



CLIM's Objective

City of London Investment Management Company Limited (CLIM) aims to deliver superior investment performance for institutional clients, primarily by exploiting discount volatility in closed-end funds (CEFs).

CLIM's investment process prioritises good governance but it also includes an assessment of the environmental and social policies of the CEFs' underlying securities. We believe that what gets measured gets managed and we therefore encourage from CEFs maximum transparency of the ESG characteristics of their underlying portfolios.

Defining ESG

Environmental and social costs have moved centre stage in the last ten years, as perceptions have grown that some aspects of economic activity may not be sustainable. This is attracting the attention of Governments and regulators in all parts of the globe. New definitions for corporate purpose now emphasise environmental stewardship and the corporate impact on society, as well as earning profits for shareholders. Hence, ESG analysis has emerged as a mainstream tool for investment appraisal.

CLIM defines ESG in the context of stewardship policies by which we are committed to responsible allocation, management and oversight of capital to create long term value. In the context of a CEF strategy, CLIM has a two pronged approach to responsible investment. We promote effective governance at the CEFs in which our clients are invested, both via their boards and by engaging with the relevant regulators and policy makers.

The second strand to CLIM's approach to responsible investment is to promote greater transparency from the CEFs of the ESG characteristics of their underlying portfolios. CLIM measures the ESG characteristics of the underlying portfolios of CEFs compared to their relevant benchmarks.

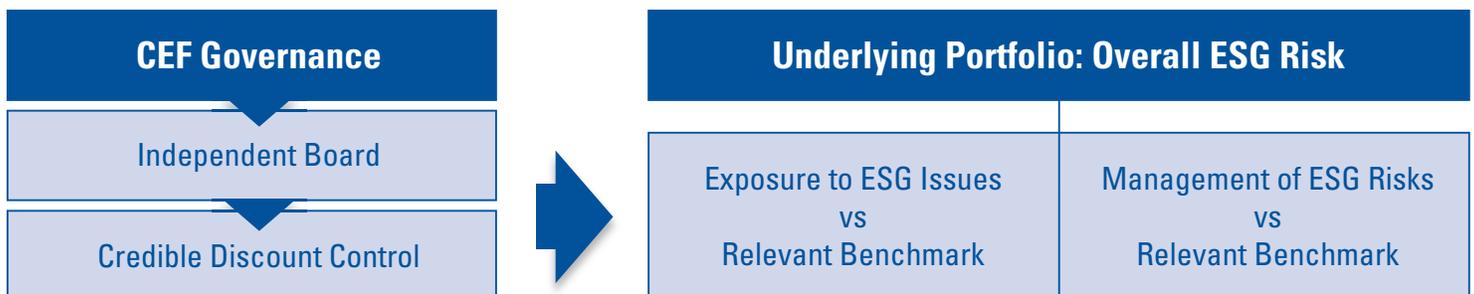
Contributing to Performance

CLIM considers that the discount to net asset value is a critical measure of governance effectiveness for CEFs. In CLIM's opinion, all CEFs should have a discount control mechanism and our board engagement is focused on encouraging measures to ensure the share price better reflects the underlying NAV. In particular, CLIM supports performance conditional tenders at close to NAV when NAV returns are behind target over a three to five year investment cycle. A partial return of capital in these circumstances is a fairer deal for CEF shareholders. CLIM's board engagement activities make a vital contribution to investment performance.

CLIM has refined its due diligence of CEF investment managers to put increased focus on their ESG activities, including their approach to mitigating climate change risks. Data from Sustainalytics, a leading independent provider of ESG research, is used to monitor the ESG performance of the underlying CEF portfolios. This enables CLIM to challenge CEF investment managers directly on their ESG activities at annual due diligence meetings and it is a component of our research advantage.

The objective is not to select securities according to their ESG characteristics, as this is not practical within the context of a CEF strategy. However, our ESG research provides a credible platform to leverage our influence as we encourage more transparency. We firmly believe that good disclosure results in more effective management of ESG risks and it therefore results in better outcomes for our clients.

Many managers have responded constructively to CLIM's request for more transparency regarding their ESG credentials. Several managers now report proxy voting at the portfolio level, as well as providing detailed information concerning, for example, the relevant portfolio's carbon footprint. The exemplary performance of certain CEFs incorporating responsible investment has been a catalyst for their managers to embrace better practice more widely across their business.





CITY OF LONDON
Investment Management Company Limited

Developments in CLIM's Approach to ESG

Responsible Investment is not a new concept for CLIM. Our first corporate governance statement, published in 1999, highlighted the damaging consequences of conflicts of interest on CEF boards. It set out a blueprint for effective CEF governance, based on investment company boards comprising only non-executive directors that are fully independent of the investment manager. The following timeline gives a flavour of how CLIM has continued to embrace best practice in this aspect of our investment process as well as incorporating the same principles in how we manage our own business.

1999	First edition of Statement on Corporate Governance and Proxy Voting Policy for Closed-End Funds. Revised approximately every two years.
2014	Signatory to UK Stewardship Code.
2015	ESG initiative launched for emerging market CEFs, using data provided by Sustainalytics. Signatory to Principles for Responsible Investment (PRI).
2016	CLIM starts publishing its proxy voting record.
2017	First edition of Annual Stewardship Report, covering 2016 stewardship activities. CLIM's ESG initiative extended to developed market CEFs.
2019	Eleventh edition of Statement on Corporate Governance and Proxy Voting Policy for Closed-End Funds.
2021	5th Annual Stewardship Report is expanded to provide transparency about diversity, inclusion and equality in CLIM's own business.

Corporate Citizenship at CLIM

CLIM has a strong, team oriented culture which is underpinned by values of honesty, fairness and transparency to all stakeholders. We are committed to good corporate citizenship in the conduct of our business on behalf of shareholders, clients and employees.

Our activities have a relatively modest direct environmental impact. However, our proactive approach to improve our overall environmental performance has been demonstrated, for example, by our early adoption of video-conferencing facilities to limit employee air travel. We recycle extensively and our 'everyday paper' is exclusively paper certified by the Forest Stewardship Council.

CLIM acknowledges the importance of a diverse workforce. Respectful communication and cooperation is expected among employees and CLIM offers flexible working policies that enable each employee to achieve a better work / life balance. CLIM's remuneration policies encourage employee share ownership and its success at motivating all staff is evidenced by an excellent employee retention record.

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