

Corporate Share Price	420p
Market Cap	£213m
Shares in Issue	50.7m
12m Trading Range	340p-460p
Free Float	59%
Next Event	YE - 30 June '26

Price performance (p)



Source: FactSet

Financial forecasts

YE, Jun (US\$m)	2025	2026E	2027E	2028E
FuM opening	10,241	10,814	11,900	11,900
Revenue (net fee)	69.8	75.7	78.7	78.7
yoy growth (%)	5.4	8.5	4.0	0.0
Pre profit share	42.9	47.8	50.0	49.6
EBITDA	30.7	33.7	35.2	35.0
Adj. PBT	28.6	31.4	32.6	32.4
Adj. PAT	23.4	25.4	26.6	26.3
Exchange rate #	1.28	1.35	1.35	1.34
Adj EPS (p)	37.2	38.3	40.1	40.0
DPS (p)	33.0	33.0	33.0	33.0
Net cash (p)	53.6	61.9	73.8	85.7
P/E	11.3	11.0	10.5	10.5
EV/EBITDA	7.8	7.3	6.8	6.5
Op. cashflow/PAT	1.08	1.09	1.11	1.09
FCF yield (%)	9.5	9.9	10.5	10.4
Dividend yield (%)	7.9	7.9	7.9	7.9

Source: Audited accounts and Zeus estimates

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\$.

We estimate current FUM is \$0.2bn above our forecasts for years to June 2027E and 2028E set out above.

City of London Investment Group is a broker client of Zeus

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City of London Investment Group

CLIG LN - Financial Services

The case for active management

City of London Investment Group (CLIG)'s 2nd Annual Investment Roundtable in Newtown Square, Pennsylvania, brought together senior practitioners from asset management, macroeconomic research, and fintech. Among the topics raised in sessions covering, Geopolitics, Artificial Intelligence, and Global Portfolio Allocation, was the strengthening case for active fund management.

1. Geopolitical risk is structural, not cyclical. The consensus that geopolitics reverts to background noise after each crisis episode is being tested by the frequency and interconnectedness of current events. US-China rivalry, Middle East disruption and European strategic drift are not discrete shocks; they are features of a regime shift in the global order.

2. Commodity and real asset allocations deserve reappraisal. The 18-year cycle work, combined with oil supply disruption, energy infrastructure investment needs and critical mineral dependencies, suggests that the structural underweight to real assets in many institutional portfolios – built during a decade of deflationary comfort – is due for revision.

3. AI's value is already being realised – but the competitive advantage will accrue to those who deploy it with discipline. The quality gap between sophisticated and unsophisticated AI users is widening. Access to the tools is now table stakes; knowing how to use them is the differentiator.

4. Emerging Market, International, and Global diversification is returning to favour. Dollar weakness, a resurgent commodity cycle, EM governance reform and AI infrastructure buildout outside the US are all contributing to a potential multi-year rotation away from concentrated US mega-cap exposure. The 2000s analogue is instructive for investors with long institutional memories.

5. Unique opportunities in Fixed Income & Credit. Amidst a backdrop of geopolitical fragmentation, term premia, and cracks emerging in private credit markets, active, liquid fixed income and credit can offer compelling yield and capital return profiles with better liquidity and transparency. Conservative, capital-preservation-first discipline paired with deep expertise in allocation and closed-end fund arbitrage offers heightened opportunity.

6. The active management case is strengthening. In an environment of lower absolute returns, structurally higher inflation and rapidly shifting sector leadership, the ability to identify dislocation and rotate tactically is more valuable than in the passive-dominated, low-volatility decade that preceded it. We set out the case for active management on pages 2 to 4.

Implications: CLIG has teams of active investment managers with impressive track records that are well positioned to benefit from market conditions:

- ◆ Inflation, oil supply disruption, energy infrastructure needs and critical mineral dependencies
- ◆ Rotation from US mega-caps to Emerging Markets
- ◆ Private Credit pain creates opportunities for CLIG's innovative fixed income strategies

FUM, forecasts & valuation: Since 15 April 2026, world equity markets have risen (Exhibit 3 on page 5). While we leave our forecasts unchanged, we estimate CLIG's FUM has risen from \$11.7bn to \$12bn. Over the same period, CLIG's share price at 420p is down 9% from 460p.

Why active management matters

For a decade the passive evangelists had a compelling case. Markets were calm, correlations were high, and a low-cost index tracker could beat most active managers after fees. That world has not merely changed: it has been upended. What follows is an argument that the capacity to think, judge, and act independently is not a nostalgic luxury but a competitive necessity.

Passive management: built for the long bull market

The attractions of passive investing are not new — the argument has been made, with varying degrees of persuasion, for decades. In the long bull market that followed the global financial crisis it gained decisive momentum: low volatility, suppressed rates, and a rising tide that lifted most boats made a cheap index tracker hard to beat after fees. But the logic of passive rests on a quiet assumption: that the future will broadly resemble the past, that markets will be reasonably efficient, and that political risk will remain contained. Strip away those assumptions and the case for pure passive begins to look less like wisdom and more like a bet on stability that the world can no longer afford to make.

There is a deeper problem too. Passive funds are, at their core, freeloaders — they ride on the price discovery and collective judgment of active managers without contributing to it. Every passive allocation depends on active managers doing the analytical work to ensure that prices reflect reality. As passive grows, that free ride becomes more expensive for everyone: price discovery degrades, mispricing proliferates, and the very market efficiency on which passive theory rests quietly erodes. Passive investing is not a strategy. It is a strategy that only works because enough people refuse to use it.

Forces that changed the calculus

Return of the moveable political hand

The first is the return of the moveable political hand. A US President who can move equity indices by several percent with a single post and reshape trade relationships affecting trillions in commerce overnight is not an environment an index can navigate. An index takes no view. It absorbs every shock without discretion. An active manager can reposition before a headline, tilt away from exposed sectors, and hold their nerve when others cannot.

Redrawing of the geopolitical map

The second is the redrawing of the geopolitical map. Supply chains are being onshored, strategic industries ring-fenced, and the assumption that capital could flow freely to wherever returns were highest is being systematically dismantled. Identifying which emerging markets retain structural tailwinds — and which developed market stocks are quietly exposed to sanctions or decoupling — requires genuine analytical work that no historical model can fully anticipate.

Volatile risk-free rates

The third is volatile risk-free rates. After a decade when rates were effectively binary (i.e. low or very low) duration risk is real again. Closed-end funds trade at discounts that widen and narrow with rate expectations, creating pricing anomalies for those paying close attention. An active manager who understands discount dynamics can extract material alpha from movements that look like noise to the passive observer.

Artificial intelligence

The fourth is artificial intelligence. AI has read all the books. Large language models have ingested more financial research than any human team ever could. And yet they hallucinate — confabulating with fluency and confidence, unable to reliably distinguish truth from plausible-sounding pattern. In a world where AI generates convincing-but-wrong conclusions at industrial scale, the premium on human judgment — the ability to weigh incomplete evidence, identify real signals, and decide under genuine uncertainty — has never been higher.

MiFID II

A fifth structural force, MiFID II, introduced in January 2018, mandated the unbundling of research payments from trade execution. The intent was transparency and the elimination of conflicts of interest. The consequence was a significant and measurable reduction in sell-side analyst coverage. In stripping out the cross-subsidy that kept independent research economics viable, MiFID II quietly degraded the very information infrastructure on which efficient pricing depends. Less research means fewer informed traders, fewer informed traders means more mispricing, and more mispricing means more opportunity for active managers who conduct their own rigorous analytical work. This is precisely the model CLIG's teams have always operated.

What genuine Alpha looks like

Genuine active management is not closet indexing with a marketing budget. Managers who deserve their fees have a clearly defined and repeatable edge, perform across cycles, and operate where their size and expertise create advantages that passive vehicles cannot replicate.

CLIG's track record

CLIG's two affiliates, CLIM and Karpus, illustrate this concretely. **They are built around very active, active management**, encompassing asset allocation, security selection, behavioural finance, discount volatility especially in closed-end funds, board engagement, and global trading that takes advantage of regional market and investment dynamics across Emerging Markets, International Equity, Opportunistic Value, and Listed Private Equity. In the year to 30 June 2025, CLIM beat benchmarks by 470–860 basis points net of fees across all strategies. All CLIM and KIM strategies remain in the first or second quartile of their peer universes over five years per eVestment Alliance. CLIG's total return since its 2006 listing is 11.8% annualised, against 6.6% for the FTSE All Share. This is the product of experienced teams operating a disciplined, repeatable process through multiple market cycles.

The largest index constituents become the least scrutinised

Scale problem: how much passive is too much?

The active–passive debate has a simple arithmetic that is often missed. Indices contain hundreds of stocks, while active managers take views security by security. As a result, active capital is naturally much smaller per constituent than the index itself. As passive ownership rises, the pool of active capital available for price discovery in each stock shrinks. The largest index constituents, with the highest passive weights, become the most passively owned and least scrutinised: exactly the opposite of what efficient markets require.

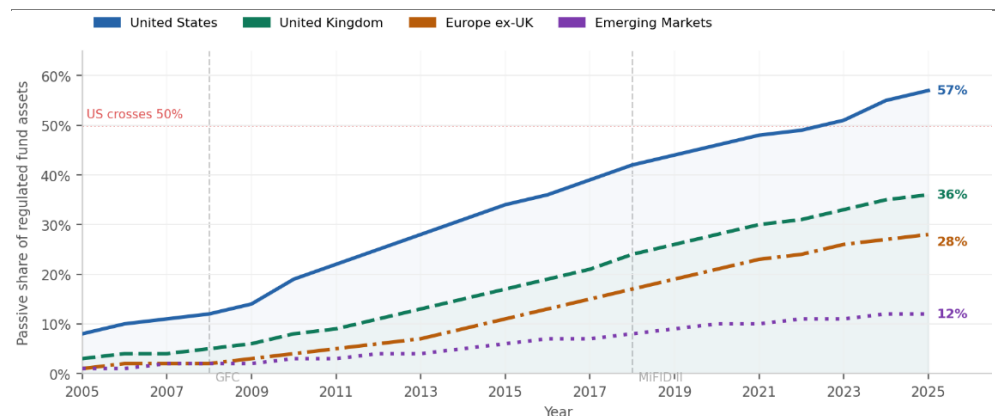
Passive penetration in the US is very high ...

Different regions are at very different stages of the same journey.

- ◆ In the United States, passive funds now account for over 50% of regulated funds.
- ◆ In UK over a third of all investment funds are passively managed.
- ◆ In non-US developed markets (e.g. Europe, Japan, Australia) passive penetration is ~29% of assets under management (Morningstar, 2025), rising but materially lower than the US.
- ◆ In emerging markets (EM), passive penetration remains low, as EM indices are structurally harder to replicate, more expensive to trade, subject to liquidity constraints, and heavily influenced by country-level political and macroeconomic dynamics that reward local knowledge and independent judgment.

... while penetration in EM is very low

Exhibit 1: Passive market share by region (2005-2025)



Sources: ICI Fact Book 2024 (US); Investment Association Annual Survey (UK); Morningstar European Asset Flows (Europe); Moody's / Apolo Academy (EM) passive share of regulated fund assets

Emerging Market (EM) active managers enjoy high success rates

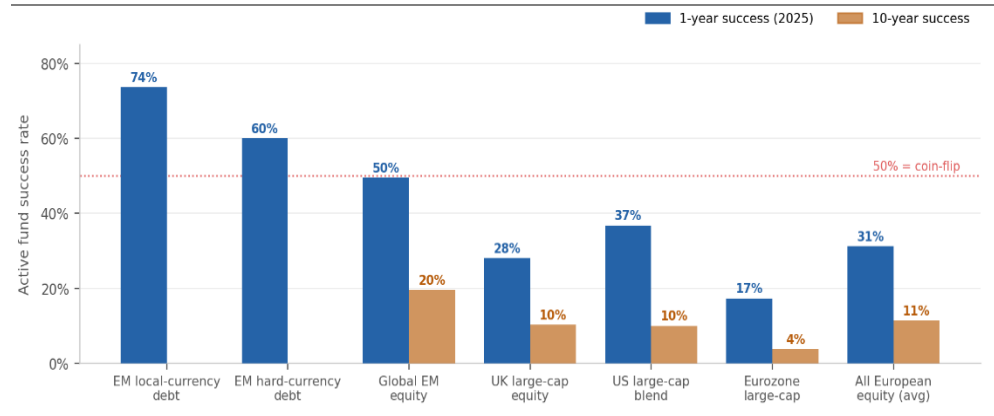
Success rate¹

Morningstar’s 2025 Active/Passive Barometer found that the global emerging markets category delivered an active management success rate of **49.6%** in 2025. This is nearly double the broader equity average. This is not a coincidence. EM indices are dominated by a small number of very large markets² creating precisely the kind of concentration, dispersion, and country-specific complexity that rewards active managers who can tilt, avoid, and exploit. For CLIG, which manages over \$3.6 billion in emerging market strategies and whose process is specifically designed to harvest pricing anomalies in less efficient structures, this is home territory.

Structural inefficiencies should reward UK mid/small cap stock-pickers

The Active/Passive Barometer found active managers in UK large-cap equity was just 28%, and only 10.2% over ten years. We expect structural inefficiencies of UK mid and small-cap stocks should reward genuine stock-pickers.

Exhibit 2: Active management success rates: 1yr & 10 yr (2025)



Note: Success rate = % of active funds that outperformed asset weighted average of passive peers
Source: Morningstar Barometer Europe 2025 (February 2026)

Passive management creates pricing anomalies

Free-riding on active management

Perfectly informationally efficient markets are a logical impossibility, because if prices always reflected all available information, there would be no reward for gathering it and no one would do so.³ Passive investing is, in a sense, a free-riding problem of market-wide scale: the strategy works only so long as enough active managers remain to perform the analytical work that passive investors depend on but do not fund. The more assets flow into passive, the greater the analytical burden falls on a shrinking active community, and the greater the pricing anomalies available to those who remain.

Structural opportunity

This is not a crisis. It is an opportunity, and it is structural.

Markets need judgement

The world with a market-moving President, a geopolitical map being redrawn in real time, a genuinely uncertain rate environment, and AI tools that are simultaneously powerful and unreliable, is precisely the world in which the ability to think clearly, act independently, and exercise genuine judgment is most valuable.

For UK fund managers allocating capital on behalf of clients who depend on real, risk-adjusted returns, the question is not whether active management works. The evidence shows that it does, when rigorously executed by experienced teams in well-defined niches.

The question is whether you have the right active managers. In a world that has changed as profoundly as this one, that question has never been more important to answer correctly.

¹ Success rate = % of active funds that outperformed asset weighted average of passive peers

² China alone constitutes nearly a third of the FTSE Emerging Index

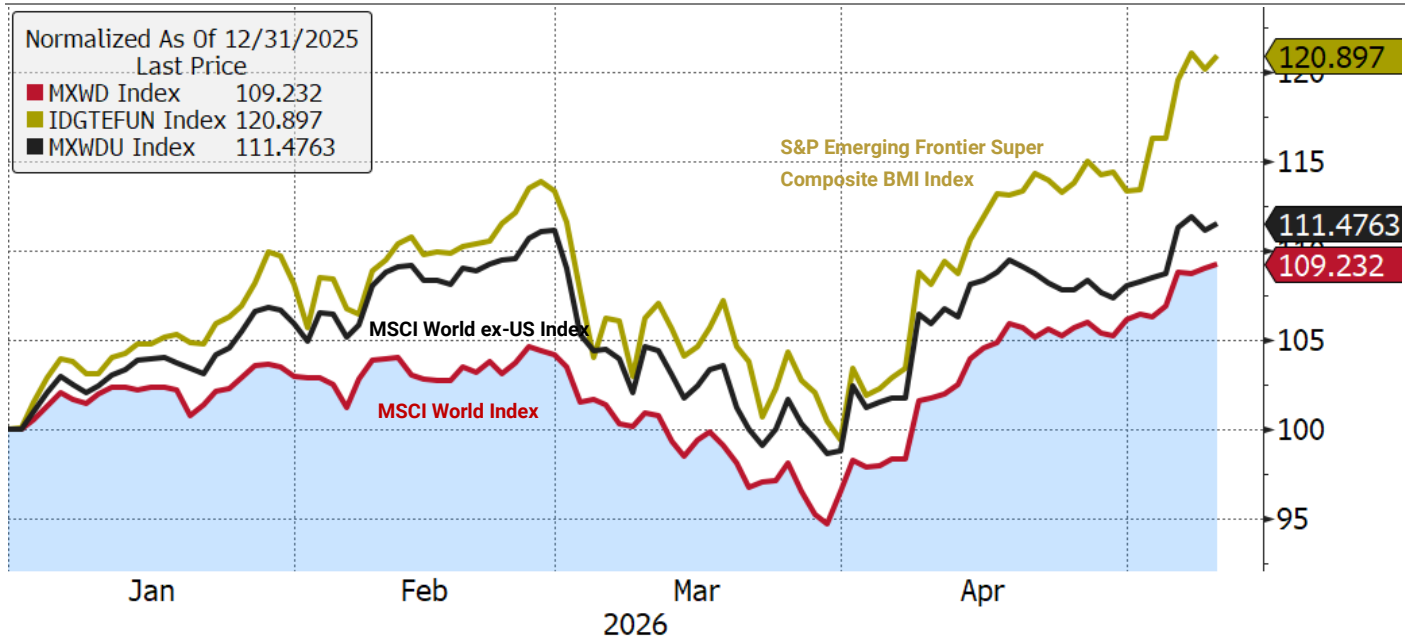
³ Observation from Grossman and Stiglitz’s foundational 1980 paper

Movement in relevant indices

CLIG's FUM on 15 April 2026 was \$11.7bn, when MSCI World index was 104.9, MSCI World ex-US Index was 108.8 and S&P Emerging Frontier Super Composite BMI Index was 113.2.

In the period since 15 April 2026, these indices are up **4.1%**, **2.5%** and **6.8%** respectively to 109.2, 111.5 and 120.9. We expect CLIG's FUM has increased to \$12bn.

Exhibit 3: S&P Emerging Markets, MSCI World & World ex US indices



MXWD Index (MSCI ACWI Index) Daily 31DEC2025-12MAY2026

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Note: MXWD IDGTEFUN and MXWDU are benchmark indices used for some of CLIM and KIM's strategies (see Exhibit 9)
Source: Bloomberg

34% of CLIG's FUM is invested in Emerging Market and 23% in International Equity strategies. We set out above the movements in various benchmarks. The actual benchmarks for CLIG's strategies are set out in Exhibit 3. Many of the KIM strategies are benchmarked to Bond Indices.

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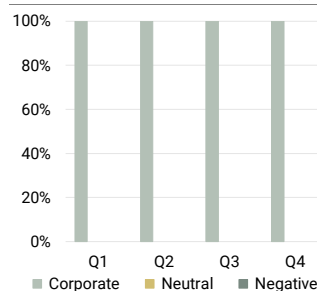
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