Chairman's Statement

The Chairman of the Company, Philip Remnant, reports on the year to 30 June 2016

I am pleased to report on another year of very satisfactory progress, certainly in relative terms. In a flat year for equity returns our net asset value total return was 3.1%, ahead of each of the average for the AIC UK Equity Income sector, the UK Equity Income OEIC sector and the FTSE All-Share Index. During the last year, City of London passed a major milestone in becoming the first investment trust to increase its dividend for the 50th consecutive year. The increase in the dividend was 3.9%, well ahead of the rate of inflation.

The Markets

Over the twelve month period, the UK economy grew by 2.2% which was better than US growth of 1.2% and the Eurozone's of 1.6%. However, UK domestically focussed companies underperformed ahead of the EU referendum and in its immediate aftermath when sterling fell sharply. Against the trend of recent years, the FTSE 100 Index of large companies outperformed. It produced a positive total return of 3.8%, while the FTSE 250 Index of medium-sized companies and the FTSE Small Cap Index produced negative returns of 4.6% and 1.5% respectively. The key factor was the greater proportion of profits coming from overseas for FTSE 100 companies and the higher value of overseas profits when translated back into British pounds.

Performance

Earnings and Dividends

Revenue earnings per share rose by 3.5% to 17.42p, reflecting the underlying dividend growth from investments held. Special dividends, which made up 4.7% of total income from investments, declined slightly from £4.2 million to £2.8 million. Expenses remained under tight control with our ongoing charges constant at 0.42%, the lowest in the AIC UK Equity Income sector.

City of London increased its own dividend by 3.9% over the previous year and added £5.5 million to revenue reserves. This is the fourth successive year when we have raised the dividend ahead of the rate of inflation and yet increased revenue reserves to underpin future dividends. Revenue reserves per share now stand at 13.5p, an increase of 8.0% 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 2017.

Net Asset Value Total Return

City of London's net asset value total return was 3.1% which was 0.8% better than the size weighted average over the twelve months for the AIC UK Equity Income sector, 0.9% ahead of the FTSE All-Share Index and 4.8% ahead of the UK Equity Income OEIC sector average. Furthermore, over three, five and ten years, City of London is ahead of each of these three benchmarks.

Relative to the FTSE All-Share Index, City of London benefited from being under-represented in the banks sector which suffered from changing expectations that interest rates would stay lower for longer. Of the stocks held in the portfolio, the biggest contributions to outperformance were from: Verizon Communications, the leading US telecommunications company; Amlin, the non-life insurer, which was taken over; and British American Tobacco. This last share, which we have held for many years and is our largest investment, was acquired for an average price of £4.70 and now stands at over £47.00. Overall, stock selection contributed 1.54% to performance. Gearing, which started the year at 6.0% and peaked at 11.5% at the end of January before falling to end the period at 8.0%, detracted 0.32% from performance due to the equity market moving sideways.

Share Issues

There was again strong appetite during the year for the Company's shares. 17.5 million shares were issued at a premium to net asset value, for proceeds of £66.4 million, enhancing net asset value by 0.11%. In the past six years, City of London has issued 116.5 million new shares, which has increased its share capital by 56%. Since 30 June 2016, we have issued a further 3,175,000 shares.

City of London's share price stood at a discount of 0.1% to net asset value with debt at market value and 1.1% with debt at par value at 30 June 2016. Since the year end, the share price has traded at a premium.

The Board

Richard Hextall retires from the Board at the Annual General Meeting on 27 October 2016. I would like to thank Richard for his wise counsel over the nine years that he has served as a Director; his contribution will be much missed. Samantha Wren has replaced Richard as Chairman of the Audit Committee and Simon Barratt will become Senior Independent Director.

Annual General Meeting

The Annual General Meeting will be held at the office of Henderson Global Investors, 201 Bishopsgate, London EC2M 3AE on Thursday 27 October 2016. 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.henderson.com/trustslive**

Chairman's Statement (continued)

Outlook

The result of the referendum at the end of June was unexpected and the shape of our future relationship with the European Union is still far from clear. The sharp sell-off in equities which ensued has largely reversed, although medium–sized, domestically focussed stocks continue to be adversely impacted by the expected deterioration in the UK's economic prospects.

Against this uncertain back drop which may well lead to increased volatility in the markets, I believe that City of London is well positioned. We are predominantly invested in FTSE 100 companies which are principally dependent on the global economy which has been relatively unaffected by the Brexit vote; the fall in sterling will help the competitiveness of UK exporters, as well as having a positive effect on overseas profits translated back into British pounds. A further 13% of the portfolio is invested in shares listed on overseas exchanges. The remaining 19% is invested in medium-sized and small UK listed companies, where we remain confident that the dividend paying prospects of our selected stocks in the house building and real estate sectors, which performed so well for us in the previous year, are largely unaffected.

At a time when future investment returns generally are likely to be more muted than in the past, costs represent a proportionally greater drag on performance, and so cost control is a constant focus of the Board's attention. I believe that our ongoing charges ratio of 0.42%, the lowest in our sector, represents excellent shareholder value.

You would expect the Board, as guardian of an unblemished 50 year dividend record, rigorously to monitor the dividend prospects of our investee companies, and indeed we do. Prospects for dividend growth have been improved by the depreciation of sterling: approximately 61% of the turnover from companies in the portfolio derives from overseas and 28% of the dividends City of London receives are declared in US dollars or Euros. At a time when you are likely soon, reportedly, to be paying banks for the privilege of looking after your money, I continue to believe that, for those wanting exposure to the equity markets, our aim – to provide shareholders with dividends which yield significantly more than the market and which grow at or above the rate of inflation – represents a compelling investment proposition.

Philip Remnant CBE
Chairman