

16 April 2019

City of London Investment Group *

CLIG LN

Financials

IMS reveals 14% AuM rise YTD

What's new. CLIG's 3Q update on its Funds under Management (FuM) confirms that while Emerging Market Total Return Index rose 9.9%, CLIG's FuM rose 13.9% to US\$5,268m.

The statement also revealed:

- **US\$153m of net inflows:** US\$ 45m for Emerging Markets strategy and US\$101m for Developed strategy; the Frontier and Opportunistic Value Strategies were essentially flat;
- **Strategies covering >95% of group FUM outperformed** due to narrowing discounts and to a lesser extent, positive NAV performance. Frontier Strategy (under 5% of FUM) underperformed largely due to unfavourable NAV performance;
- **CLIG has an active pipeline across all major CEF offerings**, with increased interest continuing to be seen in the non-Emerging Market CEF strategies (i.e. Developed, Opportunistic Value).
- **Current run-rate for operating profit per month of £1.5m**, before profit-share of 30% and an estimated EIP charge of 5%, based upon current FuM and a US\$/£ exchange rate of US\$1.3.

Zeus view. We note that the group FuM is currently above our forecast for 30 June 2019. Exhibit 10 shows the shift in Group FuM, analysed by strategy.

Exhibits 6, 8 & 9 show CLIG's impressive Emerging Markets strategy performance relative to its peers and benchmarks.

We maintain our forecasts (Exhibits 1 & 2), which we last adjusted on 16 January 2019, and which are based on \$1.31=£1 and on the MXEF (\$) index being circa 1,070 for the next two years. We will review our forecasts again, when CLIG publishes its pre-close trading update on Tuesday 16 July.

Valuation. CLIG shares at 399p are trading on a prospective dividend yield of 6.8% and PER of under 11.0x. This is inexpensive, particularly for a stock which has no debt, substantial net cash, and a good record of creating and distributing shareholder value.

The close correlation between CLIG share price and the MXEF Index suggests that CLIG's share price should be trading close to 420p (see Exhibit 12).

Price	399p
Market Cap	£106.5m
Shares in Issue	26.7m
12m Trading Range	439p to 339p
Free float	83%

Price Performance (p)



Source: Bloomberg

Financial Forecasts

Yr end June (£m)	2018A	2019E	2020E	2021E
Revenue	33.9	32.0	33.0	34.0
y.o.y growth (%)	8.3	(5.6)	3.1	3.0
Op profit	19.2	17.1	18.3	18.7
Profit margin (%)	57	54	55	55
Adj. PBT	12.8	11.4	12.2	12.4
Adj PAT	10.1	8.8	9.4	9.8
EPS (p) dil. adj	39.3	34.2	36.5	38.2
DPS (p) #	27.0	40.8	27.0	27.0
Avg FuM (\$b)	4.9	5.2	5.3	5.6
Net debt/cash	19.7	18.2	20.7	23.7
P/E	10.2	11.7	10.9	10.4
Div Yield (%)	6.8	10.2	6.8	6.8

Source: Audited Accounts and Zeus Capital estimates

including 13.8p special dividend in March 2019

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16 April 2019

Zeus forecasts

In 2019 MXEF rallied 13% to 1,089

In 2019, the MXEF Index has rallied 12.8% to 1,089 and the total return index (NDUEEGF) risen 13.2% to 504 (see Exhibit 4). We maintain our estimate for MXEF for 30 June 2019 of 1,070 (which is 1.7% below current levels of 1,089).

On 31 March 2019 with the MXEF at 1058, CLIG had \$5,268m Funds under Management ("FUM"); the market rise in April suggests that its FUM is currently c \$5,430m. This is 4.3% above our estimate of 5,207 for 30 June 2019 and 1.8% above our estimate for average FUM for FY(Jun)20E of 5,332.

Exhibit 1: Movement in CLIG's FUM, US\$m

1H18 Dec	2H18 June	1H19 Dec	2H19E June	YE June, \$m Period end	FY18 June	FY19E June	FY20E June	FY21E June
4,663	5,329	5,107	4,625	Opening FUM	4,663	5,107	5,207	5,457
62	123	(42)	167	Net inflows	185	100	250	200
604	(347)	(440)	440	Performance & Market	259	-	-	-
5,329	5,107	4,625	5,207	Closing FUM	5,107	5,207	5,457	5,657
14.3	(4.2)	(9.4)	12.6	Growth in FUM (%)	9.5	2.0	4.8	3.7
4,996	5,218	4,866	4,916	Average FUM	4,885	5,157	5,332	5,532
1,158	1,070	966	1,070	MXEF closing value	1,070	1,070	1,070	1,070

Source: Company (historic); Zeus Capital (forecasts)

We assume MXEF falls back to 1,070

Prudently we leave our forecasts assuming the MXEF index returns to 1,070 in 2020 and 2021.

Growth across strategies

The IMS revealed that for 3Q CLIG has received net inflows of \$153 million of net inflows in aggregate: . The pipeline is "active" particularly in non-EM CEF strategies (i.e. Developed & Opportunistic Value).

Exhibit 2: CLIG's financial forecasts

1H18	2H18	1H19	2H19E	YE June, £m	FY18A	FY19E	FY20E	FY21E
17.1	16.8	15.6	16.4	Total income	33.9	32.0	33.0	34.0
9.6	9.8	7.6	9.5	Op profit (pre-profit share)	19.2	17.1	18.3	18.7
6.6	6.2	5.2	5.2	Profit before tax	12.8	11.4	12.2	12.4
5.2	4.9	4.1	4.7	Profit after tax	10.1	8.8	9.4	9.8
20.0	19.4	15.9	18.3	Diluted EPS (p)	39.3	34.2	36.5	38.2
9.0	18.0	9.0	18.0	DPS ex special dividend (p)	27.0	27.0	27.0	27.0
-	-	13.5	-	Special DPS (p)	-	13.5	-	-
9.0	18.0	22.5	18.0	Total DPS including special (p)	27.0	40.5	27.0	27.0

Source: Company (historic); Zeus Capital (forecasts)

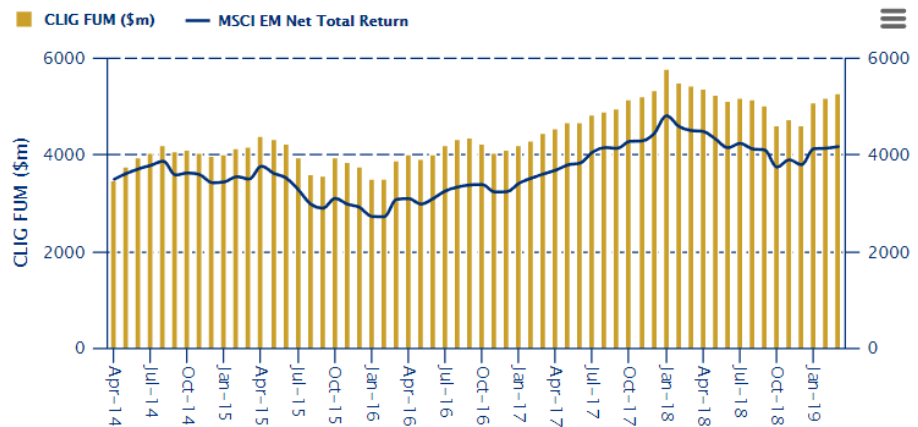
Our forecasts are based on an average exchange rate of \$1.30=£1.

Key charts & variables

Correlation with MSCI EM Index

CLIG's interims and full year report and accounts contain many tables and charts which provide evidence of the improving profitability and scope for further improvement. One chart, Exhibit 3, which is updated monthly on CLIG's website shows the strong correlation between CLIG's Funds Under Management (FUM) and the MSCI Emerging Markets Total Return Index. CLIG's FuM on 31 March 2019 was \$5,268m¹.

Exhibit 3: CLIG FUM & MSCI EM Total Return Index



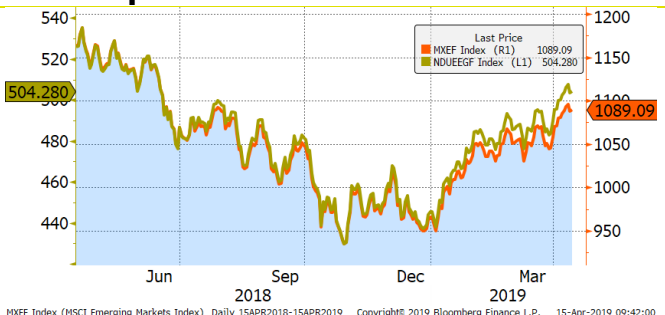
Source: <http://citlon.co.uk/shareholders/announcements.php>

2 Emerging Market indices

In the two years 2014 and 2016, the MSCI Emerging Markets Index (MXEF) and the MSCI Emerging Net Total Return Index (NDUEEGF) fell by over 16%. In the two years 2016 and 2017, these indices rose by over 45%. In 2018, the Emerging Market indices fell by over 16%: in the first 3.5 months of 2019, these indices have risen by c 13%.

Bloomberg data shows MXEF Index is trading on 12.5x 2019 PAT and 11.3x 2020 PAT (compare FT All Share: 13.2x 2019 PER; 12.1x 2020 PER).

Exhibit 4: MXEF & NDUEEGF



Source: Bloomberg data; Zeus Capital chart

Exhibit 5: US\$: £ cross (2014-2019)



Source: Bloomberg data; Zeus Capital chart

The US\$:£ exchange rate has fallen from 1.70 in July 2014 to a low of 1.20 in January 2017, bouncing up to over 1.40 in January 2018 before falling back down to around 1.31 currently.

¹ n.b. On 31 December 2018 GLIG had \$4,625m FuM, on 30 September 2018 \$5,008m and on 31 March 2018 it had \$5,424m FuM.

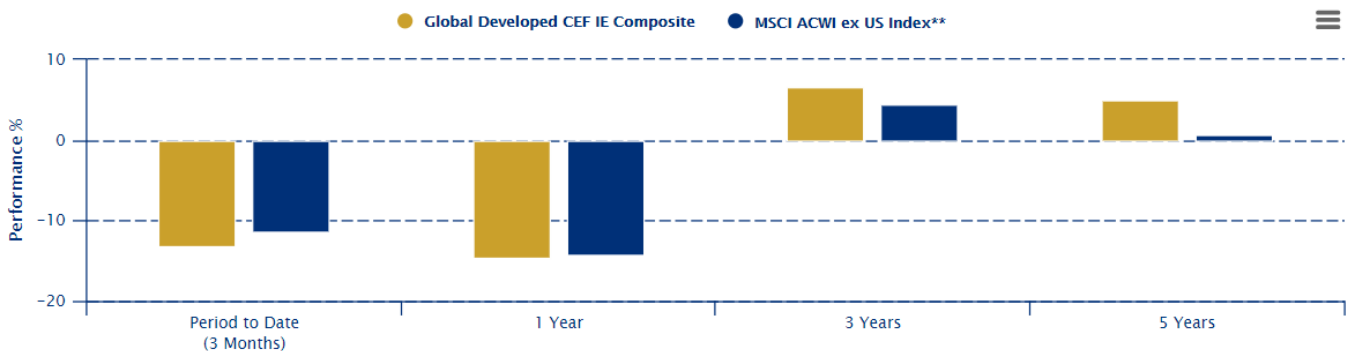
Analysis of CLIG's FuM

Relative performance

Developed markets

CLIG's Developed Markets Closed-End Fund (CEF) Strategy provides long-term capital growth via stock selection and active country allocation. Exhibit 6 shows the impressive relative performance of CLIG's fund relative to the market.

Exhibit 6: CLIG Global Developed Closed-End-Fund performance to 31/12/18

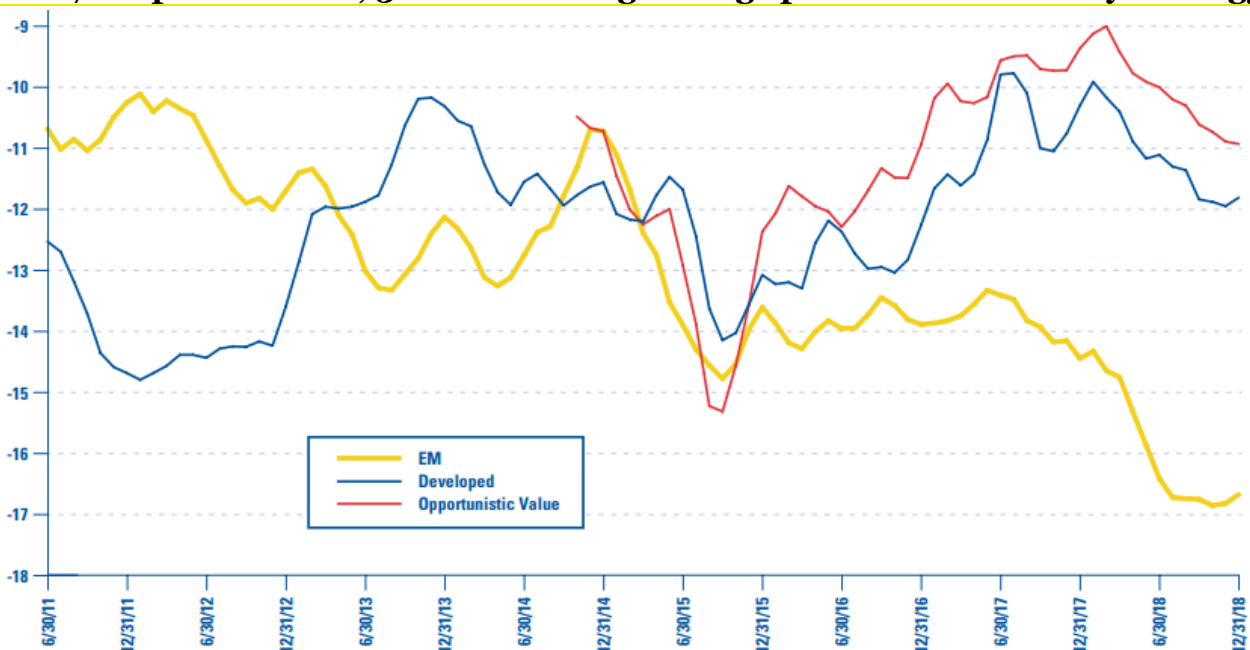


Source: <https://www.citlon.com/strategies/developed-markets-cef.php>

CLIG generates "alpha" by capitalizing on discount changes and pricing anomalies that arise in closed-end funds.

Exhibit 7 shows the Size Weighted Average Discount (SWAD) for each of CLIG's strategies.

Exhibit 7: Representative, 3-month rolling average portfolio discount by strategy

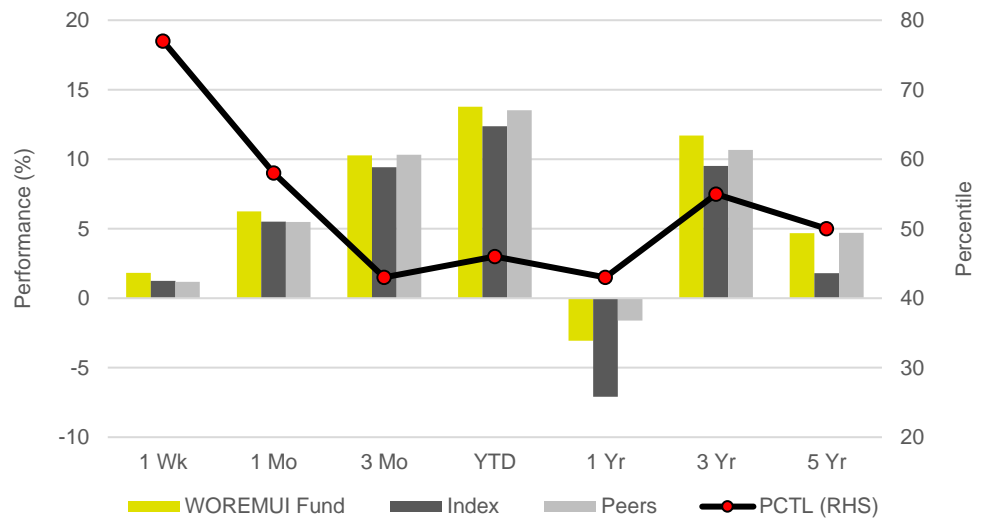


Source: Company's January 2019 investor presentation <https://www.citlon.com/investor-relations/investor-reports/IP48.pdf>

Emerging markets

World Markets Umbrella Fund plc is a UCITS certified open-end fund incorporated in Ireland. The fund invests in a portfolio of closed end funds, whose investment policy is directed mainly towards emerging markets (e.g. Templeton Emerging Markets, Genesis Emerging Markets, JP Morgan Indian Investments, JP Morgan Emerging Markets). Fund total assets are now c. \$128m.

Exhibit 8: CLIG Emerging World Fund performance (%)

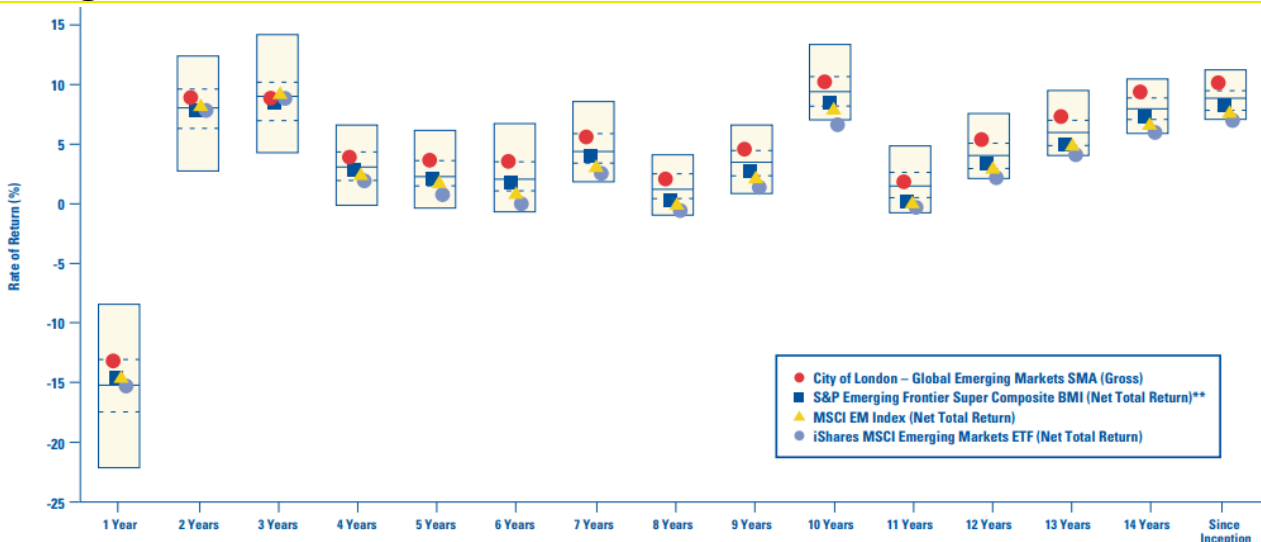


Source: Bloomberg code WOREMUI as at 11 April 2019

Exhibit 8 (above) shows CLIG’s WOREMUI fund is performing well relative to its peers.

Exhibit 9 shows CLIG’s Emerging Markets strategy has performed consistently well relative to its peers and three benchmarks (S&P Emerging Frontier Super Composite BMI, MSCI EM Index (total return) and iShares MSCI Emerging Markets ETF).

Exhibit 9: CLIG Global Emerging Markets SMA Composite ending 31 December 2018 according to Evestment Alliance



Source: Company’s January 2019 investor presentation <https://www.citlon.com/investor-relations/investor-reports/IP48.pdf>

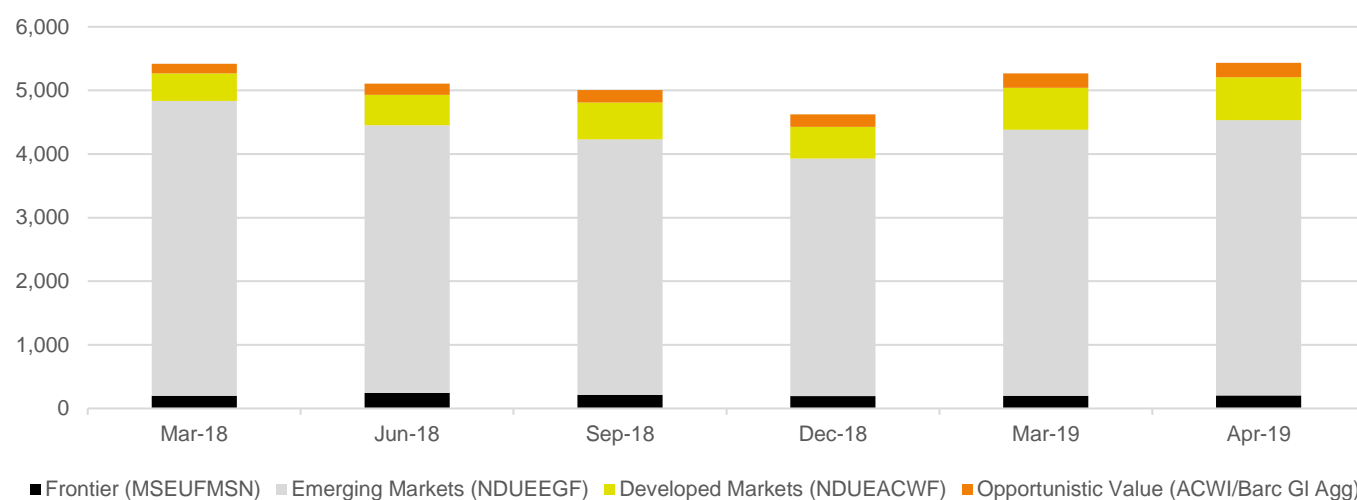
16 April 2019

Growth by strategy

We calculate that on 31 March 2019 Emerging Market funds contributed 79% of CLIG's FuM (see Exhibit 10).

Over the past year, CLIG's Developed Markets fund has increased by 52% from \$433m to \$660m. CLIG's Developed Markets fund has an impressive track record and, in our view, potential to exceed the group's Emerging Markets FuM over time.

Exhibit 10: CLIG's Funds under Management, March 2018 to April 2019 (US\$m)



Source: Company data (actual FuM); Bloomberg data for market rise; Zeus Capital for calculations

Exhibit 11: CLIG's Funds under Management by strategy & change in indices

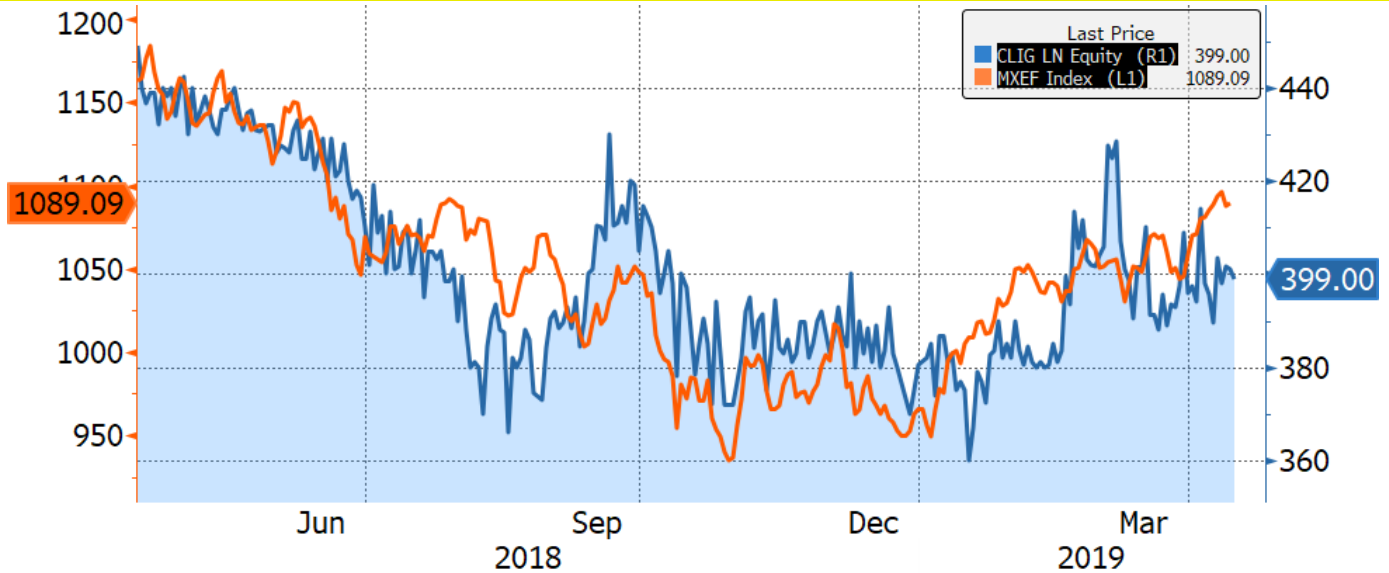
Period end	31-Mar-18	30-Jun-18	30-Sep-18	31-Dec-18	31-Mar-19	14-Apr-19
Period	3 months	3 months	3 months	3 months	3 months	2 weeks
Frontier (MSEUFMSN)	202	245	215	197	201	203
Emerging Markets (NDUEEGF)	4,634	4,207	4,016	3,734	4,180	4,332
Developed Markets (NDUEACWF)	433	481	577	495	660	674
Opportunistic Value (ACWI/Barclays Global Aggregate)	150	174	200	199	227	227
Group Funds under Management	5,419	5,107	5,008	4,625	5,268	5,436
Change in indices in the periods (%)						
MSEUFMSN		21.3	(12.2)	(8.4)	6.87	1.2
NDUEEGF		(9.2)	(4.5)	(7.0)	9.91	3.6
NDUEACWF		11.1	20.0	(14.2)	12.2	2.2
ACWI/Barclays Global Aggregate		16.0	14.9	(0.5)	nc	nc

Source: Company data (actual FuM); Bloomberg data for market rise; Zeus Capital for calculations

Valuation

With 79% of CLIG's FuM invested in Emerging Markets, there is an understandably close link between CLIG's share price and the MXEF Index (see Exhibit 12).

Exhibit 12: CLIG share price & MXEF Index

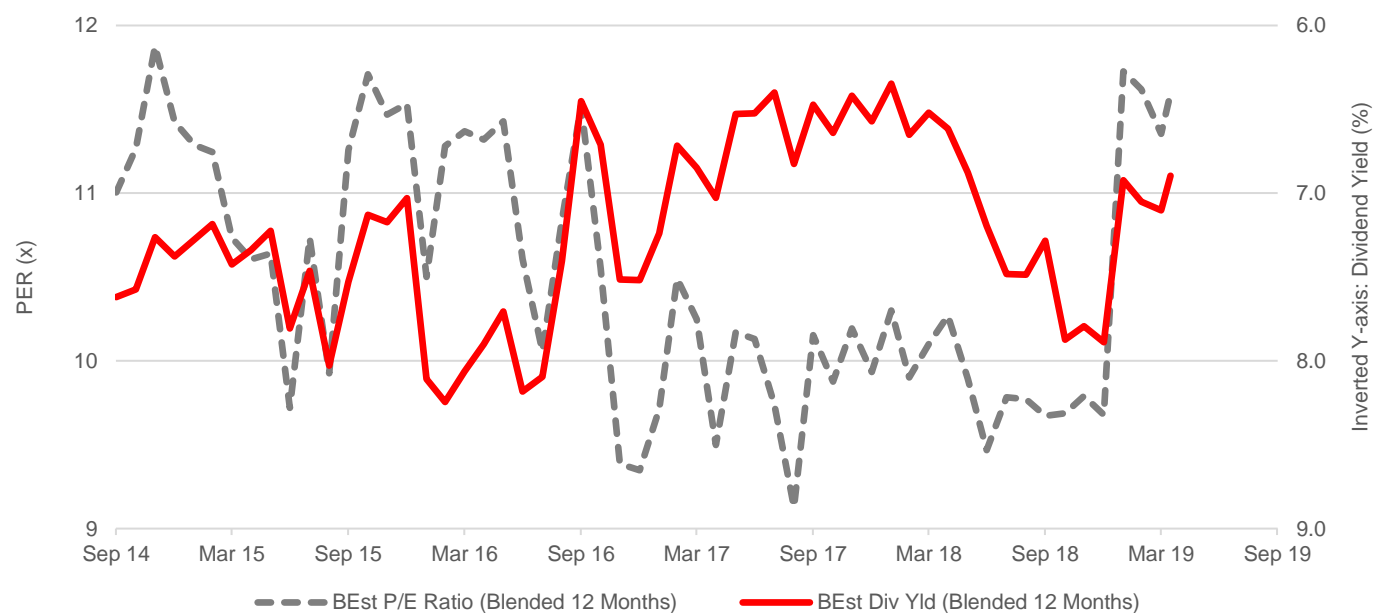


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Source: Bloomberg

Exhibit 13 shows the multiple CLIG is trading on using consensus forecasts. On our forecasts a CLIG share price of 437p would be 12.0x FY(Jun)20E EPS of 36.5p (*consensus 35.2p*) and a 6.2% dividend yield using our forecast of 27.0p (*consensus: 27.0p*).

Exhibit 13: Valuation of CLIG's 12 month rolling PER & dividend yield



Source: Bloomberg chart

16 April 2019

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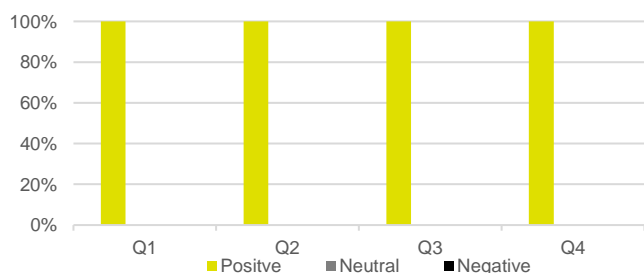
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Recommendation distribution at 31 March 2019 Source: Zeus Capital

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Nomad & Joint Broker	9
Joint Broker	2
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