



City of London Investment Trust (CTY)

A strong year of stock picking puts CTY well ahead of the benchmark.

Update

07 October 2025

Overview

City of London Investment Trust (CTY) aims to deliver income and capital growth. Job Curtis has an impressive tenure of 34 years managing the trust, giving him a depth of experience rarely matched. In particular, the last financial year illustrated the benefits of his active, stock-picking approach. That said, this is a cautious investment strategy that is arguably well suited to extending CTY’s unrivalled 59 year run of progressive dividend increases.

Job seeks to spread risks – both in terms of capital and income generation – across the portfolio. This has protected CTY against many sector-specific issues that have arisen over the years, but also in our view complements Job’s valuation-based investment framework, which favours quality companies, and sometimes has a contrarian tilt towards identifying new ideas. Job aims to balance any lower yielders in the portfolio by also investing in steady, highly resilient dividend payers with strong balance sheets. As we highlight in the **Portfolio section**, this means that CTY is exposed to a range of different types of companies, with varying growth and income characteristics.

Behind the headline-grabbing Dividend Hero moniker, CTY continues to deliver on a NAV total return basis too. CTY has delivered outperformance of the benchmark over one, three, five and ten years.

CTY’s dividend represents a yield of 4.25%. Whilst the dividend increase last year of 3.4% was a shade behind that of UK CPI at 3.6%, the board has stated that it understands the importance of growing the dividend in real terms through the economic cycle and long term. CTY has delivered real dividend growth over ten and twenty years, as we discuss in the **Dividend section**.

Analyst’s View

CTY has established itself as the leading trust in the UK Equity Income sector, a result not only of its long history of dividend increases over the past 59 years, but also because it has delivered good total returns to shareholders too. As a result, it has won investors’ confidence over time, issuing shares and growing organically so that it now dominates the UK Equity Income sector in terms of size, meaning good liquidity for investors and low **Charges**.

CTY’s 2025 dividend equates to a dividend yield of 4.25%. Not only is this attractive in absolute terms, so too is the fact that shareholders can derive an element of reassurance that comes with knowing CTY has a 59-year track record of delivering consecutive annual dividend increases. However, this is no UK domestic play – the majority of CTY’s portfolio revenues are derived overseas. Job sees the UK equities he owns as ‘global growth at a discount’. Job expects takeovers of UK companies to continue, highlighting the value available in the UK market.

CTY also provides reassurance in another way – the share price has tended to move in a relatively narrow band with regard to the NAV. As we discuss in the **Discount section**, a subtle change in wording means the board has underlined its commitment to try to protect shareholders from the discount widening out. As well as its other attractions, the tight discount has been fundamental to allowing CTY to grow organically in the past through share issuance. With this move, shareholders can continue to have confidence in continued good liquidity, and that the share price should follow the NAV. In our view, CTY appears well placed to continue its leadership within the UK Equity Income sector.

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BULL

Very low OCF of 0.36%

Consistency and experience of manager who has delivered long-term outperformance of the FTSE All-Share Index in capital and income terms

Track record of 59 years of progressive dividend increases

BEAR

Cautious approach means that NAV can underperform in some market conditions

Income track record highly attractive, so manager might risk long-term capital growth in trying to maintain it

Structural gearing can exacerbate the downside

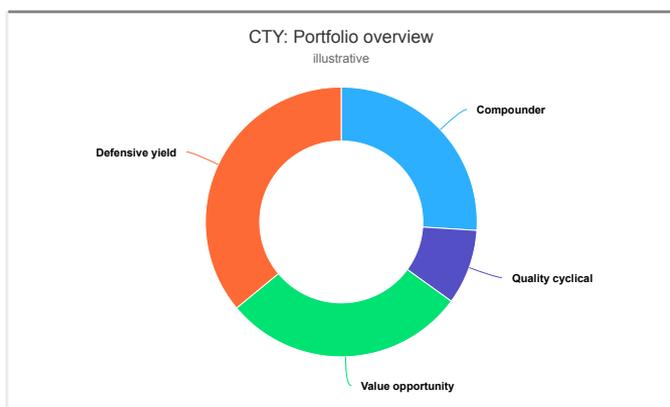


Portfolio

CTY's investment objective is closely reflected by the investment process and attitude to risk of the managers, Job Curtis and David Smith. CTY is set up to deliver long term capital growth, and equally long-term growth in dividends. Now in his 35th year of managing CTY, Job has decades of experience to look back on to inform his investment decisions. Fundamentally, this is an active stock-picking approach, and Job has plenty of latitude to pick UK stocks across the market-capitalisation spectrum, as well as up to 20% overseas, in order to deliver on the trust's objectives. As we discuss in the [Performance section](#), Job and, since 2021, David, as deputy fund manager, have a good track record in delivering over and above the benchmark returns, whilst also building on CTY's unrivalled 59 years of dividend growth. In particular, the last financial year to 30/06/25 (which CTY has recently reported on) saw Job and David deliver significant outperformance of the benchmark, largely driven by stock picking.

Job's active approach is set within his philosophy, which sees him aiming to spread risks – both in terms of capital and income generation – across the portfolio. This has protected CTY against many sector-specific issues that have arisen over the years, but also in our view complements Job's valuation-based investment framework, which favours quality companies, and sometimes has a contrarian tilt towards identifying new ideas. Of course, the prospective dividend yield and growth of that dividend is a key determinant for Job when selecting investments. Holding a company that doesn't pay a dividend is relatively rare, but Job does hold a number of companies that pay a relatively low dividend yield but, in his view, have strong or resilient growth characteristics. Job aims to balance any lower yielders by also investing in steady, highly resilient dividend payers with strong balance sheets.

Fig.1: Portfolio Overview



Source: Janus Henderson

The managers break down the portfolio into companies with different features, which we show in the graph below, once again illustrating the fact that CTY is exposed to a range of different types of companies, with varying growth and income characteristics.

Over the last few years, the number of individual stocks has been gently reducing (numbering 77 as at 31/08/25), with a greater proportion of stocks featuring from the FTSE 100. This is largely a result of valuations in the UK being at such a discount to international peers, which means that Job's exposure to overseas stocks is relatively low by historical standards at c. 8% currently (a maximum of 20% is allowed). Job and David sit within Janus Henderson's global equity income team, which, amongst other advantages, helps give them an understanding of relative valuations on an international basis. That said, far from being exposed to the UK domestic economy, the majority of CTY's portfolio revenues are derived overseas. Job sees the UK equities he owns as 'global growth at a discount'. Job expects takeovers of UK companies to continue, highlighting the value available in the UK market.

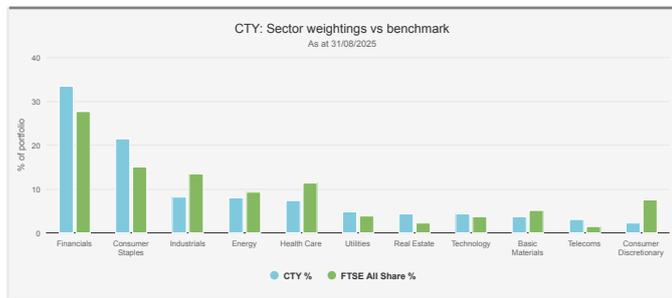
Job's fundamental approach to stock picking has seen CTY benefit from the significant recovery in many UK bank share prices. Job has been focussed on the domestic deposit takers such as NatWest, Lloyds and Barclays. NatWest in particular has been a very strong contributor to returns, Job having recognised well before the wider market that it would have a very strong tailwind to returns from hedges taken out during the period of low interest rates rolling over at much higher interest rates. Away from the biggest stocks in the UK market, Job and David have also been active. An example is recent purchase and mid-cap stock TP ICAP, which is the world's largest inter-dealer broker between investment banks on many products. Job and the team like the fact this world class group converts a high percentage of its profits into cash and is expected to be a good dividend payer. Harbour Energy is a small-cap, also recently purchased, which has increasingly diversified oil and gas production, with around one third in Norway, one third in the UK and one third spread across the rest of the world (including Latin America, North Africa and Germany). The team believe it has plenty of growth ahead of it, being a relatively nimble, independent energy company.

We show CTY's industry exposures, and the equivalent exposure of the benchmark, in the graph below. All investments are a result of stock-picking decisions but, given Job's preference to spread risks widely, the trust's sector exposures do tend to rhyme with that of the benchmark. That said, these broad industry definitions do hide a lot of the detail. For example, within Financials, CTY owns a wide variety of companies, broadly encompassing banks, insurers and financial services companies. Included



within this is 3i, which Job has been taking profits and reducing exposure to, having done extremely well out of the growth of its main underlying company, Action Group.

Fig.2: Sector Exposures



Source: Janus Henderson

Job remains quietly optimistic on prospects, with evidence of takeovers of UK companies and continued share buybacks by companies, both of which demonstrate the value on offer in the UK market. CTY remains a highly liquid and low-cost way to gain exposure to what is an attractively priced market, with a strong dividend culture. The management team, over the long term but particularly over the last financial year, have well illustrated the benefits of having an active approach to portfolio management within this market. CTY appears well placed to continue its leadership within the UK Equity Income sector.

Gearing

CTY's board struck a good deal for shareholders during the previous era of low interest rates, securing long-term borrowings at low fixed rates. CTY has two secured notes (totalling £80m), which mature in 2046 and 2049, providing low-cost structural debt over the long term at a weighted average interest rate of only 2.8%. In addition, there is one other secured note with four years until maturity, amounting to £35m, which pays interest at 4.53% and is repayable in 2029.

In addition to the long-term structural gearing, CTY has a more flexible overdraft facility of up to £120m available to be deployed tactically. As the graph below shows, the use of this facility varies depending on opportunities for investment that Job and David find. Since interest rates have risen, CTY has used significantly less of the overdraft facility, the simple reason being that it now costs more to borrow.

Job believes that CTY's portfolio beta will, typically, be around 0.9 to 0.95, so he reasons that CTY's NAV beta (which reflects the effect of gearing) should not necessarily be significantly higher than the wider market. Gearing decisions are the responsibility of the manager but discussed at board meetings and with the chairman between times. Overall, CTY is currently c. 5% geared (as

at 31/08/2025). It is worth remembering that gearing adds to volatility, and can exacerbate the downside. However, if long-term returns from CTY's portfolio outpace the costs of borrowing, then returns will have been boosted. An added boost comes from the effect of inflation, which eats away at the real value of the principal of the loan, whilst over the long term equities should deliver positive real returns.

Fig.3: Net Gearing



Source: Morningstar

Performance

One might argue that CTY has established itself as the leading trust in the UK Equity Income sector, a result not only of its long history of dividend increases over the past 59 years, but because it has delivered good total returns to shareholders too. As a result, it has won investors' confidence over time, issuing shares and growing organically so that it now dominates the UK Equity Income sector in terms of size, meaning good liquidity for investors and low **Charges**. Key to CTY's success has been the careful stewardship under long-term manager Job Curtis, who has had responsibility for the management of the trust for 34 years. As we discuss in the **Portfolio section**, CTY is managed in a relatively cautious manner, with the portfolio not exposed to significant single-company or single-sector risk. Job's investment process is based on fundamental analysis and stock picking, so relative performance tends to be primarily driven by stock selection.

Job and David's focus is to try to deliver meaningful annual increases in the dividend, as well as NAV total return outperformance of the benchmark. The table below, with a snapshot of performance over various time periods to 31/08/2025, shows Job, and since 2021, David, as deputy fund manager, have achieved this. Whilst Job and David cannot deliver outperformance each and every year, the statistics show that their active investment process can and does add value. Low costs help, and CTY has tended to employ borrowings over the cycle (see **Gearing section**), which will have added to returns in benign years. However, we understand that stock picking tends to be the main driver of performance relative to the benchmark. In this regard, the last financial year (to 30/06/2025) was a very successful one, with stock picking contributing 5.55% to returns. Job and David's holdings in banks have done



particularly well, especially NatWest, which continues to benefit from higher interest rates. Interestingly, the underweight in AstraZeneca was one of the strongest contributors to performance in the last financial year, given pharmaceutical stocks suffered from uncertainty relating to the Trump administration’s policies on the pricing of medicines in the US.

NAV Performance (As At 31/08/2025)

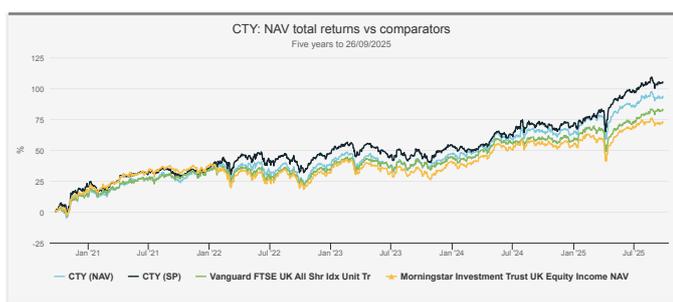
CUMULATIVE PERFORMANCE (%)	1 YEAR	3 YEARS	5 YEARS	10 YEARS
CTY NAV	15.1	44	92.4	109.8
FTSE All-Share Index	12.6	38.6	77.7	108.5
Relative (total)	2.5	5.4	14.7	1.3

Source: AVI

Past performance is not a reliable indicator of future results

We show below the standard five-year performance chart, which highlights the benefit to shareholders of the compounding effect of positive contributions from stock selection. It is also worth bearing in mind that this period omits the downward move from the 2020 COVID-19 crisis, in which CTY underperformed, exacerbated by gearing. In the bounce back (which is observable in the graph below), CTY was relatively cautiously positioned (income focus and lack of exposure to growth stocks), which meant it lagged during the recovery too. Since then, subsequent outperformance means that over the five years to 24/02/2025, CTY’s total return NAV has performed well ahead of the FTSE All-Share ETF that we show in the graph below.

Fig.4: Five-Year Performance



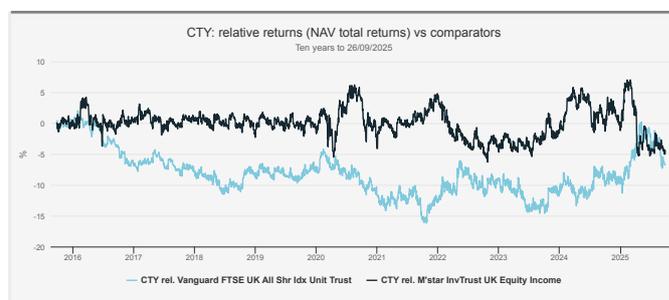
Source: Morningstar

Past performance is not a reliable indicator of future results.

The graph below shows relative returns (with a rising line indicating periods of outperformance, and downwards, underperformance) over a longer, ten-year period. This period encompasses several difficult periods for markets, including the shock Brexit vote, Conservative party ructions, and the aforementioned pandemic. Broadly speaking, CTY has done relatively well compared to the peer group average throughout the period, although

clearly there have been periods of underperformance and outperformance. Relative to the UK index, the periods of underperformance seem to coincide when markets are being driven more by macro factors than by fundamentals.

Fig.5: Relative Returns (10Yrs)



Source: Morningstar

Past performance is not a reliable indicator of future results.

Dividend

CTY’s final results for the year ending June 2025 marked the 59th year of consecutive dividend increases for the trust (the longest of any trust, or possibly any UK listed company). This achievement comes in a year in which the managers have also delivered strong outperformance of the benchmark, and sees the trust’s revenue reserves further bolstered, building the buffer with which to protect future dividends when times are less beneficial. At the current share price, CTY’s dividend represents a yield of 4.25%, which compares to the AIC UK Equity Income peer group weighted average of 4.06% and the 3.6% yield of the FTSE All-Share Index. Whilst the dividend increase last year of 3.4% was a shade behind that of UK CPI at 3.6%, the board has stated that it understands the importance of growing the dividend in real terms through the economic cycle and long term. CTY has delivered real dividend growth over ten years, having increased by 39.2% vs UK CPI of 38.6%, and over 20 years the dividend increase is 147.1% vs 77.7% for UK CPI.

In the recently published annual results, the board emphasises that it is “firmly of the view that dividend payments should, other than in very exceptional circumstances, be covered by revenue alone and not be supplemented by distribution from realised capital profits”. In our view, this is a clear signal that CTY’s board remains in the traditional camp, within the context of many other trusts adopting ‘enhanced dividends’, which allow managers free rein to invest for capital or income, and any shortfall of revenue required to pay a target dividend is supplemented by capital reserves. Whilst one can debate the merits of enhanced dividends or otherwise, fundamentally the suitability of this feature depends on the underlying strategy and how the managers seek to achieve their investment objectives. For long-running investment



strategies such as CTY’s (Job has been managing the trust for 34 years), the discipline of having to find stocks that can grow their dividends long term has clearly been a positive to total returns.

As we discuss in the **Portfolio section**, a key contributor to delivering CTY’s record-breaking income stream over such a long period has been Job’s relatively conservative approach to investing. Job seeks to spread risks, and he tends to complement high yielders with those companies that may pay a lower dividend yield, yet have strong growth prospects. We show below the impact this strategy has had on the last ten financial years of earnings per share and dividend payments. As well as active management of the portfolio, a contributor to dividend progression has been CTY’s ability to retain up to 15% of each year’s income in reserve, and to use this in future years to smooth dividends. For example, the two years following the outbreak of COVID-19 saw many companies cut or pass on their dividends. Yet in contrast to many open-ended equity income funds, which had to cut distributions, CTY continued to pay a progressive dividend year-on-year by using revenue reserves. As the chart shows, CTY quickly returned to paying a covered dividend once again in 2022. Revenue reserves now equate to 9.9p per share, equivalent to 0.46x the annual dividend of 21.6p.

Fig.6: Financial Year Dividends And Earnings



Source: Janus Henderson Investors

Management

CTY has been managed by Job Curtis since July 1991, meaning he has an impressive tenure of 34 years. David Smith, who is also the manager of Henderson High Income, was promoted as CTY’s deputy fund manager in September 2021. David and Job work closely together, but we understand that Job still holds the ultimate responsibility for any holding within the portfolio.

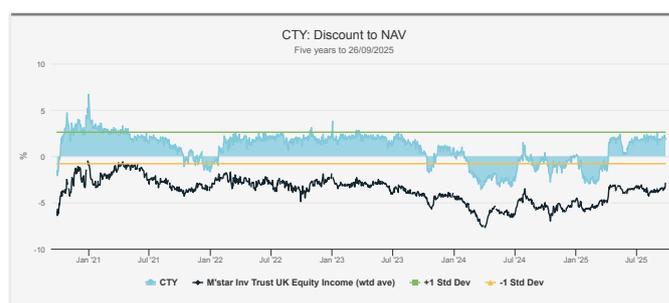
Job and David are part of Janus Henderson’s 13-person global equity income team, who generate suggestions and lead company meetings. Overall, the global equity team manage £13bn of assets (as at 30/06/2025).

Discount

Aside from its impressive track record of paying a rising dividend for 59 consecutive years, one of the reasons CTY remains so popular with investors is that the share price has tended to move in a relatively narrow band with regard to the NAV. This gives investors a degree of confidence that many other trusts have struggled to offer: that the value of their investment will not be significantly affected by the discount widening out. The graph below illustrates that CTY has kept this narrow band through thick and thin, with the discount rarely exceeding 3%. During the last financial year, ending June 2025, the board bought a relatively small number of shares back. The pendulum appears to have swung the other way now and in the current financial year to 12/09/25 it has issued £9.8m worth of shares at a premium to NAV.

Reflecting the importance that shareholders attach to discount-control measures, CTY’s board has subtly shifted the wording on this subject. Hence forward, rather than being an ‘aim’, the board’s policy is: “subject to prevailing market conditions, ... for the company’s share price to reflect closely its underlying net asset value”. In our view this tightens things up further, albeit on an already proven discount control mechanism. Confidence on this point, as well as strong returns and an attractive dividend stream, have been fundamental to allowing CTY to grow organically in the past through share issuance. In our view, with this subtle change in emphasis, the board are underlining their commitment, which should help CTY to continue to grow, given shareholders can be relatively confident of continued good liquidity, and that the share price characteristics will over time closely resemble the characteristics of the NAV.

Fig.7: Five-Year Discount



Source: Morningstar

Charges

CTY is the largest trust in the UK Equity Income sector by quite some margin. As such, shareholders benefit from economies of scale, both in terms of the management fee that the board has negotiated with the manager, and other costs. The management fee is charged at 0.3% for up to £3bn of net assets and 0.275% above £3bn. No performance fees are applicable.



These highly competitive fees mean that CTY has the lowest OCF in the sector, most recently reported at 0.36% for the financial year ending 30/06/2025. The weighted average for the AIC UK Equity Income sector is significantly higher than this, at 0.56% on a weighted average basis (Source: AIC). Given CTY has net assets of c. £2.5bn (end August 2025), if net assets rise above £3bn shareholders will start to benefit from the lower management fee on the higher tier of assets.

ESG

The fund manager and deputy fund manager, supported by specialists at Janus Henderson, give careful consideration to ESG-related risks and opportunities when selecting stocks for the portfolio. The board recognises that these risks are highly relevant to the long-term performance of CTY. An analysis by MSCI, a company widely used in the review of ESG factors, shows that City of London's portfolio as at 30/06/2025 had a lower weighted score for ESG risks than the FTSE All-Share Index.

It is important to highlight that CTY is by no means an ESG fund, and the managers do not specifically exclude any companies based on ESG considerations. However, Job and David look to avoid companies if ESG risks are either not explained in sufficient detail or are managed poorly. They believe that governance is a key part of fundamental analysis and that strong corporate governance is supportive towards long-term decision making and investment returns.

Job and David consider each ESG factor, in addition to qualitative and quantitative assessments, before concluding the suitability of a holding. They are aware that climate change and other ESG risks pose threats to the long-term financial returns that companies deliver. However, the team are not afraid to invest in sectors that have a perceived high level of ESG risk but have attractive valuations. Where held, the team need to believe that such companies are demonstrating they are taking positive steps towards improving their products and reducing health-related risks, whilst still offering highly attractive financial returns.

Stewardship and active engagement are areas that Job and David value highly, with the view that strong ownership principles, which can include engagement with management and boards, can assist in improving long-term shareholder value. CTY's managers are assisted with this analysis by Janus Henderson's dedicated governance and responsible investing team, who take stewardship voting at shareholder meetings extremely seriously and consult the fund managers on a case-by-case basis.

In our view, CTY is unlikely to appeal to strict ESG investors, but Job's interpretation of ESG factors and engagement with investee companies is having an impact. Compared to the UK equity large-cap peer group, CTY has been designated an average ESG rating, according to Morningstar (July 2025).



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