

CLIM ESG Initiative



CITY OF LONDON
Investment Management Company Limited

Background

- ▶ There is an acceptance at City of London Investment Management Company Limited (CLIM) that we cannot purchase “clean” ESG CEFs
- ▶ What we can do however is influence
- ▶ As a major investor in EM CEFs we have a unique opportunity from a bottom up and a top down perspective to influence CEF Investment Managers and Boards that is significantly disproportionate to our ownership
- ▶ We are invested in 80 CEFs via 40 Managers who collectively manage well in excess of \$12 tn

Opportunity to Influence

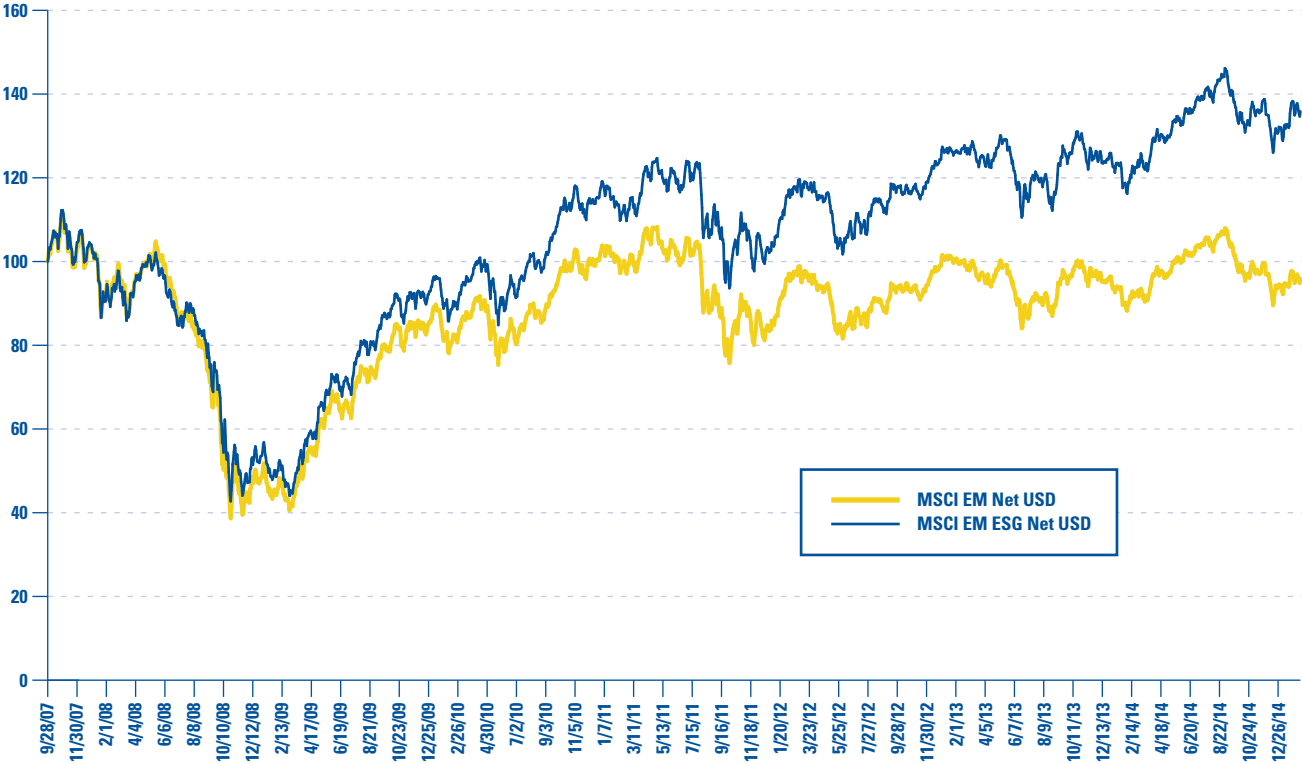
- ▶ It is this influence that we bring to the table
- ▶ How do we influence?
 - Via presentations, research documentation, ongoing discussions and meetings
- ▶ Whom do we Influence?
 - CEF Boards
 - CEF Investment Managers
 - Media
- ▶ Who does the Influencing?
 - CLIM Research Teams
 - CLIM Corporate Governance Teams

Objectives

- ▶ Deliver superior investment performance over investment cycles
- ▶ Respond to Clients' ESG concerns regarding underlying stocks
- ▶ No alteration to the CLIM investment process
- ▶ Continue to improve the Corporate Governance of CEFs
- ▶ Encourage greater transparency
- ▶ Create greater dialogue with respect to client (ESG) concerns

ESG Investment Returns

MSCI EM vs MSCI EM ESG - Since September 2007



Source: Bloomberg

Developing CLIM's Approach

- ▶ Continue to make ESG improvements at the margin as opportunities present themselves
 - Long-time focus on Corporate Governance issues
- ▶ Refine the focus – Employ the Sustainalytics methodology
 - Incorporate more transparency and objectivity into CLIM's Research process via Sustainalytics
 - Launch an awareness initiative aimed at CEF Investment Managers and Boards
 - Gradually improve the ESG rating of the underlying portfolios

Outline of the ESG Initiative

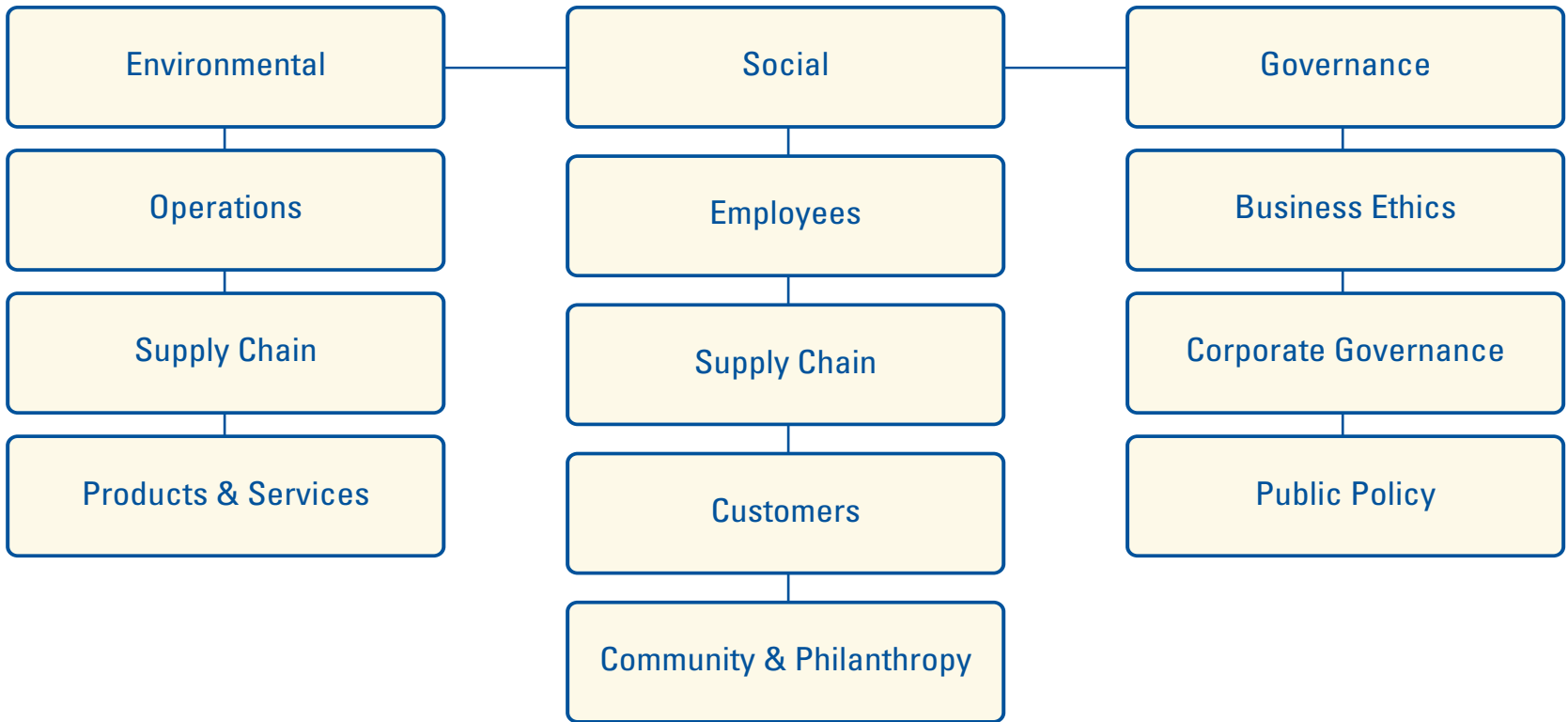
- ▶ 3-step process:
 1. We will make CEF Boards aware of the CLIM position on ESG. If over a measurable period there is no progress, CLIM may vote against the reelection of Directors
 2. During regularly held research meetings with CEF Investment Managers, the CLIM Research Team will use Sustainalytics ratings to evaluate progress
 3. Depending upon progress, the CLIM Corporate Governance Team will engage with Boards to effect change
- ▶ CLIM is now starting presentations with clients and investment consultants
- ▶ Our objective is to influence Investment Managers and CEF Boards by creating awareness while participating in the superior returns emanating from the NAV performance of these securities
- ▶ This project will involve no change to our investment process which has continued to develop over the years

Prior CLIM Process Improvements

- ▶ 1999 introduction of the Statement on Corporate Governance
- ▶ SWAD measurement
- ▶ Holding company analysis and investment
- ▶ Trading dashboards
- ▶ Expansion of DSTs from the original MP to Global, Investable, Free, Plus, BMI, etc. to cover different indices
- ▶ Increased awareness of procedures, regulation, self-monitoring and compliance over the years
- ▶ Website development
- ▶ Open door policy
- ▶ Performance Letters
- ▶ Quarterly Macro Conference Call
- ▶ Capacity constraints
- ▶ Green Efforts – Presentations & iPads, Community related and Video Conferencing
- ▶ Communication advances – email to VC/iPads

Sustainalytics Methodology (1)

- ▶ The rating system:
 - Incorporates over 70 core and industry-specific factors
 - Assesses sustainability policies, management systems and performance outcomes



Sustainalytics Methodology (2)

- ▶ The analysis provides ESG scores relative to industry peers
- ▶ Specific ESG weights are determined by industry
- ▶ Governance is generally a 25% weighting
- ▶ Social and Environmental weightings range between 30% - 45% based on industry
- ▶ Company ESG reports are updated annually
- ▶ Sources include annual reports, news sources and company feedback
- ▶ Company scores are aggregated to provide the overall CEF portfolio score

ESG Integration into CLIM Research Process

- ▶ Sustainalytics will provide analytical ESG reports and portfolio scoring methodology to assist CLIM in raising ESG awareness among Investment Managers and CEF Boards
- ▶ The CLIM Research and Corporate Governance Teams will work with Sustainalytics to measure progress on adopting ESG criteria on the underlying holdings within each CEF over annual scoring periods
- ▶ Over time, it is assumed that as awareness increases, and as CLIM's influence grows, CEF Investment Managers will become significantly more aware of ESG components
- ▶ Initial contact will be made via CLIM Research Teams with subsequent follow up via CLIM Corporate Governance teams where relevant
- ▶ Our experience and expertise in Corporate Governance will be used as leverage to encourage the adoption of ESG screens, increased transparency and greater dialogue by CEF Investment Managers

Leveraging CLIM's CG Foundation

- ▶ Focus on Corporate Governance began well before publication of CLIM's first Statement on Corporate Governance and Proxy Voting Policy in 1999
- ▶ Engagement with CEF Investment Managers will be made via CLIM Research Teams
- ▶ CLIM Corporate Governance Teams have processes and structure in place to effect change if required via CEF Boards
- ▶ The Sustainalytics focus is on ESG assessment of underlying CEF holdings
- ▶ CLIM will continue to focus on improvements in CEF Corporate Governance

Important Notice

City of London Investment Management Company Limited is authorised and regulated by the Financial Conduct Authority, registered as an Investment Advisor with the Securities and Exchange Commission (SEC) and regulated by the Dubai Financial Services Authority (DFSA).