Legal Entity Identifier: 213800F3NOTF47H6AO55

# THE CITY OF LONDON INVESTMENT TRUST PLC

## Annual financial results for the year ended 30 June 2019

*This announcement contains regulated information*

## INVESTMENT OBJECTIVE

The Company's objective is to provide long-term growth in income and capital, principally by investment in equities listed on the London Stock Exchange. The Board continues to recognise the importance of dividend income to shareholders.

## CHAIRMAN'S COMMENT

"In a flat year for equity returns NAV total return was 2.7%, ahead of our sector and market benchmarks. Our dividend was increased for the 53rd consecutive year, by 5.1% and well ahead of inflation."

## PERFORMANCE HIGHLIGHTS

| | 2019 | 2018 |
|---|---|---|
| **Total Return Performance:** | | |
| Net asset value per ordinary share ('NAV')[1] | **2.7%** | **6.3%** |
| Share Price[2] | **3.0%** | **6.2%** |
| AIC UK Equity Income sector (Benchmark)[3] | **-0.8%** | **6.3%** |
| FTSE All-Share Index | **0.6%** | **9.0%** |
| IA UK Equity Income OEIC sector | **-2.6%** | **6.2%** |

| | 2019 | 2018 |
|---|---|---|
| NAV per ordinary share | **421.2p** | **429.2p** |
| Share Price | **425.5p** | **432.0p** |
| Dividends per share | **18.6p** | **17.7p** |
| Gearing at year end | **7.9%** | **7.7%** |
| Revenue Earnings per share | **19.8p** | **18.7p** |
| Revenue Reserve per share | **15.4p** | **15.0p** |
| Ongoing Charge for the year[4] | **0.39%** | **0.41%** |
| Premium | **1.0%** | **0.7%** |

1 Net asset value per ordinary share total return with debt at market value (including dividends reinvested)
2 Share price total return using mid-market closing price
3 AIC UK Equity Income sector size weighted average NAV total return (shareholders' funds)
4 Calculatd using the methodology prescribed by the Association of Investment Companies ("AIC")

Sources: Morningstar for the AIC, Janus Henderson, Datastream

## CHAIRMAN'S STATEMENT

I am pleased to report that, although our net asset value total return was a modest 2.7%, it was ahead of the averages of each of the AIC UK Equity Income and IA UK Equity Income OEIC sectors and the FTSE All-Share Index. The dividend was increased for the 53rd consecutive year, by 5.1% and well ahead of inflation.

### The Markets

Slowing economic growth and tension over trade tariffs weighed on global equity markets over the twelve months. Sentiment improved in January 2019 as the Federal Reserve, the US central bank, indicated a more Accommodative monetary policy going forward. In the UK, Brexit introduced an extra element of uncertainty with the intended date for departure from the European Union postponed from 31 March to 31 October 2019. Sterling fell some 4% against the US dollar and the 10 year gilt yield fell to 0.8% at 30 June 2019. The FTSE 100, the index of the largest UK listed companies in which City of London's principal investments lie, outperformed the more domestically focused FTSE 250, the index of medium-sized companies, and the FTSE Small Cap Index.

## Performance

**Earnings and Dividends**

Revenue earnings per share rose by 5.9% to 19.8p, reflecting the underlying dividend growth from investments held. Special revenue dividends, which made up 4.8% of gross revenue, were £3.7 million, an increase of £1.1 million from the previous year.

City of London increased its dividend by 5.1% over the previous year and added £5.1 million to revenue reserves. This is the seventh successive year when we have raised the dividend and yet increased revenue reserves to underpin future dividends. Revenue reserves per share now stand at 15.4p, an increase of 2.7% over last year despite continued share issuance by the Company.

The quarterly dividend will next be considered by the Board when the third interim is declared in April 2020.

**Net Asset Value Total Return**

City of London's net asset value total return was 2.7% which was 3.5% ahead of the AIC UK Equity Income sector average, 5.3% ahead of the IA UK Equity Income OEIC sector average and 2.1% ahead of the FTSE All-Share Index. The net asset value fell by 1.9% but our dividend income over the year took our net asset value total return into positive territory.

Compared with the FTSE All Share Index, stock selection contributed 3.0%. In general, international and defensive companies performed well and the largest stock contributor was Nestlé of Switzerland followed by Merck and Verizon of the U.S. The fourth largest stock contribution and best UK listed stock over the year was Greggs, the bakery retailer. RELX, Unilever and Diageo were notable contributors among our largest holdings. The underweight position in AstraZeneca was the biggest stock detractor, followed by the performance of travel group TUI and the absence of a holding in Shire which was taken over. Gearing, which began the year at 7.7%, rose to 11.9% at the half-way point and ended the twelve month period at 7.9%, also detracted by 0.6%.

You will see from the Fund Manager's Report that he has reduced the number of stocks held by the Company from 115 to 97 over the last two years. Your Board believes that this will increase the focus of the portfolio and improve the scope for outperformance.

## Share Issues

During the year City of London's ordinary shares have again been in strong demand and have continued to trade at a premium. A total of 24 million ordinary shares were issued at a premium to net asset value for proceeds of £99 million. In the past nine years, City of London has issued 170 million shares, which has increased its share capital by 81.6%. Since 30 June 2019, we have issued a further 2.5 million ordinary shares.

## Reduced Management Fee and Expenses

I reported at the half year that, with effect from 1 January 2019, the management fee rate which we pay to Janus Henderson has been reduced to 0.325% per annum of net assets. Partly as a result of this, our ongoing charge for the year declined from 0.41% to 0.39%. Given that these new fee arrangements were in place for only half of the period under review, I would expect the ongoing charge to fall further for the 2019/20 financial year. Our costs remain very competitive compared with other actively managed equity funds.

## Benchmark

Since 2009 our benchmark has been the size-weighted average of the AIC UK Equity Income sector which consists of 25 investment trusts. Your Board has periodically considered the relevance of this benchmark but has to date considered that there is no one more relevant benchmark.

We believe that one defining feature of an Equity Income fund is that it delivers a yield at a premium to the market and this is indeed the approach adopted by the Investment Association in its classification of open-ended funds. City of London's portfolio typically yields between 10% and 30% above the average dividend yield for the UK market, although it is currently towards the lower end of this range given the concentration of dividends in a small number of very large companies in many of which the Company tends to be underweight.

The AIC has recently undertaken a review of its sector classifications. As a result, the constituents of the Equity Income sector remain unchanged save for one addition. The largest trust in our sector (City is the second largest) has a dividend yield of only 1.7%, well below the market average. In addition, given that the sector consists of a small number of trusts, some very small trusts and some with portfolio characteristics very different from our own, we no longer consider it appropriate to use the sector average as our benchmark.

Your Board has decided to use the FTSE All-Share Index as our benchmark from 1 July 2019. It is the most popular benchmark for UK equity funds and the factors driving the performance of our portfolio relative to the FTSE All-Share Index can be readily identified. In the long run, City of London has outperformed the FTSE All-Share Index. For example, over ten years City of London's net asset value total return is 226.1% compared with 167.1% for the FTSE All-Share Index. We will continue to show in our Annual Report comparative data for the AIC UK Equity Income and IA UK Equity Income OEIC sector averages because peer group performance is relevant to investors and the Board in holding the Manager to account.

### The Board

We take the appointment of directors, and governance generally, very seriously. Each year, we assess the composition of the Board and its performance, including that of individual directors. Every three years we conduct an external review and this was carried out this year by Lintstock on our behalf. I am delighted to say that they concluded that the Board remains highly effective, with a very good range of skills represented on the Board and a clear understanding of the risks facing the Company.

We announced on 13 September 2019 that Clare Wardle would join the Board on 1 November 2019. She brings to the Board valuable experience from her background in law and company secretarial. She has been Group General Counsel and Company Secretary of Coca-Cola European Partners and of Kingfisher plc. In accordance with best practice, we employed a specialist external search firm to find Clare.

In February 2019 the AIC published an updated Code of Governance which largely mirrors the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council ("FRC") save that the strict nine year cap on the Chairman's tenure contained in the FRC's code has been disapplied by the AIC. I see no reason why the rules which apply to the length of time which the chairman of an investment company can serve should be more relaxed than those which apply to other listed companies, and so I will be stepping down as Chairman of City of London during 2020. Simon Barratt, our Senior Independent Director, is leading the search for my replacement and it is expected that he will also leave the Board next year once this appointment is made, as he too will have been on the Board for nine years.

### Annual General Meeting

The 2019 Annual General Meeting will be held at the offices of Janus Henderson Investors, 201 Bishopsgate, London EC2M 3AE on Thursday, 24 October 2019. I would encourage as many shareholders as possible to attend for the opportunity to meet the Board and to watch a presentation from Job Curtis, our Fund Manager. If you are unable to attend in person, you can watch the meeting as it happens by visiting **www.janushenderson.com/trustslive.**

### Outlook

The record low level of 10 year bond yields, with Japan and several European countries in negative territory, indicates the considerable uncertainty about economic growth prospects. The growth of internet commerce is having a deflationary impact globally. Rising trade tariffs are likely to reduce growth and the outcome of the disputes between the US and its various trading partners is uncertain. While the UK economic growth rate has fallen over the last year, in common with other European countries, there are positive aspects, notably the strength of the labour market with record numbers in work.

The path of the UK's future relationship with the European Union remains unclear but a general election is now imminent. In conjunction with our managers, we have continued to consider the direct practical consequences of Brexit on the operations of City of London and do not consider them to be material. To the extent that concerns about Brexit continue to put pressure on sterling, this would be a positive for City of London's portfolio given the predominance of international companies where profits and dividends will increase when translated from overseas currencies into sterling. On the other hand, a resolution of Brexit could help investment in the UK as businesses and investors gain greater clarity.

City of London's portfolio is predominantly invested in large, international companies. The dividend yield of our portfolio is much higher than fixed interest yields and bank deposit rates. We have a 53 year record of annual dividend increases and we are confident of continuing our record given the quality of the companies in which we are invested and the advantages which our closed end, investment trust structure gives us.

Philip Remnant CBE
Chairman

## FUND MANAGER'S REPORT

## Investment Background

The first half of the period under review was characterised by monetary tightening and falling stock markets. In the US, interest rates were increased by the Federal Reserve, the central bank, which also engaged in quantitative tightening or not reinvesting the proceeds from bonds it held as they matured. The European Central Bank stopped buying bonds at the end of 2018. In the UK, the base rate was increased from 0.5% to 0.75%. Given this monetary environment, world equity markets fell in the six months to 31 December 2018 and the UK equity market, as measured by the FTSE All-Share Index, produced a negative total return of 11.0%.

Sentiment changed in January 2019, with the Federal Reserve indicating a more dovish approach as inflation was below target and market expectations in the US shifted to the anticipation of interest rate cuts. Despite disappointing economic growth globally and tension over trade tariffs, stock markets rallied. Bond yields fell with the US 10 year government bond yield falling from 2.7% at the start of January to 2.0% by the end of June. 10 year government bond yields for Germany and France ended June in negative territory.

In the UK, the situation was complicated by Brexit with stock building ahead of 31 March, the first intended Brexit date, reversing in the second quarter of 2019. Economic growth was adversely affected by weak investment and slowing export markets but helped by the strong labour market with the numbers in employment continuing to rise. The 10 year gilt yield fell to end the period at 0.8%. The equity market recovered from its losses of the second half of 2018 to produce a total return for the twelve month period to 30 June 2019 of 0.6%, as measured by the FTSE All-Share Index.

Over the twelve months, the exchange rate of sterling against the US dollar fell from 1.32 to 1.27; against the euro, the fall was marginal from 1.13 to 1.12. The relatively high US economic growth rate helped the dollar and the uncertainty over Brexit and UK politics weighed on sterling.

The oil price (Brent crude) started the period at US$77/bbl but fell to US$53/bbl by 31st December 2018 as US shale oil production rose faster than expected. During the first half of 2019, the oil price recovered to US$64/bbl with OPEC (the cartel of oil producing countries) showing supply discipline, Iranian sales restricted by sanctions and production issues for some other countries.

Throughout the twelve months the dividend yield for the UK equity market, which ranged from 3.6% to 4.5%, was significantly above the 10 year gilt yield and the base rate. In addition, UK equity market dividends increased above the rate of inflation. Over the twelve months, companies in City of London's portfolio increased their dividends on average by 3.3% (excluding special dividends).

The Company's gearing started the period at 7.7% and increased to 11.9% by 31 December 2018 which was appropriate given the cheaper valuation of equities after the fall in the market at that point. As share prices recovered in the first half of 2019, gearing declined to end the Company's financial year at 7.9%.

Over the twelve months, the FTSE 350 Lower Yield Index outperformed reflecting the gains from lower yielding sectors such as technology and beverages and the underperformance of some higher yielding sectors such as telecommunications and utilities.

Estimated Performance Attribution Analysis *(relative to FTSE All-Share Index Total Return)*

| | 2019<br>% | 2018<br>% |
|---|---|---|
| Stock Selection | +2.99 | -2.89 |
| Gearing | -0.61 | +0.47 |
| Expenses | -0.39 | -0.41 |
| Share Issues | +0.11 | +0.09 |
| Total | +2.10 | -2.74 |

*Source: Janus Henderson*

City of London outperformed the FTSE All-Share Index by 2.1% over the twelve months to 30 June 2019. Stock selection contributed 2.99% while gearing detracted 0.61%. Expenses were down from 0.41% to 0.39% as a result of the renegotiated management fee rate effective from 1 January 2019.

The overseas listed holdings were notable contributors with Nestlé, Merck, Verizon, Novartis and Microsoft being five of the top six contributors of stocks held. The largest UK listed contributor of stocks held (and fourth overall) was Greggs, the ready-to-eat bakery retailer.

Although AstraZeneca, the pharmaceutical company which had a strong share price performance over the twelve months, is held in the portfolio, the size of the stake is significantly under represented relative to the FTSE All-Share Index and it was the biggest stock detractor. The next biggest detractor was travel company TUI which had been the best stock contributor the previous year. The holding in TUI was reduced but not enough given the challenging conditions for travel companies in Europe during this period.

Over the long-term, City has significantly outperformed the Index. For example, over ten years City's net asset value total return is 226.1% compared to 167.1% of the FTSE All-Share Index.

## Portfolio Review

Over the last two years, the number of holdings in the portfolio has been reduced from 115 (at 30 June 2017) to 102 (at 30 June 2018) and to 97 (at 30 June 2019). In our view, while it is beneficial for a conservative portfolio to be diversified, at 97 holdings there is more focus with each holding having more of an impact.

A common theme among three of the top five contributing sectors to performance was making and selling consumer staples products that are used on an everyday basis for which demand is not particularly sensitive to economic growth. The biggest contributing sector was food producers, the fourth best beverages and the fifth personal goods. The largest stocks held in the portfolio, in these three sectors, are in descending order of size: Diageo, followed by Unilever, Nestlé and Coca-Cola. These companies have in common that they are global and provide basic consumer products where there is relatively stable demand. With government bond yields falling, indicating fears of an economic slowdown, the stability of profits and dividends from this group of companies is attractive. In addition, there is long-term structural growth for these companies in emerging markets where they already have a significant presence. As the income of large populations in emerging markets improve over time, it is likely that their consumption of branded consumer goods will steadily increase.

One consumer staples sector that performed poorly over the twelve months was tobacco. Cigarette smoking has been in long-term decline for many years but new forms of nicotine consumption, such as vaping and e-cigarettes, have increased the rate of the decline. City of London's exposure to the tobacco sector has been in line with the FTSE All-Share Index over the last year with British American Tobacco and Imperial Brands continuing to deliver attractive dividends.

The second best contributing sector was fixed line telecommunications, where City's largest holding was Verizon Communications. The US telecommunications market, where Verizon operates, is well structured with two leading operators, of which Verizon is one. Verizon has increased its dividend consistently over the last five years. In contrast, Vodafone cut its dividend due to rising indebtedness after the acquisition of cable assets from Liberty Global and the regulatory and competitive pressure in European telecommunication markets. City of London's position in Vodafone was reduced in the months ahead of the dividend cut so that we were under represented relative to the weighting in the FTSE All-Share Index. Vodafone has some attractive assets, such as its position as the second largest operator in Germany, and it should benefit from the growth in mobile data usage going forward. Elsewhere in the telecommunications sector, the holding in Manx Telecom was sold after it agreed to be taken over. Profits were also taken in Swisscom which appeared to be fully valued given its limited growth prospects.

The third biggest contributing sector was mining where Rio Tinto, BHP and Anglo American were held. All three companies benefited from the rising price of iron ore due partly to growing demand from customers in China and partly due to supply constraints following the Brazilian miner Vale closing one of its mines because a collapsed dam had caused flooding and fatalities. The mining companies held in the portfolio delivered improvements in operating efficiency and attractive dividends.

The sector that detracted most from relative performance was financial services but the cost was relatively modest at 0.4%. The biggest stock negative in financial services was not holding London Stock Exchange, which has a low dividend yield but performed strongly over the twelve months. In addition TP ICAP, which was held, disappointed expectations for savings from its merger. Subsequently management was changed.

The second biggest detracting sector was Real Estate Investment Trusts (REITs). The sector suffered from the problems of high street and shopping centre retailers loosing sales to the internet. There were a number of high profile bankruptcies of retailers and also some Company Voluntary Agreements which allow a retailer to reduce its rent. As a result, rental income for retail property was under pressure and values slid. The holding in leading shopping centre owner Unibail-Rodamco-Westfield was sold as was the small Supermarket Income REIT. In addition, RDI (formerly Redefine International) was also sold on account of its high leverage. Within the REITs held in the portfolio, Segro was a notable outperformer as it specialises in industrial property, including warehouses, needed by internet retailers as they expand. The portfolio's exposure to retailers was also reduced. N Brown and Pendragon were sold and the holding in Marks and Spencer which cut its dividend, was reduced by 50%. The third biggest detracting sector was industrial transportation where Royal Mail had a poor year. Falling volumes in letters offset the growth in its parcels business.

Five new holdings were bought over the twelve months which were all in our view, quality companies offering some additional diversification for the portfolio. Mondi is a vertically integrated paper and packaging company with some of the lowest cost mills. It is an international leader in its sector and provides an essential product to a wide range of industries.

Senior manufactures specialist engineering products. About half are in fluid systems, which allow gas/liquids to be pumped through at high temperature/pressure in small spaces with no leakage, and the other half are in structures where key products are wing structures and engine casings. Some 65% of sales are to the aerospace sector with the rest to industrial and automotive customers. Cost and production efficiencies as new product sales grow should improve profitability over the medium term.

Ferguson is UK listed but has 86% of its turnover in the U.S. It is a leading specialist plumbing and heating distributor focused primarily on the repair, maintenance and improvement markets. It augments its organic growth through the acquisition of much smaller operators.

National Express is a bus and coach company with profits split 36% from Spain, 35% from North America and 27% from the UK. The company has a good record of delivering operational excellence to grow passenger volumes as well as using technology to cut costs. It also makes bolt-on acquisitions to supplement organic growth.

St James's Place specialises in the provision of financial services and advice through a network of tied advisers. It has experienced impressive growth in assets under management over the last five years and should benefit from favourable long-term demographics.

Two holdings were sold ahead of dividend cuts; Centrica, the utility that owns the British Gas brand, and Low and Bonar, the specialist materials manufacturer. In addition, Melrose, which had taken over GKN in the previous year, was sold given the poor outlook for car sales.

The portion of the portfolio invested in large UK listed companies increased over the year from 73% to 78%. This was mainly due to the decline in the portion invested in medium-sized and small UK companies from 16% to 12%. The part of the portfolio invested in overseas listed companies also declined from 11% to 10%.

Large companies outperformed medium-sized and small companies over this twelve month period. Large international companies in sectors such as beverages and pharmaceuticals were particularly strong performers.

**Portfolio Outlook**

The portfolio is biased towards large international companies. Among the top ten holdings, only Lloyds Banking has more than half its business in the UK. The other large holding in the banks sector is HSBC which earns the majority of its profits from the Asia Pacific region. Both banks are well capitalised with attractive dividend yields that, in our view, are sustainable.

Oil companies Royal Dutch Shell and BP are respectively the largest and fourth largest holdings. While their profits are affected by the oil price, both companies have significantly reduced their cost of production in recent years. A similar self-help story has been experienced at miners Rio Tinto (tenth largest holding) and BHP (twelfth largest). While demand for many commodities is linked to the growth of the Chinese economy, Rio Tinto and BHP own some of the best assets in the global mining sector.

Diageo, the international alcoholic beverages company with Johnnie Walker whisky and Guinness beer among its brands, moved up over the year from fifth largest to third as a result of strong share price performance. Diageo with Unilever (fifth largest holding) are well placed to continue to produce consistent growth from their consumer goods which are sold globally.

Prudential (sixth largest holding) is expected to split into two companies over the next year which should liberate shareholder value. The international part of the company, which consists of its Asia Pacific and US operations, could attract significant investor interest. RELX (eighth largest holding) should continue to produce consistent profits growth from providing information and analytics for business and professional customers. British American Tobacco (nineth largest holding) offers an attractive dividend well covered by free cash flow.

While the portfolio is predominantly invested in large, international companies, there are some domestic sectors that are also favoured. In particular, UK housebuilding would appear to have good prospects given the latent demand for home ownership, fairly full employment and low interest rates. Taylor Wimpey is the fifteenth largest holding and also held are Persimmon and Berkeley. The portfolio is diversified across a range of industries. In our view, it is well balanced with quality companies that can deliver City of London's income and growth objective.

Job Curtis
Fund Manager

## FORTY LARGEST INVESTMENTS as at 30 June 2019

| Position | Company | Sector | Market Value £'000 | Portfolio % |
|---|---|---|---|---|
| 1 | **Royal Dutch Shell** | Oil & Gas Producers | **123,080** | 7.15 |
| 2 | **HSBC** | Banks | **76,857** | 4.47 |
| 3 | **Diageo** | Beverages | **66,997** | 3.89 |
| 4 | **BP** | Oil & Gas Producers | **66,929** | 3.89 |
| 5 | **Unilever** | Personal Goods | **56,887** | 3.30 |
| 6 | **Prudential** | Life Insurance | **51,547** | 2.99 |
| 7 | **Lloyds Banking** | Banks | **50,931** | 2.96 |
| 8 | **RELX** | Media | **48,554** | 2.82 |
| 9 | **British American Tobacco** | Tobacco | **46,183** | 2.68 |
| 10 | **Rio Tinto** | Mining | **41,484** | 2.41 |
| **Top 10** | | | **629,449** | **36.56** |
| 11 | **GlaxoSmithKline** | Pharmaceuticals & Biotechnology | **38,233** | 2.22 |
| 12 | **BHP** | Mining | **33,907** | 1.97 |
| 13 | **Verison Communications** | Fixed Line Telecommunications | **31,417** | 1.83 |
| 14 | **Phoenix** | Life Insurance | **30,767** | 1.79 |
| 15 | **Taylor Wimpey** | Household Goods & Home Construction | **30,003** | 1.74 |
| 16 | **BAE Systems** | Aerospace & Defence | **29,724** | 1.73 |
| 17 | **St. James's Place** | Life Insurance | **28,877** | 1.68 |
| 18 | **Reckitt Benckiser** | Household Goods & Home Construction | **27,963** | 1.62 |
| 19 | **AstraZeneca** | Pharmaceuticals & Biotechnology | **26,369** | 1.53 |
| 20 | **Land Securities** | Real Estate Investment Trusts | **24,996** | 1.45 |
| **Top 20** | | | **931,732** | **54.12** |
| 21 | **Schroders** | Financial Services | **24,550** | 1.43 |
| 22 | **Croda International** | Chemicals | **22,973** | 1.33 |
| 23 | **National Grid** | Gas Water & Multiutilities | **22,567** | 1.32 |
| 24 | **Nestlé** | Food Producers | **22,090** | 1.28 |
| 25 | **Compass** | Travel & Leisure | **21,741** | 1.26 |
| 26 | **Hiscox** | Non-life Insurance | **19,145** | 1.11 |
| 27 | **Carnival** | Travel and Leisure | **19,135** | 1.11 |
| 28 | **Vodafone** | Mobile Telecommunications | **19,075** | 1.11 |
| 29 | **Anglo American** | Mining | **18,868** | 1.10 |
| 30 | **Barclays** | Banks | **17,976** | 1.04 |
| **Top 30** | | | **1,139,852** | **66.21** |
| 31 | **Merck** | Pharmaceuticals & Biotechnology | **17,314** | 1.01 |
| 32 | **Novartis** | Pharmaceuticals & Biotechnology | **17,104** | 0.99 |
| 33 | **Persimmon** | Household Goods & Home Construction | **16,150** | 0.94 |
| 34 | **Coca-Cola** | Beverages | **15,212** | 0.88 |
| 35 | **Spirax-Sarco Engineering** | Industrial Engineering | **15,155** | 0.88 |
| 36 | **Greene King** | Travel & Leisure | **14,847** | 0.86 |
| 37 | **British Land** | Real Estate Investment Trusts | **14,806** | 0.86 |
| 38 | **Direct Line Insurance** | Non-life Insurance | **14,084** | 0.82 |
| 39 | **Imperial Brands** | Tobacco | **13,891** | 0.81 |
| 40 | **Ibstock** | Contruction & Materials | **13,494** | 0.78 |
| **Top 40** | | | **1,291,909** | **75.04** |

All classes of equity in any one company are treated as one investment

## PRINCIPAL RISKS

The Board, with the assistance of Janus Henderson, has carried out a robust assessment of the principal risks and uncertainties facing the Company that would threaten the business model, future performance, solvency and liquidity. This included consideration of the market uncertainty arising from the United Kingdom's negotiations to leave the European Union ("Brexit").

We regularly consider the principal risks facing the Company and have drawn up a matrix of risks facing the Company. The Board has put in place a schedule of investment limits and restrictions, appropriate to the Company's investment objective and policy, in order to mitigate these risks as far as practicable. The principal risks which have been identified and the steps taken by the Board to mitigate these are set out in the table below. The Board does not consider these to have changed during the course of the reporting period and up to the date of this report.

| **Principal risks** | **Mitigation measure** |
|---|---|
| **Portfolio and market price**<br>Although the Company invests almost entirely in securities that are listed on recognised markets, share prices may move rapidly. The companies in which investments are made may operate unsuccessfully, or fail entirely. A fall in the market value of the Company's portfolio would have an adverse effect on equity shareholders' funds. | The Board reviews the portfolio at the seven Board meetings held each year and receives regular reports from the Company's brokers. A detailed liquidity report is considered on a regular basis.<br><br>The Fund Manager closely monitors the portfolio between meetings and mitigates this risk through diversification of investments. The Fund Manager periodically presents the Company's investment strategy in respect of current market conditions. Performance relative to other UK equity income trusts, the FTSE All-Share Index and UK Equity Income OEICs is also monitored. |
| **Investment activity, gearing and performance**<br>An inappropriate investment strategy (for example, in terms of asset allocation or the level of gearing) may result in underperformance against the Company's benchmark. | The Board has an annual meeting focussed on strategy at which investment performance, the level of gearing and the level of premium/discount is reviewed. The Board also reviews a schedule of expenses and revenue forecasts at each meeting. |
| **Tax and regulatory**<br>A breach of s.1158/9 could lead to a loss of investment trust status, resulting in capital gains realised within the portfolio being subject to corporation tax. A breach of the Listing Rules could result in suspension of the Company's shares, while a breach of the Companies Act 2006 could lead to criminal proceedings, or financial or reputational damage. The Company must also ensure compliance with the Listing Rules of the New Zealand Stock Exchange. | The Manager provides investment, company secretarial, administration and accounting services through qualified professionals. The Board receives internal control reports produced by the Manager on a quarterly basis, which confirm legal and regulatory compliance. |
| **Operational**<br>Disruption to, or failure of, the Manager's or its administrator's (BNP Paribas Securities Services) accounting, dealing or payment systems or the epositary's records could prevent the accurate reporting and monitoring of the Company's financial position. The Company is also exposed to the operational risk that one or more of its suppliers may not provide the required level of service. | The Board monitors the services provided by the Manager and its other suppliers and receives reports on the key elements in place to provide effective internal control. During the year the Board reviewed the Manager's approach to cyber risk.<br><br>The Board considers the loss of the Fund Manager as a risk but this is mitigated by the experience of the team at Janus Henderson as detailed in the Annual Report. |

## BORROWINGS

The Company has a borrowing facility of £120.0m (2018: £120.0m) with HSBC Bank plc, of which £8.2 was drawn at the year end (2018: nil). The Company also has two debentures totalling £40.0m (2018: £40.0m) and £84.4m (2018: £84.3m) of secured notes. The level of gearing at 30 June 2019 was 7.9% of net asset value (2018: 7.7%).

## VIABILITY STATEMENT

The 2014 UK Corporate Governance Code introduced a requirement for the Board to assess the future prospects for the Company, and report on the assessment within the Annual Report.

The Board considered that certain characteristics of the Company's business model and strategy were relevant to this assessment:
- The Board looks to ensure the Company seeks to deliver long-term performance.
- The Company's investment objective, strategy and policy, which are subject to regular Board monitoring, mean that the Company is invested mainly in readily realisable, UK listed securities and that the level of borrowings is restricted.
- The Company is a closed end investment company and therefore does not suffer from the liquidity issues arising from unexpected redemptions.
- The Company has an ongoing charge of 0.39% which is lower than other comparable investment trusts.

Also relevant were a number of aspects of the Company's operational agreements:
- The Company retains title to all assets held by the custodian under the terms of formal agreements with the custodian and depositary.
- Long-term borrowing is in place being the 10¼% debenture stock 2020, 8½% debenture stock 2021, 4.53% secured notes 2029 and 2.94% secured notes 2049 which are also subject to formal agreements, including financial covenants with which the Company complied in full during the year. The value of long-term borrowing is relatively small in comparison to the value of net assets, being 7.9%.
- Revenue and expenditure forecasts are reviewed by the Directors at each Board meeting.
- Cash is held with approved banks.

In addition, the Directors carried out a robust assessment of the principal risks and uncertainties which could threaten the Company's business model, including future performance, liquidity and solvency.

The principal risks identified as relevant to the viability assessment were those relating to investment portfolio performance and its effect on the net asset value, share price and dividends, and threats to security over the Company's assets. The Board took into account the liquidity of the Company's portfolio, the existence of the long-term fixed rate borrowings, the effects of any significant future falls in investment values and income receipts on the ability to repay and re-negotiate borrowings, grow dividend payments and retain investors and the potential need for share buybacks to maintain a narrow share price discount. The Directors assess viability over five year rolling periods, taking account of foreseeeable severe but plausible scenarios. The Directors believe that a rolling five year period best balances the Company's long-term objective, its financial flexibility and scope with the difficulty in forecasting economic conditions affecting the Company and its shareholders.

Based on their assessment, and in the context of the Company's business model, strategy and operational arrangements set out above, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period to June 2024.

## RELATED PARTY TRANSACTIONS

The Company's transactions with related parties in the year were with the Directors and the Manager. There have been no material transactions between the Company and its Directors during the year and the only amounts paid to them were in respect of expenses and remuneration for which there were no outstanding amounts payable at the year end. Directors' shareholdings are disclosed in the Annual Report.

In relation to the provision of services by the Manager, other than fees payable by the Company in the ordinary course of business and the provision of marketing services, there have been no material transactions with the Manager affecting the financial position of the Company during the year under review. More details on transactions with the Manager, including amounts outstanding at the year end, are given in the Annual Report.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

Each of the Directors confirms that, to the best of his or her knowledge,:

- the Company's financial statements, which have been prepared in accordance with UK Accounting Standards on a going concern basis, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and

- the Strategic Report and financial statements include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board

Philip Remnant CBE
Chairman

## INCOME STATEMENT

| Notes | | Year ended 30 June 2019 | | | Year ended 30 June 2018 | | |
|---|---|---|---|---|---|---|---|
| | | **Revenue return £'000** | **Capital return £'000** | **Total return £'000** | Revenue return £'000 | Capital return £'000 | Total return £'000 |
| | (Losses)/gains on investments held at fair value through profit or loss | **-** | **(21,023)** | **(21,023)** | - | 31,889 | 31,889 |
| 2 | Income from investments held at fair value through profit or loss | **77,438** | **-** | **77,438** | 69,976 | - | 69,976 |
| 3 | Other interest receivable and similar income | **288** | **-** | **288** | 254 | - | 254 |
| | | --------- | --------- | --------- | --------- | ---------- | ----------- |
| | **Gross revenue and capital (losses)/gains** | **77,726** | **(21,023)** | **56,703** | 70,230 | 31,889 | 102,119 |
| | Management fee | **(1,519)** | **(3,545)** | **(5,064)** | (1,570) | (3,664) | (5,234) |
| | Other administrative expenses | **(726)** | **-** | **(726)** | (708) | - | (708) |
| | | --------- | --------- | --------- | --------- | ---------- | ----------- |
| | **Net return before finance costs and taxation** | **75,481** | **(24,568)** | **50,913** | 67,952 | 28,225 | 96,177 |
| | Finance costs | **(2,277)** | **(4,946)** | **(7,223)** | (2,037) | (4,385) | (6,422) |
| | | --------- | ----------- | ---------- | --------- | ---------- | ----------- |
| | **Net return before taxation** | **73,204** | **(29,514)** | **43,690** | 65,915 | 23,840 | 89,755 |
| | Taxation | **(1,181)** | **-** | **(1,181)** | (1,236) | - | (1,236) |
| | | --------- | --------- | --------- | --------- | ---------- | ----------- |
| | **Net return after taxation** | **72,023** | **(29,514)** | **42,509** | 64,679 | 23,840 | 88,519 |
| | | ====== | ====== | ====== | ====== | ====== | ====== |
| 4 | **Return per ordinary share basic and diluted** | **19.76p** | **(8.10p)** | **11.66p** | 18.69p | 6.89p | 25.58p |
| | | ====== | ====== | ====== | ====== | ====== | ====== |

The total columns of this statement represent the Income Statement of the Company. The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies. All revenue and capital items in the above statement derive from continuing operations. The Company has no recognised gains or losses other than those recognised in the Income Statement. There is no material difference between the net return before taxation and the net return after taxation stated above and their historical cost equivalents.

## STATEMENT OF CHANGES IN EQUITY

| Notes | Year ended 30 June 2019 | Called up share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Other capital reserves £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| | **At 1 July 2018** | **88,603** | **520,701** | **2,707** | **855,851** | **53,135** | **1,520,997** |
| | **Net return after** | **-** | **-** | **-** | **(29,514)** | **72,023** | **42,509** |

| Notes | | Called up share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Other capital reserves £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| | **taxation** | | | | | | |
| 7 | **Issue of 24,425,000 new ordinary shares** | **6,106** | **93,010** | **-** | **-** | **-** | **99,116** |
| 6 | **Dividends paid** | **-** | **-** | **-** | **-** | **(66,899)** | **(66,899)** |
| | **At 30 June 2019** | **94,709** | **613,711** | **2,707** | **826,337** | **58,259** | **1,595,723** |

| | Year ended 30 June 2018 | Called up share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Other capital reserves £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| | At 1 July 2017 | 84,853 | 461,753 | 2,707 | 832,011 | 48,598 | 1,429,922 |
| | Net return after taxation | - | - | - | 23,840 | 64,679 | 88,519 |
| 7 | Issue of 15,000,000 new ordinary shares | 3,750 | 58,948 | - | - | - | 62,698 |
| 6 | Dividends paid | - | - | - | - | (60,142) | (60,142) |
| | At 30 June 2018 | 88,603 | 520,701 | 2,707 | 855,851 | 53,135 | 1,520,997 |

## STATEMENT OF FINANCIAL POSITION

| Notes | | 30 June 2019 £'000 | 30 June 2018 £'000 |
|---|---|---|---|
| | **Fixed assets** | | |
| | **Investments held at fair value through profit or loss** | | |
| | Listed at market value in the United Kingdom | **1,556,025** | 1,454,876 |
| | Listed at market value overseas | **165,525** | 183,031 |
| | Investment in subsidiary undertakings | **347** | 347 |
| | | **1,721,897** | 1,638,254 |
| | **Current assets** | | |
| | Debtors | **14,932** | 14,493 |
| | Cash at bank | **-** | 68 |
| | | **14,932** | 14,561 |
| | **Creditors:** amounts falling due within one year | **(25,350)** | (6,105) |
| | **Net current (liabilities)/assets** | **(10,418)** | 8,456 |
| | **Total assets less current liabilities** | **1,711,479** | 1,646,710 |
| | **Creditors:** amounts falling due after more than one year | **(115,756)** | (125,713) |
| | **Net assets** | **1,595,723** | 1,520,997 |
| | **Capital and reserves** | | |
| 7 | Called up share capital | **94,709** | 88,603 |
| | Share premium account | **613,711** | 520,701 |
| | Capital redemption reserve | **2,707** | 2,707 |
| | Other capital reserves | **826,337** | 855,851 |
| | Revenue reserve | **58,259** | 53,135 |

| | | | |
|---|---|---|---|
| 5 | **Total shareholders' funds** | **1,595,723** | 1,520,997 |
| | | **=======** | ======= |
| 4 | **Net asset value per ordinary share – basic and diluted** | **421.22p** | 429.16p |
| | | **=======** | ======= |

## NOTES TO THE FINANCIAL STATEMENTS

**1. Accounting policies**

**Basis of accounting**

The Company is a registered investment company as defined in section 833 of the Companies Act 2006 and is incorporated in the United Kingdom. It operates in the United Kingdom and is registered at the address in the Annual Report.

The financial statements have been prepared in accordance with the Companies Act 2006, FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland and with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ("the SORP") issued in November 2014 and updated in February 2018.

The principal accounting policies applied in the presentation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

As an investment fund the Company has the option, which it has taken, not to present a cash flow statement. A cash flow statement is not required when an investment fund meets all the following conditions: substantially all of the entity's investments are highly liquid, substantially all of the entity's investments are carried at market value, and the entity provides a Statement of Changes in Equity. The Directors have assessed that the Company meets all of these conditions.

The financial statements have been prepared under the historical cost basis except for the measurement at fair value of investments. In applying FRS 102, financial instruments have been accounted for in accordance with section 11 and 12 of the standard. All of the Company's operations are of a continuing nature.

The financial statements of the Company's three subsidiaries have not been consolidated on the basis of immateriality and dormancy. Consequently, the financial statements present information about the Company as an individual entity. The Directors consider that the value of the subsidiary undertakings are not less than the amounts at which they are included in the financial statements.

The preparation of the Company's financial statements on occasion requires the Directors to make judgements, estimates and assumptions that affect the reported amounts in the primary financial statements and the accompanying disclosures. These assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in the current and future periods, depending on circumstance.

The Directors do not believe that any accounting judgements or estimates have been applied to this set of financial statements that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

**Going Concern**

The assets of the Company consist of securities that are readily realisable and, accordingly, the Directors believe that the Company has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. Having assessed these factors, the principal risks and other matters discussed in connection with the viability statement, the Board has determined that it is appropriate for the financial statements to be prepared on a going concern basis.

**2. Income from investments held at fair value through profit or loss**

| | **2019** | 2018 |
|---|---|---|
| | **£'000** | £'000 |
| UK dividends: | | |
| Listed – ordinary dividends | **59,566** | 53,311 |
| Listed – special dividends | **3,702** | 2,559 |
| | --------- | --------- |
| | **63,268** | 55,870 |

| | | |
|---|---|---|
| | --------- | --------- |
| Other dividends: | | |
| Dividend income – overseas investments | **11,575** | 11,670 |
| Dividend income – UK REIT | **2,595** | 2,436 |
| | --------- | --------- |
| | **14,170** | 14,106 |
| | --------- | --------- |
| | **77,438** | 69,976 |
| | ===== | ===== |

**3. Other interest receivable and similar income**

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Bank interest | **-** | 3 |
| Underwriting commission (allocated to revenue)[1] | **14** | 41 |
| Stock lending revenue | **274** | 210 |
| | ------- | ------- |
| | **288** | 254 |
| | ===== | ==== |

[1] During the year the Company was not required to take up shares in respect of its underwriting commitments (2018: none).

At 30 June 2019, the total value of securities on loan by the Company for stock lending purposes was £192,872,000 (2018: £101,360,000). The maximum aggregate value of securities on loan at any one time during the year ended 30 June 2019 was £279,272,000 (2018: £209,315,000). The Company's agent holds collateral at 30 June 2019, with a value of £208,546,000 (2018: £110,896,000) in respect of securities on loan, the value of which is reviewed on a daily basis and comprises CREST Delivery By Value ("DBVs") and Government Bonds with a market value of 108% (2018: 109%) of the market value of any securities on loan.

**4. Return per ordinary share – basic and diluted**

The return per ordinary share is based on the net return attributable to the ordinary shares of £42,509,000 (2018: £88,519,000) and on 364,414,801 ordinary shares (2018: 346,003,431), being the weighted average number of ordinary shares in issue during the year.

The return per ordinary share is analysed between revenue and capital below:

| | **2019 £'000** | 2018 £'000 |
|---|---|---|
| Net revenue return | **72,023** | 64,679 |
| Net capital return | **(29,514)** | 23,840 |
| | ---------- | ---------- |
| **Net total return** | **42,509** | 88,519 |
| | ====== | ====== |
| Weighted average number of ordinary shares in issue during the year | **364,414,801** | 346,003,431 |

| | **2019 Pence** | 2018 Pence |
|---|---|---|
| Revenue return per ordinary share | **19.76** | 18.69 |
| Capital return per ordinary share | **(8.10)** | 6.89 |
| | ---------- | ---------- |
| **Total return per ordinary share** | **11.66** | 25.58 |
| | ====== | ====== |

The Company does not have any dilutive securities, therefore the basic and diluted returns per share are the same.

**5. Net asset value per ordinary share**

The net asset value per ordinary share is based on the net assets attributable to the ordinary shares of £1,595,723,000 (2018: £1,520,997,000) and on 378,834,868 (2018: 354,409,868) shares in issue on 30 June 2019.

**6. Dividends paid on ordinary shares**

| | **Record date** | **Payment date** | **2019 £'000** | 2018 £'000 |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Fourth interim dividend (4.30p) for the year ended 30 June 2017 | 28 July 2017 | 31 August 2017 | **-** | 14,648 |
| First interim dividend (4.30p) for the year ended 30 June 2018 | 20 October 2017 | 30 November 2017 | **-** | 14,796 |
| Second interim dividend (4.30p) for the year ended 30 June 2018 | 26 January 2018 | 28 February 2018 | **-** | 14,826 |
| Third interim dividend (4.55p) for the year ended 30 June 2018 | 27 April 2018 | 31 May 2018 | **-** | 16,016 |
| Fourth interim dividend (4.55p) for the year ended 30 June 2018 | 27 July 2018 | 31 August 2018 | **16,174** | |
| First interim dividend (4.55p) for the year ended 30 June 2019 | 19 October 2018 | 30 November 2018 | **16,319** | |
| Second interim dividend (4.55p) for the year ended 30 June 2019 | 25 January 2019 | 28 February 2019 | **16,633** | |
| Third interim dividend (4.75p) for the year ended 30 June 2019 | 26 April 2019 | 31 May 2019 | **17,773** | |
| Unclaimed dividends over 12 years old | | | **-** | (144) |
| | | | **--------** | -------- |
| | | | **66,899** | 60,142 |
| | | | **=====** | ===== |

In accordance with FRS 102, interim dividends payable to equity shareholders are recognised in the Statement of Changes in Equity when they have been paid to shareholders.

All dividends have been paid or will be paid out of revenue profits.

A fourth interim dividend of 4.75p (2018: 4.55p) per ordinary share in respect of the year ended 30 June 2019 was paid on 30 August 2019 to shareholders for a total consideration of £18,012,000.

## 7. Called up share capital

| | Shares in issue | Nominal value of total shares in issue £'000 |
|---|---|---|
| **Allotted and issued ordinary shares of 25p each** | | |
| **At 1 July 2018** | **354,409,868** | **88,603** |
| **Issue of new ordinary shares** | **24,425,000** | **6,106** |
| | **---------------** | **-----------** |
| **At 30 June 2019** | **378,834,868** | **94,709** |
| | **=========** | **======** |
| Allotted and issued ordinary shares of 25p each | | |
| At 1 July 2017 | 339,409,868 | 84,853 |
| Issue of new ordinary shares | 15,000,000 | 3,750 |
| | --------------- | ----------- |
| At 30 June 2018 | 354,409,868 | 88,603 |
| | ========= | ====== |

During the year the Company issued 24,425,000 (2018: 15,000,000) ordinary shares with total proceeds of £99,116,000 (2018: £62,698,000) after deduction of issue costs of £151,000 (2018: £143,000). The average price of the ordinary shares that were issued was 405.8p (2018: 418.0p).

## 8. 2019 Financial information

The figures and financial information for the year ended 30 June 2019 are extracted from the Company's annual financial statements for that period and do not constitute statutory accounts. The Company's annual financial statements for the year to 30 June 2019 have been audited but have not yet been delivered to the Registrar of Companies. The Independent Auditors' Report on the 2019 annual financial statements was unqualified, did not include a reference to any matter to which the auditors drew attention without qualifying the report, and did not contain any statements under sections 498(2) or 498(3) of the Companies Act 2006.

## 9. 2018 Financial information

The figures and financial information for the year ended 30 June 2018 are compiled from an extract of the published financial statements for that year and do not constitute statutory accounts. Those financial statements have been delivered to the Registrar of Companies and included the report of the auditors which was unqualified, did not include a reference to any matter to which the auditors drew attention without qualifying the report, and did not contain any statements under sections 498(2) or 498(3) of the Companies Act 2006.

**10. Annual Report and Annual General Meeting**

The Annual Report will be posted to shareholders in late September 2019 and will be available on the Company's website www.cityinvestmenttrust.com or in hard copy format from the Company's registered office, 201 Bishopsgate, London, EC2M 3AE thereafter.

The Annual General Meeting will be held at the offices of Janus Henderson Investors, 201 Bishopsgate, London EC2M 3AE on Thursday 24 October 2019 at 2.30pm. The Notice of Meeting will be sent to shareholders with the Annual Report.

For further information please contact:

Job Curtis
Fund Manager
The City of London Investment Trust plc
Telephone: 020 7818 4367

James de Sausmarez
Director and Head of Investment Trusts
Janus Henderson Investors
Telephone: 020 7818 3349

Laura Thomas
Investment Trust PR Manager
Janus Henderson Investors
Tel: 020 7818 2636