Price	344p
Market Cap	£174.3m
Shares in Issue	50.7m
12m Trading Range	322p-475p
Free Float	59.0%
Next Event	AGM: 23 October

Price performance (p)

Source: Bloomberg

Financial forecasts

YE, Jun (US$'m)	2022	2023	2024E	2025E
Revenue (net fee)	77.4	65.5	64.9	64.8
yoy growth (%)	*nc*	*(15.4)*	*(0.8)*	*(0.2)*
Profit pre profit share	51.3	38.5	36.9	36.0
EBIT	37.3	26.5	25.9	25.2
Adj. PBT	37.2	27.0	27.2	26.5
Adj. PAT	29.1	21.1	20.4	19.9
Exchange rate #	1.218	1.270	1.220	1.220
Adj diluted EPS (p)	43.7	35.8	33.6	32.8
DPS (p)	46.5	33.0	33.0	33.0
Net cash (p)	45.5	45.1	46.9	46.0
P/E	7.9	9.6	10.2	10.5
EV/EBIT	8.0	11.3	11.5	11.8
Div yield (%)	*13.5*	*9.6*	*9.6*	*9.6*

US cents converted to pence at £1=US$1.218

Source: Audited accounts and Zeus estimates

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City of London Investment Group

CLIG LN - Financial Services

1Q trading update: forecast in USD

On Friday 13 October, CLIG 1Q trading update revealed Group Funds under Management "FuM" at end September 2023 of **US$8.9 billion** (n.b. June 2023: US$9.4 billion; Sept 2022: US$8.5 billion). In weak markets, discounts widened and CLIG saw outflows across its strategies (details on page 2 of this note). Current run-rate for operating profit before profit-share was **$3.4m** (4Q23: US$3.3m; 3Q23: US$3.1m; 2Q23: US$3.3m; 1Q23: US$3.0m).

Reporting in US dollars: As previously announced, CLIG now reports in US dollars: our forecasts and comparatives are now in US dollars (*see note 26 to CLIG's 2023 Annual Report & Accounts*).

This change improves shareholder communication. Variations in the £/US$ exchange rate will no longer distort the presentation of the Group's financial performance, as the majority of Group income and expenditure are denominated in US$. Additionally, client assets are reported in US$.

As a UK-listed entity, CLIG will continue to be traded and its dividends declared in pence per share.

Zeus view. As CLIG had given advance notice to shareholders of its intention to change its reporting currency, Zeus has not published forecasts to June 2024 and 2025 in recent months. We now present forecasts expressed in US$, with EPS and DPS converted at the current exchange rate (i.e. £1 = US$ 1.220).

Consistent with our previous approach to forecasting CLIG, we make the following assumptions:

- Neutral market assumption: market levels remain unchanged from the date of forecasting;
- Net inflows of $250m p.a. as base case, over the next 21 months
- Revenue margin remains close to most recently reported levels (i.e. 70 basis points)
- Overheads are well controlled, but still rise with inflation
- Profit share etc is 30% of pre-profit-share operating profit
- Effective corporation tax rate is 25%

Our forecasts are set out on pages 5 to 7 of this note.

Valuation: CLIG is financially strong with no debt, strong cash generation (over 95% cash conversion) and over 40p per share of net cash. It is trading on 10x PER, under 12x EV/EBIT and on a 9.6% dividend yield.

In our opinion, CLIG is capable of maintaining a 33p a share annual DPS in current market conditions, comparing favourably with high risk free rates and high returns on money market funds.

1Q trading update

CLIG's Group FuM on 30 September 2023 were US$8.9 billion: 5.8% lower than FuM at 30 June 2023 of US$9.4 billion.

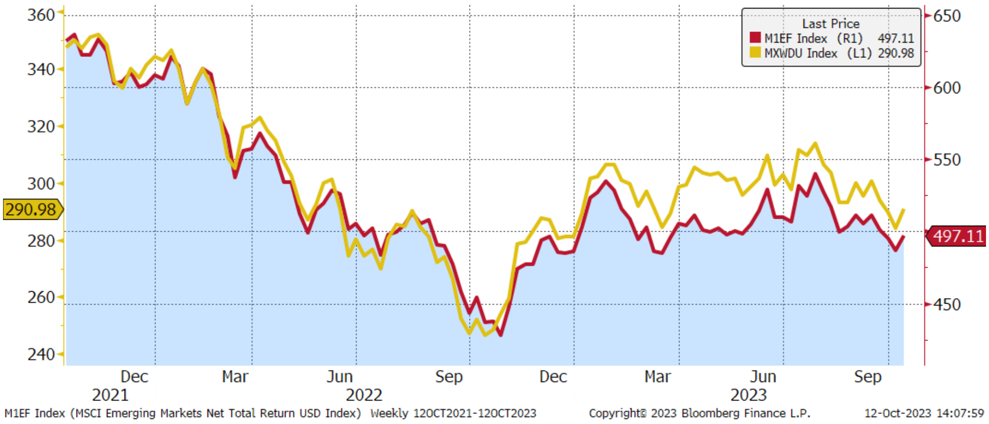
Exhibit 1: CLIG Group Funds under Management "FuM", US$m

Sector	Sep-23	Jun-23	inc/dec (%)	net flows	ex net flows (%)	Strategy Index	%
CLIM Emerging Market	3,398	3,580	(5.1)	(53)	(3.7)	MSCI EM Net TR	(2.9)
KIM, US Wealth Management	3,326	3,520	(5.5)	(25)	(4.8)	N/A	
CLIM International	1,830	1,983	(7.7)	(71)	(4.3)	MSCI ACWI ex US	(3.8)
CLIM Opportunistic Value	239	244	(2.0)	-	(2.0)	ACWI/Barclays Global Agg	2.0
CLIM Other #	88	97	(9.3)	(3)	(6.4)		
Group FuM	**8,881**	**9,424**	**(5.8)**	**(152)**	**(4.2)**		

Note: # includes Frontier, REIT and seed investments; FuM figures are rounded
Source: Company 1Q trading update

- Core CLIM strategies were behind their benchmarks (Exhibit 2), as weak market conditions increased closed-end fund discounts and depressed NAVs
- KIM's taxable fixed income and SPAC strategies outperformed while other equity and fixed-income strategies underperformed versus their respective benchmarks
- US$152m net outflow for the Group

Exhibit 2: Benchmarks: Emerging Market & International



Note: M1EF is MSCI Emerging Markets Net Total Return USD Index; MXWDU is MSCI AC World Index ex USA index
Source: Bloomberg

Marketing continues to focus on long-term outperformance of the Group's strategies; most closed end funds are trading at the widest discounts for past two decades.

Operational KPIs, for illustrative purposes only

- Group's income, net of third party commissions, accrues at weighted average rate of 70 basis points
- "Fixed" costs are c.US$2.3m per month
- operating profit, before profit-share, based on current FuM, is c.US$3.4m per month

Change in presentational currency

Note 26 to CLIG's Annual Report & Accounts[1] sets out the reasons for the change in presentational currency as follows:

"As from 1st July 2023, the Group has changed its presentational currency from sterling to US dollars, to mirror the primary economic environment that it operates in. This will enable both investors and other stakeholders to have more transparency of the Group's performance and reduce foreign exchange volatility on its income and costs. Currently almost all of the Group's revenue and a large portion of its costs are incurred in US dollars. Therefore, for the year ending 30th June 2024 the Group will present its consolidated financial statements in US dollars.

"The change in the Group's presentational currency to US dollars will result in a change in the parent company's primary economic environment. Future dividend streams from its subsidiaries will be received and retained by the parent company in US dollars. Hence, this would mean that all the parent company's future income will be in US dollars and a large portion of its costs would also be in US dollars. As a result, the parent company's functional currency will change to US dollars with effect from 1st July 2023.

"In accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, the change in presentational currency will have to be applied retrospectively, whereas a change in functional currency will be applied prospectively with effect from 1st July 2023.

"Certain elements of historical financial information have been restated in US dollars and will form the basis of the comparative financial information to be included in the Group's Annual Report and Accounts for the year ended 30th June 2024 and all published financial information for periods from 1st July 2023.

"In accordance with the provisions of IAS 21, the Effects of Changes in Foreign Exchange Rates, due to the change in presentational currency, financial information has been restated from sterling to US dollars as follows:

- assets and liabilities in non-US denominated currencies were translated into US dollars at the rate of exchange at the relevant balance sheet date;
- non-US dollar income statements and cash flows were translated into US dollars at average rates of exchange for the relevant period;
- share capital, share premium and all other equity items were translated at the historical rates prevailing on 1st June 2007, the date of transition to IFRS or the subsequent rates prevailing on the date of each relevant transaction or average rates as relevant; and
- the cumulative foreign exchange translation reserve was set to zero on 1st June 2007, the date of transition to IFRS, and this reserve has been restated on the basis that the Group has reported in US dollars since that date.

"The relevant year-end exchange rates used for the conversion to US dollars from sterling were:

- *Average for the year to 30 June 2022: 1.3313*
- *Year end closing at 30 June 2022: 1.2178*
- *Average for the year to 30 June 2023: 1.2028*
- *Year end closing at 30 June 2023: 1.2703"*

Exhibit 4 sets out the movement in client assets under management, which we link to fee income net of third party commissions and our estimate of average assets during the year.

Exhibits 5, 7 and 8 show CLIG's comparatives as set out in note 26.

We have separately disclosed "profit share, EIP & share option charges" and "goodwill amortisation charge" to enable us to monitor underlying profit (Exhibit 6).

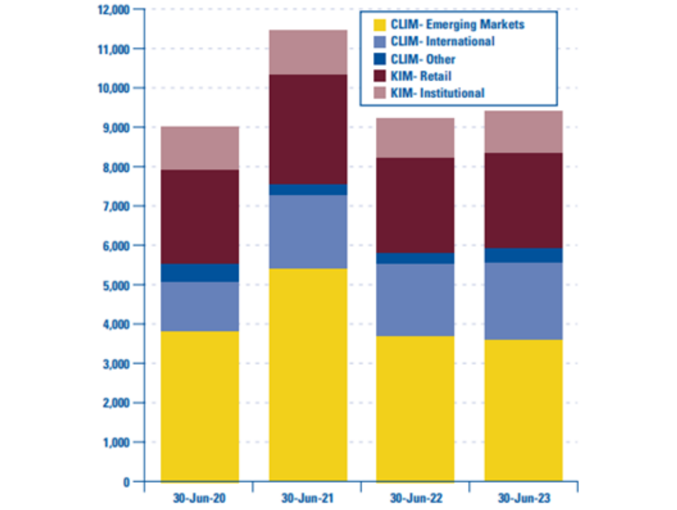
We have also added a reconciliation of P&L reserves (Exhibit 9).

[1] https://clig.com/wp-content/uploads/2023/09/CoL2023AR.pdf, pages 136 to 139

At end September 2023, 63% of CLIG's AUM was spread across CLIM (i.e. 38% in Emerging Markets, 21% in International, 4% other such as Opportunistic Value, Frontier, and REIT) and 37% KIM (i.e. 26% Retail, 11% Institutional).

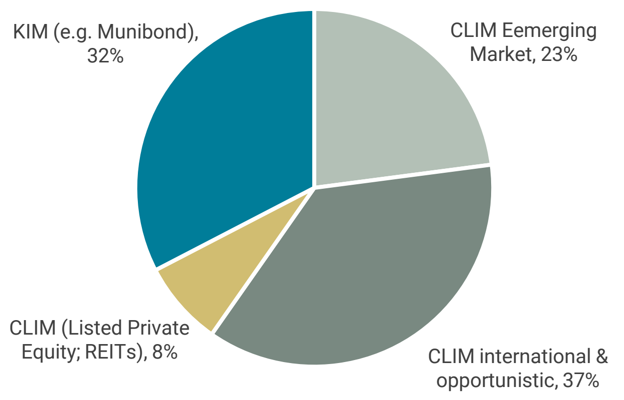
We estimate CLIG has capacity for some US$7.5bn additional clients assets (i.e. 84% growth): CLIM EM (US$0.3bn) CLIM international & Opportunistic (US$4.0bn); CLIM other (REITS US$0.9bn; Listed Private Equity US$0.3bn); KIM (Munibond & CEF: US$2.0bn).

Exhibit 3: FUM by line of business, US$ bn



Source: https://clig.com/wp-content/uploads/2023/09/IP67.pdf, slide 7

Exhibit 4: CLIG total capacity (estimate)

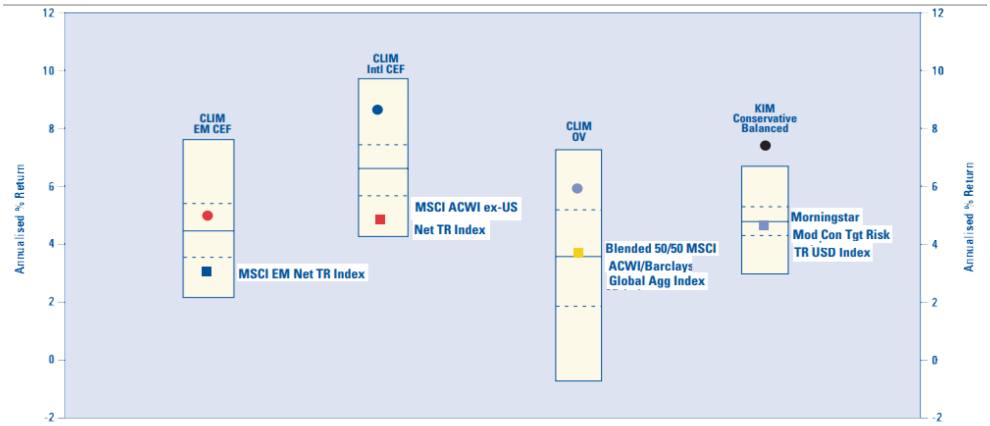


Source: Zeus research

CLIG's funds have excellent track records: CLIG's disciplined investment process has resulted in outperformance for clients over the long-term. There are no performance fees, as outperformance is expected.

- CLIM Emerging Market closed end fund "CEF" product is ranked in the second quartile.
- CLIM Institutional CEF and Opportunistic Value products are top quartile: the benchmarks are 4th quartile and median respectively.
- CLIM's REIT team has a good relative track record since inception 3 years ago.
- KIM's conservative balanced strategy delivers returns which are far outside peers and benchmark.

Exhibit 5: 10 year Peer Group quartile chart



Source: https://clig.com/wp-content/uploads/2023/09/IP67.pdf, slide 7

The combination of capacity and track record should result in inflows, when market conditions are attractive. With CEFs trading at historically high Size Weighted Average Discounts "SWADs", returns from investing in CEF should be high once the interest rate cycle turns.

Our forecasts assume US$0.5bn of net inflows over the next two years, which would use under 7% of CLIG's additional capacity.

Exhibit 6: Assets under management & average revenue margin

Year ended 30 June, US$m	2022	2023	2024E	2025E
Opening FUM	11,449	9,224	9,424	9,131
Net inflows	102.1	(357)	98	250
Performance & market effects	(2,327)	557	(391)	-
Closing FUM	**9,224**	**9,424**	**9,131**	**9,381**
Average FUM #	10,337	9,324	9,278	9,256
Revenue margin net of third party commissions (basis points)	74.9	70.2	70.0	70.0

Note: # Average FUM is a Zeus estimate
Source: CLIG 2023 annual report & accounts (actuals); Zeus research (forecasts)

Our forecasts assume revenue margin net of third party commissions is 70 basis points for the next 2 years. The mix of business is probably the largest factor influencing the average revenue margin. We estimate that the average revenue margin on our estimate of additional capacity is higher than 70 basis points.

Exhibit 7: Restated consolidated income statement

Year ended 30 June, US$m	2022	2023	2024E	2025E
Gross fee income	81.5	68.7	67.9	67.6
Commissions payable	(2.1)	(1.8)	(1.6)	(1.4)
Custody fees payable	(2.0)	(1.4)	(1.4)	(1.4)
Net fee income	**77.4**	**65.5**	**64.9**	**64.8**
Employee costs	(17.3)	(17.7)	(18.0)	(18.5)
Other administrative expenses	(7.9)	(8.4)	(8.7)	(9.0)
Depreciation and amortisation	(0.9)	(0.8)	(0.8)	(0.8)
Administrative expenses	**(26.2)**	**(27.0)**	**(28.0)**	**(28.8)**
Profit before profit share	**51.3**	**38.5**	**36.9**	**36.0**
Profit share, EIP & option charge	(14.0)	(12.0)	(11.0)	(10.8)
Operating profit	**37.3**	**26.5**	**25.9**	**25.2**
Finance income	0.0	1.4	1.5	1.5
Finance expense	(1.1)	(0.2)	(0.2)	(0.2)
Goodwill amortisation charge	(5.4)	(5.6)	(5.6)	(5.6)
Profit before taxation	**30.9**	**22.1**	**21.6**	**20.9**
Income tax expense	(6.8)	(4.6)	(5.4)	(5.2)
Profit for the period	**24.1**	**17.5**	**16.2**	**15.7**

Source: CLIG 2023 annual report & accounts (actuals); Zeus research (forecasts)

Exhibit 8: Calculation of underlying PAT

Year ended 30 June, US$m	2022	2023	2024E	2025E
Profit for the period	24.1	17.5	16.2	15.7
ADD back amortisation & investment gains/losses	6.3	4.9	5.6	5.6
Tax adjustments	(1.3)	(1.3)	(1.4)	(1.4)
Underlying PAT	**29.1**	**21.1**	**20.4**	**19.9**

Source: CLIG 2023 annual report & accounts (actuals); Zeus research (forecasts)

Cash conversion of underlying PAT of $21.1m (2022: $29.1m) into net cash inflow before financing of $22.3m (2022: $27.5m) was strong at 106% (2022: 95%). Our forecast conversion is 97%.

Exhibit 9: Restated consolidated cashflow statement

Year ended 30 June, US$m	2022	2023	2024E	2025E
Profit before taxation	**30.9**	**22.1**	**21.6**	**20.9**
ADD back Depreciation	0.9	0.8	(4.6)	(4.6)
ADD back Amortisation of intangible assets	5.4	5.6	5.6	5.6
ADD back EIP-related charge	1.2	1.3	1.3	1.3
ADD back (Gain)/loss on investments	0.9	(0.7)		
ADD back: Interest receivable less interest payable	0.2	(0.5)	(1.3)	(1.3)
Translation adjustments	(0.1)	(0.3)		
Change in working capital	3.1	(0.1)		
Cash generated from operations	**42.5**	**28.2**	**22.5**	**21.9**
Interest received less paid on leased assets	(0.2)	0.5	1.3	1.3
Taxation paid	(9.3)	(5.8)	(3.1)	(2.9)
Net cash (used in)/generated from investing activities	(5.5)	(0.6)	(0.9)	(0.9)
Net cash inflow before financing	**27.5**	**22.3**	**19.8**	**19.4**
Ordinary dividends paid	(28.4)	(19.4)	(19.4)	(19.4)
Purchase of own shares by employee share option trust	(3.5)	(3.1)		
EBT transactions	0.4	0.1		
Payment of lease liabilities	(0.5)	(0.5)	(0.5)	(0.5)
Net (decrease)/increase in cash and cash equivalents	**(4.6)**	**(0.5)**	**(0.7)**	**(0.5)**
Cash and cash equivalents at start of period	**35.3**	**27.6**	**28.5**	**27.4**
Cash held in funds	0.0	0.1		
Effect of exchange rate changes	(3.2)	1.4		
Cash and cash equivalents at end of period	**27.6**	**28.5**	**28.4**	**27.9**

Source: CLIG 2023 annual report & accounts (actuals); Zeus research (forecasts)

CLIG has a strong balance sheet and is “capital-lite”. Intangible assets of $128.5m at end June 2023 net of deferred tax of $9.2m, are 77% of group net assets. With net cash of $28.5m being 18% of net assets, other assets and working capital total only 5% of net assets.

Other financial assets, at end June 2022 and 2023, were split 76% listed and 24% unlisted.

Exhibit 10: Restated consolidated balance sheets

Balance sheet at end June, US$m	2022	2023	2024E	2025E
Property, equipment & ROU assets	3.6	3.4	3.4	3.4
Intangible assets	134.1	128.5	122.9	117.3
Other financial assets (listed & unlisted investments)	9.1	10.0	10.0	10.0
Deferred tax asset	0.5	0.5	0.5	0.5
Non-current assets	**147.2**	**142.4**	**136.8**	**131.2**
Trade and other receivables	7.9	8.2	8.1	8.1
Cash and cash equivalents	27.6	28.5	28.4	27.9
Current assets	**35.5**	**36.7**	**36.5**	**36.0**
Trade and other payables	(11.5)	(10.7)	(10.7)	(10.7)
Lease liabilities	(0.5)	(0.3)	(0.3)	(0.3)
Current tax payable	(0.7)	(1.0)	(1.0)	(1.0)
Current liabilities	**(12.7)**	**(12.0)**	**(12.0)**	**(12.0)**
Total assets less current liabilities	**170.0**	**167.1**	**161.3**	**155.2**
Lease liabilities	(2.7)	(2.5)	(2.2)	(1.9)
Deferred tax liability	(10.5)	(9.2)	(6.9)	(4.6)
Net assets	**156.8**	**155.4**	**152.2**	**148.7**
Capital and reserves				
Share capital	0.8	0.8	0.8	0.8
Share premium account	126.1	125.4	125.4	125.4
Retained earnings	38.0	36.3	33.2	29.7
Cumulative foreign exchange translation differences	(8.1)	(7.2)	(7.2)	(7.2)
Equity shareholders of the parent	**156.8**	**155.4**	**152.2**	**148.7**

Note: The is no material minority interest
Source: CLIG 2023 annual report & accounts (actuals); Zeus research (forecasts)

At end June 2023, holding company retained earnings was £22.5m (June 2022: £19.7m), which is 44p a share.

Exhibit 11: Movement in P&L reserves

Year ended 30 June, US$m	2023	2024E	2025E
Brought forward	38.0	36.3	33.2
Reported profit after tax	17.5	16.2	15.7
Dividend paid	(19.4)	(19.4)	(19.4)
FX and other items	0.2	0.1	0.2
Carried forward	**36.3**	**33.2**	**29.7**

Note: We have not estimated the movement in P&L reserves in US$ for the year to June 2022
Source: CLIG 2023 annual report & accounts (actuals); Zeus research (forecasts)

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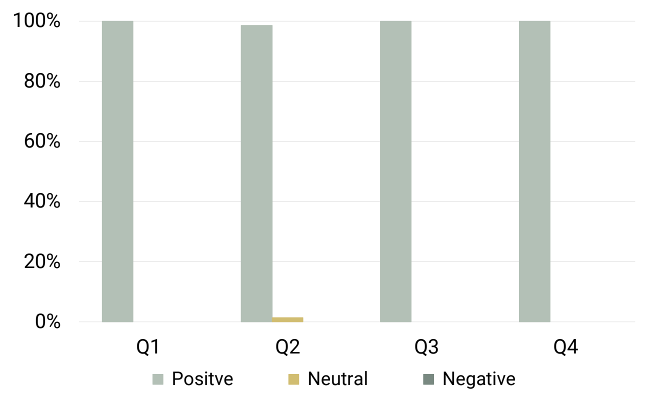

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Corporate Relationships

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Nomad & Joint Broker	13
Broker	12
Joint Broker	14
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