

# City of London Investment Group PLC Shareholder Presentations

January 2020



CITY OF LONDON  
Investment Group PLC

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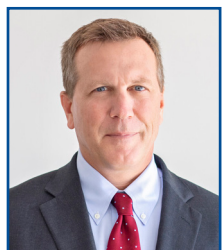
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# Presentation Team



## **Thomas Griffith, Chief Executive Officer**

Tom was the Deputy Chief Executive Officer and COO of the firm before becoming the CEO in March 2019. Prior to joining City of London Group in 2000, Tom held various positions in the institutional client division of The Vanguard Group including roles as both a Client Relationship Manager and a Marketing Executive. In 1986 he obtained a bachelor's degree in Corporate Finance and Investment Management from the University of Alabama.



## **Mark Dwyer, Chief Investment Officer**

Mark was the EM CEF CIO of the firm before becoming Group CIO in March 2019. He re-joined City of London in May 2012 and has over twenty years investment experience. Prior to re-joining the Group, Mark spent eight years with Banco Commercial Portuguese as a Director in the Asset Management department. Mark initially joined City of London in 1995 and was a Portfolio Manager based in the UK, followed by the US office. He established City of London's Singapore Office in 2000 where he spent two years. He holds a BA in economics and is a CFA Charterholder.



## **Carlos Yuste, Head of Business Development**

Carlos is the Head of Business Development based in the Philadelphia office. Carlos rejoined CLIM in 2018, after pursuing other interests in the asset management field. Carlos originally joined CLIM in 2000, and was responsible for Business Development until 2015. Between 1994 and 1998 he worked as a Project Officer at the International Development Research Centre, which specializes in emerging markets research. He holds an MBA (Finance) from the Schulich School of Business, York University, an MA in Political Economy from Carleton University, and a Bachelor of Social Sciences from the University of Ottawa.

# Snapshot

## **An established specialist, growing fund management group with:**

- ▶ \$6.0 billion (£4.5 billion) of funds under management at 31 December 2019
  - A stable institutional client base
- ▶ Offices in the US (East Coast and West Coast), London, Singapore and Dubai
  - Managing money using a team approach
- ▶ A leading CEF asset manager with a track record of outperformance over multiple market cycles
- ▶ Growth plans based on geographical/product diversification and an aversion to risk

**. . . and an experienced, incentivised long-term team**

# Profitability

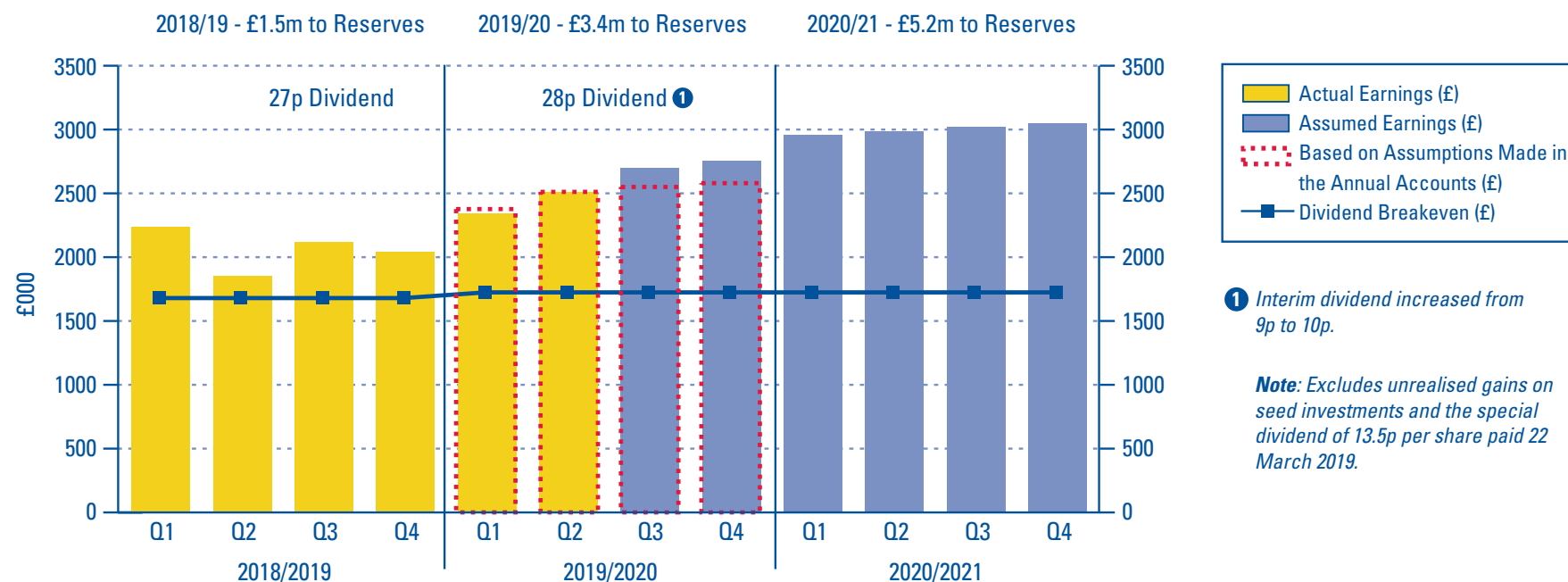
- ▶ Income currently accrues at a weighted average rate of c75 basis points of FuM annually, net of third party commissions
- ▶ Current run-rate for operating profit, before profit-share at 30% and an estimated EIP charge at 5%, is ~£1.8 million per month based upon current FuM and US\$/£ exchange (1.3257)
- ▶ Estimated unaudited post-tax profit for the six months ended 31 December 2019 ~£5.1 million (NCI's £0.1m), which compares to £4.1 million for the equivalent period to 31 December 2018

# Our Strategy and Objectives

- ▶ Increase FuM from long term institutional investors
  - City of London's client base is, and always has been, overwhelmingly institutional
- ▶ Outperformance
  - Our job as an active manager is to add value over and above a relevant benchmark through an investment cycle which we define as four to five years
- ▶ Keep costs down
  - We keep costs down because we believe that the assets over which we provide stewardship are, by definition, not ours but are owned by CLIG shareholders
- ▶ Retain Staff
  - As shareholders would expect, in a firm that has always used a partnership approach, there is a very long term view taken regarding remuneration
- ▶ Remain open in our dealing with shareholders, available and accountable
  - We recognise that our shareholders (as well as our clients) have trusted us with their money

# CLIM Template - Not a Specific Forecast\*

Dividend Cover – Actual and Assumed Over Three Financial Years



## Key Assumptions:

(June 2019 comparatives in Italics)

- Starting point Current FuM - Dec 2019
- Net increase for the remainder of this financial year (*straight-lined to June 2020*):
  - emerging market CEF strategy zero (*zero*)
  - non-emerging market CEF strategies US\$250m (*US\$250m over the full year*)
- Net increase in 2020/2021 (*straight-lined to June 2021*):
  - emerging market CEF strategy zero
  - non-emerging market CEF strategies US\$250m
- Operating margin adjusted monthly for change in product mix and commission run-off
- Market growth: 0%
- Overheads for 2019/20: no increase on 2018/19 (0%)
- Overheads for 2020/21: +3% compared to 2018/19
- EIP charge for 2019/20: 5% of operating profit (5%)
- EIP charge for 2020/21: n/a now falls within the 30% profit-share
- Corporation tax based on an estimated average rate of 21% (21%)
- Exchange rate assumed to be £1/\$1.31 for entire period (£1/US\$1.27)
- Number of CLIG Shares in issue (26.6m) less those held by the Employee Benefit Trust (1.7m) as at 31 December 2019

\*Any forward-looking statements are based on certain factors and assumptions, which may prove incorrect, and are subject to risks, uncertainties and assumptions relating to future events, the Group's operations, results of operations, growth strategy and liquidity.

# Results Summary

	Full Year		Half Year*	
	30.06.18	30.06.19	31.12.18 (6 Months)	31.12.19 (6 Months)
Funds under Management (at period end)	\$5.1bn	\$5.4bn	\$4.6bn	\$6.0bn
Turnover	£33.9m	£31.9m	£15.6m	£17.3m
Commissions payable	(£1.2m)	(£0.8m)	(£0.4m)	(£0.2m)
Administrative expenses	(£13.6m)	(£14.2m)	(£7.1m)	(£7.2m)
Interest income	£0.1m	£0.1m	£0.1m	£0.0m
Investment gains	£0.2m	£0.8m	£0.0m	£0.2m
Profit-share	(£6.1m)	(£5.6m)	(£2.6m)	(£3.3m)
EIP charge	(£0.5m)	(£0.8m)	(£0.4m)	(£0.5m)
Profit before tax	£12.8m	£11.4m	£5.2m	£6.3m
Profit after tax	£10.1m	£9.0m	£4.1m	£5.1m
Profit attributable to:				
Non-controlling interests	-	£0.2m	-	£0.1m
Equity shareholders	£10.1m	£8.8m	£4.1m	£5.0m
EPS:				
Basic	39.5p	34.9p	16.3p	19.9p
Diluted	39.3p	34.1p	15.9p	19.4p
Dividend:				
Interim	9.0p	9.0p	9.0p	10.0p
Special	-	13.5p	-	-
Final	18.0p	18.0p		

*\*Figures are unaudited*



# Dividend History

	2014-15		2015-16		2016-17		2017-18		2018-19	
	Per Share	Total (£ k)	Per Share	Total (£ k)	Per Share	Total (£ k)	Per Share	Total (£ k)	Per Share	Total (£ k)
Interim	8p	1,985	8p	1,997	8p	2,027	9p	2,295	9p	2,270
Final	16p	3,985	16p	4,021	17p	4,331	18p	4,544	18p	4,505
Total	24p	5,970	24p	6,018	25p	6,358	27p	6,839	27p	6,775
Profit attributable to shareholders		6,578		5,791		9,290		10,060		8,799
Cover Ratio		1.10		0.96		1.46		1.47		1.30
Special Dividend									13.5p	3,405

# Philosophy - The Six Drivers

- ▶ Focus on profits, margins, costs
- ▶ Investment performance drives our business
- ▶ Technology leverages our capabilities
- ▶ Aversion to risk in the management of our business
- ▶ Diversification based upon core competencies
- ▶ Proactive client servicing increases client retention

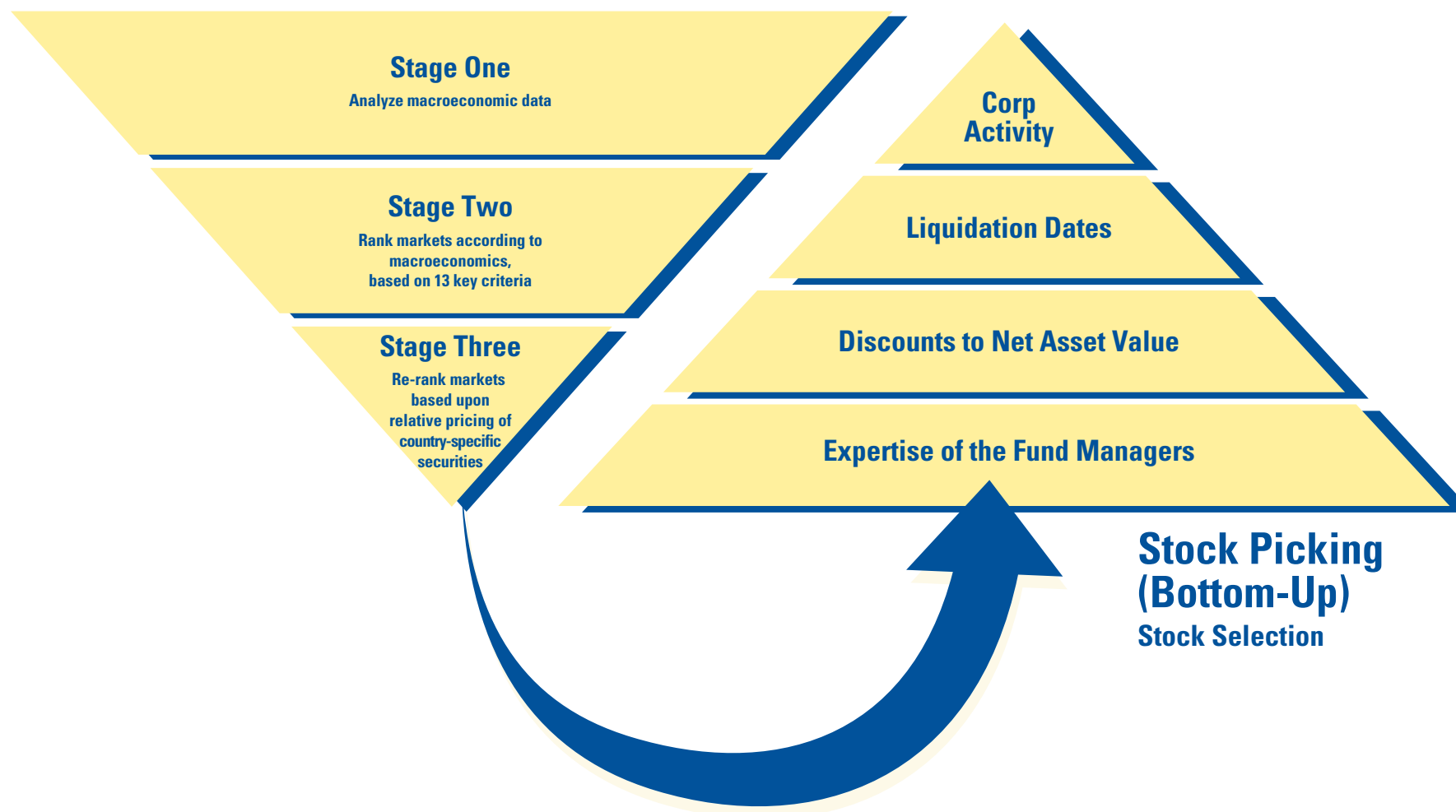
## Investment Performance - Key Strengths

- ▶ Excellent investment performance over 25 years
- ▶ Specialist investment expertise in Closed-End Funds applied to 4 key strategies:
  - Emerging Markets
  - Developed Markets
  - Frontier Markets
  - Opportunistic Value
- ▶ A proven risk averse culture and prudent investment process
- ▶ International presence and expertise
- ▶ Low turnover of staff and loyal client base

# Investment Process

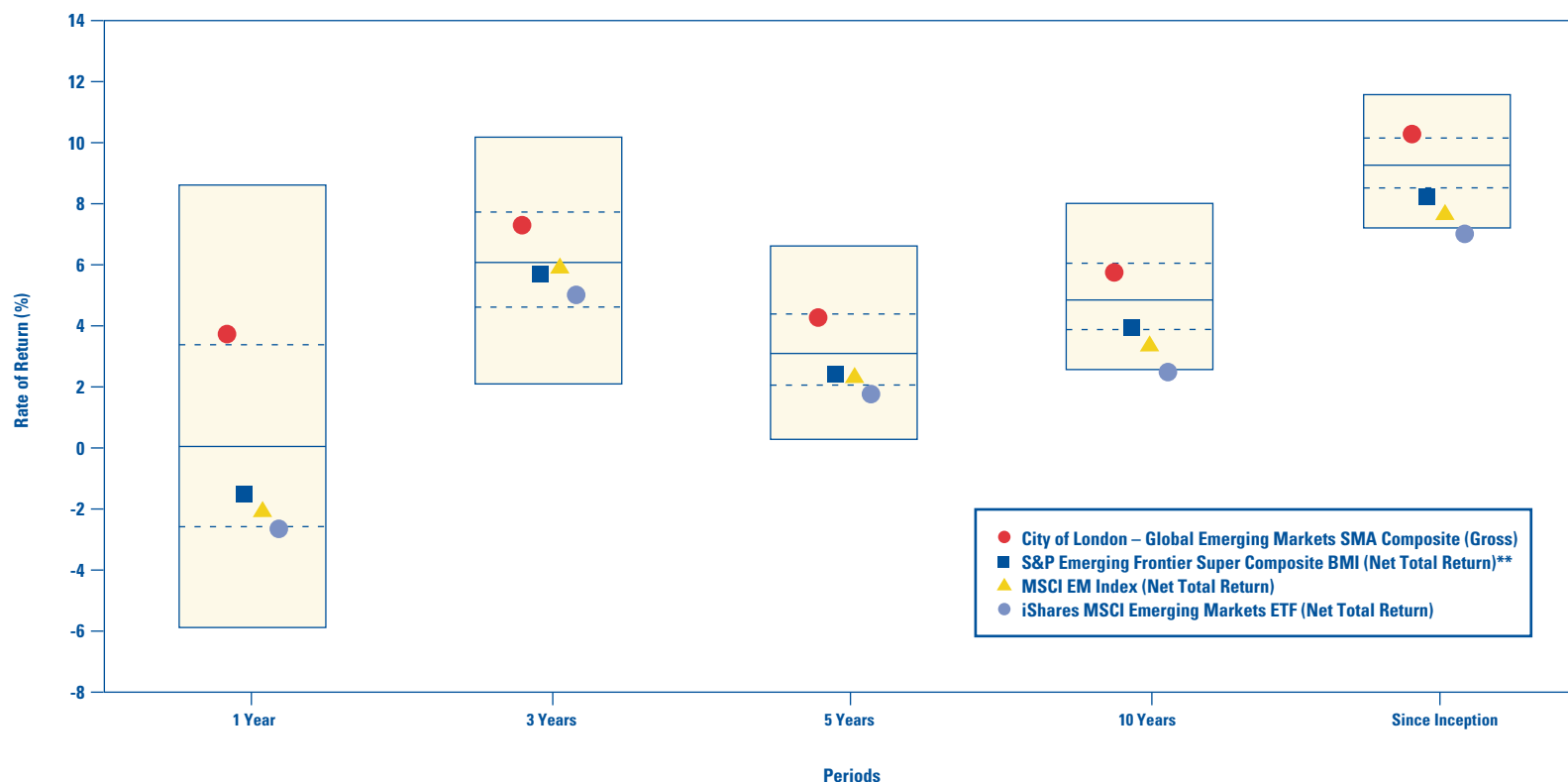
## Macro Process (Top-Down)

### Country Allocation



# Global Emerging Markets SMA Composite Ending September 30, 2019

According to eVestment Alliance\*



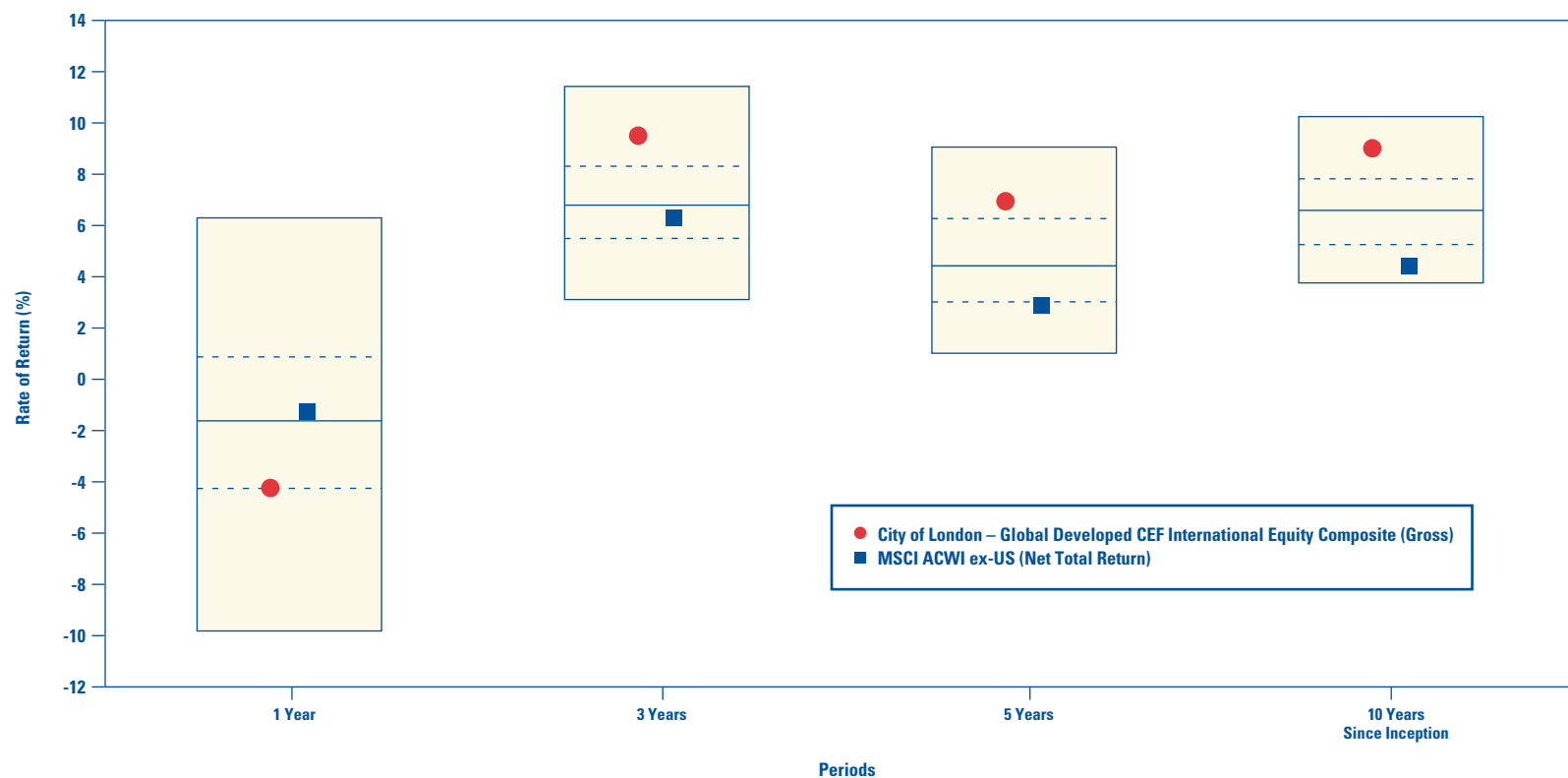
\*100% of the universe has been updated through Quarter 3 2019. Inception February 2004.

\*\*The benchmark was changed from the S&P Emerging BMI Plus on January 1, 2009 to better reflect the investment strategy of the Funds. The S&P Emerging BMI Plus was the successor index to the S&P/IFC Global Composite Index, the benchmark for the Funds prior to September 1, 2008, which has been discontinued. The current benchmark is the S&P Emerging Frontier Super Composite Net Total Return BMI (S&P Super BMI). The MSCI EM Net TR Index and iShares MSCI Emerging Markets ETF are shown for comparative purposes. The above returns are presented as gross of fees performance figures, which do not reflect the deduction of investment management fees. The actual return is reduced by the investment management fees and any other expenses the Fund may incur in the management of the account. Investment management fees are 1% per annum. Past performance is no guarantee of future results.

Source: eVestment Analytics System, S&P, MSCI, Bloomberg

# Global Developed CEF International Equity Composite Ending September 30, 2019

According to eVestment Alliance\*



\*100% of the universe has been updated through Quarter 3 2019. Inception October 2009.

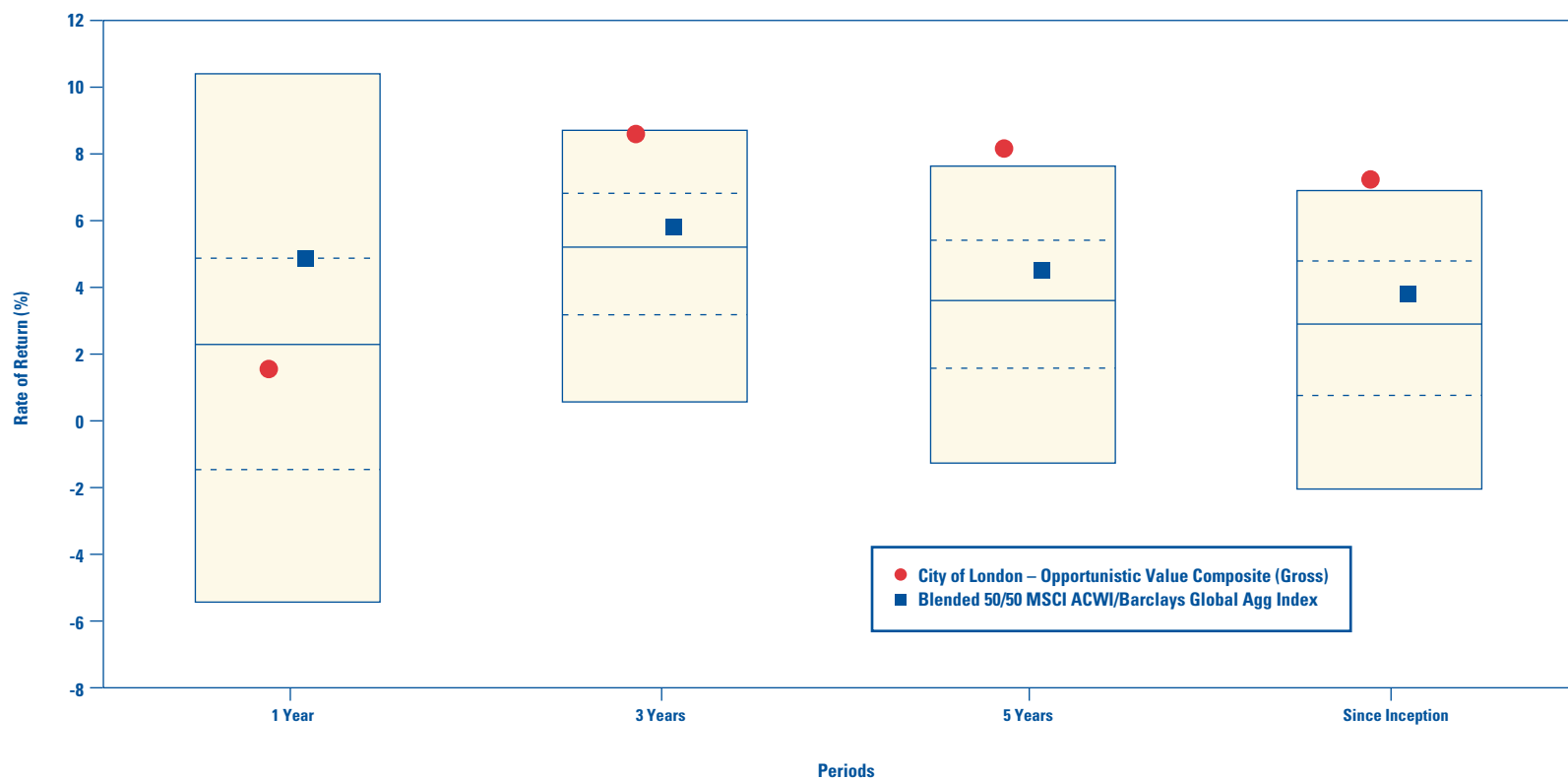
The above returns are presented as gross of fees performance figures, which do not reflect the deduction of investment management fees. The actual return is reduced by the investment management fees and any other expenses the Fund may incur in the management of the account. The investment management and custody fee is 0.7% per annum. The total expense ratio is 0.8% per annum.

Past performance is no guarantee of future results.

Source: eVestment Analytics System, MSCI

# Opportunistic Value Composite Ending September 30, 2019

According to eVestment Alliance\*



\*100% of the universe has been updated through Quarter 3 2019. The universe includes all funds classified as eVestment All Global Balanced/TAA. Inception September 2014.

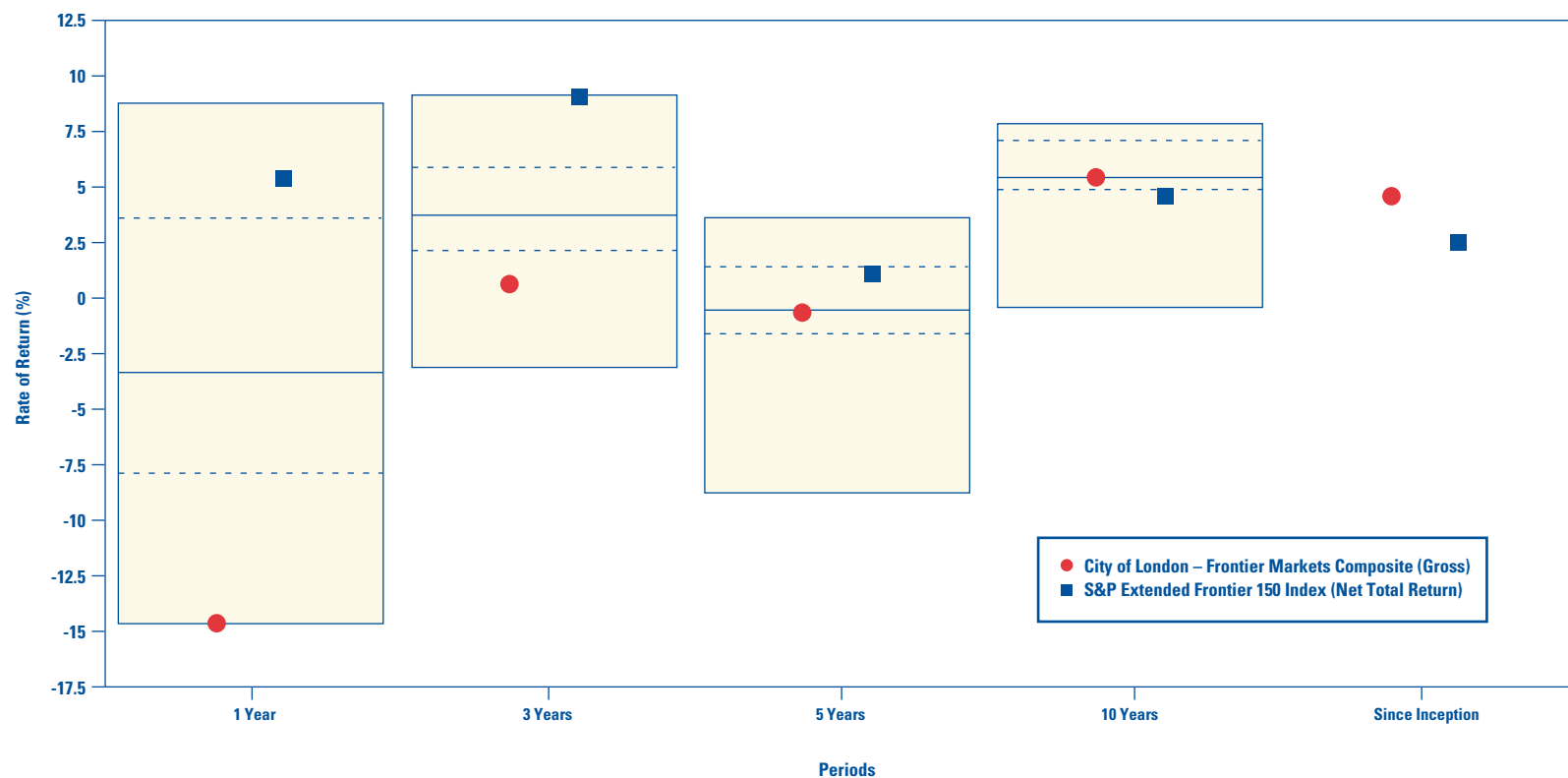
The above returns are presented as gross of fees performance figures, which do not reflect the deduction of investment management fees. The actual return is reduced by the investment management fees and any other expenses the Fund may incur in the management of the account. Investment management fees are 0.8% per annum.

Past performance is no guarantee of future results.

Source: eVestment Analytics System, MSCI, Barclays

# Frontier Markets Composite Ending September 30, 2019

According to eVestment Alliance\*



\*100% of the universe has been updated through Quarter 3 2019. Inception July 2005.

The above returns are presented as gross of fees performance figures, which do not reflect the deduction of investment management fees. The actual return is reduced by the investment management fees and any other expenses the Fund may incur in the management of the account. The investment management and custody fee is 1.25% per annum.

Past performance is no guarantee of future results.

Source: eVestment Analytics System, S&P



## CLIM's ESG Approach

- ▶ ESG initiative launched in 2014
  - Measure portfolio attributes using Sustainalytics data
- ▶ Improve understanding of Managers' process and risk appetite
  - What gets measured gets managed
- ▶ PRI Signatory
  - Scored A in 2019 for listed equity active ownership
- ▶ UK Stewardship Code
  - Annual Stewardship Report available on [www.citlon.co.uk](http://www.citlon.co.uk)

## EM - Valuation Drivers

- ▶ China is rebalancing
- ▶ EMs have significant Foreign Exchange Reserves
- ▶ EMs trade at low (12.8x) forward (12 months) P/Es\*
- ▶ Currencies are generally not now pegged to the US\$
- ▶ Increasing intra EM trade
- ▶ Commodity prices have stabilised
- ▶ Politics and Protectionism remain key

*\*Source: MSCI, Bloomberg (31 December 2019)*

# Use of Technology - Investment Management

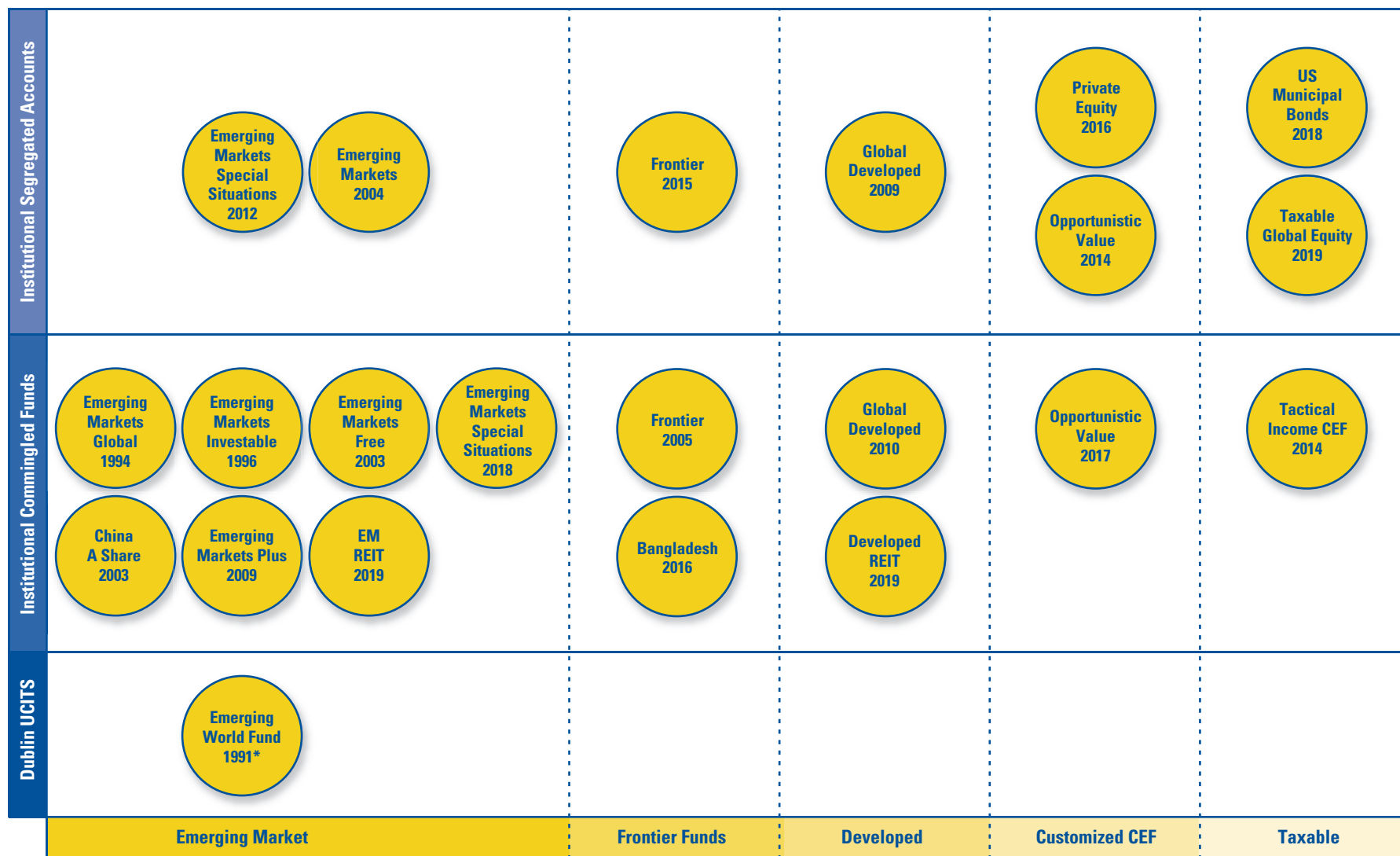
- ▶ CLIM has consistently sought to introduce integrated technology solutions:
  - DART – A custom research database with improved performance and functionality from its predecessor
  - The use of Charles River allows for significant economies of scale
  - Development of internal programming capabilities
  
- ▶ This supports:
  - Focus on relative investment performance
  - Five centre team approach, which allows 24 hour trading, reduces risk and assists with disaster recovery
  - Consistent improvement in investment process via use of training and technology
  - Investment performance achieved with low volatility vs. benchmarks
  - Introduction of multiple dashboards used for review/analysis of data

## Growth Plans

- ▶ Increase range of investment markets to be covered, building upon our core expertise
- ▶ Diversification products now approximately 26% of FUM
  - Developed Markets
  - Frontier Markets
  - Opportunistic Value
- ▶ Hired an experienced REIT team. EM and International REIT Funds launched January 2019.
- ▶ Recruiting, encouraging and retaining team talent
- ▶ Actively seeking acquisition opportunities

...while maintaining low risk profile and lean cost base

# Business Diversification Product Map as of December 2019



\*Formerly Emerging Markets Country Trust

## Assets by Strategy

	30/6/2015	30/6/2016	30/6/2017	30/6/2018	30/6/2019	30/12/2019
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Emerging	3,853	3,659	4,200	4,207	4,221	4,429
Developed	99	71	179	480	729	1,109
Frontier	103	127	172	245	206	206
Opportunistic Value	153	148	110	174	233	270
Other	3	0	0	1	7	7
<b>Total FUM</b>	<b>4,211</b>	<b>4,005</b>	<b>4,661</b>	<b>5,107</b>	<b>5,396</b>	<b>6,021</b>

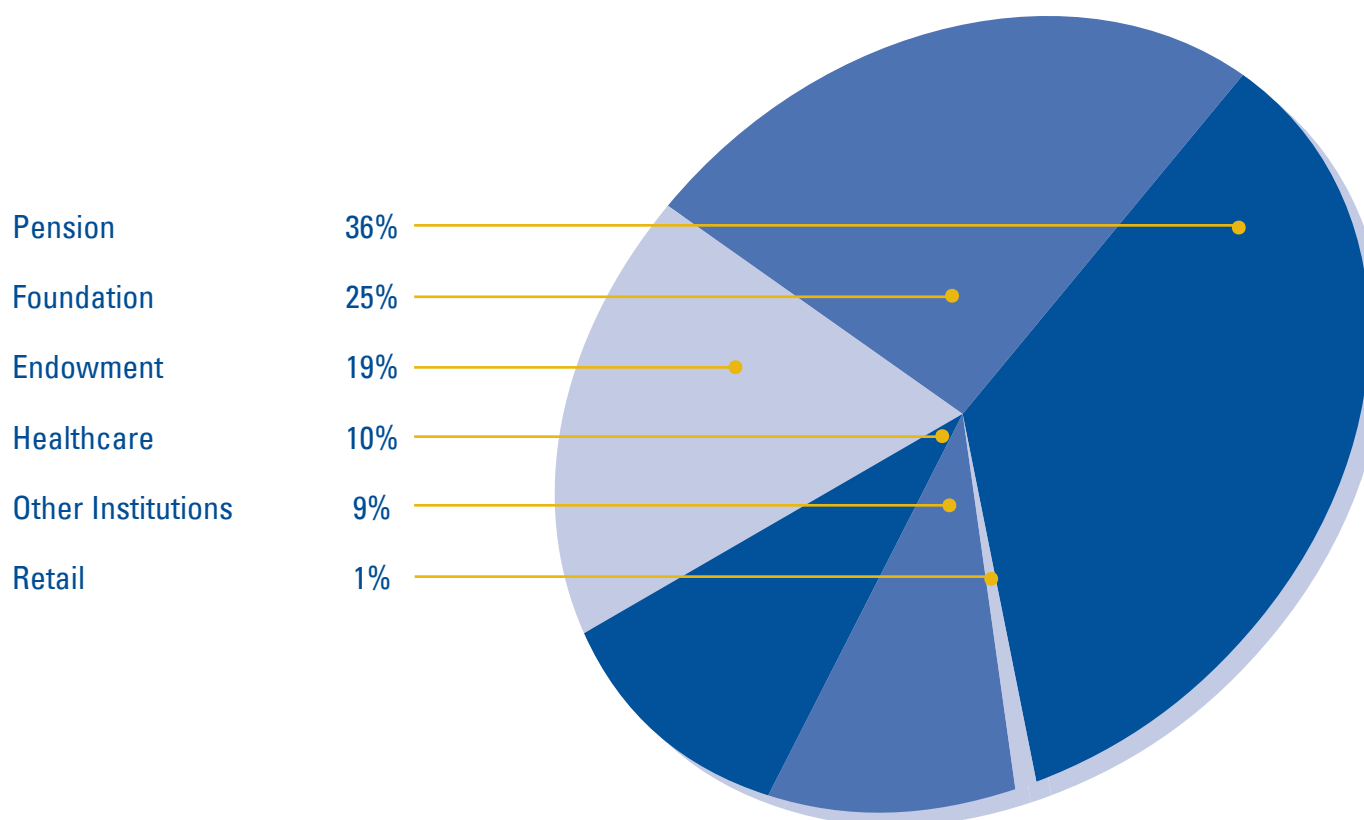
## Assets by Strategy vs Index

	Funds Under Management (\$mn)				Strategy Index	
	Dec-19 (estimate)	Jun-19	% inc	Net Flows		% inc / dec
EM	4,429	4,221	5%	-118	MSCI EM	7%
DEV	1,109	729	52%	272	MSCI ACWI x US	7%
Opportunistic Value	270	233	16%	20	ACWI/Barclays Global Agg	5%
Frontier	206	206	0%	8	S&P Frontier 150	0%
<b>Total FUM*</b>	<b>6,014</b>	<b>5,389</b>		<b>182</b>		

\*Excludes seed investments.

# Client Type\*

As a Percentage of Total Assets (%)



\*As at 31 December 2019



## Employee Incentive Plan (EIP)

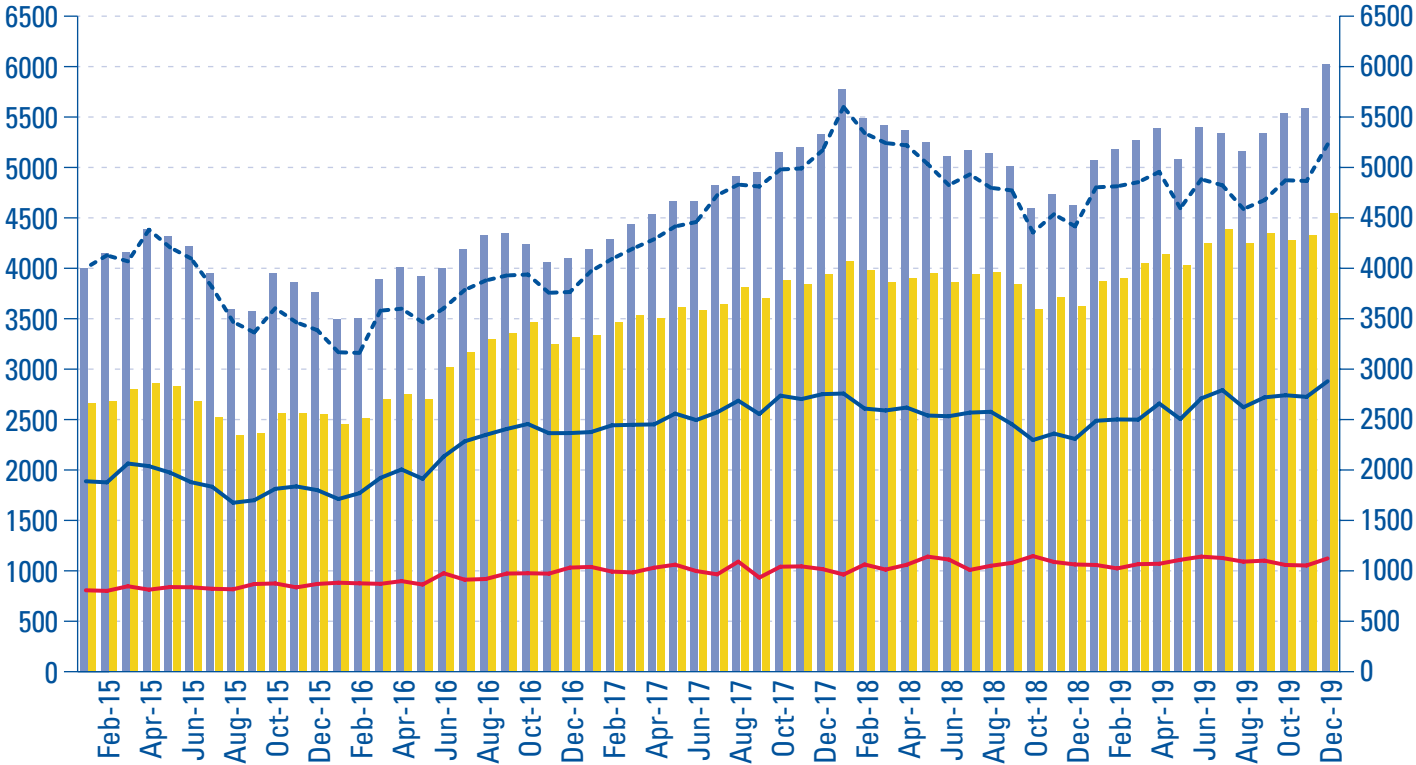
- ▶ It is an all employee plan, consistent with CLIG's team approach
- ▶ Strong employee take up, ~65%
- ▶ Shares will be purchased in the market, no dilution
- ▶ It is linked to the Group's risk adjusted profitability, hence performance related
- ▶ Will result in variable pay of cash and deferred shares
- ▶ Participation capped at 20% of individual annual bonus (may increase to 30% if headroom)
- ▶ Company will match participation
- ▶ Company contribution capped at 5% of pre-bonus, pre-tax operating profit until 2019/2020\*
- ▶ Thereafter the awards will fall within the 30% profit-share limit
- ▶ Awards of Restricted Shares (RSAs) will be granted after final dividend for the year
- ▶ RSAs will vest 1/3 each year over a three year period
- ▶ Awards that vest attract a dividend equivalent payment related to vesting period
- ▶ Termination before normal vesting date:
  - RSAs funded by waived bonus to be repaid at the lower of: value at date of grant or date of forfeiture
  - Company funded shares are forfeited upon termination except "good leavers" receive a pro-rated amount
- ▶ Clawback the same as applicable to bonus

**\*Only in a year where the results support a minimum dividend payment of 24p**

# Relationship Between our Benchmark and FUM

## Rolling 60 Months Funds Under Management and Profitability

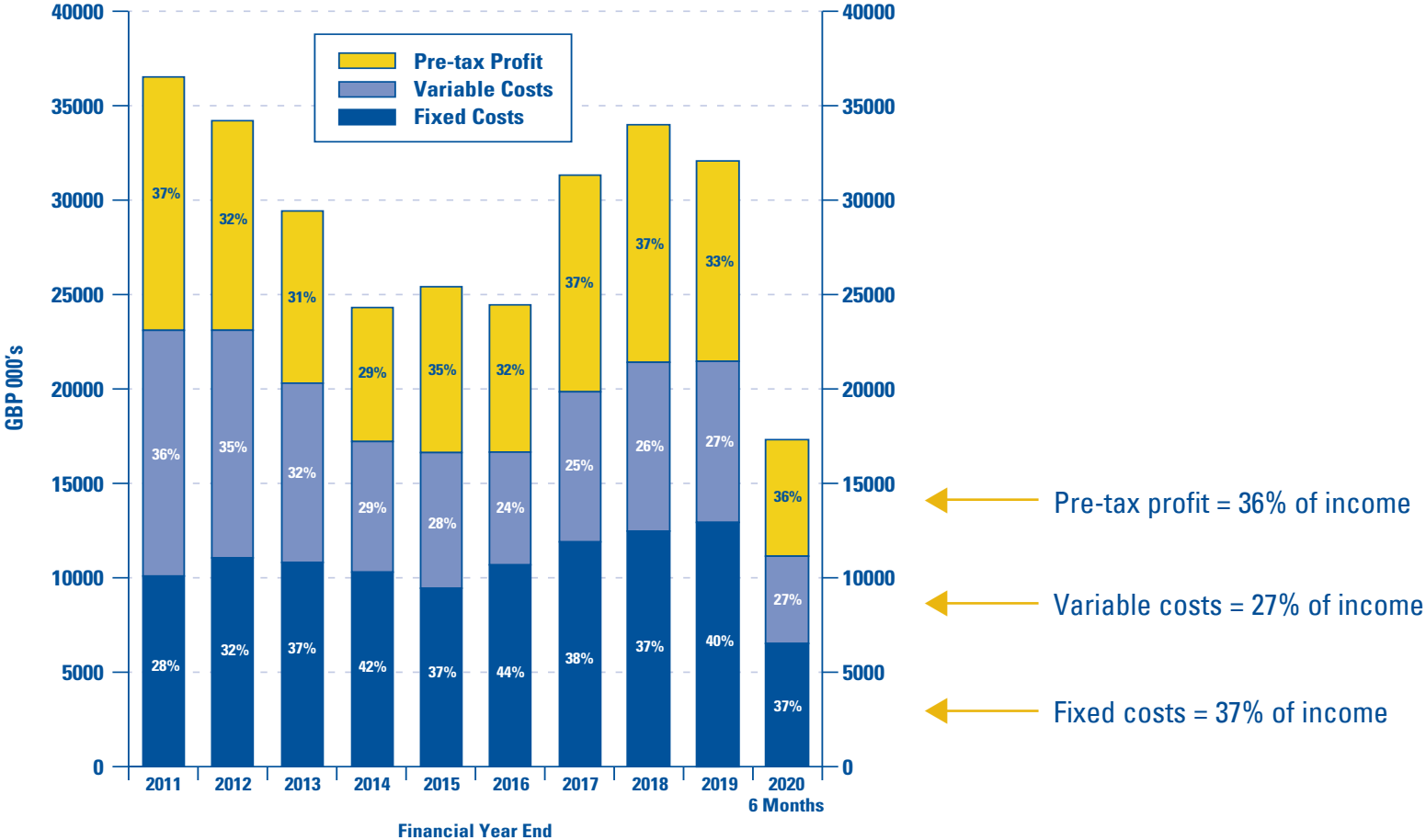
(Excludes extraordinary items of income and expense)



Past performance is no guarantee of future results.

Source: City of London Investment Management, MSCI

# Fixed Versus Variable Costs



\*Figures are unaudited

Note: Excludes extraordinary items of income and expense

# History

- ▶ **1989** – Established as part of Olliff & Partners, stockbrokers
- ▶ **1991** – Launched first fund, Emerging Markets Country Trust, a UK unit trust
- ▶ **1995** – Launched first US fund – The Emerging Markets Country Fund
  - US office opened on East coast
- ▶ **1997** – Stockbroking activities discontinued
- ▶ **2000** – Singapore office opened
- ▶ **2006** – Admission to AIM
- ▶ **2007** – Dubai office opened
- ▶ **2009** – Launch of Developed CEF Strategy
- ▶ **2010** – Admission to official list (premium segment)
- ▶ **2012** – Qualified Foreign Institutional Investors (QFII) scheme in China
- ▶ **2013** – Additional quota granted to Qualified Foreign Institutional Investors (QFII) scheme in China
- ▶ **2015** – Opened West Coast (US) office and appointed an additional marketer
- ▶ **2019** – Launch of EM and International REIT funds

# Shareholders

As at 31 December 2019

	%
Barry Olliff	7.6%
Other Directors, Staff & EBT	11.0%
<b>Subtotal</b>	<b>18.6%</b>
BlackRock	10.1%
APQ Global Limited	5.5%
Canaccord Genuity Group Inc	5.0%
Eschaton Opportunities Fund Management LP	4.8%
Polar Capital	3.7%
Other	52.3%
<b>Total</b>	<b>100.0%</b>

### **Important Notice**

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Changes in currency exchange rates will affect the value of the investment. Discounts are calculated using estimated NAVs by City of London's Research Department. Past performance is no guarantee of future results.

# City of London Investment Group PLC

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