



City of London Investment Management (CLIM) is committed to responsible stewardship via constructive engagement with the boards of the closed-end funds (CEFs) in which our clients are invested. We consider board engagement separately to research into the underlying portfolios, which is conducted via the investment manager. Our commitment to responsible stewardship dates from the foundation of the business and resulted in 1999 in the publication of our *Statement on Corporate Governance and Voting Policy for Closed-End Funds*. This is now firmly established as an authority on best practice in the governance of CEFs and an updated 10<sup>th</sup> edition was published in March 2016.

In a further development, since our initiative in 2015 aimed at understanding better the environmental, social and governance (ESG) characteristics of the underlying CEF portfolios, we have recently significantly expanded the material on our website that is devoted to ESG issues, from the perspective of all stakeholders in our business.

This summary of our voting record in 2016 and of our wider stewardship activities is another step to improve transparency on these aspects of our investment process.

## 1. Voting

CLIM always votes at a general shareholders' meeting in accordance with our published policy. In January 2017 we began disclosing on our website how we have cast our votes for each meeting. This information will be updated monthly and is available for each month from January 2016.

In 2016 CLIM voted at 252 meetings in 24 separate jurisdictions. The US was the largest market and accounted for 44% of the meetings. The UK was the second largest market with 22% of meetings, which rises to 29% including the Channel Islands and Isle of Man. These votes are cast by an electronic proxy system as it is generally not possible for us to attend shareholder meetings in person. However we do attend a significant portion of meetings held in London.

**Figure 1: Meetings Voted in 2016 by Domicile**

	#	%		#	%
United States	112	44.0	Jersey	2	0.8
United Kingdom	56	22.2	South Africa	2	0.8
Romania	17	6.7	Sweden	2	0.8
Guernsey	12	4.8	Australia	1	0.4
Ireland	11	4.4	Brazil	1	0.4
Cayman	7	2.8	Hong Kong	1	0.4
Luxembourg	7	2.8	Korea	1	0.4
Bermuda	5	2.0	Kuwait	1	0.4
Isle of Man	4	1.6	Malaysia	1	0.4
China	3	1.2	Pakistan	1	0.4
Belgium	2	0.8	Turkey	1	0.4
Canada	2	0.8			

Source: City of London Investment Management

In total these 252 meetings involved voting on 1,609 resolutions. Figure 2 on the next page shows how these votes were cast.

**Figure 2: CLIM's Voting Record in 2016**

	Resolutions Voted	
	Number	%
For	1,239	77
Against	99	6
Abstain / Withhold	271	17
Total	1,609	100

*Source: City of London Investment Management*

Over 90% of our abstentions related to the US where in certain circumstances a vote against a resolution can help that resolution pass. In other words in these instances, it is more effective to abstain (or withhold) from voting than to register a vote 'against'. CLIM has campaigned to encourage US boards to adopt the majority voting standard (to replace plurality voting) so that a 'withhold' vote has the same effect as a vote 'against' a director. We have made significant progress on this issue as discussed below. In contrast to abstentions, the analysis of votes 'against' shows a balance that more closely reflects the domicile mix. The US accounts for 54% while the UK is 33% of the votes cast against. Examples of CLIM's voting policy 'in action' are given below.

In November 2016, CLIM supported a proposal from Fidelity Asian Values (FAS) which sought investor approval for a subscription share offer. FAS had proactively encouraged Fidelity to enhance its appeal to investors with a more sharply differentiated investment strategy. The resulting manager change coincided with a significant improvement in investment performance. FAS also listened carefully to shareholder concerns regarding the most appropriate benchmark for the new strategy. FAS' discount narrowed significantly as investors came to appreciate the positive impact of these changes.

In September 2016, CLIM opposed directors' re-election at iCapital.biz Bhd, a Malaysian listed closed-end fund, mainly because of the board's unwillingness to adopt discount narrowing initiatives. CLIM explained the full rationale for its decision in an open letter to the board.

### ▶ Plurality vs Majority Voting

An area of focus for CLIM's US corporate governance team has been the 'majority' versus 'plurality' proxy voting standard. The anachronistic 'plurality' standard allows that one single vote in favor of a Director is sufficient to elect the nominee, which ensures that the election of Directors becomes a meaningless formality. Broadly, across US corporations, the 'plurality' standard has given way to recognition of the need for 'majority' voting to give shareholders a voice in proxy elections.

CLIM has seen substantial progress being made in this area as a result of our efforts. The majority of the CEFs have announced that the standard is being changed and we will continue to press other funds and fund complexes to change their standards.

The change to majority voting is an area that we believe is a step towards making other significant improvements in corporate governance standards, most specifically related to Board "refreshment." Our longstanding view is that the regular turnover of CEF Directors (Board "refreshment") is a key factor to the good management of CEFs going forward.

### ▶ Conditional Tenders

CLIM has been encouraging boards to adopt where legally possible conditional tender mechanisms in which, under certain circumstances, shareholders are promised a return of capital at close to NAV. The principal is to align more closely shareholders' interests with those of the manager. US corporate law restricts boards' capacity to make such undertakings but these restrictions do not apply in other jurisdictions.

Baring Emerging Europe (BEE) which is listed in London announced in December 2016 a good example of a shareholder friendly mechanism, following consultation with its shareholders including CLIM. BEE will implement up to a 25% tender at close to NAV in the event that either NAV performance fails to exceed benchmark plus 1%, or if the average discount exceeds 12%. These thresholds will be applied over a successive rolling four year period. BEE has an excellent performance record and this new mechanism provides further reassurance to shareholders.

## NAV Releases

CLIM's policy is that CEF NAVs should be published as soon as possible following the market close and certainly before the market opens on the following day. This has not been a problem for US CEF's, whose NAVs are generally released by around 7.00PM each evening. In contrast some London listed funds have not published the NAV until after the close of the following trading day. CLIM therefore launched a project to encourage more timely disclosures. Both Templeton and Fidelity agreed in 2016 to amend their procedures and have implemented pre-market NAV releases. Several other managers have brought forward their releases by several hours and have agreed to keep this issue under review for potential further improvements.

## 2. Corporate Engagement

The following table shows the number of boards with whom CLIM engaged. More than one meeting over the year is counted only once; the same with emails and phone calls. Only phone calls that involved substantive discussion have been recorded. The table does double count to the extent that engagement with some boards has involved face to face meetings, emails or letters and phone call but it nevertheless gives a flavour of the depth and breadth of our board engagement.

Figure 3: Numbers of Boards (by market listing)

Board Engagement	Face Meetings	Email/letter	Phone Calls
US	9	14	14
UK	26	16	13
Malaysia	-	1	-
Romania	1	1	-
South Africa	1	1	1
Sweden	1	1	1
<b>Total</b>	<b>38</b>	<b>34</b>	<b>29</b>

Source: City of London Investment Management

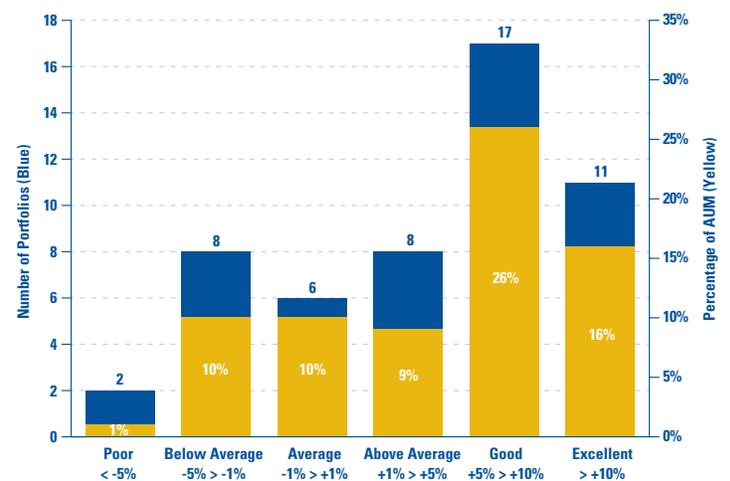
CLIM engages with boards as part of its regular investment process and commitment to responsible stewardship. Our engagement strategy is to be patient but persistent advocates of sound corporate governance principles that we believe will help create long term value for our clients along with all shareholders.

## 3. ESG Reporting

CLIM has included ESG analysis in its research process since 2015. We have partnered with Sustainalytics, a leading independent ESG research specialist, in order to aggregate ESG information from the underlying CEF portfolios. The insights from this research provide evidence to challenge portfolio construction from a fresh perspective and have helped CLIM to maintain its research advantage. As a signatory to the UN supported Principles for Responsible Investment, CLIM is also committed to encourage greater transparency from closed-end fund managers in respect of the ESG characteristics of their portfolios.

CLIM's ESG research continues to suggest that clients' underlying CEF portfolios do tend to be invested in superior quality companies. Fifty portfolios were analysed in 2016, representing around 70% of AUM. Sustainalytics research covers on average circa 83% of the portfolio holdings. Overall CLIM portfolios score, on a weighted average basis, 6 percentage points ahead of the benchmark, a figure which has been stable over the period that this research has been undertaken. The distribution of all 52 portfolios analysed in the process to date, in Figure 4 below, shows the profile of these funds according to their overall ESG rating. It is notable that CLIM is invested mostly in funds that score well above average: the top two tiers together representing 54% of funds analysed and 42% of AUM.

Figure 4: Overall ESG Percentile Ranking vs Benchmark



Source: City of London Investment Management, Sustainalytics



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## Website

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