

# The City of London Investment Trust plc

Update for the half-year ended 31 December 2020



MANAGED BY  
**Janus Henderson**  
INVESTORS

# 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.

This update contains material extracted from the unaudited half-year results of the Company for the six months ended 31 December 2020. The unabridged results for the half year are available on the Company's website:

[www.cityinvestmenttrust.com](http://www.cityinvestmenttrust.com)

# Performance

### NAV per ordinary share

31 Dec 2020 30 June 2020

**357.4p 344.0p**

## Ordinary share price

31 Dec 2020 30 June 2020

**370.5p 340.0p**

### NAV per ordinary share (debt at fair value)

31 Dec 2020

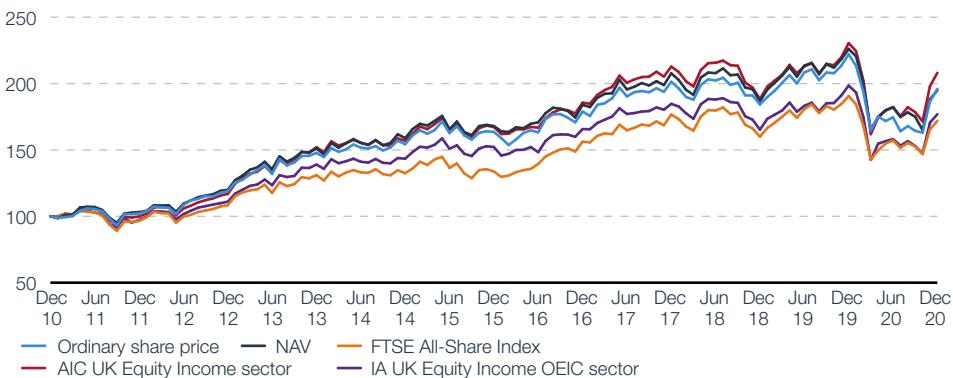
**351.2p 338.7p**

## Dividend yield

31 Dec 2020

**5.4%** **5.6%**

Total Return Performance for 10 years to 31 December 2020 (rebased to 100)



## Total Return Performance to 31 December 2020 (including dividends reinvested)

	6 months %	1 year %	3 years %	5 years %	10 years %
NAV <sup>1</sup>	6.9	-13.8	-6.1	16.0	95.0
Share price <sup>2</sup>	12.3	-11.8	-2.7	19.8	96.0
FTSE All-Share Index (Benchmark)	9.3	-9.8	-2.7	28.5	71.9
AIC UK Equity Income sector <sup>3</sup>	12.0	-9.7	-1.1	24.7	100.9
IA UK Equity Income OEIC sector <sup>4</sup>	11.9	-10.9	-4.3	16.2	76.9

Sources: Morningstar for the AIC, Janus Henderson, Refinitiv Datastream

1 Net asset value ("NAV") per ordinary share total return with debt at fair value

## 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 The Investment Association ("IA") peer group average is based on mid-day NAV whereas the returns of the investment trust are calculated using close of business NAV

# Chairman's Statement

## Net Asset Value Total Return

The UK equity market fell slightly over the first four months of the period under review, with the outlook uncertain for many companies due to the Covid-19 virus. A strong rally took place in the final two months of the period after newly developed vaccines were revealed to be effective against the virus. The FTSE All-Share Index recovered all of its losses from the first four months to produce a total return of 9.3% for the six months to 31 December 2020.

City of London's net asset value total return of 6.9% lagged the FTSE All-Share Index over the six month period. While gearing contributed positively by 0.7%, stock selection was negative by 3.0%. The biggest detracting sector was not holding equity investment instruments, especially Scottish Mortgage, followed by being underweight in travel & leisure, including not holding Flutter Entertainment. The third biggest detracting sector was our above average exposure to gas, water & multi-utilities. In general, some of the portfolio's more defensive holdings were underperformers, such as Nestlé (food manufacturer), Verizon Communications (US telecommunications operator) and RELX (information provider).

On a more positive note, the underweight positions in pharmaceuticals and oil & gas were the two biggest sector contributors followed by our holdings in real estate investment trusts, which recovered well in the last two months of the year. It was also pleasing to note strong stock contributions from M&G (life insurer and asset manager), Croda (chemicals) and La Française des Jeux (French National Lottery operator).

UK medium-sized and small companies, which are in general more domestic and cyclical, significantly outperformed UK large companies over the six months to 31 December 2020. The FTSE 250 Index of medium-sized companies produced a total return of 21.0% and the FTSE Small Cap Index 25.7%, while the FTSE 100 Index was 6.4%. This outperformance occurred despite dividend cuts

being even more severe among medium-sized and small companies compared with FTSE 100 companies. City of London's relatively high FTSE 100 weighting and the defensive bias of its portfolio led to a total return underperformance over the six months compared with the averages of other UK equity income investment trusts and OEICs.

## Earnings and Dividends

Against the background of a significantly lower dividend base across the UK market compared with the same period last year, City of London's revenue earnings per share fell by 15.6%. Compared to our experience during the first half of 2020, when our earnings fell by 38.2% compared with the same period the previous year, there was a significant improvement with a number of investee companies returning to the dividend list, such as BAE Systems (aerospace and defence), Persimmon (housebuilder) and Direct Line Insurance. So far this financial year, City of London has declared two interim dividends of 4.75p each. City of London's diverse portfolio, strong cash flow and revenue reserve give the Board confidence that it will be able to increase the dividend for the fifty-fifth consecutive year. The quarterly rate will be reviewed by the Board before the third interim dividend is declared in March 2021.

## Expenses

Expenses remain under tight control. The ongoing charge ratio is expected to remain around 0.36% for the year to 30 June 2021. There will, however, be a drop in interest costs following the redemption of our last debenture of £30 million, with a fixed interest rate of 8.5%, on 31 January 2021.

## Material Events and Transactions during the Period

During September 2020, 1,175,000 shares were bought back into treasury, at a discount to net asset value, for a total cost of £3,736,000. These were then reissued, at a premium to net asset value, for total proceeds of £3,860,000. A further

# Chairman's Statement

5,445,000 ordinary shares were issued at a premium to net asset value for total proceeds of £19,622,000.

The proceeds were predominantly invested in existing holdings in the portfolio considered to offer a realistic share price valuation relative to prospects and above average dividend yields. Areas of notable additions were: aerospace & defence (BAE Systems), financials (Direct Line Insurance, Legal & General, M&G and IG Group), tobacco (British American Tobacco and Imperial Brands) and utilities (SSE). One new holding was purchased, which was Cisco, the leading maker of network equipment for the internet.

Complete sales were made of Halma (health and safety equipment), Renishaw (precision measuring instruments) and Spirax-Sarco Engineering. All three stocks have performed exceptionally well over the period they have been in the portfolio, but their prospects were considered to be more than fully reflected in their share price valuations. Complete sales were also made of Greggs and National Express (bus and coach operator) given what was considered to be slow recovery prospects due to the pandemic. A complete sale was also made of TP ICAP (wholesale financial intermediary) following its change in corporate strategy. Overall, the number of holdings in the portfolio fell from 90 (at 30 June 2020) to 85 (at 31 December 2020).

## The Board

Philip Remnant retired as Chairman at the conclusion of the Annual General Meeting on 27 October 2020 after nine years on the Board.

It was unfortunate that the lockdown rules prevented shareholders from attending the Annual General Meeting in person, as I am sure that they would have wished to join the Board in thanking Philip for his outstanding leadership of the Company.

Martin Morgan will be retiring as a Director at the Annual General Meeting later this year, having served for nine years, and the Board will be starting a process to appoint a new Director shortly.

## Outlook for the Six Months to 30 June 2021

The roll-out of three vaccines against the Covid-19 virus is very encouraging and provides "light at the end of the tunnel". It is unlikely, however, that there will be a smooth path to herd immunity for the UK or globally given current limitations to the supply of the vaccines and the apparent scope for the virus to mutate.

Governments and central banks have responded to the enforced lockdowns of economies as a result of Covid-19 with unprecedented fiscal and monetary easing. It is likely that, after a contraction in the first quarter of 2021, the UK and global economy will recover sharply over the rest of the year, with consumer demand bolstered by running down the high savings ratios accumulated while economic activity was restricted. The scale of the lockdowns could still leave deep scarring in some sectors, such as travel and hospitality, with the resumption of dividends some way off. City of London's portfolio remains biased towards large companies with defensive and cash generative qualities.

The UK's trade deal with the EU at the end of 2020 removed an uncertainty and may improve sentiment towards UK equities from global investors. While interest rates remain at a rock bottom level, UK equities offer a much more attractive yield and have scope to build on recent capital appreciation if expectations for profits and dividends are met.

Sir Laurie Magnus  
Chairman  
18 February 2021

# Financial Summary

Extract from Income Statement (Unaudited)	Half year ended			
	31 December 2020 Revenue return £'000	31 December 2020 Capital return £'000	31 December 2020 Total £'000	31 December 2019 Total £'000
Gains on investments	–	68,598	68,598	65,349
Income from investments	32,496	–	32,496	35,645
Other income	154	–	154	116
<b>Gross revenue and capital gains</b>	<b>32,650</b>	<b>68,598</b>	<b>101,248</b>	<b>101,110</b>
Expenses, finance costs and taxation	(2,399)	(3,711)	(6,110)	(6,971)
<b>Net return after taxation</b>	<b>30,251</b>	<b>64,887</b>	<b>95,138</b>	<b>94,139</b>
<b>Return per ordinary share – basic and diluted</b>	<b>7.25p</b>	<b>15.56p</b>	<b>22.81p</b>	<b>24.45p<sup>1</sup></b>

1 For the half year ended 31 December 2019, the revenue return per share was 8.59p and the capital return per share was 15.86p

Extract from Statement of Financial Position (Unaudited except June 2020 figures)	31 December 2020 £'000	31 December 2019 £'000	30 June 2020 £'000
Investments held at fair value through profit or loss	1,637,961	1,862,969	1,571,371
Net liabilities	(130,321)	(133,135)	(139,112)
<b>Net assets</b>	<b>1,507,640</b>	<b>1,729,834</b>	<b>1,432,259</b>
<b>Net asset value per ordinary share – basic and diluted</b>	<b>357.4p</b>	<b>435.7p</b>	<b>344.0p</b>

## Dividends

A first interim dividend of 4.75p per ordinary share was paid on 30 November 2020. The second interim dividend of 4.75p per ordinary share (declared on 15 December 2020) will be paid on 26 February 2021 to shareholders on the register on 29 January 2021. The Company's shares went ex-dividend on 28 January 2021.

## Share Capital and Reserves

During the half-year ended 31 December 2020, 1,175,000 ordinary shares were bought back into treasury for a total cost of £3,736,000. These shares were then re-issued for total proceeds of £3,860,000 and a further 5,445,000 new ordinary shares were issued for total proceeds of £19,622,000 (half-year ended 31 December 2019: 18,185,000 ordinary shares issued for total proceeds of £76,325,000; year ended 30 June 2020: 37,570,000 ordinary shares issued for total proceeds of £148,648,000). The number of ordinary shares in issue at 31 December 2020 was 421,849,868. There are no shares in treasury.

At 31 December 2020, the Company's revenue reserve was £36,371,000 (31 December 2019: £54,979,000; 30 June 2020: £45,623,000), capital reserve arising on investments sold was £300,424,000 (31 December 2019: £341,539,000; 30 June 2020: £271,839,000), both of which are distributable; and the capital reserve arising on revaluation of investments held was £291,324,000 (31 December 2019: £545,864,000; 30 June 2020: £255,022,000), which is not distributable.

# Portfolio Information

at 31 December 2020

## Forty Largest Investments

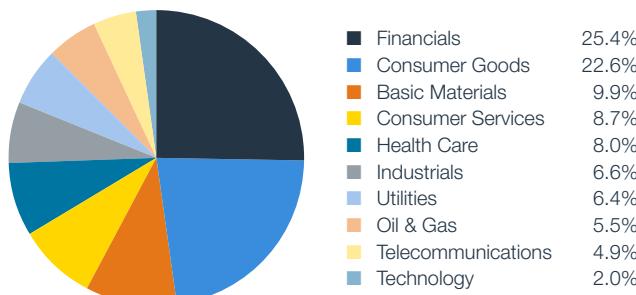
Company	Market value 31 December 2020 £'000	Company	Market value 31 December 2020 £'000
British American Tobacco	69,325	Anglo American	28,618
Diageo	56,979	St. James's Place	28,054
Unilever	54,241	Tesco	26,842
Rio Tinto	49,777	Vodafone	26,607
Royal Dutch Shell	47,942	Schroders	26,277
RELX	45,695	Nestlé	25,886
GlaxoSmithKline	42,944	Persimmon	23,519
M&G	38,600	Barclays	22,002
HSBC	37,506	Direct Line Insurance	21,851
Imperial Brands	36,852	Taylor Wimpey	21,305
BHP	35,280	IG	20,688
SSE	34,500	Lloyds Banking	20,406
National Grid	34,168	Land Securities	20,214
Phoenix	33,979	Ferguson	19,545
Reckitt Benckiser	32,710	Legal & General	18,634
BAE Systems	32,261	Novartis	18,205
BP	31,723	Wm Morrison	17,735
Prudential	31,655	Severn Trent	17,167
Verizon Communications	30,060	Segro	17,057
AstraZeneca	29,296	Munich Re	16,817

These investments total £1,242,922,000 or 75.9% of the portfolio

Convertibles and all classes of equity in any one company are treated as one investment.

## Sector Exposure

As a percentage of the investment portfolio excluding cash.



Source: Janus Henderson

# Portfolio Information

at 31 December 2020

## Sector Breakdown of Investments

	Market value 31 December 2020 £'000	Market value 31 December 2020 £'000
<b>OIL &amp; GAS</b>		
<b>Oil &amp; Gas Producers</b>		
Royal Dutch Shell	47,942	
BP	31,723	
Total <sup>1</sup>	11,059	
	<b>90,724</b>	
<b>Total Oil &amp; Gas</b>	<b>90,724</b>	
<b>BASIC MATERIALS</b>		
<b>Chemicals</b>		
Croda International	7,585	
Victrex	6,100	
Johnson Matthey	4,365	
	<b>18,050</b>	
<b>Construction &amp; Materials</b>		
Ibstock	11,473	
Marshalls	6,952	
	<b>18,425</b>	
<b>Forestry &amp; Paper</b>		
Mondi	11,177	
	<b>11,177</b>	
<b>Mining</b>		
Rio Tinto	49,777	
BHP	35,280	
Anglo American	28,618	
	<b>113,675</b>	
<b>Total Basic Materials</b>	<b>161,327</b>	
<b>INDUSTRIALS</b>		
<b>Aerospace &amp; Defence</b>		
BAE Systems	32,261	
Meggitt	2,426	
	<b>34,687</b>	
<b>Electronic &amp; Electrical Equipment</b>		
XP Power	9,380	
	<b>9,380</b>	
<b>General Industrials</b>		
Siemens <sup>1</sup>	9,993	
Smiths	7,603	
Swire Pacific <sup>1</sup>	4,100	
	<b>21,696</b>	
<b>Industrial Engineering</b>		
IMI	10,881	
Rotork	5,565	
	<b>16,446</b>	
<b>Support Services</b>		
Ferguson	19,545	
Paypoint	5,559	
	<b>25,104</b>	
<b>Total Industrials</b>	<b>107,313</b>	
<b>CONSUMER GOODS</b>		
<b>Beverages</b>		
Diageo	56,979	
Coca-Cola <sup>1</sup>	15,251	
Britvic	8,120	
	<b>80,350</b>	
<b>Food Producers</b>		
Nestlé <sup>1</sup>	25,886	
Tate & Lyle	15,174	
	<b>41,060</b>	

# Portfolio Information (continued)

## Sector Breakdown of Investments (continued)

	Market value 31 December 2020 £'000	Market value 31 December 2020 £'000	
<b>Household Goods &amp; Home Construction</b>		<b>CONSUMER SERVICES</b>	
Reckitt Benckiser	32,710	Food & Drug Retailers	
Persimmon	23,519	Tesco	26,842
Taylor Wimpey	21,305	Wm Morrison	17,735
Berkeley	11,144		<b>44,577</b>
	<b>88,678</b>		
<b>Personal Goods</b>		<b>General Retailers</b>	
Unilever	54,241	Kingfisher	7,842
	<b>54,241</b>	Halfords	5,874
		DFS	3,520
			<b>17,236</b>
<b>Tobacco</b>		<b>Media</b>	
British American Tobacco	69,325	RELX	45,695
Imperial Brands	36,852	Daily Mail & General	3,725
	<b>106,177</b>	ITV	2,884
			<b>52,304</b>
<b>Total Consumer Goods</b>	<b>370,506</b>	<b>Travel &amp; Leisure</b>	
<b>HEALTH CARE</b>		La Française des Jeux <sup>1</sup>	15,068
<b>Health Care Equipment &amp; Services</b>		Ten Entertainment	6,255
Smith & Nephew	11,203	Young	3,026
	<b>11,203</b>	Go-Ahead	2,363
		Carnival	2,119
			<b>28,831</b>
<b>Pharmaceuticals &amp; Biotechnology</b>		<b>Total Consumer Services</b>	<b>142,948</b>
GlaxoSmithKline	42,944	<b>TELECOMMUNICATIONS</b>	
AstraZeneca	29,296	<b>Fixed Line Telecommunications</b>	
Novartis <sup>1</sup>	18,205	Verizon Communications <sup>1</sup>	30,060
Merck <sup>1</sup>	16,749		<b>30,060</b>
Johnson & Johnson <sup>1</sup>	11,962		
	<b>119,156</b>		
<b>Total Health Care</b>	<b>130,359</b>		

# Portfolio Information (continued)

## Sector Breakdown of Investments (continued)

	Market value 31 December 2020 £'000	Market value 31 December 2020 £'000	
<b>Mobile Telecommunications</b>		<b>Life Insurance</b>	
Vodafone	26,607	Phoenix	33,979
Orange <sup>1</sup>	11,760	Prudential	31,655
Deutsche Telekom <sup>1</sup>	11,713	St. James's Place	28,054
	<b>50,080</b>	Legal & General	18,634
			<b>112,322</b>
<b>Total Telecommunications</b>	<b>80,140</b>		
<b>UTILITIES</b>		<b>Non-life Insurance</b>	
<b>Electricity</b>		Direct Line Insurance	21,851
SSE	34,500	Munich Re <sup>1</sup>	16,817
	<b>34,500</b>	Hiscox	11,247
		Sabre Insurance	9,213
			<b>59,128</b>
<b>Gas, Water &amp; Multi-utilities</b>		<b>Real Estate Investment Trusts</b>	
National Grid	34,168	Land Securities	20,214
Severn Trent	17,167	Segro	17,057
United Utilities	9,666	British Land	13,447
Pennon	9,421	Hammerson	3,512
	<b>70,422</b>		<b>54,230</b>
<b>Total Utilities</b>	<b>104,922</b>		
<b>FINANCIALS</b>		<b>Total Financials</b>	<b>415,826</b>
<b>Banks</b>			
HSBC	37,506	<b>TECHNOLOGY</b>	
Barclays	22,002	<b>Software &amp; Computer Services</b>	
Lloyds Banking	20,406	Microsoft <sup>1</sup>	16,254
Nationwide Building Society		Sage	9,114
10.25% Var Perp CCDS	11,552		<b>25,368</b>
	<b>91,466</b>		
<b>Financial Services</b>		<b>Technology Hardware &amp; Equipment</b>	
M&G	38,600	Cisco Systems <sup>1</sup>	8,181
Schroders	26,277		<b>8,181</b>
IG	20,688	<b>Total Technology</b>	<b>33,549</b>
Brewin Dolphin	13,115		
	<b>98,680</b>	<b>TOTAL INVESTMENTS</b>	<b>1,637,614</b>

<sup>1</sup> Overseas listed

# Financial Summary

## Principal Risks and Uncertainties

The principal risks and uncertainties associated with the Company's business can be divided into the following main areas:

- Global pandemic
- Portfolio and market price
- Dividend income
- Investment activity, gearing and performance
- Tax and regulatory
- Operational

Information on these risks and how they are managed are given in the Annual Report for the year ended 30 June 2020. In the view of the Board, the principal risks and uncertainties at the year end remain and are as applicable to the remaining six months of the financial year as they were to the six months under review.

## Related Party Transactions

Other than the relationship between the Company and its Directors, the provision of services by Janus Henderson is the only related party arrangement currently in place. 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 this related party affecting the financial position of the Company during the period under review.

## Going Concern

The assets of the Company consist of securities that are readily realisable. The Directors have also considered the impact of Covid-19, including cash flow forecasting, a review of covenant compliance including the headroom above the most restrictive covenants and an assessment of the liquidity of the portfolio and have concluded that the Company has adequate resources to meet its financial obligations, including the repayment of the debenture stock and the bank overdraft, as they fall due for a period of at least twelve months from the date of approval of the financial statements. Having assessed these factors and the principal risks, the Board has determined that it is appropriate for the financial statements to be prepared on a going concern basis.

## Directors' Responsibility Statement

The Directors confirm that, to the best of their knowledge:

- the condensed set of financial statements has been prepared in accordance with FRS 104 "Interim Financial Reporting";
- the Interim Management Report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.7R (indication of important events during the first six months and description of the principal risks and uncertainties for the remaining six months of the year); and
- the Interim Management Report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.8R (disclosure of related party transactions and changes therein).

On behalf of the Board

Sir Laurie Magnus

Chairman

18 February 2021

The City of London Investment Trust plc  
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London EC2M 3AE



MANAGED BY  
**Janus Henderson**  
INVESTORS

**aic**  
The Association of  
Investment Companies



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