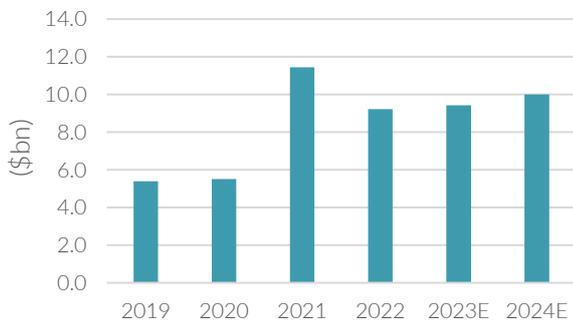
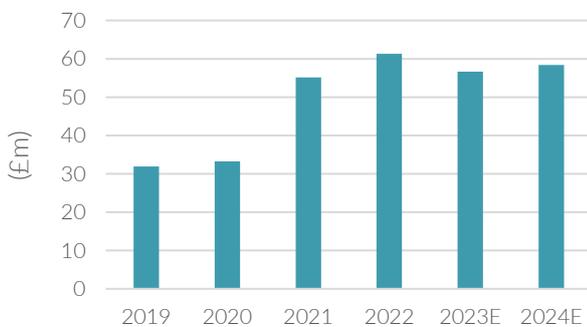


Funds under management (FUM)



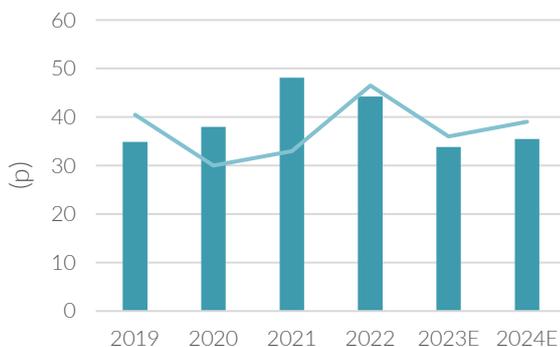
- ▶ Net inflows restored in 2022 after a weaker 2021
- ▶ Addition of Karpus in 2021 added \$3.58bn
- ▶ More normal market conditions should see a return to steadier growth
- ▶ Assumed steady net new business flows and equity market growth of 5% p.a.

Revenue



- ▶ Revenue linked strongly to FUM
- ▶ Ongoing slow decrease in revenue margins from new business
- ▶ Karpus's revenue margin higher, and probably more robust, than CLIM's
- ▶ 2021 and 2022 boosted by addition of Karpus (latter was first full year)

Underlying EPS (bar) and DPS (line)



- ▶ Market movements drive changes, but profitability supported historically by cost flexibility
- ▶ Exceptional transaction costs reduced statutory 2020 and 2021 EPS
- ▶ Special dividend of 13.5p in 2019 and 2022
- ▶ Dividend increased in 2020 and 2021 - future increases subject to market conditions

Source: Company data, Hardman & Co Research

Commentary

Funds

2Q funds under management (FUM) movements				
(\$m)	Dec'22	Sep'22	Net flows	Other movements
Emerging Markets	3,570	3,249	-34	355
International	1,894	1,642	-7	259
Opportunistic Value	240	234	-9	15
Other	77	78		-1
CLIM total	5,781	5,203	-50	628
KIM total	3,369	3,309	-97	157
Total	9,150	8,512	-147	785

Source: Hardman & Co Research

Within the period of the first half, market performance had a strong effect on City of London’s FUM. However, there is a sense of “swings and roundabouts”, as markets bounced back in 2Q’23, and only slightly exceeded the effect of the market declines in the first quarter (increase of \$785m vs. decline of \$752m in 1Q’23).

After a more positive quarter for inflows, the second quarter saw net outflows. Redemptions from the Emerging Markets strategy and required minimum distributions in Karpus were the primary causes. Over the first half, City of London had gross inflows of ca.\$295m, but \$402m of outflows gave net outflows of \$107m. The net result was a marginal decline in FUM over 1H’23.

City of London describes its fund performance in 1H’23 as “solid”, with good NAV performance in the underlying closed-ended funds being the strongest contributor.

City of London’s FUM progress over past five years



Note: Jump at Sep'20 due to Karpus transaction; Source: Company data, Hardman & Co Research

Operations

The weighted average run rate for revenue was 73bps, unchanged on the previous quarter. Fixed costs ticked up again, to £1.9m per month, from £1.8m at the end of 1Q'23. Despite this, the run rate for operating profit, before profit share, is unchanged, at £2.7m per month. The main offset to the market gains has been movements in the exchange rate, which moved from \$1.117/£ to \$1.208.

City of London's estimated profit before amortisation and taxation for 1H'23 is £11.9m. Although this is a decline on the £15.5m in 1H'22 (due primarily to weak markets), it is slightly ahead of our estimates.

At 31 December 2022, cash and cash equivalents stood at £19.1m, with seed investments of £7.6m. While the former are down on the £22.7m as of 30 June 2022, it has paid the final dividend since then.

Dividend

City of London is proposing an unchanged interim dividend of 11p. Given market volatility and the reduced earnings in the first half, this is no great surprise. We have previously observed that City of London manages its dividend conservatively. We believe that, in the near future, surplus cash is more likely to be distributed through further special dividends than increases in the regular dividend.

Estimate updates

The higher-than-expected FUM and strengthening of sterling almost exactly offset each other in our forecasts. Our underlying EPS estimate for 2023 is unchanged, at 33.8p, while that for 2025 has reduced by 0.5%, to 35.5p.

We have kept our dividend forecasts unchanged. Within that, we expect an unchanged regular dividend and only a small chance of a special dividend. The latter is hard to predict. With markets bouncing back and strong cash reserves, a special dividend is not impossible if markets continue to perform strongly. However, in probabilistic terms, we believe the odds are more in favour of nothing extra this year.

Financials

Summary financials						
Year-end Jun	2019*	2020	2021	2022*	2023E	2024E
FUM (\$bn)	5.39	5.50	11.45	9.22	9.43	10.00
P&L (£m)						
Revenue	31.93	33.26	55.12	61.29	56.60	58.41
Expenses	21.43	21.66	31.55	37.34	37.41	38.15
Operating profit	10.50	11.60	23.57	23.95	19.19	20.26
Statutory PTP	11.40	9.41	22.25	23.17	19.07	20.14
Earnings	9.05	7.37	16.99	18.09	13.52	14.34
Statutory EPS (p)	34.9	30.3	39.4	36.9	27.6	29.2
Underlying EPS (p)	34.9	38.0	50.0	44.2	33.8	35.5
Total DPS (p)	40.5	30.0	33.0	46.5	36.0	39.0
Key metrics						
	2019*	2020	2021	2022*	2023E	2024E
Growth						
FUM		2.1%	108.1%	-19.4%	2.2%	6.1%
Revenue		4.2%	65.7%	11.2%	-7.7%	3.2%
Operating profit		10.4%	103.2%	1.6%	-19.9%	5.6%
Underlying EPS		8.9%	31.5%	-8.1%	-23.5%	4.9%
DPS (excl. special div.)		11.1%	10.0%	0.0%	9.1%	8.3%
Operating margins						
Net FUM fee margin	0.76%	0.75%	0.75%	0.73%	0.73%	0.72%
Operating margin	32.9%	34.9%	42.8%	39.1%	33.9%	34.7%
Tax rate	20.6%	21.7%	23.6%	24.0%	24.0%	24.0%
Dividend cover (x, excl. special div.)	0.9	1.0	1.2	0.8	0.8	0.7
Rolling 5-year cover (x, excl. special div.)	1.3	1.2	1.3	1.2	1.1	1.0
Rolling u/l 5-year cover (x, excl. special div.)		1.2	1.4	1.3	1.2	1.1
Underlying EPS sensitivity						
				2022	2023E	2024E
No net new business						
EPS (p)					33.7	34.8
change					-0.3%	-2.1%
0% market growth (was 5% p.a.)						
EPS (p)					33.5	33.1
change					-0.9%	-6.7%

*2019 and 2022 figures include a special dividend of 13.5p; Source: Company data, Hardman & Co Research
£1=\$1.23

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