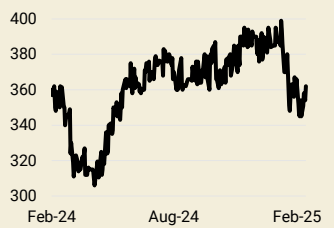


Corporate

Share Price 361p
Market Cap £183.0m
Shares in Issue 50.7m
12m Trading Range 302p to 400p
Free Float 59%
Next Event Interims on 25 Feb

Price performance (p)



Source: FactSet

Financial forecasts

YE, Jun (US\$m)	2023A	2024A	2025E	2026E
FuM opening	9,224	9,424	10,241	10,196
Revenue (net fee)	65.5	66.2	67.2	69.0
yoy growth (%)	(15.4)	1.1	1.5	2.7
Pre profit share	38.5	38.3	40.4	40.7
EBITDA	27.3	27.0	28.3	28.6
Adj. PBT	27.0	27.1	28.1	28.3
Adj. PAT	21.1	20.6	21.1	21.3
Exchange rate #	1.27	1.26	1.26	1.26
Adj EPS (p)	35.8	33.5	34.3	34.5
DPS (p)	33.0	33.0	33.0	33.0
Net cash (p)	45.1	52.8	58.2	63.1
P/E	9.9	10.8	10.6	10.5
EV/EBITDA	5.7	5.6	5.3	5.1
Cash conversion	1.09	1.05	1.00	1.00
FCF yield (%)	11.0	9.7	9.5	9.6
Dividend yield (%)	9.1	9.1	9.1	9.1

Source: Audited accounts and Zeus estimates

City of London Investment Group is a broker client of Zeus

Number of shares used to calculate adj EPS is 48.9m, which is 50.7m shares in issue less 1.8m shares held in treasury; cash conversion = operating cashflow post tax / adj PAT

n.b. CLIG shares are traded in pence per share but its accounts are prepared in US\$.

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City of London Investment Group

CLIG LN- Financial Services

Interims preview

Ahead of interims scheduled for Tuesday 25 February, we adjust our forecasts following CLIG's Preclose update and US dollar movements. As a reminder, CLIG reports its results in US dollars. Our forecast EPS and DPS, which are quoted in pence per share remain unchanged.

On 20 January, the trading update for the six months to end December 2024 revealed:

- ◆ Funds under Management of \$9,946m: down 2.9% over six months following \$269m positive investment performance and \$564m net outflows.
- ◆ Investment performance for both the period and calendar year were "both ahead of benchmarks for the majority of CLIM and KIM core strategies. Strategy returns were in the first or second quartile vs peers over the same periods."
- ◆ Strong market returns led to client rebalancing, asset allocation changes, and included a large client drawing down cash management capital for acquisitions.

Zeus view: beating benchmarks is a pre-requisite for success in fund management. CLIG's two fund management teams, City of London Management "CLIM" and Karpus Investment Management "KIM" have excellent track records both long-term (page 5) and short-term (above).

While CLIG has \$6bn of spare capacity (i.e. scope to grow 60%), asset allocators have been reallocating institutional assets away from many of CLIG's funds. Eventually institutions will reallocate to top quartile funds, such as those managed by CLIM and KIM. We expect management to provide an update on marketing.

Zeus forecasts: After adjusting our forecasts for CLIG for the movements in FUM in the six months to end-2024, we reduce our revenue expectation for the years to June 2025 and 2026 by 4.5% and 2.7% respectively and expectations for underlying PAT by 7.8% to \$21.1m for 2025 and 4.9% to \$21.3m for the year to June 2026.

The US dollar has strengthened by 5.3% from £1=\$1.33 to under £1=\$1.26 since September 26, 2024 (when Zeus published its previous forecasts).

Using an exchange rate of £1=\$1.26 and 48.9m shares in issue, we trim our adj EPS forecasts for 2025 by 0.2p or 0.9% to 34.3p and for 2026 by 0.5p or 1.3% to 34.5p. We leave our forecast DPS unchanged at 33.0p per share.

Free cash generation: CLIG conversion of profit into cash is high. For the past two years, CLIG's operating profit after tax has exceeded underlying profit after tax, which excludes amortisation and investment gains or losses. Net cash and equivalents at end June 2024 was \$33.7m. Using the current exchange rate, this is 52.8p a share.

Valuation: CLIG's dividend track record is as impressive as its investment track records. Relative to other fund management stocks and to itself, CLIG has good dividend cover (pages 6 & 7).

We forecast a 33p per share dividend paid 11p after the interims and 22p after the finals: this dividend is well covered by net cash and earnings.

Zeus forecasts

Our forecasts are set out on page 3 and the changes in Exhibit 1 below.

Since 26 September 2024 (when Zeus published its previous forecasts), the US dollar has strengthened by 5.3% from £1=1.33 to under £1=1.26. This has largely offset the negative impact of net outflows.

Exhibit 1: Change to Zeus forecast

YE, Jun (US\$m)	2023A	2024A	2025E New	2026E New	2025E % change	2026E % change	2025E Old	2026E Old
FuM opening	9,224	9,424	10,241	10,196	0.0	(3.3)	10,241	10,541
Revenue (net fee)	65.5	66.2	67.2	69.0	(4.7)	(4.9)	70.5	72.5
yoy growth (%)	(15.4)	1.1	1.5	2.7	(76.7)	(7.4)	6.5	2.9
Pre profit share	38.5	38.3	40.4	40.7	(7.5)	(8.0)	43.7	44.2
EBITDA	27.3	27.0	28.3	28.6	8.7	(3.8)	26.0	29.7
Adj. PBT	27.0	27.1	28.1	28.3	(7.8)	(8.2)	30.5	30.9
Adj. PAT	21.1	20.6	21.1	21.3	(7.8)	(8.2)	22.9	23.2
Exchange rate	1.27	1.26	1.26	1.26	(5.3)	(5.3)	1.33	1.33
Adj EPS (p)	36.5	33.5	34.3	34.5	(0.9)	(1.3)	34.5	35.0
DPS (p)	33.0	33.0	33.0	33.0	0.0	0.0	33.0	33.0
Net cash (p)	45.1	52.8	58.2	63.1	7.4	12.6	54.1	56.1

Source: Zeus research

Recent news flow

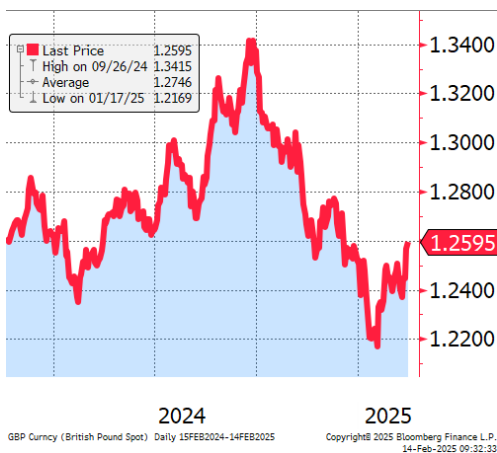
On 25 February, when CLIG reports its results for the six months to 31 December 2024, we expect it to disclose its FUM at the end of January 2025.

We observe that in 2025 YTD the markets in which CLIG invests have performed well:

- ◆ MSCI EM net TR is up 3.4%
- ◆ MSCI ACWI ex US is up 4.9%

We estimate CLIG's current Funds under Management "FUM" is back over \$10.2billion.

Exhibit 2: Cable



Note: £1 = US\$
Source: Bloomberg

Exhibit 3: Movement in CLIG's FUM, \$m

	Jun-24 Actual	Net flows	Market & investment performance	Dec-24 (estimate)
EM	3,568	(157)	60	3,471
KIM	3,924	(138)	160	3,947
INTL	2,394	(332)	30	2,091
OV	251	23	12	286
Other*	104	40	7	151
	10,241	(564)	269	9,946

Note: * includes Frontier, REIT and alternatives; Funds under Management figures are rounded
Source: <https://clig.com/announcements/>

Zeus forecasts do not include market performance in 2025 or future years.

Zeus forecast FUM, P&L and balance sheets

Our forecast assumes \$250m increase in CLIG's FUM over the six months to June 2025 and a further \$250m increase in the year to June 2026.

While forecasting net inflows and market performance are both speculative, our forecast assumes no market effects but \$500m net inflows over the next 18 months. We see this as credible, based on the absolute and relative performance of CLIM and KIM strategies (page 5), and potential spare capacity of \$6 billion (page 4).

Exhibit 4: CLIG Funds Under Management, US\$m

1H of 2024	2H of 2024	1H of 2025E	2H of 2025E	Years ended 30 June, US\$m	2023A	2024A	2025E	2026E
9,424	9,576	10,241	9,946	Opening FUM	9,224	9,424	10,241	10,196
(294.3)	(25.7)	(564.0)	250.0	Net inflows	(357)	(320)	(314)	250
446	691	269	-	Performance & market effects	557	1137	269	-
9,576	10,241	9,946	10,196	Closing FUM	9,424	10,241	10,196	10,446
9,500	9,908	10,094	10,071	Average AUM	9,097	9,594	10,082	10,321
70.2	69.4	68.0	68.1	Average revenue margin (net of commissions)	72.0	69.0	68.0	68.2

Note: Zeus forecasts do not include forecast market returns

Source: Zeus research

We expect CLIG's net fee revenue margin to remain at around 68 basis points. The actual revenue margin depends on the mix of fund strategies.

Exhibit 5: CLIG Profit & Loss account, US\$m

1H of 2024	2H of 2024	1H of 2025E	2H of 2025E	Year ended 30 June, US\$m	2023RS	2024A	2025E	2026E
Revenue								
34.2	35.3	35.0	35.0	Gross fee income	68.7	69.5	70.0	71.8
(0.9)	(0.9)	(0.7)	(0.7)	Commissions payable	(1.8)	(1.8)	(1.4)	(1.4)
(0.7)	(0.8)	(0.7)	(0.7)	Custody fees payable	(1.4)	(1.5)	(1.4)	(1.4)
32.6	33.6	33.6	33.6	Net fee income	65.5	66.2	67.2	69.0
(9.0)	(9.7)	(8.5)	(9.5)	Employee costs	(17.7)	(18.7)	(18.0)	(19.0)
(4.3)	(3.9)	(4.0)	(4.0)	Other administrative expenses	(8.4)	(8.2)	(8.0)	(8.4)
(0.5)	(0.5)	(0.4)	(0.4)	Depreciation and amortisation	(0.8)	(1.0)	(0.8)	(0.9)
(13.8)	(14.1)	(12.9)	(13.9)	Administrative expenses	(27.0)	(27.9)	(26.8)	(28.3)
18.8	19.5	20.7	19.7	Profit before profit share	38.5	38.3	40.4	40.7
(6.0)	(6.3)	(6.5)	(6.4)	Profit share, EIP & option charge	(12.0)	(12.3)	(12.9)	(13.0)
12.8	13.2	14.2	13.3	Operating profit	26.5	26.0	27.5	27.7
0.6	0.5	0.0	0.0	Investment gain/(loss)	0.7	1.1	-	-
0.7	0.8	0.5	0.5	Finance income	0.7	1.5	1.0	1.0
(0.2)	(0.2)	(0.2)	(0.1)	Finance expense	(0.2)	(0.4)	(0.3)	(0.3)
(2.8)	(2.8)	(2.8)	(2.7)	Goodwill amortisation charge	(5.6)	(5.6)	(5.5)	(5.5)
11.1	11.5	11.7	11.0	Profit before taxation	22.1	22.6	22.7	22.9
(2.9)	(2.6)	(2.9)	(2.7)	Income tax expense	(4.6)	(5.5)	(5.7)	(5.7)
8.2	8.9	8.8	8.2	Profit for the period	17.5	17.1	17.0	17.2
UNDERLYING PROFIT								
2.2	2.4	2.8	2.7	ADD back amortisation & investment gains/losses	4.9	4.6	5.5	5.5
(0.5)	(0.6)	(0.7)	(0.7)	Tax adjustments	(1.3)	(1.1)	(1.4)	(1.4)
9.9	10.7	10.9	10.2	Underlying PAT	21.1	20.6	21.1	21.3

Note: We have estimated CLIG's profit share in 1H of the year to June 2024 at 32% of profit before profit share.

Source: Zeus research (forecasts); Company (historical results)

CLIG's income and expenses are directly linked to its FUM (page 6). Cash conversion is close to 100%. The Board policy is to maintain a 1.2x coverage ratio over a five year period (pages 6 & 7).

CLIG’s strategies

City of London Investment Group “CLIG” has two fund management divisions:

1. City of London Investment Management “CLIM”, which has invested in Emerging Markets Closed End Funds “CEF” for over two decades and more recently expanded its range to include International, Opportunistic Value and Frontier strategies primarily for institutional clients
2. Karpus Investment Management “KIM”, which provides CEF strategies across all asset classes to wealth management clients in the USA

Exhibit 6: Investment strategies of CLIG’s two divisions: CLIM and KIM

CLIM Strategies

The Emerging Markets CEF strategy utilises CEFs to provide exposure to global emerging markets.

The International Equity CEF strategy utilises CEFs to provide exposure to global developed markets (excluding US).

The Opportunistic Value CEF strategy provides exposure to a variety of asset classes via CEFs with a go anywhere approach. Both taxable and tax-exempt products are available.

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

The Listed Private Equity strategy utilises our experience with CEFs to provide exposure to private equity globally.

The Global Equity CEF strategy utilises CEFs to provide exposure to global developed markets (including US).

KIM Strategies

The Conservative Balanced and Growth Balanced strategies utilise a combination of CEFs and other securities, providing exposure to fixed income and equities in US and global markets.

The Tax-sensitive fixed income strategy utilises a combination of CEFs and other securities, providing exposure to US tax-exempt fixed income.

The Taxable fixed income strategy utilises a combination of CEFs and other securities, providing exposure to US taxable fixed income.

The Equity strategy utilises a combination of CEFs and other securities, providing exposure to US and global equity markets.

The Cash Management strategy utilises a combination of CEFs and other securities providing exposure to US short-term fixed income.

Note: CEF = Close End Funds strategies seek to “capture volatility and generate differentiated alpha”
Source: <https://clig.com/wp-content/uploads/2025/01/IP72.pdf>

CLIG’s capacity for growth: \$6 billion

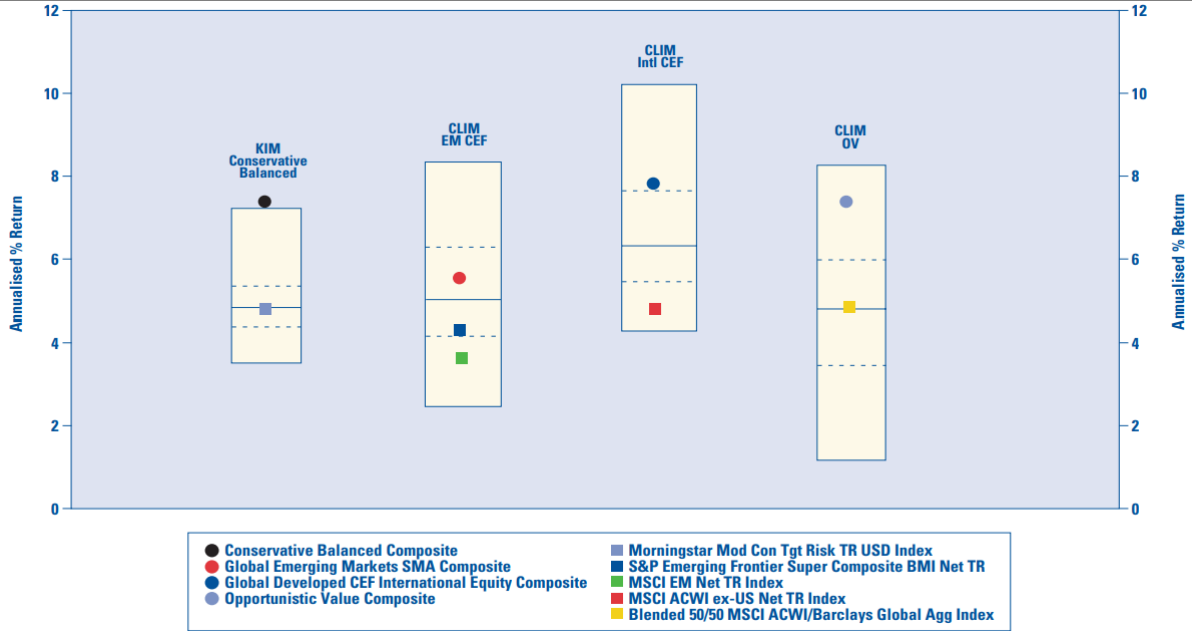
Management see potential for CLIG to increase its FUM from \$10 billion to \$16 billion by growing.

1. CLIM’s International, Opportunistic Value and Listed Private Equity CEF FUM (42% of CLIM’s \$6.0 billion FUM) from \$2.5 billion currently to \$6.5 billion total capacity
2. KIM’s Municipal Bond, US Fixed Income and US Equities strategies (circa 77% of KIM’s \$3.9 billion FUM) from c \$3.0 billion currently to \$5.0 billion total capacity

Performance

CLIG's investment teams have delivered top quartile performance for clients.

Exhibit 7: Ten year peer group quartile chart to 31 December 2024



Note: *KIM & CLIM returns are compared to their respective Morningstar and eVestment universes. Data is as of 31 December 2024. Past performance is no guarantee of future results. Source: eVestment Analytics System, BNY Mellon, CLIM, MSCI, S&P, Bloomberg, Morningstar, KIM; <https://clig.com/wp-content/uploads/2025/01/IP72.pdf>

The above returns are annualized and presented as gross of fees performance figures, which do not reflect the deduction of investment management fees. CLIG charges no performance fees.

KIM's Conservative Balanced fund performance¹ is over 7% annualised, which is at the top end of its Morningstar peer group. In addition, KIM runs tax-sensitive fixed income, taxable fixed income, growth balanced and equity funds. We understand that the performance of these funds is also outstanding.

CLIM's Emerging Markets CEF strategy² is second quartile over 10 years and materially higher than benchmarks.

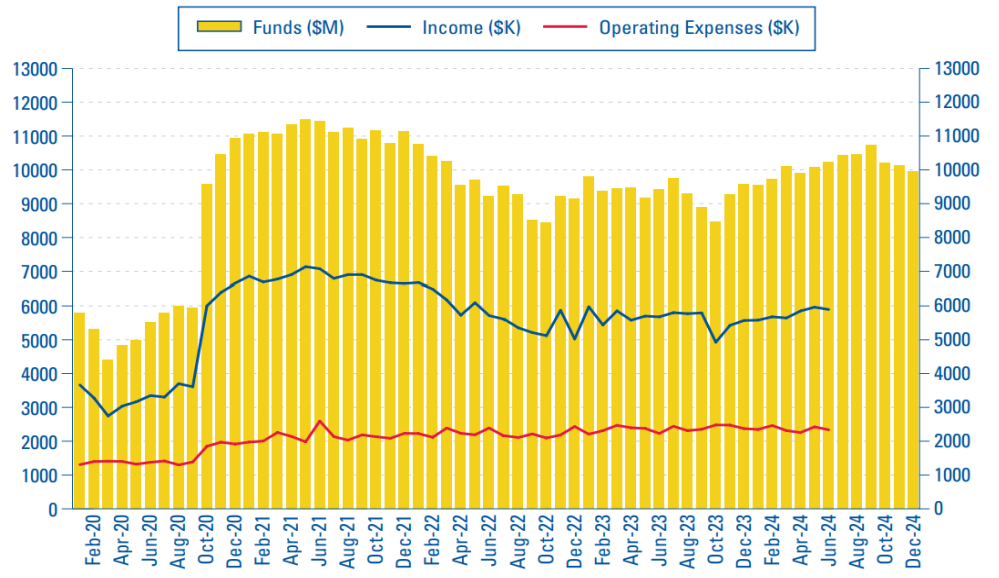
CLIM's International CEF strategy³ is in the top quartile and just above the return from KIM's Conservative Balanced fund. This is impressive.

CLIM's Opportunistic Value fund⁴ is comfortably in the top quartile, in what is a broad range.

¹ The KIM Conservative Balanced Composite and Morningstar Mod Con Tgt Risk TR USD Index are shown against the Morningstar Separate Accounts - U.S. - Moderately Conservative Allocation Universe.
² The Global Emerging Markets SMA Composite, S&P Emerging Frontier Super Composite BMI Net TR, and MSCI EM Net TR Index are shown against the eVestment Global Emerging Markets Equity Universe of which 81.0% has been updated.
³ The Global Developed CEF International Equity Composite and MSCI ACWI ex-US Net TR Index are shown against the eVestment All ACWI ex-US Equity Universe of which 86.5% has been updated.
⁴ The Opportunistic Value Composite and the Blended 50/50 MSCI ACWI/Bloomberg Global Agg Index are shown against the eVestment All Global Balanced/TAA Universe of which 73.8% has been updated.

Exhibit 8 shows CLIG’s FUM, income and expenses over the past 60 months, during markets which have been highly volatile.

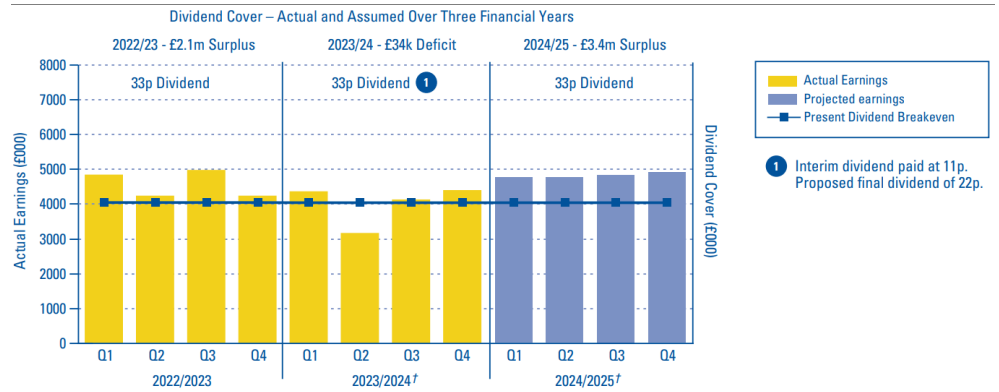
Exhibit 8: CLIG’s FUM & Operating Profitability*



Note: Beginning October 2020, CLIG Funds Under Management (“FUM”) includes KIM’s FUM. Please note that figures prior to July 2023 have been converted to USD using a monthly average exchange rate. Source: <https://cliq.com/wp-content/uploads/2025/01/IP72.pdf>

CLIG management provides a clear template providing guidance on how the Board views dividend cover. Exhibit 9 shows CLIG’s 33p dividend covered by credible forecasts of quarterly earnings.

Exhibit 9: Dividend Cover CLIG Template – Guidance Only*



†Note: Actual earnings have been converted into sterling using £:\$ average rates for the period. Projected earnings have been converted into sterling using £:\$ average rates for 2023/2024.

Note: † Actual earnings have been converted into sterling using £:\$ average rates for the period. Projected earnings have been converted into sterling using £:\$ average rates for 2023/2024.

Key Assumptions:

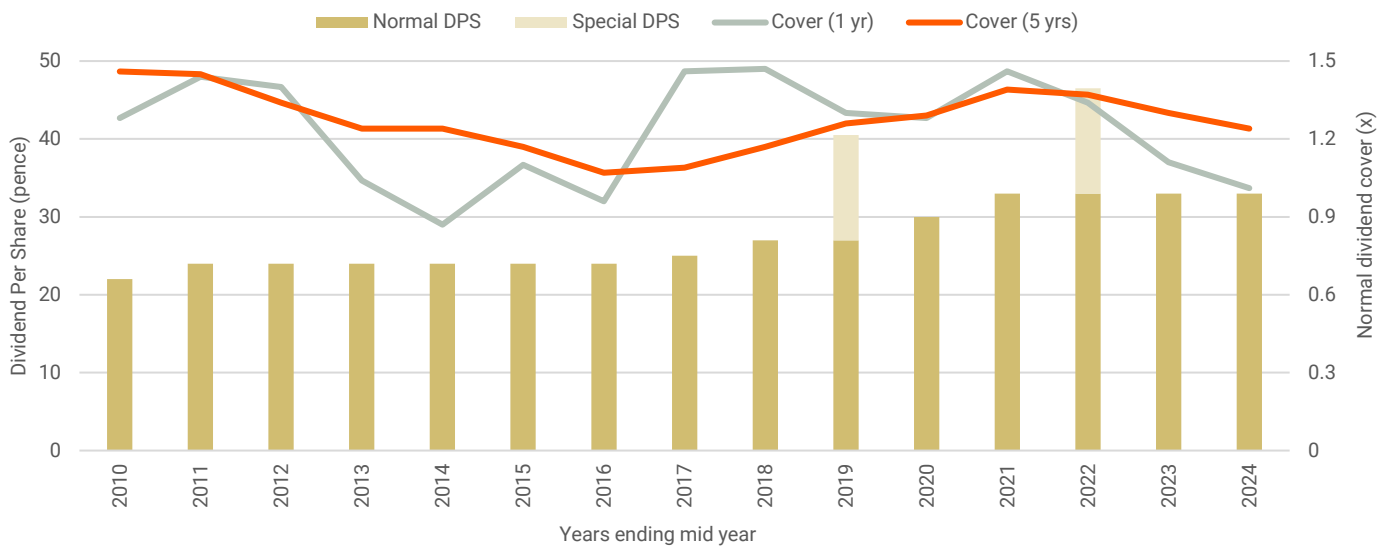
- Number of CLIG Shares in issue (50.7m) less those held by the Employee Benefit Trust (1.8m) as at 30 June 2024
- Excludes unrealised loss/gains on seed investments, as well as amortisation of intangibles
- Starting FuM as at: 1-Jul-24
- Net increase in FuM in 2024/2025 (straight-lined to June 2025): CLIM US\$250m KIM US\$50m
- Market growth: 0%
- Overheads for 2024/25: (6)% for CLIM and nil at KIM compared to 2023/24
- Corporation tax based on an estimated average rate 25% for CLIM and 24% for KIM
- Exchange rate for entire period: £1/\$1.26

*Any forward-looking statements are based on certain factors and assumptions that have not been independently verified, which may prove incorrect, and are subject to risks, uncertainties and assumptions relating to future events, the Group’s operations, results of operations, growth strategy and liquidity.

Source: <https://cliq.com/wp-content/uploads/2025/01/IP72.pdf>

CLIG's 33p per share DPS is well covered by net cash per share of 52p at end June 2024.

Exhibit 10: CLIG's dividend record & dividend cover (2010-2024)



Note: We forecast CLIG to pay a 33p dividend per share both this year and next; dividend cover calculations exclude special dividends
Source: Zeus research chart using CLIG data; <https://clig.com/dividend-history/>

CLIG's DPS of 33p is well covered by net cash and should be covered by earnings this year, although movements in FUM will have a marginal impact.

Dividend yield & cover

We have amended Exhibit 11 to show CLIG dividend yield as 9.1%, (i.e. 33p full year dividend and 361p share price). Bloomberg chart shows CLIG dividend yield as 7.5%, which is incorrect.

Relative to other Fund Management stocks CLIG has an attractive dividend yield and cover. Only one stock (Tatton Asset Management: TAM) has higher dividend cover and that stock's yield is below market (e.g. FT All Share: 3.8%).

Exhibit 11: Dividend yields & cover for CLIG and selected peers



Note: for periods since July 2023, Zeus has corrected Bloomberg data for CLIG's dividend yield which incorrectly applies an FX conversion rate
Source: Bloomberg chart dated 17 Feb 2025

CLIG, like most Fund Managers, is capable of paying dividends to shareholders while maintaining capacity for profitable growth.

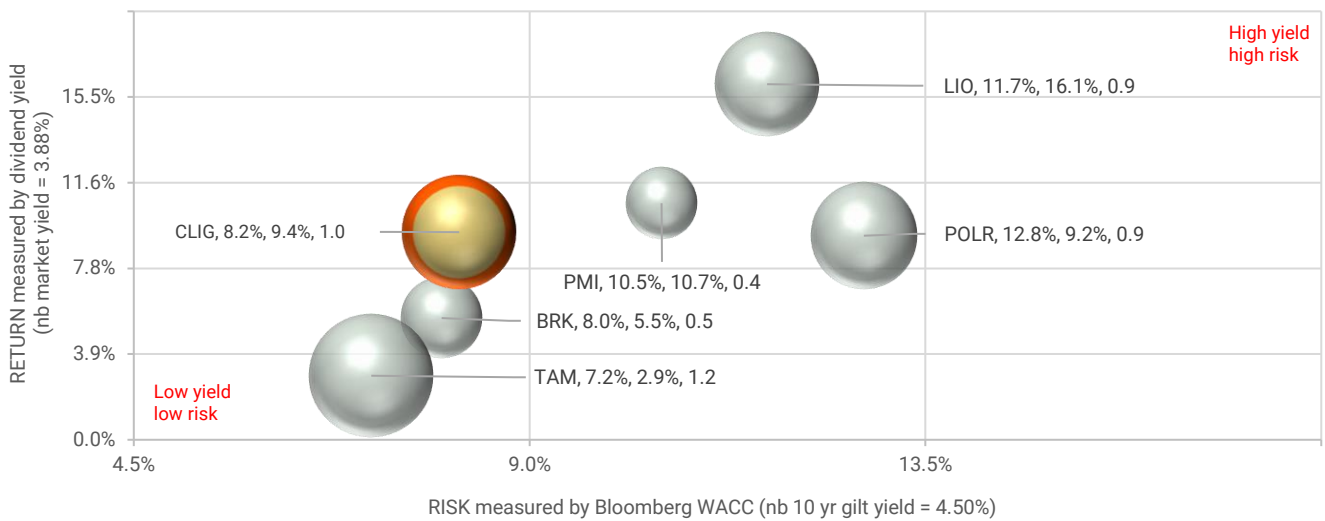
We display the current yields and dividend covers for CLIG and the 5 other UK Fund Managers in Exhibit 12 below, which has Bloomberg’s calculation of WACC as an indicator of risk in the X-axis.

The Y-axis cross the X-axis at 4.5%, which is the 10 year gilt yield. This is where there is no company risk. The X-axis gridlines are set at twice and three times the 10 year gilt yield.

On the Y-axis, the first gridline is set at 3.9%, which is the dividend yield for the FT All Share. The Y-axis gridlines are set at twice, three times, four time and five times the market yield.

We see CLIG’s dividend yield of 9.1% (i.e. 520 basis points above the average market dividend yield), as being attractive.

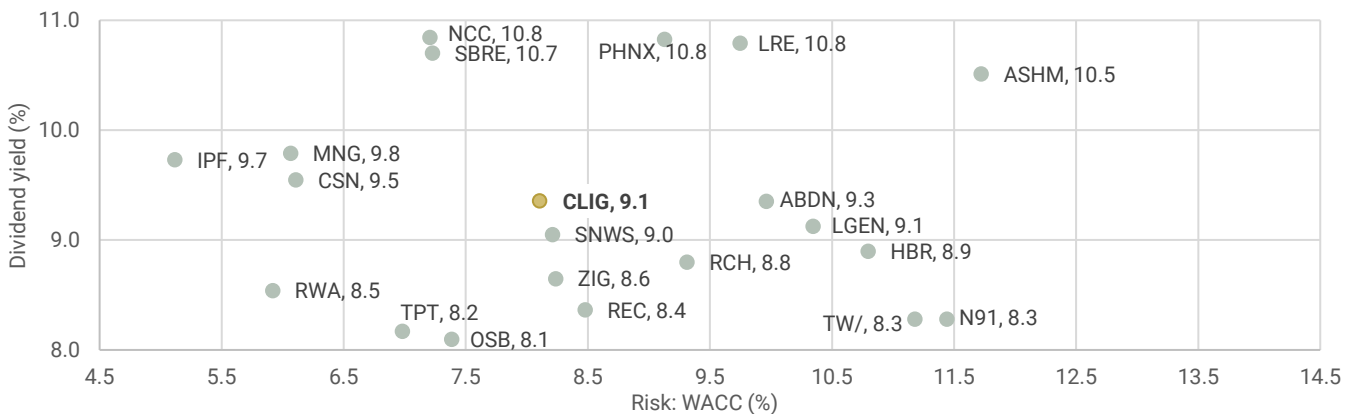
Exhibit 12: Risk & Returns for Asset Managers



Note: The size of the bubbles is represents the dividend cover e.g. CLIG’s cover is 1.0x; Tatton Asset Management (TAM) has a 1.2x cover from basic EPS
Source: Zeus research chart using Bloomberg data

Looking across the FT All Share, only 120 stocks have a dividend yield which is above the market average of 3.9% and 25 stocks have a yield above 8%. CLIG is one a select few stocks with high dividend yields and low WACC.

Exhibit 13: FT All Share stocks with above market yields, ordered by WACC



Note: 25 stocks in the FT All Share, ex REITs have dividend yields above 8.0%; Energean, Liontrust Asset Management and Ithaca Energy and Speedy Hire have yields above 12%. Of the 21 stocks shown in the chart above only five have a higher yield but lower WACC than CLIG, namely NCC, Sabre Insurance, M&G, International Personal Finance and Chesnara.
Source: Bloomberg

Dividend discount valuation and sensitivity

CLIG is trading on a 9% dividend yield. With substantial net cash and potential to grow FUM by 60%⁵, CLIG share price is underpinned by cashflows and there is substantial upside from growth, when it materialises.

For the past four years, CLIG has paid a normal dividend per share of 33p. We forecast CLIG's DPS to remain at 33p per share for years to June 2025 and 2026.

We see four components to current fair value:

1. Net cash plus the present value of dividends for the forecast periods to June 2025 and 2026;
2. Present value of dividends payable for periods ending June 2027, 2028, 2029, 2030 & 2031
3. Terminal value

Using a 10% discount rate (n.b. Bloomberg WACC for CLIG is 8.2%; risk premium of 180 basis points reflects forecast risk), we calculate the present value of dividends payable over the next two years and current cash, net of last year's final dividend paid in 2024, totalling 93p per share. Using a 13% risk discount rate, the present value falls to 91p per share.

If CLIG grows its AUM by CAGR of 9% between June 2026 and June 2031, its FUM would have reached capacity of \$16 billion (based on 2024 market levels); higher growth is consistent with modest levels of market growth.

Terminal value, should be consistent with lower long-term growth. Using Gordon's growth model, terminal FCF yield with 10% risk discount rate is 7.5% and with a 13% risk discount rate is 10.5%.⁶

We set out below the upside from CLIG growing at different rates and using risk discount rates of between 10% and 13%.

Exhibit 14: Upside from CLIG's current price of 361p

		CAGR for CLIG FUM and earnings following June 2026						
		3%	5%	7%	9%	11%	13%	15%
Risk Discount Rate	10%	20%	29%	37%	47%	57%	68%	80%
	11%	8%	15%	23%	31%	40%	49%	59%
	12%	-2%	4%	11%	18%	26%	34%	42%
	13%	-10%	-5%	1%	8%	14%	21%	29%

Note: Net cash at end June 2024 was 54.7p; the final DPS paid in 2024 was 22p; dividends payable for FY25E and FY26E is 33p; profit share is assumed remain at 32% of pre-profit and CLIG's effective tax rate at 25%; terminal growth is assumed to be 2.5%, so if discount rate is 13% the terminal FCF yield would be 10.5% and if the discount rate were 10% the terminal FCF yield would be 7.5%.

Source: Zeus research forecasts

We conclude that CLIG's share price is underpinned by its net cash and current dividend stream. Assuming a risk discount rate of 10%, which is 180 basis points above its WACC, the present value of its dividend stream is 20% above the current share price.

If CLIG grows into its spare capacity and delivers 9% CAGR for the five years to June 2031, we see the value rising a further 27%, assuming a 10% risk discount rate.

Investors that ascribe higher risk discount rates will perceive lower present values.

⁵ CLIG's capacity for growth is set out on page 4

⁶ i.e. terminal PER of $1/[\text{risk} - \text{growth}]$; e.g. for risk discount rate of 10% and growth of 2.5%, terminal PER = $1/[10.0\% - 2.5\%] = 13.3x$; this is an earnings or free cash flow yield of 7.5% and dividend yield with 1.2x cover of 6.3%

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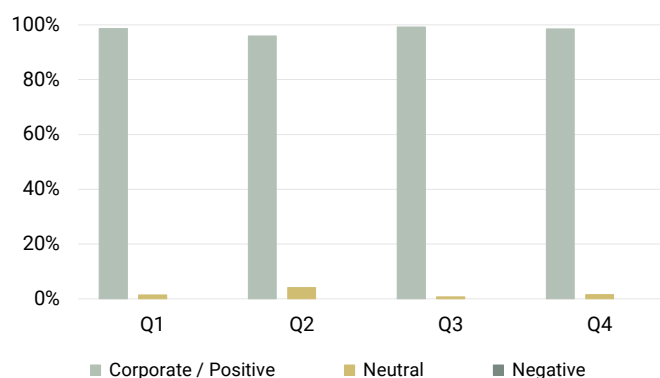
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Nomad	3
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Joint Broker	29
Financial Adviser & Broker	4
Financial Adviser	1
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