FINAL RESULTS FOR THE YEAR TO 30TH JUNE 2020

Released : 14/09/2020

RNS Number : 8685Y
City of London Investment Group PLC
14 September 2020

14th September 2020

CITY OF LONDON INVESTMENT GROUP PLC (LSE: CLIG)
("City of London" or "the Group")

FINAL RESULTS FOR THE YEAR TO 30TH JUNE 2020

SUMMARY

- Funds under management (FuM) at 30th June 2020 were US$5.5 billion (2019: US$5.4 billion), an increase of 2%. In sterling terms, FuM increased by 5% to £4.4 billion (2019: £4.3 billion).
- Revenues, representing the Group's management charges on FuM, were £33.3 million (2019: £31.9 million). Underlying profit before tax and exceptional items was £10.7 million (2019: £11.4 million). Profit before tax was £9.4 million (2019: £11.4 million). Underlying profit before tax, exceptional items and losses/(gains) on seed investments in REIT funds was £11.5 million (2019: £10.6 million).
- Underlying basic earnings per share before exceptional items were 35.3p (2019: 34.9p). Basic earnings per share were 30.3p (2019: 34.9p) after an effective tax charge of 22% (2019: 21%) of pre-tax profits.
- A final dividend of 20p per share is recommended, payable on 30th October 2020 to shareholders on the register on 9th October 2020, making a total for the year of 30p (2019: 40.5p including special dividend of 13.5p).

BOARD CHANGE

Susannah Nicklin has advised the Board of her intention not to seek re-election as a Director at the forthcoming AGM on October 19th, due to external commitments. As a consequence, the CLIG Nomination Committee has initiated a search process for a replacement with a view to making an appointment in the near future. This will also involve a replacement appointment for the role of Senior Independent Director. Barry Aling will assume the Chair of the Nomination Committee on an interim basis.

Susannah has been a valued and active member of the Board over the last three years and we would like to extend our sincere thanks for her tireless efforts throughout that period both as a Director and Chair of the Nomination Committee. We wish her well in her future endeavours.

UPDATE ON MERGER OF CLIG WITH KMI

CLIG announced the Proposed Merger (the "Merger") with Karpus Management Inc ("KMI") on 9th June 2020 and subsequently a Prospectus to Shareholders was issued on 12th June 2020. The Merger was approved by shareholders on 13th July 2020. Completion of the Merger is on schedule, including KMI's client approval process, and is expected to be completed on 1st October 2020 (the "Completion Date").

As at 31st August 2020, KMI had US$3.6 billion of FuM compared with US$3.4 billion at 31st May 2020.

For access to the full Annual Report, please follow the link below:

http://www.rns-pdf.londonstockexchange.com/rns/8685Y_1-2020-9-14.pdf

For further information, please visit www.citlon.co.uk or contact:

Tom Griffith (CEO)
City of London Investment Group PLC
Tel: 001 610 380 0435

Martin R Green
Zeus Capital Limited
Financial Adviser & Broker
Tel: +44 (0)20 3829 5000

CHAIRMAN'S STATEMENT

If ever the CLIG business model needed to be stress-tested for its capacity to withstand extreme volatility, the events of the last few months provided a test like no other in our 28-year history. Just a few weeks after suggesting that the prospects for equity markets appeared "promising" in my half- year report to shareholders, the full economic implications of the worldwide lockdown from the COVID-19 pandemic emerged in early March causing a stampede for liquidity and exodus from global equities that was unprecedented and indiscriminate in scale. In just 27 trading days between February 19th and March 23rd, most global equity indices fell by more than 30%, with the MSCI Emerging Market Index (M1EF) falling 31% to levels not seen since 2016.

Since the March nadir, massive monetary intervention from the G7 central banks has prompted a V-shaped recovery in equities that left the M1EF within 15% of its January 2020 high point at 30th June, yet trading on a forward P/E ratio of just 12.3. The contrast with ratings in the developed markets, which have been the main beneficiaries of the liquidity injection, is stark with the S&P 500 trading on 21.7 times forward earnings. While the lower ratings for emerging markets should offer some protection against future volatility, the risk of a second wave pandemic has left all markets both apprehensive and brittle. Notably, and in contrast to the extreme volatility in equities, the quest for safe- haven assets throughout the recent turbulence resulted in a 9% positive total return from US treasuries over the year to 30th June 2020, as measured by the Bloomberg Barclays US Treasury index.

Inevitably and in tandem with market volatility, CLIG's FuM have gyrated significantly in recent months but, pleasingly, they rose by 2% over the full year to US$5.5 billion and now stand at US$6.0 billion as at 31st August 2020, within 4% of their all-time high. Our loyal client base and a dedicated effort from all of our employees in addressing a remote working environment over recent months, have combined to limit the impact of COVID- 19 to a manageable level. Of equal importance is the further significant progress achieved in growing the diversified products, notably the International strategy, which increased FuM by 71% in the year to US$1.2 billion and which now accounts for 23% of total FuM. While caution at the pace of the recent recovery is vital and prudence in managing our clients' assets more important than ever, I believe there are solid grounds for optimism for CLIG shareholders going forward and this brings me on to the second major development of recent months:

Diversification

As I reported last year, a key strategic objective for the Group has been to diversify our revenue base away from undue reliance on a capacity-constrained emerging market universe. Alongside the organic development of our diversification products, which continues unabated despite the COVID-19 headwinds, we were also active for much of the last year in pursuing merger discussions with Karpus Management Inc. (KMI), a closed-end fund (CEF)-focused wealth manager, based in Rochester, New York with US$3.5 billion FuM. These discussions culminated in the Merger Agreement, which was announced on 9th June 2020 and explained in detail in the Prospectus sent to shareholders on 12th June 2020. I am pleased to report that shareholders have since voted overwhelmingly to approve the merger with 99% voting in favour.

Under the terms of the agreement, CLIG will acquire the entire issued capital of KMI in exchange for the issue of 24.1 million new CLIG shares, nearly doubling the size of your Company. With 60% of KMI's FuM invested in fixed income assets on behalf of a high net worth (HNW) client base, this merger will provide a highly complementary fit to City of London Investment Management Company Limited's (CLIM's) equity- focused, institutional client business model. While the two operating companies will be run independently, the scope for operational efficiencies to be developed across both platforms should ensure both enhanced and less volatile returns for CLIG shareholders going forward. Completion of the KMI merger formalities is scheduled for 1st October 2020, at which point Tom Griffith will assume CEO responsibilities for the combined entity, while KMI will have the right to nominate two Directors to the CLIG Board in due course. As a result of close interaction between members of your Board and KMI management during the course of merger negotiations, I can say without hesitation that the positive chemistry between the two teams has been pivotal in cementing the transaction. Accordingly, we very much look forward to welcoming KMI's 33 employees into the CLIG fold later this year.

Merger post-script

Throughout the extended negotiations with KMI over the last two years, financial advice to CLIG had been provided by Kevin Pakenham and his colleagues at Pakenham Partners and it was with huge sadness, therefore, that we learned of Kevin's sudden passing on 19th July 2020, less than six weeks after the successful conclusion of those negotiations. For over 20 years, Kevin provided the Group with invaluable advice on a range of potential opportunities, often preferring to dissuade rather than persuade and the fact that he will not see our transformative transaction concluded is a great disappointment to all at CLIG. Our sincerest condolences go to his family and colleagues for their loss.

Results

The dislocation from the COVID-19 pandemic, referred to above, had a marked impact on our results for the final quarter of the year ended 30th June 2020, although, as stated earlier, a sharp recovery in FuM towards the year-end mitigated the full impact somewhat. Exceptional costs associated with the KMI merger amounting to £4.0 million will straddle both the 2019/20 and 2020/21 financial years. Of this total amount, £1.2 million has been charged to the income statement in the year to 30th June 2020 with a further c.£0.5 million relating to share issue costs being carried on the balance sheet to be capitalised in FY21 on completion. Since these costs are exceptional and non- recurrent in nature, I propose to confine my comments to the underlying results excluding merger-related charges since these present a more accurate comparison of our operating performance year-on-year.

Profit before tax for the full year was £9.4 million (2019: £11.4 million). Underlying pre-tax profits for the full year of £10.7 million were down 7% on the previous year due mainly to unrealised losses of £0.9 million, arising on our seed investments in REIT funds, compared with a corresponding gain of £0.8 million in the previous year. Diluted EPS for the year was 29.5p per share (2019: 34.1p). Underlying fully diluted earnings per share (EPS) for the year were marginally up by 1% to 34.4p per share (2019: 34.1p). As shareholders will be aware, the practice of seeding new products is integral to the development of a track record and while this can impact the Group's financial performance in either direction, as the last two years demonstrate, your Board remains fully committed to both this practice and the REIT sector, as offering material long-term growth opportunities.

Year end FuM of US$5.5 billion were 2% ahead of the previous year's closing figure, of which 69% was attributable to the core Emerging Markets product, compared with 78% in 2018/19. Despite a slight reduction in our average revenue margin to 75bp for the year (c.74bp for the month of June 2020), net fee income rose by 6% to £31.7 million, while continued tight cost controls resulted in total operating expenses of £13.0 million (before profit share and EIP charges), consistent with the previous year if merger-related costs are excluded. Additional charges of £0.9 million incurred in respect of the Employee Incentive Plan (EIP) were 9% higher than the previous year, reflecting a growing level of employee participation in the Plan. The EIP allows employees to forego a proportion of their cash bonuses to participate in share awards, with matching employer contributions, and this year will be the last in which these additional EIP charges will be incurred. The Board attaches great importance to the concept of employee equity participation as a means of aligning the interests of shareholders and employees. Over each of the four years in which the Plan has operated, more than 60% of our workforce has participated and this continues to be a key factor in achieving high levels of employee tenure, standing currently at an average of c.10 years across the Group.

Dividends

The established policy of distributing a relatively high proportion of net profits by way of ordinary dividends has been well received by our shareholders over many years and the Board's objective is to maintain this policy notwithstanding a degree of profit volatility. In order to avoid undue swings in dividends and provide a relatively stable return to shareholders, the adoption of a 1.2:1 cover ratio is applied over rolling five-year periods, thereby providing an additional metric that helps smooth distributions notwithstanding year-on-year volatility. Despite recent volatility, our cover ratio has increased sufficiently in the current year for the Board to recommend an increase in the final dividend to 20p per share, making 30p for the full year, at which level the rolling five-year cover will be 1.25:1, after making full allowance for the exceptional merger costs referred to above. This final dividend of 20p will be paid on 30th October 2020 to those shareholders on the register at 9th October 2020. In parallel with the dividend policy, the Board has taken care over recent years to build meaningful cash reserves both to withstand negative shocks and fund potential exceptional costs such as those that have arisen in consummating the KMI merger. I hope shareholders will agree that our ability to increase dividends this year, despite the COVID-19 trauma and the exceptional KMI merger costs, amply justifies our ongoing policy of balance sheet prudence. As stated at the time of the announcement, this merger has the potential to be earnings accretive in the first year, thereby allowing CLIG to remain a debt-free company with sufficient positive cash flow to invest in both operating companies while rebuilding financial reserves.

Board

The changes among the executive members of the Board, which were highlighted in my interim statement, were fully implemented in the second half of the financial year. While Barry Olliff stepped down from an Executive to a Non-Executive (NED) role at the end of December, Carlos Yuste rejoined the Board at the same time as Head of Business Development. Together with Tom Griffith, Carlos has played a central role through much of this year in bringing the KMI negotiations to a successful conclusion, a feat made considerably more difficult by the COVID-related lockdown. Although the KMI merger has yet to be finally completed, I would like to extend my sincere appreciation to Tom and Carlos in advance of the merger closing date for their tireless efforts on behalf of the Group. As also noted at the interim stage, Tracy Rodrigues is now on leave of absence, having resigned from the Board at the end of March 2020.

Looking ahead to the year to 30th June 2021, the merger agreement with KMI includes the right to nominate two new Directors to the CLIG Board, one Executive and one Non-Executive, and a decision on those appointments will be made following completion in October. In tandem with these appointments, Barry Olliff has agreed to extend his tenure as a NED for an additional year to the 2021 Annual General Meeting. Through his long-standing professional contact with KMI's founder, George Karpus, Barry was instrumental in opening exploratory merger discussions in 2018 and has played an important role in the subsequent negotiations. Realising the gains from this merger will involve a very considerable effort over the course of next year and, given Barry's extensive experience at the CLIG helm, his wise counsel at the Board table through this period will prove invaluable. That apart, there were no changes among the NED members during the year but I would like to extend my warm thanks to them also for their unstinting support and advice through the exhaustive process of concluding the KMI merger.

Corporate Governance

The year to 30th June 2020 was the first year in which the 2018 UK Corporate Governance Code (Code), which places increasing emphasis on the need for corporate and social responsibility towards all stakeholders, took effect and over the course of this year we have devoted considerable attention to its implementation. For many years, we have strived to maintain high levels of transparency and ethical standards in the conduct of our business on behalf of shareholders, clients and employees and these efforts have continued this year as detailed later in this report. We are acutely aware that a strong corporate reputation and stakeholder loyalty can be lost in an instant through carelessness, risk or poor judgement, which is why your Board devotes considerable energy to monitoring these factors on a day-to-day basis. Nevertheless, while adhering closely to the concepts underlying good corporate governance, it is also our duty to highlight any areas where the Code, by which we are bound as a listed company, may not be fit for purpose and/or may clash with the CLIG ethos. In this regard, I would like to highlight executive remuneration.

The CLIG culture is rooted in a team-based approach from top to bottom, avoiding any hint of a star culture, which is common elsewhere in the asset management industry and which has led to some spectacular falls from on high. Rewards based solely on numerical performance can easily lead to undue risk-taking, as was so obviously the case in 2008 and just as we avoid performance- based fee structures for clients, we are also careful to avoid an overtly formulaic approach to measuring performance when rewarding employees. The simplicity of our business model is such that our financial results can be measured very accurately within days of each month end and, with no proprietary trading activities and a totally transparent allocation of profits to the employee bonus pool, we believe it is entirely appropriate to distribute executive bonuses in cash in a timely fashion, just as we pay shareholder dividends in cash and in a timely fashion. It is called alignment and this matches our culture and links rewards with shareholder expectations, and is in full accord with Principle 'P' of the Code. I strongly urge shareholders to read the Report of our Remuneration Committee on page 63 of the full Annual Report as this seeks to explain our approach to the issue of executive compensation in terms which we believe are demonstrably in the best interests of CLIG's owners, as evidenced by our track record on employee tenure and comparative compensation levels.

However, this policy is somewhat at variance with the Code strictures which have been tailored in a one-size-fits-all framework that, inter alia, mandate significant deferral provisions. Despite compensation levels at CLIG being generally below our peer group, in some cases materially so, our average employee tenure is c.10 years with very low turnover. A comparison of average pay levels for the CLIG Executive Directors with those of four non FTSE 100, UK-listed institutional asset managers reveals that total compensation at CLIG is slightly over half that of our peer group. Yet this fact seems to be less relevant to proxy advisers, when making voting recommendations to their shareholder clients, than the fact that there is no tick in the box marked "bonus deferral" on their Code check-list. It is your Board's view that, given the levels of total compensation paid to executive management, any move towards compliance with the Code in respect of deferral would only serve to increase our aggregate levels of executive pay, thereby harming the interests of our shareholders.

The Code requires that at least half the Boards of listed companies, excluding the Chairman, should comprise independent non-executive directors. CLIG supports this stipulation which is designed to ensure good governance by protecting the interests of public shareholders. However, finding suitably qualified candidates to meet this threshold is a challenging process which can take many months, following which an exhaustive process of induction, training and familiarisation is necessary. CLIG will undergo significant transformation over the next two years as the merger with KMI progresses. The importance of a smooth transition and guidance from familiar, experienced and long standing Board members to senior management through this period will be vital. The Board believes that it is therefore appropriate to temporarily suspend the rigid application of the provision that the Board, excluding the Chairman, should comprise a majority of independent directors. Proxy advisors all too often disregard the Code's provision for flexibility. Your Board is aware of its responsibility to use such flexibility wisely and will share in more detail our plans for strengthening the Board's independence over the next twelve months.

In this report to shareholders, we have set out the actions taken this year to meet as far as possible the requirements of the Code and we remain fervent supporters of the UK's leadership role in corporate governance initiatives. However, we hope that shareholders will recognise that, when viewed objectively, there are certain areas where their interests may not be best served by an overtly prescriptive, box-ticking approach to governance responsibilities.

Outlook

In the absence of any certainty as to the course of the COVID-19 pandemic, it is impossible to predict with any confidence the outlook for the global economy in the coming year. The fact that central banks appear determined to provide significant offsetting monetary stimulus will mitigate the impact of a possible "second wave" but volatility will surely remain the order of the day. For CLIG, the more immediate task is to consolidate the KMI business and capitalise on the broader revenue base that the merger brings to the financial results. As I said one year ago, our strategic objective was to achieve the "go-to" manager label within the global CEF universe and the merger with KMI takes us firmly in that direction. With hard work and patience, I am confident that this will provide the Group with opportunities for growth as well as better defences against possible market headwinds.

Barry Aling
Chairman
10th September 2020

CHIEF EXECUTIVE OFFICER'S STATEMENT

This year marks significant milestones in the evolution of your Group as we continue to build upon the legacy created over the last 30 years. The first half of our financial year saw FuM reach US$6.0 billion at the end of December 2019. The business was then stress-tested by the global COVID-19 pandemic beginning in March 2020. Despite these uncertain times and extremes of market volatility, we have accomplished two of our long- standing diversification goals. The Group announced a corporate transaction in the form of its proposed merger with Karpus Management Inc. (KMI), and City of London Investment Management Company Limited (CLIM) continued to diversify through the growth of our non- emerging investment strategies which now represent more than a quarter of our FuM.

Our ability to accomplish these long standing objectives during this volatile period were as a result of a sound business model focused on long-term client relationships, a strong balance sheet, and committed employees. On reflection, the continued evolution of the business during this period of uncertainty has only been possible as a result of effective long-term planning and a team culture where, quoting the 19th century American writer Ralph Waldo Emerson, "Patience and fortitude conquer all things" resonates.

First and foremost in everyone's minds globally has been, and continues to be, the COVID-19 pandemic. The security, safety and well-being of our colleagues, their families, and our communities has been a priority since the beginning of the pandemic. Although FuM dropped significantly during the initial stages of the pandemic and the related market volatility, we did not reduce employee headcount or make significant decreases in compensation levels. While during a normal economic downturn of this magnitude we would have taken these steps to control costs, in this case our strong balance sheet allowed us to follow a different path. As in any relationship, there is give and take based on the facts at hand, and in this case it was in the best interest of clients, shareholders and employees that we remained fully able to respond to what would come.

We began planning for such a scenario, including the possibility of a pandemic, more than a decade ago while evaluating our traditional 'bricks and mortar' offsite solution. At the time, we chose to change course and work towards a distributed business continuity model with employees working securely from home. Frequent and consistent testing of secure remote access technologies has been of paramount importance to successfully transitioning employees to working remotely for an extended period of time. As regions around the globe implemented quarantine measures, we closed our offices and employees worked from home successfully from day one.

As many of you know from reading our reports over the years, we have continued to search for CLIG diversification opportunities, even whilst the non-EM, organic diversification efforts at the CLIM level have made significant progress over the past several years. The proposed KMI transaction announced in June adds a second, separate investment management operating company under the CLIG holding company umbrella. KMI brings like-minded people, a similar culture and a robust fund management business. As both KMI and CLIM share a focus on investment in CEFs, we have gotten to know the Company, and specifically their founder and largest shareholder, George Karpus, very well. KMI is an investment management business with a complementary client base focused on the US retail and HNW marketplace versus CLIM's institutional focus. We have had the opportunity to watch their business develop, get to know their core values, and monitor their performance and investment activity over multiple market cycles spanning more than ten years, which allowed us to see their commitment to their investment process and to their clients. Adding KMI will nearly double CLIG's market capitalisation and we believe it will reduce the volatility of the Group's earnings.

As New York City battled through increasing infection rates early in this pandemic, a news report reminded me of the previously mentioned Emerson quote when the report ended on an upbeat note with a focus on the two marble lions named Patience and Fortitude that stand watch outside the Beaux-Arts Public Library in Manhattan. The lions, initially commissioned in 1911, were renamed in the early 1930s by the city's mayor at the time to represent the qualities that he felt New Yorkers would need to survive the deep economic depression being experienced during that period. These symbols of strength and resilience to New Yorkers during difficult times are representative of the culture at CLIG that stood out during this period of pandemic, quarantines, and market turmoil. My colleagues were of resolute mind and purpose in successfully managing your business and our clients' assets.

Hard work is necessary, but not sufficient. Focus is necessary, but not sufficient. Grit is necessary, but not sufficient. A growth mindset is necessary, but not sufficient. Successfully navigating a growing business does not come from one singular thing, but rather a combination of many things over time. At the core must be sound planning, a patient company culture with the fortitude to keep calm and carry on when plans do not unfold as originally envisioned. I am proud to report that these core values shined through despite the global uncertainty, from both seasoned and newer colleagues, through to your Board of Directors.

Executive Director report

In this year's version of the Annual Report and Accounts you will find a statement from the Group Director and Chief Investment Officer of CLIM, Mark Dwyer. Mark's statement reviews the longer-term investment performance of the Group's strategies and equity markets over the past year.

FuM flows and margin

The weighted average fee rate is c.74bp at FYE 2020, down from 76bp at FYE 2019, due mainly to the change in mix of assets in each strategy. Net inflows over twelve months in the International Equity CEF and Opportunistic Value (OV) strategies totalled c.US$600 million balanced by net outflows of US$275 million from the Emerging Markets (EM) strategy. The International and OV strategies now represent approximately 27% of FuM compared to 18% at this time last year. Net inflows of US$250 million across strategies is our current projection for the next year.

The EM equity asset class remains out of favour, specifically in the United States, which is where c.94% of our clients reside (by FuM). The EM strategy has seen outflows over the fiscal year due to a combination of factors including clients' rebalancing after strong gains in EM over the second half of 2019. Some clients are also redeeming in order to meet operating expense obligations during the pandemic. The increasingly negative tone from the US government on the business practices of Chinese companies and the Chinese government overall is another factor putting pressure on the asset class.

The team managing the International strategy has seen steady inflows throughout the year, with net inflows received in eleven of the twelve months. Demand for International equity exposure by US-based investors is high, and the team has a compelling investment thesis and risk-adjusted performance.

The team managing the OV strategy thrives on volatile markets, and the March/April volatility provided this team with the ability to invest in historically wide discounts for our clients that are more "tactical" in nature. This strategy provides a nice diversifier to our business, as the clients are looking for a specific type of exposure, and return, usually over a defined time frame.

The Frontier CEF team had positive inflows during the year, but this has been muted by additional redemptions post-year end.

The REIT team continues to patiently build their return history, as most institutional investors want to see a five year return history before investing. The team did receive a subscription from an existing EM equity client who sought exposure to EM Real Estate.

As shown on page 7 of the full Annual Report, this is the fourth straight year of positive inflows for the International strategy. The strategy has gained momentum with support from multiple large consultants in the US, and strong relative performance on behalf of our clients.

CLIG share price KPI

CLIG Management has adopted two Key Performance Indicators (KPIs) based on the total return of CLIG over a market cycle, which are designed to provide shareholders with an indication of the return they should expect from owning the CLIG business.

The KPIs are:

- Our share price to compound annually at between 7.5% to 12.5%
  OR
- Our share price to double the cumulative return of the M1EF

Our goal is to achieve one of the two over rolling five-year periods. These measures are meant to stretch the management team, without incentivising managers to take undue levels of risk.

For the five years ending 30th June 2020, CLIG's cumulative total return was 66.7% (10.8% per annum); this compares favorably with the 46.3% cumulative total return from M1EF. We therefore meet KPI #1, as the total return of 10.8% per annum is within the 7.5% to 12.5% target range. We do not meet KPI #2, as the total return did not double the cumulative return of M1EF, although it is outperforming M1EF over the five years.

For reference, since our listing in April 2006 on AIM through to 30th June 2020, CLIG's cumulative total return was 471.0% (13.0% per annum), which outpaced the target range in the first KPI. For the second KPI, M1EF's cumulative total return since CLIG's inception was 143.7%, so the second KPI has been achieved since inception.

Karpus transaction

As summarised in the Prospectus released on 12th June 2020, the CLIG Board announced that it entered into a Merger Agreement to acquire the entire issued share capital of Karpus Management Inc. (KMI), a US based investment management business, on a debt free basis, to be satisfied through the issue of new CLIG shares. On 13th July 2020, CLIG shareholders were supportive of the deal, approving the transaction overwhelmingly. The deal is expected to close on 1st October 2020.

The Board believes that the merger will be of substantial strategic and financial benefit to the Group and for all shareholders. While CLIG and KMI share a focus on investment in CEFs for their respective clients, the two businesses operate in quite separate and distinct market segments. Your Board believes that the complementary nature of these two asset management businesses will serve to improve the stability of revenues and profits over time and thereby reduce CLIG share price volatility, and that the merger has the potential to be earnings accretive in the first full financial year following Completion. Importantly, however, the Group will remain a pure-play asset management business, and the Board believes that the performance of CLIM and KMI will have relatively low correlation in terms of earnings and asset class performance.

While we are confident that recent successes in achieving organic growth in the diversified products will continue, this transaction provides shareholders with the potential for a more stable and diverse source of income.

Group expenses and profitability

Operating profit grew by 9% to £11.6 million (2019: £10.5 million) as a result of increased net fee income of £1.8 million (6%) as compared to 2019. Profit before tax fell by 17% to £9.4 million (2019: £11.4 million) primarily due to unrealised losses on the Group's seed investments in its REIT funds of £0.9 million and acquisition-related costs of £1.2 million charged during the year. As explained further in the Financial Review, total acquisition-related costs are estimated to be approximately £4.0 million. Of this total, £1.2 million has been charged to the current year's income statement, £1.8 million is estimated to be charged to the income statement in FY 2021 and the balance of £1.0 million will be capitalised as share issuance costs in FY 2021.

Cash and dividends

We strive to be transparent in our approach to managing the balance between maintaining adequate cash reserves and, on the other hand, maintaining an attractive dividend stream for the benefit of our shareholders. We seek to maintain adequate cash reserves to weather exogenous shocks and to enable the Group to take advantage of transactional opportunities, both of which arose in the course of the fiscal year. We also aim to distribute dividends at a sustainable level, through market cycles in what we acknowledge is a potentially volatile (EM) asset class. While we take nothing for granted, we are grateful to have managed to navigate our way through the KMI transaction, sustain the market impact of the first few months of the COVID-19 pandemic, and to be prepared to distribute a dividend to shareholders that reflects the financial strength of the Group. As such, the Board is recommending a final dividend of 20p, which is an increase of 2p from last year's final dividend. This follows the 1p increase to the interim dividend.

Inclusive of our regulatory and statutory capital requirements, there is £14.6 million in the bank in addition to the seed investment of £3.8 million in the two REIT funds. The previously mentioned transaction to merge with KMI will be completed by issuing new shares, leaving a significant level of cash in the bank, exclusive of acquisition-related costs of £2.3 million to be paid in FY 2021. We project that this cash allows us to manage the enlarged business through downturns without letting the external forces of lower fee revenue impact our service to our clients, or a reduced dividend to our shareholders.

Just as employees were retained during the recent period of uncertainty in order to ensure continuity for clients, our dividend payment rewarding the shareholders should reflect consistency with our dividend cover policy. Our dividend cover policy of 1.2x cover over a rolling five-year period remains ahead of the policy at 1.25x over the period and inclusive of the increased dividend. We will monitor, and report upon, the appropriateness of the 1.2x cover policy over the coming years, as we navigate the onboarding of the KMI business and cash flows.

Dividend cover template

On 12th June 2020, the Group published the combined circular and prospectus in relation to the share consideration to be issued to stockholders in KMI on completion of the merger. The prospectus remains live until admission of those consideration shares on completion, currently expected to occur on 1st October 2020. Whilst the prospectus remains live, the Company is prevented under the Prospectus Regulation from providing our normal dividend template without the approval and publication of a supplementary prospectus. We will address this matter after the completion of the transaction.

EIP

We continue to be pleased with the enthusiasm that employees demonstrate for the CLIG Employee Incentive Plan (EIP). This plan allows employees to allocate a portion of their profit share, which is matched by the company, to purchase shares of CLIG that vest over the following five years for the Executive Directors and over three years for the rest of the employees. 65% of employees participated in the plan for FY 2020. In 2016, when the plan started, shareholders had previously approved an additional 5% of the pre-tax, pre-bonus, operating profit to cover the charge of implementing the plan. Our financial year-end 30th June 2020 is the final year for this 5% allocation, and thereafter, these awards will fall within the 30% limit of the existing profit share pool allocated to employees. We anticipate that a similar plan will be created for KMI employees, to encourage ownership of CLIG shares.

Update on finance department

As announced on 31st December 2019, Tracy Rodrigues, Group Finance Director, requested a leave of absence for family reasons and stepped down from the Group Board on 31st March 2020. Deepranjan Agrawal was hired in January 2020, and became the Head of Finance as of 1st July 2020 reporting directly to me, and manages the established and stable Finance team.

Deep's experience includes over sixteen years with Deloitte and recently three years with RSM in their audit practice within the asset management industry. Deep has a wealth of relevant knowledge having served a range of clients in the asset management industry including large and small investment managers, Investment Trusts and UK authorised funds. Deep completed his Master of Commerce degree from the University of Pune, India and is a Chartered Accountant.

Corporate governance and stakeholders

In his Chairman's Statement, Barry Aling makes clear that we welcome the changes and increased disclosures in this Report that come as a result of the 2018 UK Corporate Governance Code. We address our increased reporting obligations under Section 172 of the 2006 Companies Act on page 44 of the full Annual Report. You will also find increased disclosures on our remuneration policy, KPIs, and other corporate governance topics throughout the document.

We have always, from the issuance of the first Annual Report and Accounts after becoming a public company in 2006, explicitly recognised that the Group exists for the mutual benefit of our three primary stakeholders - clients, employees and shareholders.

I echo the Chairman's comments regarding our Group's culture of transparency and disclosure, and am in full agreement with him that CLIG will not blindly follow guidance if it does not reflect the best way for our business to be managed on behalf of our clients, employees, and shareholders. We will always recognise and balance the interests of our various constituencies in the management of your Company.

Barry Olliff intended share stake

After his retirement on 31st December 2019 on his 75th birthday, CLIG's Founder Barry Olliff agreed to the Board's request to complete his term as a Non-Executive Director. Now that the KMI transaction has been announced and is moving towards completion, the Board would like to extend Barry's role on the Board for a final year to maintain continuity and retain his insight and expertise.

Shareholders are reminded of Barry's previously-stated intention to sell 330,613 shares at 450p, which is the balance of his 500,000 planned sale at that level, and then 500,000 shares at each of 475p and 500p, subject to relevant restrictions. As per listing rules, any share sales will be announced to the market after execution.

Barry is supportive of the transaction with KMI, and reinforced that support with his announced purchases of CLIG shares on both 19th June and 30th June, following the announcement of the proposed transaction. Barry intends to remain a large shareholder in CLIG post-transaction, but will continue to sell shares at the aforementioned levels in order to achieve his personal estate planning goals.

CLIG outlook

In conclusion, the efforts and support of my CLIG colleagues must be acknowledged. Thank you for your patience and hard work during the unique circumstances driven by the pandemic. And, on my behalf, please extend a thank you to your spouses, family, roommates, and other relationships for any inconveniences caused by working remotely during the pandemic. We look forward to having you in our offices again when it is safe and acceptable.

Secondly, thank you to our shareholders for your overwhelming support of the KMI merger. The Board and management are excited about the future of the combined entity and believe that the two investment management Companies (CLIM & KMI) will create an enduring and well-balanced company. We look forward to integrating the strong-performing KMI team into the CLIG framework and supporting two growing businesses.

Our focus on clients, employees, and shareholders will continue to be the way we look at our business. Our culture has been created to recognise and consider all of our constituencies, and it extends to the families of employees, communities in which we do business, communities in which our employees live, as well as the regulations that impact our business. With the components of a sound business model, strong balance sheet and committed employees, CLIG continues to evolve as intended and is well positioned for the year to come.

Tom Griffith
Chief Executive Officer
10th September 2020

CHIEF INVESTMENT OFFICER'S STATEMENT

CLIM's investment teams have produced solid long-term investment results for our clients. This was reflected in net inflows over the year. Total inflows were US$0.3 billion driven by a significant increase in the International Equity closed-end fund (CEF) strategy. Outflows were seen in the Emerging Markets (EM) Equity CEF strategy, a result of less active marketing and continued outflows from the EM equity asset class in general. Our objective is to keep the EM strategy assets around current levels (US$4 billion) whilst the International strategy has paused active marketing following a two-year period of very strong asset growth. We will reappraise capacity at year end 2020. The Opportunistic Value (OV) strategy has significant capacity with a good long-term track record and will remain the focus of marketing in the medium term. CLIM's two REIT strategies incepted in January 2019 have performed well. The EM REIT strategy has attracted small inflows from existing clients and we will be marketing these products more extensively as the track record builds. Our overriding objective when considering capacity and raising assets is our ability to generate alpha for our clients on a sustainable basis. In this regard we will not jeopardise long-term performance, and with it, long-term client relationships.

Performance

CLIM's process of buying cheap securities based on their discounts to NAV has stood the test of time for nearly three decades. Our investment horizon is five years, and over this period the International and EM strategies which comprise over 90% of FuM, are ahead of their benchmarks and their institutional peer-group averages. Over five years both strategies have benefitted from positive discount effects. Country allocation has been an important contributor for the EM strategy, less so for the International strategy however the latter has been influenced positively by strong NAV performance at the underlying CEFs. In the year to June 2020 both strategies had to contend with sharply wider discounts in Q1 2020, however they finished the period ahead of benchmark in gross terms. Both were assisted by good country allocation and the EM strategy in particular from strong NAV performance at the underlying CEFs. CLIM's OV and Frontier Equity strategies are behind benchmark on a five-year horizon due to recent underperformance. The benchmark agnostic OV strategy is an unconstrained approach that generates alpha via concentrated portfolios of CEFs across all asset classes. Performance was adversely affected by wider discounts in the high yield credit and alternatives positions in March 2020. It's pleasing to note however that despite these short-term headwinds the strategy remains well above the peer group average over five years.

The Frontier strategy had to contend with the outperformance of US listed, Argentine domiciled companies that we cannot access via closed-end funds. Our preferred investments in Argentine investment holding companies trade well below book value but their attractions, in our opinion, have yet to be fully recognised by the market.

CLIM's REIT team have continued to develop very satisfactory investment performance. Both strategies are outperforming since inception. Although the absolute performance of the asset class has been weak in 2020, the long-term outlook remains favourable. REITs are a tax advantaged wrapper of real assets that offer protection against potential inflation. They are supported in the meantime by attractive yields, relative to fixed income.

ESG

Best governance practice for CEFs helps to ensure that persistently wide discounts do not become entrenched so that NAV performance is better reflected in share prices. CLIM believes that fully independent boards are best able to take the necessary steps to achieve effective discount management. The cornerstone to our governance approach is therefore that boards should be fully independent from the investment manager. CLIM is also a firm advocate of conditional tender mechanisms in which poor long-term NAV performance automatically triggers an option for shareholders to sell a proportion of their shares back to the CEF at close to NAV. Conditional tenders neatly ensure that managers' and shareholders' interests are closely aligned over a longer term investment horizon.

Our clients' top priority is superior investment performance but environment, social and governance (ESG) is of growing interest to all investors and we strive to apply best practice to our CEF strategies. CLIM intends to become a signatory to the UK Stewardship Code 2020, having been an early signatory to its predecessor. We have also been a signatory to the PRI since 2015. In 1954 Peter Drucker famously wrote "what gets measured, gets managed". We cannot dictate to investment managers which securities they may or may not purchase but our approach, which is focused on disclosure and transparency, is a clear positive influence. For example, several CEFs now disclose their estimated carbon footprint relative to the benchmark equivalent.

CLIM's manager due diligence process includes an ESG assessment, incorporating climate change. Where possible, we use Sustainalytics' data to focus on material ESG risk as the basis to challenge investment managers on their own ESG process. While we don't set ESG targets it's interesting to note that in aggregate, CLIM's portfolios typically exhibit ESG risk that is lower than their benchmarks.

CLIM incorporates ESG analysis into its investment process because effective stewardship in a CEF context implies lower discounts. In recent years, CLIM has published an Annual Stewardship Report which is available on our website. It sets out the principles underlying our approach to stewardship and highlights some of the significant outcomes of our stewardship activity.

CEF issuance

The closed-end fund universe continues to offer ample scope to generate alpha for our clients. New issuance, which will generally provide tomorrow's discount anomalies, was robust in 2019. Indeed, we saw close to record capital raising in the UK with eight CEF IPOs and total capital raised including secondary issuance of over US$11 billion. Additionally, there were 10 new CEFs launched in the US and total new capital raised of US$5.6 billion. There was also significant new issuance in mainland China - over 20 new investable equity CEFs were launched raising approximately US$4 billion whilst significant issuance of fixed income CEFs also came to market. In Australia eight new funds raised over US$2 billion which was augmented by secondary issuance exceeding US$1 billion.

Outlook

The last twelve months will undoubtedly be remembered more for the business and economic disruption brought about by authorities' reaction to the pandemic via containment measures than the ultimate impact on global markets. Indeed, with one year gains of 3.4% in the MSCI world index (equities) and 4.2% for the Barclays Global Aggregate index (bonds) one might reasonably question the relationship between risk assets and the real economy at all. In our opinion, there is a link, and a strong one over time. Currently however investors appear to be looking through the significant declines in earnings expected in 2020 (approximately 15%) and instead to the expected recovery in 2021. Confidence in such earnings recovery is based on:

1 the significant fiscal and monetary stimulus delivered by central banks and governments since March - this will "tide over" many businesses that may otherwise have turned insolvent this year;

2 a growing realisation that the pandemic and the damaging impact on business from containment measures will eventually pass; and

3 optimism that a healthcare solution in the form of a vaccine will be developed faster than the usual three to eight-year cycle allowing consumer behaviour, given time, to fully recover.

Given that monetary authorities have and will likely continue to maintain interest rates at low levels so the rate at which future cash flows are being discounted today is lower than it was 12-18 months ago. The present value of those future cash flows is today, higher than it otherwise would have been. This is one reason why very long duration assets, from century government bonds to mega-capitalisation technology stocks have performed so well.

As time passes the pandemic will fade from memory, like the natural disasters, financial crises, terror attacks and wars of the past. Of course there will be changes in the way we live, there always are - the human race adapts quickly. Air travel changed forever after 9/11; nuclear power was deemphasized after Chernobyl and again after Fukushima. Russia remains sanctioned by the West over the Crimea annexation seven years on. The bloated levels of government debt taken on to keep businesses solvent through the containment will be reduced over time via a combination of (eventually) higher taxation and potentially greater than expected inflation on a three to five-year view.

Equity valuations appear overextended in the US whilst fixed income markets with global government yields of 0.5% and corporate yields of 1.7% offer paltry real returns over any meaningful horizon. We are fortunate to be investing predominately in international ex-US equity markets where equity valuations are less stretched than in the US. In particular EM currently trade at a discount of approximately 30% to developed. EM also stand to benefit from the eventual cyclical recovery in economic growth driven by abundant stimulus. In our view they offer excellent potential for superior real returns on a 5-10-year horizon.

We do not have any particular insight into when the pandemic will eventually pass, albeit it will. Sino-US tensions are likely to survive the pandemic as the key driver of volatility in risk assets for many years, potentially decades to come. In this regard the risk from the conflict may intensify ahead of the US election which in itself may present challenges to risk assets in the short term. Fortunately, we do not need to forecast with any significant degree of accuracy when these geopolitical or virus related hazards will pass. Continued significant retail participation in the CEF universe with sentiment predominately driven by entrenched behavioural biases will continue to have a measureable impact on discount volatility. More so whilst geopolitical and thus market uncertainty remains elevated. This is the key support to long term alpha generation across our strategies. CLIM's investment philosophy dictates that we remain more or less fully invested. Trying to time the overall direction of risk assets in the short term remains a fool's errand in our view. Our clients pay a management fee and expect outperformance of the benchmark index in return, predominately via our ability to exploit CEF discount anomalies. Our competitive edge is certainly not attempting to second guess when greed may turn to fear through a market cycle. A time tested and disciplined investment process, continued discount volatility amidst a healthy CEF universe combined with a well-resourced and highly experienced investment team will ensure we continue to meet our clients' performance expectations over time.

Mark Dwyer
Chief Investment Officer
10th September 2020

BUSINESS DEVELOPMENT REVIEW

Overview

Long-term investment performance in the EM Equity CEF strategy remains strong, with first or second quartile results versus manager peers over the 3, 5 and 10-year rolling periods ending 30th June 2020.

There were net outflows of US$275 million in our core EM strategies, as clients rebalanced after strong gains in emerging markets over the second half of 2019.

Fundraising in the diversification products resulted in net inflows of US$551 million in International strategies, and US$46 million in Opportunistic Value strategies, while Frontier had US$16 million of net inflows.

Diversification products now represent circa 31% of Group FuM, compared with 22% last year. These additional assets will assist in efforts to raise the profile of our extension CEF products with institutional consultants and plan sponsors.

Products

Additional FuM into our International and Opportunistic Value CEF products resulted in assets growing in these strategies by 71% and 10%, respectively, over the year.

The International Equity CEF Strategy (INTL) utilises our experience with CEFs in our core EM strategy to provide exposure to global developed markets.

Opportunistic Value CEF Strategy (OV) encompasses a variety of asset classes via CEFs and adopts a go anywhere approach. While this is a separate team from the team managing client assets in the emerging markets, both teams use the same methodology and internal operational resources. Both taxable and tax-exempt products are available.

The Frontier EM CEF Strategy is an extension of the EM core equity product focusing on the smallest or pre-emerging markets with high growth potential.

The REIT Strategies, EM and International, are focused on finding value within the global universe of listed real estate investment trusts.

Performance

The EM and INTL strategies outperformed over the year gross of fees, while the OV and Frontier strategies underperformed. Both the EM and INTL strategies benefitted from good country allocation. The Frontier strategy suffered from weak NAV performance, particularly impactful among Argentine holdings while the OV strategy suffered from negative allocation effects. In addition, as discounts widened significantly across CEF sectors, most notably in Q1 2020, all the strategies suffered to some extent from this factor over the twelve-month period.

The Global Emerging Markets Composite net investment returns for the rolling one year ending 30th June 2020 were -3.6% vs. -3.7% for the S&P Emerging Frontier Super BMI Index in USD.

The International Equity CEF Composite net investment returns for the rolling one year ending 30th June 2020 were -5.4% vs. -4.8% for the MSCI ACWI ex US in USD.

The Frontier Markets Composite net investment returns for the rolling one year ending 30th June 2020 were -22.7% vs. -12.7% for the S&P Frontier EM 150 benchmark in USD.

The Opportunistic Value Composite net investment returns for the rolling one year ending 30th June 2020 were -10.6% vs. 4.1% for the 50/50 MSCI ACWI/Barclays Global Aggregate Bond benchmark in USD.

Outlook

Marketing efforts will continue to be targeted at investment consultants, foundations, endowments and pension funds. We will also continue to introduce our capabilities to family offices, outsourced CIO firms and alternative consultants. Our International and OV capabilities will be the focus of our product diversification and business development activities.

As previously announced, and subject to regulatory approvals and client consents, CLIG is scheduled to merge with KMI on 1st October 2020. Management believes the addition of KMI will bring added diversification benefits to CLIG due to the fixed income and developed equity strategies as well as a complementary wealth management client base. KMI will be run independently of CLIM by the existing management team, with no overlap of investment or relationship/client teams.

We look forward to updating on KMI business development in the February 2021 interim report.

FINANCIAL REVIEW

Group income statement and statement of comprehensive income

The Group income statement is presented in line with International Financial Reporting Standards (IFRS) but the financial information is reviewed by the management and the Board in a slightly different way, as in the table provided on page 34 of the full Annual Report. This makes it easier to understand the Group's results and clearly shows the profits to which the Group's profit-share provision and Employee Incentive Plan (EIP) cap apply.

The Group's gross revenue comprises management fees charged as a percentage of FuM. FuM at 30th June 2020 were US$5.5 billion compared with US$5.4 billion at the end of last year, as a result of net inflows of US$0.3 billion, offset by underperformance in the Opportunistic Value (OV) and Frontier strategies. Even though FuM ended the year only slightly higher than 2019, the average FuM for the current year increased by 5% from US$5.1 billion in 2019 to US$5.3 billion in 2020.

The Group's gross revenue has increased year-on-year by approximately 4% to £33.3 million (2019: £31.9 million). Increase in revenue is primarily due to higher FuM during the year as mentioned earlier along with a weaker sterling against the US dollar, with an average GBP/USD rate of 1.26 this year compared with 1.29 last year. The increase is however offset by a general fee erosion and the mix of business, with the non-Emerging Market strategies, which attract lower fees, now representing 31% of FuM (2019: 22%).

Commissions payable of £0.2 million (2019: £0.8 million) relates to fees due to third party marketing agents for the introduction of clients. The contract to which these commissions relate was due to expire in October 2020, however based on an agreement entered into with the agent in April 2020, the Group made an early payment and settled the contract at a small discount.

The Group's net fee income, after custody charges of £1.4 million (2019: £1.3 million), is £31.7 million (2019: £29.9 million), an increase of 6% on last year. As a weighted average percentage of FuM, net fee income as at the end of the current financial year is c.74bp compared to 76bp at the end of June 2019.

The overheads for the year remained consistent at £13.0 million (2019: £12.9 million), and due to the increase in net income for the year resulted in a cost-income ratio of 41% (2019: 43%), arrived at by comparison to net fee income. The largest component of overheads continues to be employee related at £8.6 million (2019: £8.4 million). The increase in employee costs is comprised of £0.1 million on account of salary increases and the balance of £0.1 million relates to sterling weakening against the US dollar.

Total net income less overheads resulted in a profit of £18.6 million (2019: £17.0 million) to which the 30% profit-share is applied, which including payroll related taxes amounted to £6.2 million (2019: £5.6 million).

The Employee Incentive Plan (EIP) charges amounted to £0.9 million (2019: £0.9 million) which is within the 5% (2019: 5%) of profit before bonus approved by shareholders. This 5% limit has been in place until the end of this financial year. Going forward the cost of the EIP will fall within the 30% profit-share pool.

Investment loss of £0.9 million (2019: £0.8 million gain) primarily relates to the unrealised (losses)/gains on the Group's seed investments in its two REIT funds, launched at the start of January 2019. It also includes the unrealised losses relating to minority third party interests in the REIT funds of £0.2 million (2019: £0.2 million gain).

Exceptional items are items of income or expenditure that are significant in size and which are not expected to recur. Such exceptional items have been separately presented by virtue of their nature to enable a better understanding of the Group's financial performance. Total acquisition-related costs in relation to our proposed merger with KMI are estimated to be approximately £4.0 million. Of this total, £1.2 million has been charged to the current year's income statement as an exceptional item, £1.8 million is estimated to be charged to the income statement in FY 2021 as an exceptional item and the balance of £1.0 million will be capitalised as share issuance costs in FY 2021.

The pre-tax profit of £9.4 million (2019: £11.4 million), after a corporation tax charge this year of £2.0 million (2019: £2.4 million), at an effective rate of 22% (2019: 21%), results in a post-tax profit of £7.4 million (2019: £9.0 million), of which £7.6 million (2019: £8.8 million) is attributable to equity shareholders of the Company.

Group statement of financial position

The Group's financial position continues to be strong and liquid with cash resources of £14.6 million accounting for 76% of net assets (2019: £13.8 million, 62%).

The Group had invested US$5 million (£3.9 million) in seeding its two REIT funds at the start of January 2019. By the end of June 2020 these investments were valued at £3.8 million (2019: £4.5 million), with the unrealised losses (2019: gains) taken to the income statement.
The Group is required to report under IFRS which outlines the basis of consolidation. Where the Group holds seed investments in funds that it manages there are a number of factors which determine if those investments should be consolidated or not. The Group's two new REIT funds were assessed to be under the Group's control and therefore consolidated as at the end of June 2019. During the year, external investment was received in the EM REIT fund and it was assessed to be no longer under the Group's control and thus it is not required to be consolidated in the Group's financial statements. The International REIT fund is still consolidated on a line by line basis in the statement of financial position and includes third party investments, collectively known as the non-controlling interest (NCI).

The adoption of IFRS 16 Leases has resulted in the identification and initial recognition of right-of-use assets of £2.2 million and lease liabilities of £2.1 million in relation to lease commitments for our office premises. There was also a small adjustment to the retained earnings amounting to £0.1 million as detailed in note 4 of the financial statements. Rental expense in relation to our offices of around £0.4 million in 2019 was included within other administrative expenses. From 2020, rental expense has been replaced with depreciation of right-of-use assets amounting to £0.3 million and interest expense on the lease liability amounting to £0.1 million.

Other components of non-current assets are:
•Property and equipment of £0.5 million (2019: £0.7 million), capitalised software licences of £0.1 million (2019: 0.2 million). The reduction is on account of the depreciation charge for the year of £0.3 million; and
•A deferred tax asset of £0.3 million (2019: £0.4 million) which is an estimate of the future corporation tax savings to be derived from the exercise of share options in issue at the financial year end plus timing differences on when a deduction can be taken on the EIP awards granted in the US.

Liabilities include employee waived profit-share in respect of participation in the EIP, £0.7 million (2018: £0.6 million). These funds are held on account until such time the awards vest or are forfeited. On vesting they will offset the loan to the Employee Benefit Trust (EBT). On forfeiture the lower of the waived bonus or the market value of the deferred shares at that time will be paid to the employee. The EIP has had a consistently high level of participation each year since inception (>60% of Group employees), with the first tranche of awards vesting in October 2018. Only 16.5% (2019: 15%) of those shares that vested were sold in order to help cover the employees' resulting tax liabilities, leading to a very healthy 83.5% (2019: 85%) share retention within the Group.

Following the vesting in October 2019, £0.9 million (2019: £0.4 million) was offset against the loan to the EBT, funded equally by the employee waived profit-share account and the EIP share reserve account, the latter being the Company matching element.

In addition, Directors and employees exercised 108,875 (2019: 164,605) options over shares held by the EBT, raising £0.4 million (2019: £0.5 million) which was also used to pay down part of the loan to the EBT.

The EBT purchased 483,250 shares (2019: 307,982 shares) at a cost of £2.0 million (2019: £1.2 million) in preparation for the annual EIP awards due at the end of October 2020.

Dividends paid during the year totalled £7.0 million (2019: £10.2 million). The total dividend of 28p per share comprised: the 18p final dividend for 2018/19 and the 10p interim dividend for the current year (2019:18p final for 2017/18, 9p interim and special dividend of 13.5p per share). The Group's dividend policy is set out on page 24 of the full Annual Report.

The Group is well capitalised and its regulated entities complied at all times with their local regulatory capital requirements. In the UK the Group's principal operating subsidiary, CLIM is regulated by the FCA. As required under the Capital Requirements Directive, the underlying risk management controls and capital position are disclosed on our website www.citlon.co.uk.

Currency exposure

The Group's revenue is almost entirely US dollar based whilst its costs are incurred in US dollars, sterling and to a lesser degree Singapore dollars and UAE dirhams. The table presented here aims to illustrate the effect of a change in the US dollar/sterling exchange rate on the Group's post-tax profits at various FuM levels, based on the assumptions given, which are a close approximation of the Group's current operating parameters. You can see from the illustration that a change in exchange rate from 1.30 to 1.20 increases post-tax profits by £1.1 million from £10.4 million to £11.5 million on FuM of US$5.5 billion and vice-versa.

FX/Post-tax profit Matrix: Illustration of US$/£ rate effect

FuM US$bn:	4.5	5.0	5.5	6.0	6.5
US$/£		Post -tax, £m			
1.20	8.1	9.8	11.5	13.2	14.9
1.25	7.7	9.3	10.9	12.6	14.2
1.30	7.3	8.8	10.4	12.0	13.6
1.35	6.9	8.4	9.9	11.4	12.9
1.40	6.5	8.0	9.4	10.9	12.4

The above table is intended to illustrate the approximate impact of movement of USD / £, given an assumed set of trading conditions.
It is not intended to be interpreted or used as a profit forecast.
Assumes:
1. Average net fee 74 bp's
2. Annual operating costs £5m plus US$9m plus S$1m (£1 = S$1.75)
3. Profit-share (including EIP) 30%
4. Average tax of 21%

It is worth noting though that while the Group's fee income is assessed by reference to FuM expressed in US dollars, the underlying investments are primarily in emerging market related stock, and therefore the US dollar market value is sensitive to the movement in the US dollar rate against the currencies of the underlying countries.

To a degree this provides a natural hedge against the movement in the US dollar given that as the US dollar weakens (strengthens) against these underlying currencies the value of the FuM in US dollar terms rises (falls).

The Group's currency exposure also relates to its non-sterling assets and liabilities, which are again to a great extent in US dollars. The exchange rate differences arising on their translation into sterling for reporting purposes each month is recognised in the income statement. In order to minimise the foreign exchange impact the Group monitors its net currency position and offsets it by forward sales of US dollars for sterling. At 30th June 2020 these forward sales totalled US$5.0 million, with a weighted average exchange rate of US$1.24 to £1 (2019: US$6.8 million at a weighted average rate of US$1.30 to £1).

Viability statement

In accordance with the provisions of the UK Corporate Governance Code, the Directors have assessed the viability of the Group with reference to the COVID-19 pandemic, taking into account the Group's current position and prospects, Internal Capital Adequacy Assessment Process (ICAAP) and principal risks as detailed in the Risk Management report on pages 31 to 33 of the full Annual Report.

The ICAAP is reviewed by the Board semi-annually and incorporates a series of stress tests on the Group's financial position over a three-year period. It is prepared to identify and quantify the Group's risks and level of capital which should be held to cover those risks. The level of scenarios included within the ICAAP are significantly more severe than the anticipated impact of COVID-19 pandemic.

Based on the results of this analysis, the Board confirms it has a reasonable expectation that the Company and the Group will be able to continue in operation and meet its liabilities as they fall due over the next three years.

While the Directors have no reason to believe that the Group will not be viable over a longer period, any future assessments are subject to a level of uncertainty that increases with time. The Board have therefore determined that a three-year period constitutes an appropriate timeframe for its viability assessment.

Given the above, the Directors also considered it appropriate to prepare the financial statements on the going concern basis as set out on page 50 of the full Annual Report.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30TH JUNE 2020

	Note	Year to 30th June 2020 £	Year to 30th June 2019 £
Revenue			
Gross fee income		33,263,192	31,933,229
Commissions payable		(167,158)	(751,523)
Custody fees payable		(1,425,032)	(1,327,296)
Net fee income		31,671,002	29,854,410
Administrative expenses			
Employee costs		15,677,364	14,789,754
Other administrative expenses*		3,762,170	4,254,383
Depreciation and amortisation*		633,083	306,445
		(20,072,617)	(19,350,582)
Operating profit	6	11,598,385	10,503,828
Interest (payable)/receivable and similar (losses)/gains*	7	(943,689)	893,731
Profit before tax and exceptional items		10,654,696	11,397,559
Exceptional item			
Acquisition-related costs		(1,248,195)	-
Profit before taxation		9,406,501	11,397,559
Income tax expense	8	(2,040,523)	(2,352,275)
Profit for the period		7,365,978	9,045,284
Profit attributable to:			
Non-controlling interests (NCI)		(193,602)	246,374
Equity shareholders of the parent		7,559,580	8,798,910
Basic earnings per share	9	30.3p	34.9p
Diluted earnings per share	9	29.5p	34.1p

* The Group has initially applied IFRS 16 Leases as at 1st July 2019. Under the transition method chosen, comparative information has not been restated.

CONSOLIDATED AND COMPANY STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30TH JUNE 2020

	Group		Company	
	Year to 30th June 2020 £	Year to 30th June 2019 £	Year to 30th June 2020 £	Year to 30th June 2019 £
Profit for the period	7,365,978	9,045,284	7,579,920	10,773,474
Other comprehensive income:				
Foreign currency translation difference	(48,494)	6,124	-	-
Total comprehensive income for the period	7,317,484	9,051,408	7,579,920	10,773,474
Attributable to:				
Equity shareholders of the parent	7,511,086	8,805,034	7,579,920	10,773,474
Non-controlling interests	(193,602)	246,374	-	-

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION
30TH JUNE 2020

Group	Company

	Note	30th June 2020 £	30th June 2019 £	30th June 2020 £	30th June 2019 £
Non-current assets					
Property and equipment		542,918	670,048	341,087	414,555
Right-of-use assets*		1,933,411	-	1,441,916	-
Intangible assets		47,309	193,465	18,752	33,043
Other financial assets		3,994,727	7,699,491	5,025,382	5,168,562
Deferred tax asset		348,008	380,234	12,600	27,021
		6,866,373	8,943,238	6,839,737	5,643,181
Current assets					
Trade and other receivables		6,133,878	5,979,448	11,611,160	8,998,886
Other financial assets		-	126,754	-	126,754
Current tax receivable		-	-	905,406	2,121,430
Cash and cash equivalents		14,594,333	13,813,089	213,510	146,836
		20,728,211	19,919,291	12,730,076	11,393,906
Current liabilities					
Trade and other payables		(5,644,635)	(5,766,484)	(5,473,262)	(4,546,423)
Lease liabilities*		(406,179)	-	(168,367)	-
Current tax payable		(835,849)	(692,840)	-	-
Creditors, amounts falling due within one year		(6,886,663)	(6,459,324)	(5,641,629)	(4,546,423)
Net current assets		13,841,548	13,459,967	7,088,447	6,847,483
Total assets less current liabilities		20,707,921	22,403,205	13,928,184	12,490,664
Non-current liabilities					
Lease liabilities*		(1,552,219)	-	(1,279,729)	-
Deferred tax liability		(57,874)	(116,441)	(30,075)	(3,221)
Net assets		19,097,828	22,286,764	12,618,380	12,487,443
Capital and reserves					
Share capital	10	265,607	265,607	265,607	265,607
Share premium account		2,256,104	2,256,104	2,256,104	2,256,104
Investment in own shares		(5,765,993)	(5,029,063)	(5,765,993)	(5,029,063)
Share option reserve		241,467	299,011	241,467	299,011
EIP share reserve		1,232,064	1,015,316	1,232,064	1,015,316
Foreign exchange reserve		45,885	94,379	-	-
Capital redemption reserve		26,107	26,107	26,107	26,107
Retained earnings*		20,626,405	19,953,375	14,363,024	13,654,361
Shareholders interest		18,927,646	18,880,836	12,618,380	12,487,443
Non-controlling interest		170,182	3,405,928	-	-
Total equity		19,097,828	22,286,764	12,618,380	12,487,443

* The Group has initially applied IFRS 16 Leases as at 1st July 2019. Under the transition method chosen, comparative information has not been restated.

As permitted by section 408 of the Companies Act 2006, the income statement of the Parent Company is not presented as part of these financial statements. The Parent Company's profit for the financial period amounted to £7,579,920 (2019: £10,773,474).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
30TH JUNE 2020

	Share capital £	Share premium account £	Investment in own shares £	Share option reserve £	EIP Share reserve £	Foreign exchange reserve £	Capital redemption reserve £	Retained earnings £	Total attributable to share-holders £	Non-controlling interest £	Total £
At 1st July 2018	268,617	2,256,104	(4,699,115)	372,762	605,707	88,255	23,097	22,550,807	21,466,234	-	21,466,234
Profit for the period	-	-	-	-	-	-	-	8,798,910	8,798,910	246,374	9,045,284
Comprehensive income	-	-	-	-	-	6,124	-	-	6,124	-	6,124
Total comprehensive income	-	-	-	-	-	6,124	-	8,798,910	8,805,034	246,374	9,051,408
Transactions with owners											
NCI Investment	-	-	-	-	-	-	-	-	-	3,159,554	3,159,554

Share option exercise	-	-	515,187	(71,994)	-	-	-	71,994	515,187	-	515,187
Purchase of own shares	-	-	(1,234,621)	-	-	-	-	-	(1,234,621)	-	(1,234,621)
Share cancellation	(3,010)	-	-	-	-	-	3,010	(1,165,789)	(1,165,789)	-	(1,165,789)
Share-based payment	-	-	-	(1,757)	606,799	-	-	-	605,042	-	605,042
EIP vesting/forfeiture	-	-	389,486	-	(197,190)	-	-	-	192,296	-	192,296
Deferred tax on share options	-	-	-	-	-	-	-	(100,091)	(100,091)	-	(100,091)
Current tax on share options	-	-	-	-	-	-	-	16,372	16,372	-	16,372
Dividends paid	-	-	-	-		-	-	(10,218,828)	(10,218,828)	-	(10,218,828)
Total transactions with owners	(3,010)	-	(329,948)	(73,751)	409,609	-	3,010	(11,396,342)	(11,390,432)	3,159,554	(8,230,878)
At 30th June 2019 as previously reported	265,607	2,256,104	(5,029,063)	299,011	1,015,316	94,379	26,107	19,953,375	18,880,836	3,405,928	22,286,764
Adjustment on initial application of IFRS 16*	-	-	-	-	-	-	-	122,337	122,337	-	122,337
Adjusted balance at 1st July 2019	265,607	2,256,104	(5,029,063)	299,011	1,015,316	94,379	26,107	20,075,712	19,003,173	3,405,928	22,409,101
Profit for the period	-	-	-	-	-	-	-	7,559,580	7,559,580	(193,602)	7,365,978
Comprehensive income	-	-	-	-	-	(48,494)	-	-	(48,494)	-	(48,494)
Total comprehensive income	-	-	-	-	-	(48,494)	-	7,559,580	7,511,086	(193,602)	7,317,484
Transactions with owners											
Derecognisation of NCI investment	-	-	-	-	-	-	-	-	-	(2,767,519)	(2,767,519)
NCI investment/redemption	-	-	-	-	-	-	-	-	-	(274,625)	(274,625)
Share option exercise	-	-	359,431	(57,544)	-	-	-	57,544	359,431	-	359,431
Purchase of own shares	-	-	(2,044,150)	-	-	-	-	-	(2,044,150)	-	(2,044,150)
Share-based payment	-	-	-	-	695,099	-	-	-	695,099	-	695,099
EIP vesting/forfeiture	-	-	947,789	-	(478,351)	-	-	-	469,438	-	469,438
Deferred tax on share options	-	-	-	-	-	-	-	(79,409)	(79,409)	-	(79,409)
Current tax on share options	-	-	-	-	-	-	-	6,073	6,073	-	6,073
Dividends paid	-	-	-	-		-	-	(6,993,095)	(6,993,095)	-	(6,993,095)
Total transactions with owners	-	-	(736,930)	(57,544)	216,748	-	-	(7,008,887)	(7,586,613)	(3,042,144)	(10,628,757)
At 30th June 2020	265,607	2,256,104	(5,765,993)	241,467	1,232,064	45,885	26,107	20,626,405	18,927,646	170,182	19,097,828

* The Group has initially applied IFRS 16 Leases as at 1st July 2019. Under the transition method chosen, comparative information has not been restated.

COMPANY STATEMENT OF CHANGES IN EQUITY
30TH JUNE 2020

	Share capital £	Share premium account £	Investment in own shares £	Share option reserve £	EIP share reserve £	Capital redemption reserve £	Retained earnings £	Total attributable to shareholders £
At 1st July 2018	268,617	2,256,104	(4,699,115)	372,762	605,707	23,097	14,263,296	13,090,468
Profit for the period	-	-	-	-	-	-	10,773,474	10,773,474
Comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	-	10,773,474	10,773,474
Transactions with owners								
Share option exercise	-	-	515,187	(71,994)	-	-	33,155	476,348
Purchase of own shares	-	-	(1,234,621)	-	-	-	-	(1,234,621)
Share cancellation	(3,010)	-	-	-	-	3,010	(1,165,789)	(1,165,789)
Share-based payment	-	-	-	(1,757)	606,799	-	-	605,042
EIP vesting/forfeiture	-	-	389,486	-	(197,190)	-	-	192,296
Deferred tax on share options	-	-	-	-	-	-	(35,460)	(35,460)
Current tax on share options	-	-	-	-	-	-	4,513	4,513
Dividends paid	-	-	-	-	-	-	(10,218,828)	(10,218,828)
Total transactions with owners	(3,010)	-	(329,948)	(73,751)	409,609	3,010	(11,382,409)	(11,376,499)
At 30th June 2019 as previously reported	265,607	2,256,104	(5,029,063)	299,011	1,015,316	26,107	13,654,361	12,487,443
Adjustment on initial application of IFRS 16*	-	-	-	-	-	-	122,337	122,337
Adjusted balance at 1st July 2019	265,607	2,256,104	(5,029,063)	299,011	1,015,316	26,107	13,776,698	12,609,780
Profit for the period	-	-	-	-	-	-	7,579,920	7,579,920
Comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	-	7,579,920	7,579,920
Transactions with owners								
Share option exercise	-	-	359,431	(57,544)	-	-	24,465	326,352
Purchase of own shares	-	-	(2,044,150)	-	-	-	-	(2,044,150)
Share-based payment	-	-	-	-	695,099	-	-	695,099
EIP vesting/forfeiture	-	-	947,789	-	(478,351)	-	-	469,438
Deferred tax on share options	-	-	-	-	-	-	(27,021)	(27,021)
Current tax on share options	-	-	-	-	-	-	2,057	2,057
Dividends paid	-	-	-	-	-	-	(6,993,095)	(6,993,095)
Total transactions with owners	-	-	(736,930)	(57,544)	216,748	-	(6,993,594)	(7,571,320)
At 30th June 2020	265,607	2,256,104	(5,765,993)	241,467	1,232,064	26,107	14,363,024	12,618,380

* The Group has initially applied IFRS 16 Leases as at 1st July 2019. Under the transition method chosen, comparative information has not been restated.

CONSOLIDATED AND COMPANY CASH FLOW STATEMENT
FOR THE YEAR ENDED 30TH JUNE 2020

		Group		Company	
	Note	30th June 2020 £	30th June 2019 £	30th June 2020 £	30th June 2019 £
Cash flow from operating activities					
Operating profit		11,598,385	10,503,828	293,225	321,873
Adjustments for:					
Profit on disposal of assets		-	(240)	-	(240)
Depreciation of property and equipment		205,144	204,601	116,579	103,167
Depreciation of right-of-use assets		341,247	-	178,381	
Amortisation of intangible assets		86,691	101,844	14,291	14,290
Share-based payment (credit)/charge		-	(1,757)	-	(237)
EIP-related charge		685,606	793,036	329,187	396,111
Translation adjustments		(86,860)	(24,646)	(23,937)	(16,244)
Cash generated from operations before changes in working capital		12,830,213	11,576,666	907,726	818,720
(Increase)/decrease in trade and other receivables		(71,359)	(80,825)	125,026	5,398,380
Increase in trade and other payables		139,889	975,184	1,812,083	895,560
Cash generated from/(used in) operations		12,898,743	12,471,025	2,844,835	7,112,660
Interest received		74,033	87,749	1,812	5
Interest paid on leased assets		(116,958)	-	(87,086)	
Interest paid		(13,221)	1,118	-	-
Taxation paid		(2,035,690)	(2,252,111)	(1,474,279)	(1,415,000)
Net cash generated from/(used in) operating activities		10,806,907	10,307,781	1,285,282	5,697,665
Cash flow from investing activities					
Dividends received from subsidiaries		-	-	8,800,000	10,600,000
Purchase of property and equipment and intangibles		(78,551)	(421,316)	(43,111)	(391,565)
Purchase of non-current financial assets		(1,218)	(7,088,847)	(1,218)	(3,920,338)
Purchase of current financial assets		-	(21,078)	-	(21,078)
Proceeds from sale of current financial assets		124,209	57,064	124,029	57,064
Acquisition-related costs		(1,248,195)	-	(1,248,195)	
Net cash (used in)/generated from investing activities		(1,203,755)	(7,474,177)	7,631,685	6,324,083
Cash flow from financing activities					
Ordinary dividends paid	11	(6,993,095)	(10,218,828)	(6,993,095)	(10,218,828)
Purchase and cancellation of own shares		-	(1,165,789)	-	(1,165,789)
Purchase of own shares by employee share option trust		(2,044,150)	(1,234,621)	(2,044,150)	(1,234,621)
Proceeds from sale of own shares by employee share option trust		359,431	515,186	359,431	515,186
Payment of lease liabilities		(303,243)		(178,725)	
Capital from non-controlling interest		-	3,150,599	-	-
Net cash used in financing activities		(8,981,057)	(8,953,453)	(8,856,539)	(12,104,052)
Net increase/(decrease) in cash and cash equivalents		622,095	(6,119,849)	60,428	(82,304)
Cash and cash equivalents at start of period		13,813,089	19,704,111	146,836	225,806
Cash held in funds*		53,819	217,091	-	-
Effect of exchange rate changes		105,330	11,736	6,246	3,334
Cash and cash equivalents at end of period		14,594,333	13,813,089	213,510	146,836

*Cash held in International REIT fund consolidated on a net asset basis

NOTES TO THE FINANCIAL STATEMENTS

The contents of this preliminary announcement have been extracted from the Company's Annual Report, which is currently in print and will be distributed within the week. The information shown for the years ended 30th June 2020 and 30th June 2019 does not constitute statutory accounts and has been extracted from the full accounts for the years ended 30th June 2020 and 30th June 2019. The reports of the auditors on those accounts were unqualified and did not contain adverse statements under sections 498(2) or (3) of the Companies Act 2006. The accounts for the year ended 30th June 2019 have been filed with the Registrar of Companies. The accounts for the year ended 30th June 2020 will be delivered to the Registrar of Companies in due course.

City of London Investment Group PLC (the "Company") is a public limited company which listed on the London Stock Exchange on 29th October 2010 and is domiciled and incorporated in the United Kingdom under the Companies Act 2006.

1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) as adopted by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Group financial statements have been prepared under the historical cost convention, except for certain financial assets held by the Group that are reported at fair value. The Group and Company financial statement have been prepared on a going concern basis.

New or amended accounting standards and interpretations
The Group has adopted all the new or amended accounting standards and interpretations issued by the International Accounting Standards Board (IASB) that are mandatory for the current reporting period. Any new or amended accounting standards that are not mandatory have not been early adopted.

IFRS 16 Leases

The Group has adopted IFRS 16 Leases from 1st July 2019 which replaces IAS 17 Leases. This standard introduces a single lease accounting model that requires a lessee to recognise lease assets and liabilities, which were previously accounted for as operating leases, on the statement of financial position.

The right-of-use asset as shown in the statement of financial position represents the leased asset against which the lessee has an obligation to pay lease rentals for the right to use the asset. The obligation to pay is shown as a lease liability within the statement of the financial position.

On initial application of IFRS 16 Leases the Group has identified and recognised in its statement of financial position, both the discounted value of its total lease commitments as a lease liability and the corresponding asset as a right-of-use asset.
The resulting depreciation of the leased assets and interest due on the lease liabilities, over the term of the lease, is recognised within its income statement.

Prior year comparatives have not been restated as the cumulative catch up approach has been applied. Any adjustments arising on transition are recognised in the opening equity as at 1st July 2019. As a result, the comparative information continues to be accounted for in accordance with the Group's previous accounting policy.

The impact on the financial position of the Group and the Company from the adoption of IFRS 16 Leases is detailed in note 4.

Accounting estimates and assumptions

The preparation of these financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Whilst estimates are based on management's best knowledge and judgement using information and financial data available to them, the actual outcome may differ from those estimates.

The most significant area of the financial statements that are subject to the use of estimates and assumptions are noted below:

Share-based payments

Share-based payments relate to equity settled awards and are based on the fair value of those awards at the date of grant. In order to calculate the charge for share-based compensation as required by IFRS 2 Share-based Payment, the Group is required to estimate the fair value of the EIP awards due to be granted in October 2020. This cost is estimated during the financial year and at the point when the actual award is made the share-based payment charge is re-calculated and any difference is taken to the profit or loss. Refer to 3 (vii) for accounting policy.

Share issue costs

The Group has incurred combined transaction costs of £1.7 million in relation to its proposed merger, comprising of acquisition-related and share issuance costs. Based on discussions with our advisors and in our management judgement, we have allocated the various combined transaction costs between acquisition-related amounting to £1.2 million and share issuance costs amounting to £0.5 million on a rational and consistent basis as per IAS 32.38. Share issuance costs incurred to the reporting date amounting to £0.5 million have been included within "Other receivables" and will be deducted from equity as per IAS 32.37, once the new shares are issued on completion of the merger transaction. Refer to 3 (xiii) for accounting policy.

2 BASIS OF CONSOLIDATION

These financial statements consolidate the financial statements of the Company and all of its subsidiary undertakings. The Group's subsidiaries are those entities which it directly or indirectly controls. Control over an entity is evidenced by the Group's ability to exercise its power in order to affect any variable returns that the Group is exposed to through its involvement with the entity.

When assessing whether to consolidate an entity, the Group evaluates a range of control factors as defined under IFRS 10 Consolidated Financial Statements, namely:

- the purpose and design of the entity
- the relevant activities and how these are determined
- whether the Group's rights result in the ability to direct the relevant activities
- whether the Group has exposure or rights to variable returns
- whether the Group has the ability to use its power to affect the amount of its returns

Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases.

During the year the Group received a significant investment from a client into its EM REIT fund. This reduced the Company's holding to 21%, at which point the entity was deconsolidated.

The Group's subsidiary undertakings as at 30th June 2020 are detailed below:

City of London Investment Group PLC holds a controlling interest in the following:

Subsidiary undertakings	Activity	Controlling interest	Country of incorporation
City of London Investment Management Company Limited	Management of funds	100%	UK
City of London US Investments Limited	Holding company	100%	UK
Snowball Merger Sub, Inc.	Holding company	100%	USA
International REIT Fund *	Delaware Statutory Trust Fund	100%**	USA

City of London Investment Management Company Limited holds 100% of the ordinary shares in the following:

City of London Investment Management (Singapore) PTE Ltd	Management of funds	Singapore
City of London Latin America Limited	Dormant company	UK

City of London US Investments Limited holds 100% of the ordinary shares in the following:

City of London US Services Limited	Service company	UK

* International REIT fund has a year-end of 31st December. As this fund has a financial year end that differs from that of the Company, it is consolidated based on its net asset value as at 30th June 2020.
**Controlling interest is based on the interest held directly and with a related party.

The registered address of all the UK incorporated companies is 77 Gracechurch Street, London EC3V 0AS. The registered office for the International REIT fund is 4005 Kennett Pike, Suite 250, Greenville, DE 19807, USA. The registered address for Snowball Merger Sub, Inc. is: c/o Corporation Service Company, 80 State Street, Albany, NY 12207. The registered address of City of London Investment Management Company (Singapore) PTE Ltd is 20 Collyer Quay, #10-04, Singapore 049319.

City of London Latin America Limited is dormant and as such is not subject to audit.

The consolidated financial statements are prepared on the historical cost basis except for the revaluation of certain financial instruments as outlined in note 3 (iii).

3 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted are set out below and have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

(i) Property and equipment

For all property and equipment depreciation is calculated to write off their cost to their estimated residual values by equal annual instalments over the period of their estimated useful lives, which are considered to be:
Short leasehold property improvements-over the remaining life of the lease
Furniture and equipment-4 to 10 years
Computer and telephone equipment-4 to 10 years

(ii) Intangible assets

Intangible assets are capitalised at cost and amortised on a straight line basis over the estimated useful life of the asset. The Group's only intangible assets are computer software licences, which are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. Costs include directly attributable overheads.
The estimated useful lives range from 4 to 10 years.
The assets are reviewed for impairment each year.
Software integral to a related item of hardware equipment is accounted for as property and equipment.
Costs associated with maintaining computer software programmes are recognised as an expense when they are incurred.

(iii) Financial instruments

Financial instruments are only recognised in the financial statements and measured at fair value when the Group becomes party to the contractual provisions of the instrument.
Under IFRS 9 Financial Instruments financial assets are classified as either:
• amortised at cost;
• at fair value through the profit or loss; or
• at fair value through other comprehensive income.
Financial liabilities must be classified at fair value through profit or loss or at amortised cost.
The Group's investments in securities and derivatives are classified as financial assets or liabilities at fair value through profit or loss. Such investments are initially recognised at fair value, and are subsequently remeasured at fair value, with any movement recognised in the income statement. The fair value of the Group's investments is determined as follows:

Shares	priced using the quoted market mid price*
Options	priced using the quoted market bid price
Forward currency trades	priced using the forward exchange bid rates from Bloomberg

*The funds managed by the Group are valued at the mid price in accordance with US GAAP. Therefore, where the Group has identified investments in those funds as subsidiaries, the fair value consolidated is the net asset values as provided by the administrator of the funds. The underlying investments in these funds are liquid companies with a small bid-ask spread.

The consolidated Group assesses and would recognise a loss allowance for expected credit losses on financial assets which are measured at amortised cost. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a twelve-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next twelve months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

Under the expected credit loss model, impairment losses are recorded if there is an expectation of credit losses, even in the absence of a default event. This model is applicable to assets amortised at cost or at fair value through other comprehensive income. The assets on the Group's balance sheet to which the expected loss applies to are fees receivable. At the end of each reporting period, the Group assesses whether the credit risk of these trade receivables has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

(iv) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and on-demand deposits with an original maturity of three months or less from inception, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(v) Trade payables

Trade payables are measured at initial recognition at fair value and subsequently measured at amortised cost.

(vi) Current and deferred taxation

The Group provides for current tax according to the tax regulations in each jurisdiction in which it operates, using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. However, deferred tax is not accounted for if it arises from goodwill or the initial recognition (other than in a business combination) of other assets or liabilities in a transaction that affects neither the accounting nor the taxable profit or loss.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. The tax rates used are those that have been enacted, or substantively enacted, by the end of the reporting period. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly as part of other comprehensive income, in which case the deferred tax is also dealt with as part of other comprehensive income. For share-based payments, where the estimated future tax deduction exceeds the amount of the related cumulative remuneration expense, the excess deferred tax is recognised directly in equity.

(vii) Share-based payments

The Company operates an Employee Incentive Plan (EIP) which is open to all employees in the Group. Awards are made to participating employees over shares under the EIP where they have duly waived an element of their annual profit-share before the required waiver date, in general before the start of the relevant financial year.

The awards are made up of two elements: Deferred Shares and Bonus Shares. The Deferred Shares represent the waived profit-share and the Bonus Shares represent the additional award made by the Company as a reward for participating in the EIP. Awards will vest (i.e. no longer be forfeitable) over a three-year period with one-third vesting each year.

The full cost of the Deferred Shares is recognised in the year to which the profit-share relates. The value of the Bonus Shares is expensed on a straight line basis over the period from the date the employees elect to participate to the date that the awards vest. This cost is estimated during the financial year and at the point when the actual award is made, the share-based payment charge is re-calculated and any difference is taken to the profit or loss.

Prior to the implementation of the EIP, the Company operated an Employee Share Option Plan. The fair value of the employee services received in exchange for share options is recognised as an expense. The fair value has been calculated using the Binomial pricing model, and has then been expensed on a straight line basis over the vesting period, based on the Company's estimate of the number of shares that will actually vest. At the end of the three-year period when the actual number of shares vesting is known, the share-based payment charge is re-calculated and any difference is taken to the profit or loss.

(viii) Revenue recognition

Revenue is recognised within the financial statements based on the services that are provided in accordance with current investment management agreements (IMAs). The fees are charged as a percentage of Funds under Management. The performance obligations encompassed within these agreements are based on daily/monthly asset management of funds. The Group has an enforceable right to the payment of these fees for services provided, in accordance with the underlying IMAs.

For each contract, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of services promised.

(ix) Commissions payable

A portion of the Group's revenue is subject to commissions payable under third party marketing agreements. Commissions payable are recognised in the same period as the revenue to which they relate.

(x) Foreign currency translation

Foreign currency transactions are translated using the exchange rates prevailing at the transaction date. Monetary assets held in a currency other than the functional currency are translated at the end of each financial period at the period end closing rates.

The functional currency of the Group's main trading subsidiaries, City of London Investment Management Company Limited and City of London US Services Limited, is US dollars. The functional currency of City of London Investment Group PLC (the "Company") is sterling. The Group uses sterling as the presentation currency. Under IAS 21 The Effects of Changes in Foreign Exchange Rates this means that exchange differences caused from translating the functional currency to presentational currency for the main trading subsidiaries would be recognised in equity. However, the Group operates a policy whereby it manages the exposure of foreign exchange positions of its subsidiaries monetary assets through its inter-company accounts. Any gains or losses are recognised within the Company's own income statement. Therefore, on consolidation there are no exchange differences arising from the translation of monetary items from the subsidiaries functional currency to its presentational currency. This means that all such exchange differences are included in the income statement and no split is required between other comprehensive income and the income statement. The subsidiaries translate the non-monetary assets at the period end rate and any movement is reflected in other comprehensive income.

(xi) Leases

Prior to the adoption of IFRS 16 Leases, all of the Group's leases were in relation to property and were considered to be operating leases. Payments made on operating leases (net of any incentives) were charged to the income statement in equal periodic instalments over the period of the lease.

From 1st July 2019, the total outstanding lease cost, discounted at the Group's weighted average incremental borrowing rate to its present value, is shown as a lease liability in the statement of financial position. The payment of the lease charge is allocated between the lease liability and an interest charge in the income statement.

On recognition of the lease liability the associated asset is shown as a right-of-use asset. This is further adjusted for any lease payments made prior to adoption and any future restoration costs as implicit within the lease contract. The resulting total value of the right-of-use asset is depreciated on a straight line basis over the term of the lease period.

Payments in relation to short term leases, those which are less than twelve months in duration continue to be treated as operating leases and the costs are expensed to the income statement on a straight line basis. At the end of the year all of the Group's leases were recognised as right-of-use assets.

(xii) Pensions

The Group operates defined contribution pension schemes covering the majority of its employees. The costs of the pension schemes are charged to the income statement as they are incurred. Any amounts unpaid at the end of the period are reflected in other creditors.

(xiii) Exceptional items

Exceptional items are significant items of non-recurring expenditure that have been separately presented by virtue of their nature to enable a better understanding of the Group's financial performance. Exceptional items relate to acquisition-related costs incurred by the Group in relation of its anticipated merger. Non-recurring exceptional items are presented after operating profit in the Income Statement.

4 IMPACT DUE TO CHANGES IN ACCOUNTING POLICIES

Adoption of IFRS16 Leases

As explained in note 1, the Group has adopted IFRS 16 Leases as issued in January 2016. The Group has elected to apply the following practical expedients and exemptions as permitted within the standard:
• not to reassess the original lease contracts;
• leases which are due to expire within 12 months from adoption are treated as short-term leases and will continue to be accounted for as operating leases;
• not to apply the standard to low value lease assets; and
• use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

As at the date of transition, there was only one lease that had an expiry date of less than twelve months and continued to be accounted for as an operating lease.

Adjustments recognised on adoption of IFRS 16 Leases

The Group has recognised the total lease liability on those leases which were previously accounted for as operating leases, subject to certain practical expedients applied at transition and the exemption for short-term leases and low value assets.

The measurement of the lease liability is based on the total amount of outstanding lease payments, discounted to its present value based on the incremental borrowing rate. The Group's weighted average incremental borrowing rate as at 1st July 2019 was 6%.

	£ Group	£ Company
Operating lease commitments as disclosed 30th June 2019	1,124,323	850,595
Discounted present value of lease liability	1,102,925	845,519
Add: adjustment for different treatment of renewal options contained within the lease	1,022,089	706,199

Less: short-term operating leases less than twelve months	(49,527)	0
Lease liability recognised at 1st July 2019	2,075,487	1,551,718
Of which:		
Current lease liabilities	419,086	256,134
Non-current lease liabilities	1,656,401	1,295,584
	2,075,487	1,551,718

Right-of-use-assets

The right-of-use asset was measured at the present value of the lease liability, adjusted for any prepaid or accrued lease payments relating to the leases at the date of initial recognition and the impact of future restoration costs.

The right-of-use assets all relate to property leases.

	Group		Company	
	30th June 2020	1st July 2019	30th June 2020	1st July 2019
Property leases	1,933,411	2,165,661	1,441,916	1,620,297

This change in accounting policy has had the following impact on the Group and Company's balance sheet as at 1st July 2019.

	Group	Company
	1st July 2019	1st July 2019
Right of use assets increase by	2,165,661	1,620,297
Lease liabilities increase by	2,075,487	1,551,718
Prepayments decrease by	83,072	61,476
Accruals decrease by	149,192	149,192
Dilapidation provisions increase by	7,103	7,103
Deferred tax liabilities increase by	26,855	26,855

The net impact on retained earnings for the Group as at 1st July 2019 was an increase of £122,337.

Due to the change in policy, the income statement is impacted by an increase in both depreciation and interest costs and a reduction in other administrative expenses.

The amounts recognised in the income statement after applying IFRS 16 Leases are as follows:

	Group
	30th June 2020
	£
Depreciation of right-of-use assets	341,247
Interest expense on lease liabilities	116,958

The cash flow statement will see movements within the financing activities in relation to lease payments made and operating activities in relation to depreciation and interest costs on the leased assets and liabilities.

The impact on earnings per share for the year ended 30th June 2020 was a decrease of £0.0029 due to the adoption of IFRS 16 Leases.

5 SEGMENTAL ANALYSIS

The Directors consider that the Group has only one reportable segment, namely asset management, and hence only analysis by geographical location is given.

	USA	Canada	UK	Europe (ex UK)	Other	Total
	£	£	£	£	£	£
Year to 30th June 2020						
Gross fee income	30,893,843	1,166,649	330,992	871,708	-	33,263,192
Non-current assets:						
Property and equipment	201,831	-	317,522	-	23,565	542,918
Right-of-use assets	323,813	-	1,441,916	-	167,682	1,933,411
Intangible assets	28,557	-	18,752	-	-	47,309
Year to 30th June 2019						
Gross fee income	29,577,509	1,035,215	379,197	941,308	-	31,933,229
Non-current assets:						
Property and equipment	255,493	-	381,726	-	32,829	670,048
Intangible assets	160,422	-	33,043	-	-	193,465

The Group has classified its fee income based on the domicile of its clients and non-current assets based on where the assets are held. Included in revenues are fees of £4,392,106 (2019: £4,226,746) which arose from fee income from the Group's largest client. No other single client contributed 10 per cent or more to the Group's revenue in either of the reporting periods.

6 OPERATING PROFIT

	Year to	Year to
	30th June 2020	30th June 2019
The operating profit is arrived at after charging:	£	£
Depreciation of owned assets	205,144	204,601
Depreciation of right-of-use assets	341,247	-
Amortisation of intangible assets	86,691	101,844

Auditors' remuneration:		
- Statutory audit	90,115	88,016
- Audit related assurance services	10,630	9,050
- (Over)/Under-accrual of prior year audit fees	274	(6,417)
- Non-audit services relating to KMI transaction*	150,608	-
Short-term lease expense	46,568	-
Operating lease rentals:		
- Land and buildings**	-	444,936

*£37,652 out of this amount is included in exceptional costs and the balance is included in other receivables as a cost to be capitalised for the share issuance in FY 2021, once the new shares are issued on completion of the merger transaction.
**With the adoption of IFRS 16 Leases operating lease rentals on land and buildings are no longer being charged to the consolidated income statement.

7 INTEREST (PAYABLE)/RECEIVABLE AND SIMILAR (LOSSES)/GAINS

	Year to 30th June 2020 £	Year to 30th June 2019 £
Interest on bank deposit	74,033	87,749
Unrealised (loss)/gain on investments	(886,256)	848,652
Loss on hedging investments	(1,287)	(43,788)
Interest payable on lease liabilities	(116,958)	-
Interest (payable)/receivable on restated US tax returns	(13,221)	1,118
	(943,689)	893,731

8 TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of tax charge on ordinary activities:	Year to 30th June 2020 £	Year to 30th June 2019 £
Tax at 19% (2019: 19%) based on the profit for the period	2,169,283	2,042,012
Double taxation relief	(497,843)	(677,912)
Deferred tax on share options and investments	(126,714)	52,798
Adjustments in respect of prior years	(58,985)	76,279
Domestic tax total	1,485,741	1,493,177
Foreign tax for the current period	659,394	902,276
Deferred Tax on EIP	(5,890)	(300,825)
Adjustments in respect of prior years	(98,722)	257,647
Foreign tax total	554,782	859,098
Total tax charge in income statement	2,040,523	2,352,275

(b) Factors affecting tax charge for the current period:
The tax assessed for the period is different to that resulting from applying the standard rate of corporation tax in the UK - 19% (prior year - 19%). The differences are explained below:

	Year to 30th June 2020 £	Year to 30th June 2019 £
Profit on ordinary activities before tax	9,406,501	11,397,559
Tax at 19% (2019: 19%) thereon	(1,787,235)	(2,165,536)
Effects of:		
Unrelieved overseas tax	(161,551)	(224,364)
Expenses not deductible for tax purposes	(236,574)	(6,732)
(Losses)/gains not eligible for tax	(122,206)	160,031
Capital allowances (less than)/more than depreciation	(27,774)	22,306
Prior period adjustments	157,707	(333,926)
Deferred tax on share based payments and financial assets	132,604	248,027
Other	4,506	(52,081)
Total tax charge in income statement	(2,040,523)	(2,352,275)

9 EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the period attributable to the equity shareholders of the parent of £7,559,580 (2019: £8,798,910) divided by the weighted average number of ordinary shares in issue for the period ended 30th June 2020 of 24,964,841 (2019: 25,203,147).

As set out in the Directors' report on page 50 of the full Annual Report, the Employee Benefit Trust held 1,664,055 ordinary shares in the Company as at 30th June 2020. The Trustees of the Trust have waived all rights to dividends associated with these shares. In accordance with IAS 33 the ordinary shares held by the Employee Benefit Trust have been excluded from the calculation of the weighted average number of ordinary shares in issue.

The calculation of diluted earnings per share is based on the profit for the period attributable to the equity shareholders of the parent of £7,559,580 (2019: £8,798,910) divided by the diluted weighted average number of ordinary shares for the period ended 30th June 2020 of 25,623,092 (2019: 25,816,823).

Reconciliation of the figures used in calculating basic and diluted earnings per share:

	30th June 2020 Number of shares	30th June 2019 Number of shares

Weighted average number of shares - basic earnings per share	24,964,841	25,203,147
Effect of dilutive potential shares - share options	68,082	84,514
Effect of share awards under the EIP	590,169	529,162
Weighted average number of shares - diluted earnings per share	25,623,092	25,816,823

10 SHARE CAPITAL

	30th June 2020	30th June 2019
Group and Company	£	£
Allotted, called up and fully paid		
At start of period 26,560,707 (2019: 26,861,707) Ordinary shares of 1p each	265,607	268,617
Shares repurchased and cancelled Nil (2019: 301,000)	-	(3,010)
At end of period 26,560,707 (2019: 26,560,707) Ordinary shares of 1p each	265,607	265,607

The share capital represents the nominal value of shares that have been issued. Fully paid ordinary shares carry one vote per share and carry a right to dividends.

11 DIVIDEND

	30th June 2020	30th June 2019
	£	£
Dividends paid:		
Interim dividend of 10p per share (2019: 9p)	2,488,116	2,270,070
Special dividend nil per share (2019: 13.5p)	-	3,405,105
Final dividend in respect of year ended:		
30th June 2019 of 18p per share (2018: 18p)	4,504,979	4,543,653
	6,993,095	10,218,828

A final dividend of 20p per share has been proposed, payable on 30th October 2020, subject to shareholder approval, to shareholders who are on the register of members on 9th October 2020.

12 FINANCIAL INSTRUMENTS

The Group's financial assets include cash and cash equivalents, investments and other receivables. Its financial liabilities include accruals and other payables. The fair value of the Group's financial assets and liabilities is materially the same as the book value.

(i) Financial instruments by category

The tables below show the Group and Company's financial assets and liabilities as classified under IFRS 9 Financial Instruments:

Group

30th June 2020	Financial assets at amortised cost	Assets at fair value through profit or loss	Total
Assets as per statement of financial position	£	£	£
Other non-current financial assets	-	3,994,727	3,994,727
Trade and other receivables	5,441,340	_	5,441,340
Cash and cash equivalents	14,594,333	_	14,594,333
Total	20,035,673	3,994,727	24,030,400

	Financial liabilities at amortised cost £	Liabilities at fair value through profit or loss	Total
Liabilities as per statement of financial position		£	£
Trade and other payables	5,472,692	18,063	5,490,755
Current lease liabilities	406,179	-	406,179
Other non-current liabilities	1,552,219	-	1,552,219
Total	7,431,090	18,063	7,449,153

30th June 2019	Financial assets at amortised cost	Assets at fair value through profit or loss	Available-for-sale	Total
Assets as per statement of financial position	£	£	£	£
Other financial assets	-	126,754		126,754
Other non-current financial assets	-	7,699,491		7,699,491
Trade and other receivables	5,260,536	_		5,260,536
Cash and cash equivalents	13,813,089	_		13,813,089
Total	19,073,625	7,826,245		26,899,870

	Financial liabilities at amortised	Liabilities at fair value through

Liabilities as per statement of financial position	cost £	profit or loss £	Total £
Trade and other payables	5,538,759	95,917	5,634,676
Total	5,538,759	95,917	5,634,676

Company

30th June 2020	Investment in subsidiaries	Financial assets at amortised cost	Assets at fair value through profit or loss	Total
Assets as per statement of financial position	£	£	£	£
Other financial assets	1,283,481	1,960,169	1,781,732	5,025,382
Trade and other receivables	-	11,321,019	-	11,321,019
Cash and cash equivalents	-	213,510	-	213,510
Total	1,283,481	13,494,698	1,781,732	16,559,911

Liabilities as per statement of financial position	Financial liabilities at amortised cost £	Liabilities at fair value through profit or loss £	Total £
Trade and other payables	5,366,290	-	5,366,290
Current lease liabilities	168,367	-	168,367
Other non-current liabilities	1,279,729	-	1,279,729
Total	6,814,386	-	6,814,386

30th June 2019	Investment in subsidiaries	Financial assets at amortised cost	Assets at fair value through profit or loss	Available-for-sale	Total
Assets as per statement of financial position	£	£	£	£	£
Other financial assets	1,203,749	3,964,813	126,754		5,295,316
Trade and other receivables	-	8,656,208	-		8,656,208
Cash and cash equivalents	-	146,836	-		146,836
Total	1,203,749	12,767,857	126,754		14,098,360

Liabilities as per statement of financial position	Financial liabilities at amortised cost £	Liabilities at fair value through profit or loss £	Total £
Trade and other payables	4,438,268	-	4,438,268
Total	4,438,268	-	4,438,268

(ii) Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1: fair value derived from quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: fair value derived from inputs other than quoted prices included within level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: fair value derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The fair values of the financial instruments are determined as follows:

- Investments for hedging purposes are valued using the quoted bid price and shown under level 1.
- Investments in own funds are determined with reference to the net asset value (NAV) of the fund. Where the NAV is a quoted price the fair value is shown under level 1, where the NAV is not a quoted price the fair value is shown under level 2.
- Forward currency trades are valued using the forward exchange bid rates and are shown under level 2.
- Unlisted equity securities are valued using the net assets of the underlying companies and are shown under level 3.

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

Group

30th June 2020	Level 1 £	Level 2 £	Level 3 £	Total £
Financial assets at fair value through profit or loss				
Investment in other non-current financial assets	2,212,986	1,781,741	-	3,994,727
Total	2,212,986	1,781,741	-	3,994,727

	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
Forward currency trades	-	18,063	-	18,063
Total	-	18,063	-	18,063

30th June 2019	Level 1 £	Level 2 £	Level 3 £	Total £
Financial assets at fair value through profit or loss				
Investment in other financial assets	126,754	-	-	126,754
Investment in other non-current financial assets	7,655,016	44,475	-	7,699,491
Total	7,781,770	44,475	-	7,826,245
Financial liabilities at fair value through profit or loss				
Forward currency trades	-	95,917	-	95,917
Total	-	95,917	-	95,917

Company

30th June 2020	Level 1 £	Level 2 £	Level 3 £	Total £
Investment in own funds	-	1,781,741	-	1,781,741
Total	-	1,781,741	-	1,781,741

30th June 2019	Level 1 £	Level 2 £	Level 3 £	Total £
Financial assets at fair value through profit or loss				
Investment in other financial assets	126,754	-	-	126,754
Investment in own funds	-	3,964,813	-	3,964,813
Total	126,754	3,964,813	-	4,091,567

Level 3

Level 3 assets as at 30th June 2020 are nil (2019: nil).

The Fund establishes valuation processes and procedures to ensure that the valuation techniques for investments that are categorised within Level 3 of the fair value hierarchy are fair, consistent, and verifiable. The Group is responsible for overseeing the implementation of the valuation policies and procedures, which includes the valuation process of the Fund's Level 3 investments.

As the Group gained a significant investor in the EM REIT fund, this entity is not being consolidated in our books as at the year end. At the Group level this has the effect of changing the level in which we report this in the current year from Level 1 to Level 2, although still as a financial asset at fair value through profit or loss.

Where there is an impairment in the investment in own funds, the loss is reported in the income statement. No impairment was recognised during the period or the preceding year.

The fair value gain on the forward currency trades is offset in the income statement by the foreign exchange losses on other currency assets and liabilities held during the period and at the period end. The net profit reported for the period is £29,935 (2019: net loss £143,082).

(iii) Foreign currency risk

Almost all of the Group's revenues, and a significant part of its expenses, are denominated in currencies other than sterling, principally US dollars. These revenues are derived from fee income which is based upon the net asset value of accounts managed, and have the benefit of a natural hedge by reference to the underlying currencies in which investments are held. Inevitably, debtor and creditor balances arise which in turn give rise to currency exposure.

The Group assesses its hedging requirements and executes forward foreign exchange transactions so as to substantially reduce the Group's exposure to currency market movements. The level of forward currency hedging is such as is judged by the Directors to be consistent with market conditions.

As at 30th June 2020, the Group had net asset balances of US$6,820,219 (2019: US$6,901,890), offset by forward sales totalling US$5,000,000 (2019: US$6,750,000). Other significant net asset balances were C$503,545 (2019: C$493,721), and net liability balances of AED110,217 (2019: net assets AED195,544), and SGD176,699 (2019: net assets SGD120,583).

Had the US dollar strengthened or weakened against sterling as at 30th June 2020 by 10%, with all other variables held constant, the Group's net assets would have increased or decreased (respectively) by less than 3%, because the US dollar position is hedged by the forward sales.

(iv) Market risk

Changes in market prices, such as foreign exchange rates and equity prices will affect the Group's income and the value of its investments.

Where the Group holds investments in its own funds categorised as unlisted investments, the market price risk is managed through diversification of the portfolio. A 10% increase or decrease in the price level of the funds' relevant benchmarks, with all other variables held constant, would result in an increase or decrease of approximately £0.2 million in the value of the investments and profit before tax.

The Group's International REIT fund has been consolidated as a controlled entity, and therefore the securities held by the fund are reported in the consolidated statement of financial position under investments. At 30th June 2020, all those securities were listed on a recognised exchange. A 10% increase or decrease in the price level of the securities would result in a gain or loss respectively of approximately £0.2 million, of which 93% would be attributable to the Group and 7% to the non-controlling interest.

The Group is also exposed to market risk indirectly via its funds under management, from which its fee income is derived. To hedge against potential losses in fee income, the Group may look to invest in securities or derivatives that should increase in value in the event of a fall in the markets. The purchase and sale of these securities are subject to limits established by the Board and are monitored on a regular basis. The investment management and settlement functions are totally segregated.

The loss from hedging recognised in the Group income statement for the period is £1,287 (2019: £43,788).

(v) Credit risk

The majority of debtors relate to management fees due from funds and segregated account holders. As such the Group is able to assess the credit risk of these debtors as minimal. For other debtors a credit evaluation is undertaken on a case by case basis.

The Group has zero experience of bad or overdue debts.

The majority of cash and cash equivalents held by the Group are with leading UK banks. The credit risk is managed by carrying out regular reviews of each institution's credit rating and of their published financial position. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

(vi) Liquidity risk
The Group's liquidity risk is minimal because commission payable forms the major part of trade creditors, and payment is made only upon receipt of the related fee income plus the Group's strategy is to maximise its cash position. In addition, the Group's investments in funds that it manages can be liquidated immediately if required.

(vii) Interest rate risk

The Group has no borrowings, and therefore has no exposure to interest rate risk other than that which attaches to its interest earning cash balances and forward currency contracts. The Group's strategy is to maximise the amount of cash which is maintained in interest bearing accounts, and to ensure that those accounts attract a competitive interest rate. At 30th June 2020 the Group held £14,594,333 (2019: £13,813,089) in cash balances, of which £14,170,849 (2019: £13,548,359) was held in bank accounts which attract variable interest rates. The effect of a 100 basis points increase/decrease in interest rates on the Group's net assets would not be material.

(viii) Capital risk management

The Group manages its capital to ensure that all entities within the Group are able to operate as going concerns and exceed any minimum externally imposed capital requirements. The capital of the Group and Company consists of equity attributable to the equity holders of the Parent Company, comprising issued share capital, share premium, retained earnings and other reserves as disclosed in the statement of changes in equity.

The Group's principal operating subsidiary company, City of London Investment Management Company Ltd is subject to the minimum capital requirements of the Financial Conduct Authority (FCA) in the UK. This subsidiary held surplus capital over its requirements throughout the period.

The Group is required to undertake an Internal Capital Adequacy Assessment Process (ICAAP), under which the Board quantifies the level of capital required to meet operational risks. The objective of this is to ensure that the Group has adequate capital to enable it to manage risks which are not adequately covered under the Pillar 1 requirements. This process includes stress testing for the effects of major risks, such as a significant market downturn, and includes an assessment of the Group's ability to mitigate the risks.

13 POST BALANCE SHEET EVENT

As detailed in the Prospectus released on 12th June 2020, the CLIG Board entered into a Merger Agreement to acquire the entire issued share capital of Karpus Management Inc. (KMI), a US based investment management business, on a debt free basis, to be satisfied through the issue of 24.1 million new CLIG shares. On 13th July 2020, CLIG shareholders approved the merger with 99% voting in favour. The merger is expected to be completed on 1st October 2020. Refer page 8 of the full Annual Report for further details on the merger.

END

FR SFDSILESSEIU