

EM CEFs as Legacy Products, Part II



CITY OF LONDON
Investment Management Company Limited

Recent Events

- JFC & KEF liquidated after stockholders made their wishes clear
- Aberdeen has proposed a reorganization involving 7 CEFs
- The Board of TTF has proposed liquidation
- The Board of APB put forth an advisory proposal to approve taking steps to narrow or eliminate the fund’s discount
- We’ve followed our principles, voting against Directors who failed to meet the standards set out in our “Statement on Voting and Corporate Governance in Closed-End Funds”
 - We’ve made exceptions where Boards demonstrated a commitment to doing the right thing

Fund	ABE US	APB US	APF US	CEE US	CHN US	GCH US	GRR US	IF US	IFN US
City of London Director Votes	Against	For	Against	Mixed	Withheld	For	For	Against	Against
Fund	IHD US	IIF US	JFC US	LAQ US	LDF US	MSF US	TDF US	TTF US	TWN US
City of London Director Votes	Against	Against	For	Against	Against	Against	For	Against	Mixed

Persistent Board Issues in US EM CEFs

- Excessive Length of Service and Lack of Refreshment
- Use of Plurality v. Majority Voting
- Reluctance to Utilize Buyback Facilities
- High Expense Ratios
- Benchmarking against Non-Total Return Indices
- Board Members Lacking Investment Experience; Interested Board Members
- Allowing Managers to Maintain Excessive Unrealized Gains
- Ignoring Non-Binding Proposals
- Working for Management instead of Shareholders

The Current Landscape Presents an Opportunity

- The CEF Industry is more than 150 years old – it has reinvented itself many times
- Remaining EM CEFs will need to “catch up” or they will be driven out by competing products
- This starts with the Board
 - Directors are expected to understand and be directly responsive to stockholder needs
 - This includes overseeing the manager (investment performance) and the discount (supply/demand relation)
 - Corporate Governance should be the responsibility of the Board, not its service providers

Key Factors that Define a Successful CEF Board:

- Significant Tenders
- Term Limits. Maximum of three terms of three years = nine, maximum 10 years
- 10% DCM
- Buybacks announced daily on website
- No “Holding Over” of Directors
- 120 bps Total Expense Ratio (TER)
- Majority voting
- No Interested Party Directors to be nominated
- No new Directors should serve without Shareholder approval
- Explicit retirement age to be set
- Transparency – disclosure regarding Director skills and contributions
- Industry skills (i.e., CEFs, Investment Management)
- Board to be Diverse
- Directors expected to travel to meet with Shareholders.
- Active Audit and Nomination Committees
- Limited input from Lawyers on investment matters – Chairmen should be writing their own letters/statements to Shareholders

City of London's Position

- We are Long-Term CEF Investors – It's all we do!

- We've built large stakes in several US EM CEFs over the past 15+ years
 - Persistently, excessively wide discounts enabled this

- It's in our interest for the industry to thrive
 - Poorly performing CEFs that languish on wide discounts for years have not helped the sector
 - Directors resisted taking action, prompting our last webinar

Aberdeen Developments

- We believe the Proposed Aberdeen Reorganization will benefit all Stockholders
 - Tender Offer and Capital Gains Distribution enables shareholders to realize substantial part of their investment at/close to NAV
 - Reduction in overall supply could lead to a reduction in discounts across the sector
 - Discount Control policy in new remaining product should prevent a return to the excessively wide discount levels of the past
 - Other CEFs may opt to “[join] the consolidation,” per the invitation of the Chairman of Chile Fund, Inc., resulting in a larger post-merger product

In Conclusion

- We've seen progress in the US EM CEF sector, but there is still work to do

- The proposed Aberdeen reorganization could be the dawn of a new era
 - Directors of interested CEFs should consider the Chairman's invitation

- Boards need to understand their Fiduciary responsibilities
 - Directors who are unresponsive to Shareholder needs will be held accountable

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