



**CITY OF LONDON**  
Investment Management Company Limited

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

*Twelfth Edition, September 2021*

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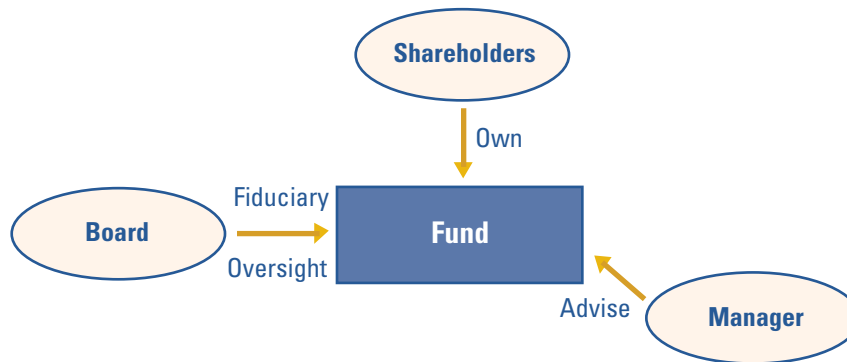
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*NOTE: Clients may obtain a copy of CLIM's proxy voting record upon request from their usual contact at the Firm or upon request at [info@citlon.co.uk](mailto:info@citlon.co.uk) or at [client.servicing@citlon.com](mailto:client.servicing@citlon.com).*

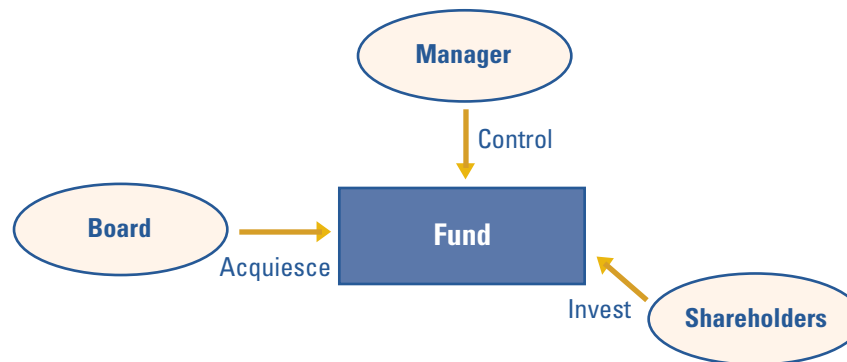
# Ideal Stakeholder Relationship

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.

## I. Introduction

### 1.1 Developments in CEF Corporate Governance by Mark Dwyer, CLIM CIO

CLIM published the first edition of our proxy voting policy in 1999 but this Twelfth Edition will be the last standalone version. We believe that CLIM's Annual Stewardship Report (ASR) is a better home for our proxy voting policy. This change will take effect from the next ASR, due to be published in Q1 2022. It will result in more regular review of our voting policies and give better context to our stewardship activities.

CEF fund governance has continued to diverge between the US and UK since we published the Eleventh edition. In the UK, we have seen excellent leadership from the Association of Investment Companies and Financial Reporting Council (FRC) regarding board independence which remains the key governance foundation in a CEF context. Furthermore, the Financial Conduct Authority's Assessment of Value initiative, launched in 2019 has nudged fund managers of both open and closed end funds in the UK to consider the value offered to investors in collective investment schemes. In the wake of this initiative fixed and variable fees have been reduced and simplified at over one quarter of all UK listed CEFs. Value for money assessments combined with independent boards have not only driven costs lower they have also led to manager change as appropriate. We note a sharp pick up in UK listed CEF boards taking unilateral action to replace underperforming CEF managers or improve the relevance of mandates in the last three years.

Contrast these positive developments with the US situation. The reintroduction of control share statutes, lobbied for by the Investment Company Institute and approved via the withdrawal of a previously issued no-action letter by the Staff of the SEC, is discussed below. Industry lobbying has also extended to the U.S. Congress and might potentially result in a further backward step for governance. A bipartisan

bill recently introduced to the House of Representatives argues on the one hand for better use of the CEF structure via an ability to invest in less liquid assets (a positive development) but on the other hand seeks to prohibit private funds from owning in excess of 10% of a CEF's shares. Creating barriers to entry for any type of investor will, in our view, negatively impact demand and unnecessarily widen discounts by reducing the appeal of US listed CEFs.

On a brighter note, recent CEF issuance has been robust: over \$40bn was raised globally in the 12m period ending June 2021. Over \$16bn of the total was raised by London listed CEFs (an all-time record), \$13bn in the US and over \$12bn in Asia. UK eclipsed US issuance despite the latter having a significantly larger addressable market. We would argue this is due in part to poor governance that entrenches both weak management and high cost structures in the US. Indeed costs for equity focused CEFs remain some 40% higher in the US than the UK whilst the typical US CEF board remains independent in name only. Consider that over 50 US CEF board members collect over \$250,000 per annum from the relevant fund complex from sitting on the board of multiple funds of the same complex. Under these circumstances it's unsurprising there have been few manager changes and scant progress made towards reducing total expenses, including management fees.

The UK experience shows that with the right ingredients the CEF industry can thrive. Independent boards combined with regulators and trade bodies that protect the interests of all stakeholders can create a healthy environment for longer term growth in the US CEF market. CLIM will continue to engage with boards and Management to promote this objective, in the interests of our clients and all stakeholders.

## 1.2 US CEFs

CLIM supports performance conditional tender offers (CTOs) which give CEF investors a fairer deal by providing for a partial return of capital in the event that the CEF fails to match its benchmark return over an investment cycle. It is pleasing to report that, since the Eleventh Edition of this Statement, this concept has been embraced by both The Korea Fund, Inc. and The Taiwan Fund, Inc.

In 2020, the Staff of the SEC's Division of Investment Management reversed a prior position that appeared to rule out CEFs from opting into a control share statute (the withdrawal of the "Boulder Letter"). This concerns the intersection between state control share acquisition statutes and the voting requirements of the Investment Company Act of 1940, with implications for the rights of CEF investors to have their say in the governance of their fund.

The Staff's decision clears the way for US listed closed-end funds organised under Maryland or Massachusetts law to rely on control share acquisition statutes as a defensive measure, effectively disenfranchising in certain circumstances shareholders whose ownership of the relevant CEF exceeds 10%. Several funds domiciled in those states unsurprisingly chose to opt in following this reversal.

CLIM expects that the Staff's decision will ultimately be tested in court but we clarify in this Twelfth Edition our general opposition to CEFs opting into control share statutes.

A more encouraging development has been the robust IPO market for US listed CEFs over the last 18-24 months, some raising over \$1bn. Managers tend to cover the initial cost to ensure that these CEFs launch at NAV. With fixed 12-year terms, long term investors are also guaranteed an eventual exit at NAV and our clients will benefit from the discount volatility in the interim.

## 1.3 Non-US CEFs

CLIM's largest opportunity set outside US listed CEFs is in London where our board engagement has been fruitful. Most significant has been the growing acceptance of CTOs by leading investment trusts, such as Templeton Emerging Markets and Schroder Japan Growth Fund.

The cornerstone of CLIM's approach to CEF governance is our insistence on fully independent boards. There are now few instances of Manager board representation and if independence is demonstrated by action the picture is very encouraging. Most striking is the growing trend for Boards to negotiate more competitive investment management fees, and particularly more widespread use of tiered structures, so that shareholders share in the scale economies as the CEF grows.

An important function of a CEF board is to ensure its investment policy and objective continue to meet its shareholders' needs. This is a particular concern of smaller funds whose size presents difficult discount control challenges. Share buybacks and tenders may not be appropriate in such circumstances but several boards have grasped this nettle by offering regular redemption opportunities, in some instances without conditions.

Investors' enthusiasm for China, referenced above, has not gone unnoticed by CEF's seeking to justify their continued existence. Redemption offers are the ultimate test that a CEF is meeting investors' needs and they have been the catalyst for two CEFs to re-invent themselves. Witan Pacific jettisoned its multi-manager approach in favour of a China equity strategy. Aberdeen New Thai chose to merge with the Aberdeen Emerging Markets Company, which is also adopting a China equity policy.

## II. The Board

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### 2.1 The Chairman

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

### 2.2 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 with a perceived connection 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;
- serve on multiple boards of funds with the same Manager; and
- have cross-directorships with executives of the Manager.

### 2.3 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. CLIM will generally not support directors who hold more than five board positions.

Directors should not start a new term in office if they have been retired from active employment for more than 5 years. Directors should submit for annual re-election and their tenure should not normally exceed nine years.

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

### 2.4 Board Remuneration

Directors should be adequately compensated for their service in order to attract high quality individuals. Directors should not be paid on a per-meeting basis.

### 2.5 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.

### 2.6 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.

## III. Manager Oversight

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### 3.1 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.

### 3.2 Investment Management Fees

Fees should be competitive with market norms for comparable institutional mandates. Shareholders should share 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 use 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.

### 3.3 Investment Policy and Benchmark Index

The investment policy and objective should be subject to annual board 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. CLIM discourages excessive leverage. In the interests of balance sheet flexibility, gearing should not be financed by long-term debt.

### 3.4 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 illiquid and infrequently or subjectively valued investments are fairly valued and should disclose the valuation methodology. 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.

### 3.5 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.

### 3.6 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 any improved terms introduced in newly-launched funds.

## IV. Discount Control

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### 4.1 A Fair Price

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

### 4.2 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.

### 4.3 Capital Management

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 prevent an excessive premium developing.

The share buyback is an essential discount control tool 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.

### 4.4 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 CTO as part of the ongoing discount management process.

## 4.5 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.

# V. Shareholder Communication

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## 5.1 Contact with the Board

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

## 5.2 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.

Meeting agendas should be strictly followed. To the extent possible, CLIM does not permit its proxy to be used to approve motions raised under 'Any Other Business', when shareholders are not given sufficient time to make considered judgments.

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 unless they are cast pro-rata to the overall result.

The meeting outcome should be announced promptly, including the number of votes cast 'For', 'Against' and 'Abstentions' (where applicable). Resolutions that have been approved should be implemented as soon as is practicable.

## 5.3 Portfolio Transparency

Transparency helps to reduce the discount and full portfolios should be disclosed annually at a minimum. Monthly factsheets should be available on the CEF's website and should disclose 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 effective duration 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.

## 5.4 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.

## 5.5 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.

## 5.6 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.

## 5.7 General Communication

Shareholders should automatically receive annual and interim reports and copies of other major announcements directly. These should also 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 ahead of the proxy mailing.

## 5.8 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.

## 5.9 NAV Releases

NAVs for CEFs with portfolios of listed assets should be published daily and 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.

# VI. Voting

## 6.1 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.

## 6.2 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, automated proxy voting service. Boards are usually given notice of an intention to vote against their recommendation, along with an explanation.

## 6.3 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.

## 6.4 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.

## 6.5 Disclosure

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](mailto:info@citlon.co.uk) or [client.servicing@citlon.com](mailto:client.servicing@citlon.com).



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### Important Notice

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