real Estate ahead of their respective cash exit opportunities. The boards of both CEFs ultimately decided to propose orderly liquidation due to minimum size considerations.

Fundsmith Emerging Equities Trust (FEET) provided a rare example of outstanding governance in 2022. CLIM had regularly engaged with FEET but had not expected voluntary liquidation, which the board proposed after the Manager resigned, having concluded that its process could not produce consistent outperformance relative to the emerging markets index.

Russia

Russian equity investments were written down to zero by CEFs following the invasion of Ukraine. CLIM has engaged extensively regarding compliance with relevant sanctions and changes to investment policies. Several CEFs publicly confirmed their policy regarding sanctions compliance. After several meetings with CLIM, JPMorgan Russian announced a name change and new reference index covering the Emerging Europe and MENA regions.

2.10 Collaborative Engagement with CEF Boards

CLIM is frequently a significant shareholder on behalf of its clients' CEF investments. Its board engagement contributes to investment performance and is often commercially sensitive. Hence, although CLIM is willing to collaborate with fellow shareholders in the interests of effective stewardship, this is not a routine part of our engagement strategy with CEF boards. However, as an escalatory step, CLIM will consider informing other shareholders of concerns regarding CEF governance, either on a selective basis or by making correspondence public.

Although CLIM did not formally collaborate with any investor in 2022, several shareholders were contacted in connection with Samsung C&T. CLIM had met Samsung C&T and proposed certain measures regarding the dividend, cancellation of treasury shares, share buyback and linking executive remuneration to the level of the discount. The proposals were set out in a letter to the board and CLIM canvassed other Samsung investors to gauge support for collaboration on a formal shareholder proposal. This engagement is continuing.

2.11 Escalating Stewardship Activities

CLIM takes a consistent approach to escalating its engagement activities, irrespective of jurisdiction. Concerns are initially communicated to boards in private meetings. If there is no satisfactory response the board is sent a formal letter. In rare circumstances CLIM may send open letters but none were sent in 2022. Engagement with Samsung C&T, described above is an example of escalation.

CLIM's policy, in the event that constructive engagement does not bring results, is to oppose directors' re-election. In 2022 CLIM opposed directors' re-election at icapital.biz (ICAP), a Malaysian listed CEF, due to the board's inadequate response to poor performance, and the reappointment of ICAP's auditors due to their excessive tenure. ICAP's board has declined to engage constructively and instead has been pursuing legal action against CLIM since 2020, claiming that our clients' shareholding is a breach of ICAP's articles, which we deny. The ultimate escalatory step available to CLIM, to requisition for a shareholder meeting, was not taken in 2022.

2.12 Proxy Voting

CLIM does not use proxy advisers. Our aim is to vote every proxy according to the policy set out in Section 1, although this is not always practicable. For example, certain Latin American jurisdictions restrict voting rights of foreign shareholders and voting in other instances may be uneconomic because of the associated costs. Our standard investment management agreement provides for CLIM to exercise voting rights though, in rare instances, segregated clients can retain this responsibility. Investors in CLIM's pooled investment vehicles may not direct voting.

Although CLIM does not engage in stock lending, segregated clients may have their own stock lending programs and, in this event, CLIM does not normally recall lent stock for voting. CLIM monitors clients' voting rights via ProxyEdge, which is updated daily by their custodians. In 2022, over 95% of clients' holdings were voted.

In 2022, CLIM voted at 348 shareholder meetings (2021: 363 meetings) in 34 separate domiciles (2021: 37). The full record of how we voted at each meeting in 2022 is published in the ESG section of our website at https://www.citlon.co.uk Further information regarding the background of any meeting may be provided to clients upon request.

The table below shows the votes by CEF domicile, which is often different to the market of listing. For example, several London listed securities are domiciled in Guernsey and Cayman.

Exposure to UK listed funds was increased compared to the previous year, due to their relative valuations so, unusually, CLIM voted at more UK shareholder meetings than in US. However, both remain the most important jurisdictions for CLIM's CEF investments. It is often not possible to attend shareholder meetings in person. Priority is given to attending meetings with contentious agendas or when we disagree with management recommendations.

Meetings Voted by CEF Domicile in 2022 and 2021

	2022		2021			2022		2021	
	#	%	#	%		#	%	#	%
United Kingdom	96	27.6	76	20.9	Bermuda	3	0.9	2	0.6
United States	94	27.0	125	34.4	Hong Kong	3	0.9	4	1.1
Guernsey	24	6.9	23	6.3	Korea	3	0.9	2	0.6
Brazil	13	3.7	9	2.5	Netherlands	3	0.9	2	0.6
South Africa	10	2.9	6	1.7	Canada	2	0.6	1	0.3
Australia	9	2.6	14	3.9	Chile	2	0.6	1	0.3
Romania	9	2.6	17	4.7	Germany	2	0.6	2	0.6
Cayman	8	2.3	7	1.9	Jersey	2	0.6	3	0.8
Malaysia	6	1.7	4	1.1	Luxembourg	2	0.6	2	0.6
Mexico	6	1.7	9	2.5	Thailand	2	0.6	2	0.6
China	5	1.4	6	1.7	U.A.E.	2	0.6	1	0.3
France	5	1.4	5	1.7	Belgium	1	0.3	2	0.6
Indonesia	5	1.4	5	1.4	Isle of Man	1	0.3	3	0.8
Ireland	5	1.4	6	1.7	Kenya	1	0.3	1	0.3
Japan	5	1.4	4	1.4	Spain	1	0.3	2	0.6
Singapore	5	1.4	6	1.7	Bangladesh			1	0.3
Sweden	5	1.4	1	0.3	Cook Is. (NZ)			1	0.3
India	4	1.1	3	0.8	Lithuania			1	0.3
Philippines	4	1.1	4	1.1					

In total CLIM voted on 3,169 resolutions at 348 meetings in 2022. The share of votes against management in 2022 remained stable at 4%. The most common reason for CLIM to vote against is a lack of director independence, generally due to excessive tenure or, less frequently, a connection with the investment manager.

CLIM opposes continuation resolutions where there has been insufficient action to address a persistently wide discount to NAV. We voted on seven continuation resolutions in 2022 and opposed in one instance, The European Small Companies Trust. Our concerns were explained to the board via letter and a follow up meeting.

CLIM sometimes decides to abstain, though abstentions declined in 2022 to 10% of resolutions (vs. 13% in 2021). The US accounted for 60% of abstentions, reflecting the prevalence of plurality voting, where there is no option to vote 'against'. In these instances, CLIM withholds its votes. Many US boards have now adopted the majority standard in response to CLIM's representations and we continue to encourage all US CEFs that still use plurality voting to follow suit.

Abstentions in other jurisdictions are mostly where CLIM has abstained in respect of directors' re-election as an interim step, pending continuing engagement. An example is CLIM's abstention from directors' re-election at Schroder UK Public Private Trust's (SUPP) AGM in May 2022. In this instance SUPP had indicated to CLIM at a meeting ahead of the AGM that a more explicit discount management policy was under consideration.

CLIM's Voting Record 2020 - 2022

	Resolutions Voted 2022		Resolutions Voted 2021		Resolutions Voted 2020	
	Number	**%**	**Number**	**%**	**Number**	**%**
For	2,719	86	2,433	82	2,333	83
Against	133	4	126	4	109	4
Abstain / Withhold	317	10	395	13	359	13
Total	**3,169**	**100**	**2,978**	**100**	**2,805**	**100**

CLIM's voting decisions are disclosed monthly on its website. Clients may obtain a copy of CLIM's proxy voting record upon request from their usual contact at the Firm or by email at either info@citlon.co.uk or client.servicing@citlon.com

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