The UK Stewardship Code

City of London Investment Management (CLIM) is a significant long term institutional investor, primarily in closed-end funds (CEFs) that trade on stock exchanges around the world. CLIM achieves effective stewardship by promoting strong corporate governance which it believes makes a vital contribution to the creation and protection of shareholder value in all companies. Independence and transparency are the two key principles that underpin CLIM's approach. The implementation of its corporate governance and voting policy is integral to CLIM's investment process and it makes an important contribution to achieving value for clients.

Principle 1
Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.
Investment returns for CEF investors are the product of the net asset value (NAV) return, for which the manager is responsible, and the discount movement. CLIM's investment strategy is distinctive because it capitalises on pricing inefficiencies and discount anomalies in the closed-end fund sector as opposed to traditional analysis of equities. CLIM believes that discount management is a core responsibility for CEF boards and that all CEFs should have a discount control mechanism. CLIM discharges its stewardship responsibilities via regular engagement with both CEF managers and boards, which are routine elements of the investment process.

CLIM's investment process includes extensive due diligence to evaluate managers and to determine the merits of their investment thesis. CLIM always meets managers prior to an initial investment and the research team conducts formal reviews annually according to a specific agenda. This is sent to the relevant manager at least a week in advance of the meeting and includes a detailed performance and attribution review, organisation changes, personnel moves within the investment team, justification for portfolio positions and the investment outlook. Further meetings, in addition to the formal annual review, are held ad hoc as required.

CLIM uses environmental, social and governance (ESG) research from a leading independent third party provider to measure the ESG characteristics of its CEF portfolios. CLIM's influence over specific stock selection in each underlying CEF is extremely limited but managers are encouraged to be more transparent regarding the ESG characteristics of their portfolios.

Board engagement is handled by CLIM's corporate governance specialists. CEF boards' two key responsibilities are manager oversight and effective discount control. CLIM considers that boards which are 100% independent of the manager are best qualified to perform these vital roles and therefore opposes connected parties as directors. NAV performance is reviewed with boards in the context of overall risk controls and expense ratios. CLIM encourages all CEFs to publish a discount control policy and reviews with boards the effectiveness of both the policy and its implementation.

CLIM's Statement on Corporate Governance and Voting Policy for Closed-End Funds, which was first published in 1999, forms the basis for engaging with boards of CEFs. It is regularly updated and the latest edition can be found at http://www.citlon.com/reg_reports/Corp_Governance.pdf .

Principle 2
Institutional Investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.
CLIM's published voting policy is based on sound principles of best corporate governance practice and is rigorously implemented. CLIM is a 100% owned subsidiary of City of London Investment Group plc which is listed on the main market of the London Stock Exchange. The Firm does not have a client relationship with any CEF, though its shareholders include asset managers who are also CEF

managers. In such instances CLIM is clear with its parent company shareholders that, in respect of all investment matters, the Firm always places its clients' interests first.

CLIM seeks to manage both actual and potential conflicts of interest. Its minimum standards are set out in its Code of Ethics, Conflicts of Interest Policy and the Investment Department's desk procedures. CLIM's investment process includes procedures to manage effectively actual and potential conflicts in relation to, for example, fair allocation, best execution, use of dealing commissions, personal trading, investment in internal funds, cross-trading and broker selection. As part of its monitoring programme, CLIM's compliance department undertakes regular testing of these areas to ensure the Firm's systems and controls remain effective. CLIM maintains a Conflicts of Interest register which is reviewed on regular basis by both the Compliance Committee and the board. CLIM's approach to potential conflicts of interest is publicly disclosed in its Form ADV (Item 11) available at http://www.citlon.com/reg_reports/ADV_Part2.pdf .

Principle 3
Institutional Investors should monitor their investee companies.
CLIM closely monitors all investee CEF regulatory announcements. NAV performance and discount progression is reviewed daily. The ESG characteristics of CLIM's CEF investments are monitored on an annual basis. The discount to NAV, in CLIM's opinion, is a key indicator of governance effectiveness for a CEF. CLIM engages actively with boards in order to promote effective governance and is prepared to be made inside for a short period in order to facilitate constructive discussion. A record is kept of all meetings with boards and, where appropriate, CLIM will also set out its position via letter to ensure that its position is discussed at a full board meeting.

Principle 4
Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.
CLIM generally achieves its stewardship objectives through reasoned discussion with boards and managers. An example is the introduction by the Hong Kong listed HSBC China Dragon Fund of a conditional tender mechanism, which returns capital to shareholders while the discount remains wide. CLIM believes that the discount to NAV is a key measure of governance effectiveness for a CEF. Factors that contribute to wide discounts include poor NAV performance, weak risk controls, high expense ratios, irrelevant benchmarks and product oversupply. Wide discounts reduce investment returns for shareholders and escalation is triggered if the board takes insufficient action to address these underlying factors. Low portfolio ESG scores are also raised with boards, particularly if investment performance is poor. An appropriate response to poor performance over a 3 – 5 year investment cycle should include measures that remove assets from the manager via market buybacks for example or tender offers. In the event of serial underperformance, replacing the manager or liquidating the CEF should also be considered. CLIM will, if progress is not possible via private representations, make its position public and potentially requisition proposals at a shareholder meeting. CLIM will oppose the re-election of directors who it believes have been insufficiently proactive to protect shareholders' interests. Conversely CLIM may propose directors, to represent the interests of all shareholders. For example the board of Romanian listed Fondul Proprietatea includes two directors who were originally proposed by CLIM.

Principle 5
Institutional investors should be willing to act collectively with other investors where appropriate.
CLIM is willing to act collectively with other investors, where legally permissible. CLIM will also initiate contact with shareholders to make them aware of CLIM's governance concerns and to explain its representations that have been made to companies. CLIM is a signatory to the United Nations supported Principles for Responsible Investment.

Principle 6
Institutional investors should have a clear policy on voting and disclosure of voting activity
CLIM always votes all its shares. Exceptionally, the choice may be to abstain, for example in the matter of directors' re-election, where CLIM has governance concerns which it believes the board will address. CLIM neither uses the services of a proxy advisor nor engages in securities lending. Boards are given notice of an intention to vote against their recommendation, along with an explanation. Where possible this is communicated ahead of the proxy being published, as part of the on-going engagement process. CLIM votes according to its published policy and publishes its voting record on its website. The decision on how to vote is reached ultimately by reference to Client's best interests. For example, non-independent directors of CEFs are always opposed and continuation is supported only in circumstances where the CEF's governance has demonstrably protected shareholder value.

Principle 7
Institutional investors should report periodically on their stewardship and voting activities.
CLIM uses an external electronic service which manages the voting process and keeps a full record of how votes have been cast, including the reason for a vote contrary to a board recommendation. CLIM maintains a full record of its engagement with boards and managers and publishes at least annually a report on its stewardship activities from both a quantitative and qualitative perspective. CLIM's stewardship activities are conducted within a comprehensive system of internal controls, which is ultimately overseen by the Group board. CLIM is a niche manager and considers that an independent opinion on its stewardship activities would not provide material or cost effective information for its clients.

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