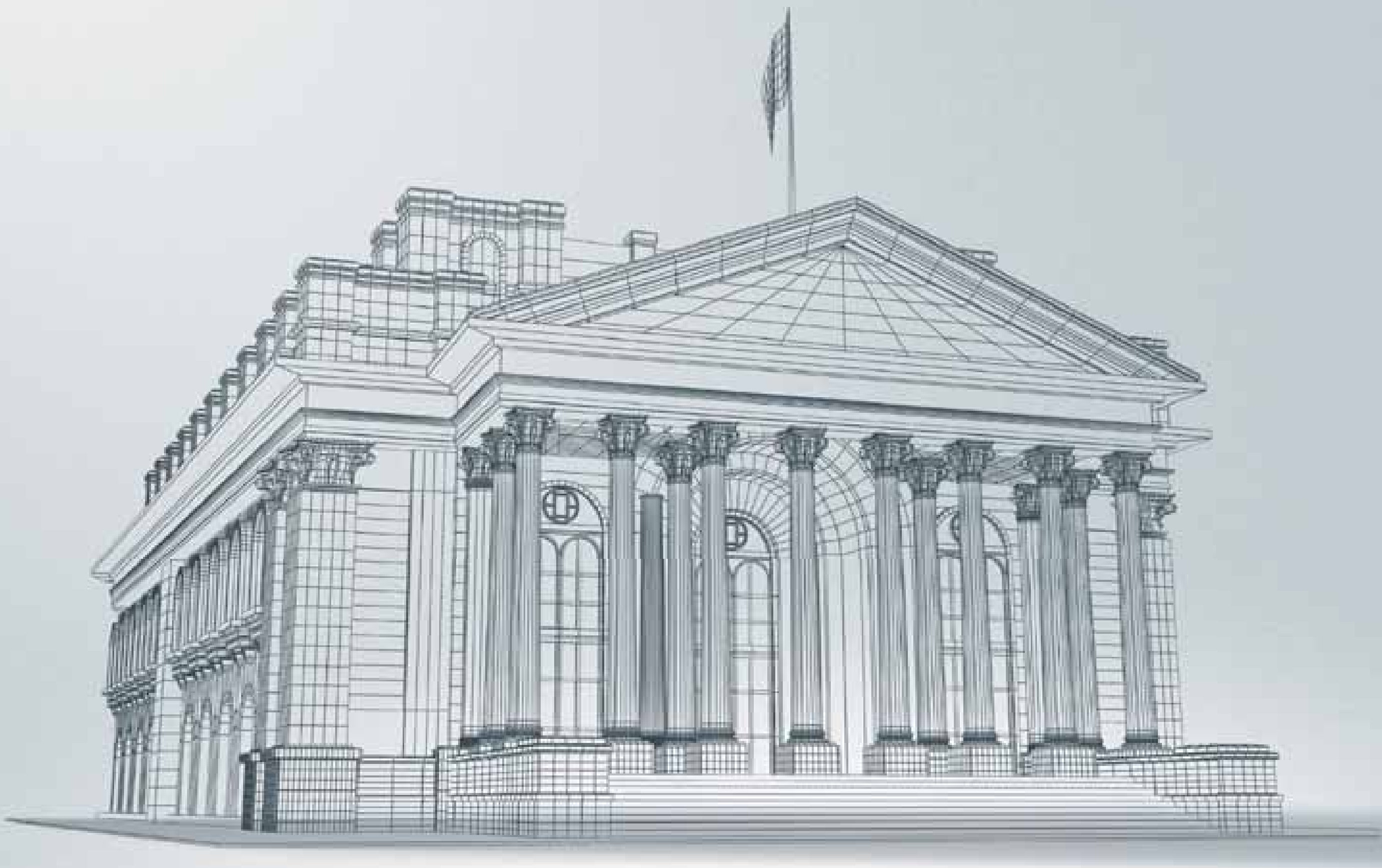
# THE CITY OF LONDON INVESTMENT TRUST PLC

## Annual Report 2018



52 YEARS CONTINUOUS DIVIDEND GROWTH

aic DIVIDEND HERO

AJBell Awards 2018 Income - Active

MANAGED BY
Janus Henderson
INVESTORS

# Contents



**The image on the front cover is based on the Royal Exchange, London**

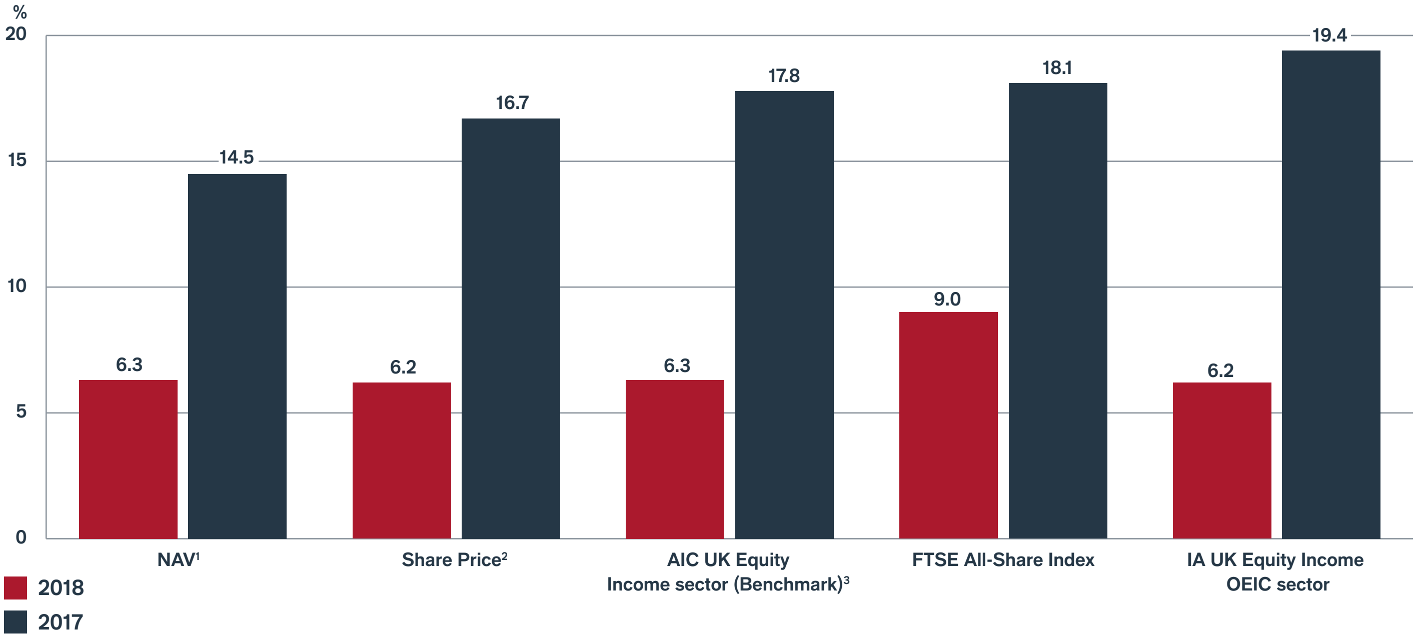
# Strategic Report

**“I am pleased to report a net asset value total return of 6.3%. The dividend was increased for the 52nd consecutive year, by 6.0% and well ahead of inflation”**

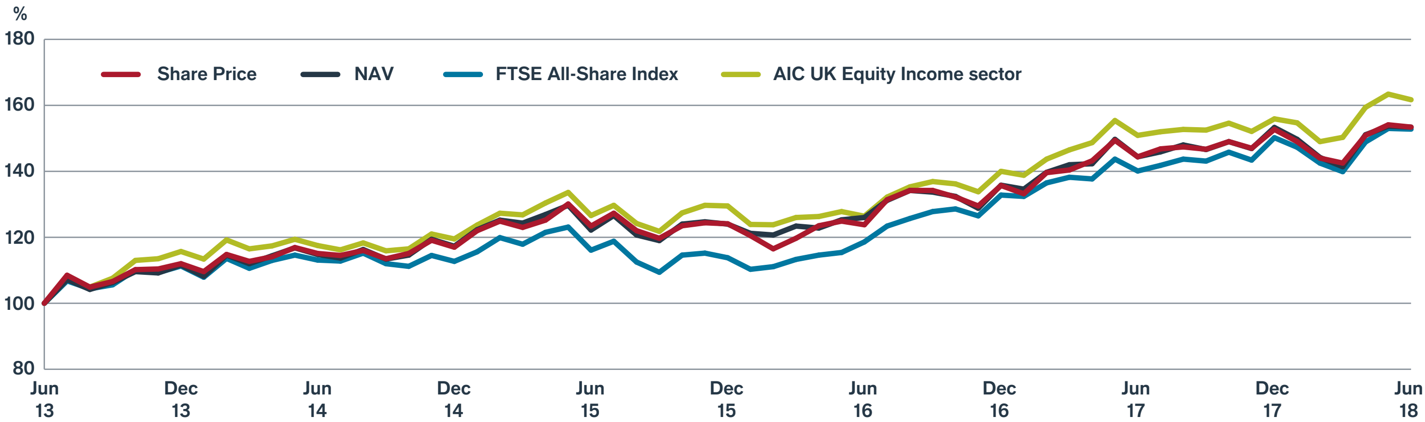
Philip Remnant CBE, Chairman

# Strategic Report: Performance Highlights

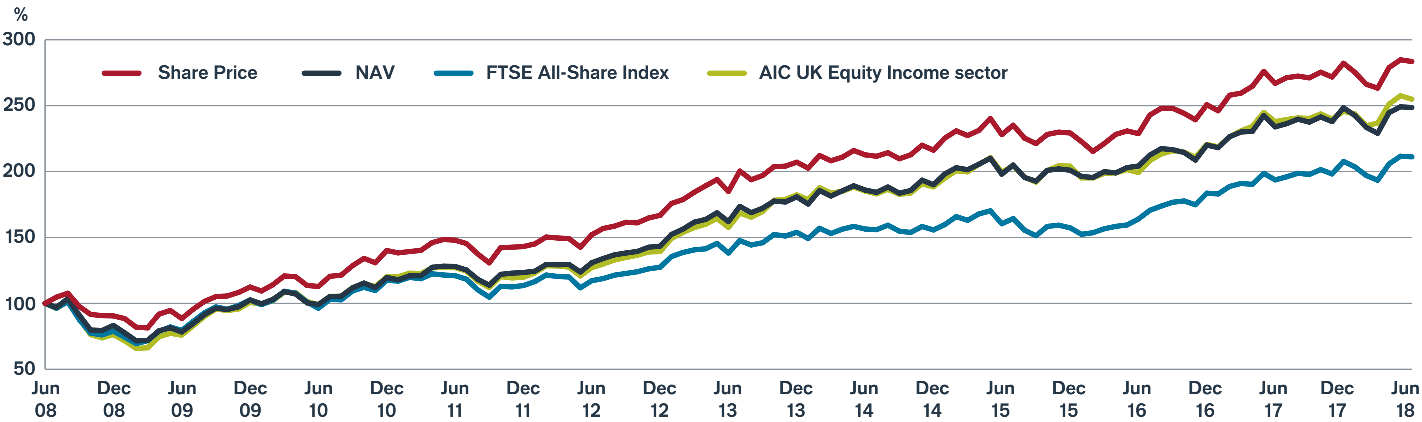
## Total Return Performance for year to 30 June




## Total Return Performance over the last five years (rebased to 100)




## Total Return Performance over the last ten years (rebased to 100)



# Strategic Report: Performance Highlights (continued)

## NAV per ordinary share

**2018 429.2p** 2017 421.3p

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

**2018 424.3p** 2017 416.1p

## Share Price

**2018 432.0p** 2017 423.5p

## Gearing at year end

**2018 7.7%** 2017 5.5%

## Revenue Earnings per share

**2018 18.7p** 2017 17.8p

## Dividends per share

**2018 17.7p** 2017 16.7p

## Revenue Reserve per share

**2018 15.0p** 2017 14.3p

## Ongoing Charge for the year

**2018 0.41%** 2017 0.42%

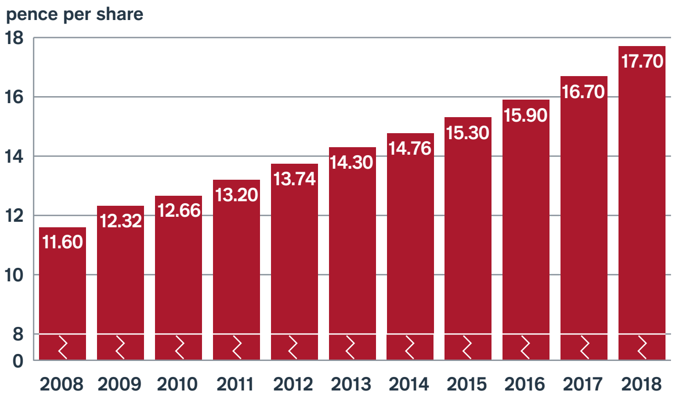
## Premium

**2018 0.7%** 2017 0.5%

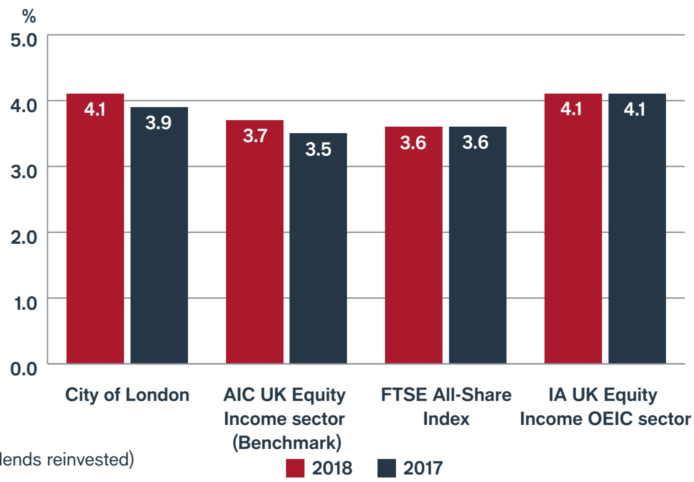
## Premium (debt at market value)

**2018 1.8%** 2017 1.8%

## Historical Dividend




## Dividend Yields




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)

Sources: Morningstar for the AIC, Janus Henderson, Datastream

A glossary of terms including Alternative Performance Measures is on pages 22 and 23

# Strategic Report: Business Model

## Strategy

The strategy of the Company is to pursue its investment objective by operating as an investment trust company. The investment trust company structure allows the shareholders, whether institutions or private investors, to access a diversified portfolio of investments that is professionally managed. The principal activity remained unchanged throughout the year ended 30 June 2018.

## 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.

## Investment Approach

Our Fund Manager, Job Curtis, has been managing City of London since 1 July 1991. He is an executive of Janus Henderson Investors and is a member of the Global Equity Income team. Job is assisted in the management of the portfolio by David Smith, Andrew Jones and Laura Foll. He manages the portfolio in a conservative way, focussing on companies with cash generative businesses able to grow their dividends with attractive yields. The portfolio is well diversified with some 66% invested in well known blue chip UK listed companies but it remains biased towards international companies invested in economies likely to grow faster than the UK. In times when savers have difficulty in receiving adequate returns on their investments, the portfolio aims to provide shareholders with dividends between 10% and 30% higher than the FTSE All-Share Index.

## Investment Policy

### Asset allocation

While the Company will mainly invest in equities, there is the flexibility to invest in debt securities, such as convertibles, corporate bonds or government debt, if it is deemed that these will, at a particular time or for a particular period, enhance the performance of the Company in the pursuit of its objective.

The Company has a portfolio invested predominantly in larger companies. Typically at least 60% of the portfolio by value will be invested in companies in the FTSE 100 Index. The remainder of the portfolio will be invested in a combination of UK listed medium-sized and small companies and (up to 20%) in overseas listed companies.

There are no set limits on sector exposures, although the Board regularly monitors the Company's investments and the Manager's investment activity. The Manager primarily employs a bottom-up value-based investment process to identify suitable opportunities and pays particular regard to cash generation and dividends.

The portfolio yield will usually be between 10% and 30% above the average dividend yield for the UK equity market. There may be some holdings, selected for their above average growth potential, which have a dividend yield lower than the market.

### Gearing

The Company will at times utilise limited gearing, both short and long term, in order to enhance performance. Other than in exceptional market conditions, gearing will not exceed 20% of net asset value at the time of draw down of the relevant borrowings. Up to 10% of the net assets can be held in cash. Selling traded options where the underlying share is held in the portfolio can be used to generate income. Buying and selling FTSE 100 Index Futures can be used to increase or reduce gearing.

### Diversification

The Company achieves an appropriate spread of investment risk principally through a broadly diversified portfolio, which at 30 June 2018 contained 102 individual investments (2017: 115) as detailed on pages 8, 9, 14 and 15. At 30 June 2018, the largest single investment was Royal Dutch Shell, which accounted for 6.86% of total investments, while the top 20 holdings totalled 52.78%.

The Company will not invest more than 15% of its portfolio in any single investment on acquisition, nor will it invest more than 15% of the portfolio in any other UK listed investment trusts or investment companies.

## Management

The Company has an independent Board of Directors which has appointed Henderson Investment Funds Limited ("HIFL") to act as its Alternative Investment Fund Manager. HIFL delegates investment management services to Henderson Global Investors Limited in accordance with an agreement which was effective from July 2014 which can be terminated on six months' notice. Both entities are authorised and regulated by the Financial Conduct Authority. References to the Manager within this report refer to the services provided by both entities. Both entities are wholly owned subsidiaries of Janus Henderson Group plc, referred to as Janus Henderson.

Janus Henderson and its subsidiaries also provide accounting, company secretarial and general administrative services. Some of the administration and accounting services are carried out, on behalf of the Manager, by BNP Paribas Securities Services. Rachel Peat FCIS acts as Company Secretary on behalf of the Corporate Secretary, Henderson Secretarial Services Limited.

During the year under review the management fee was charged at a rate of 0.365% per annum for the first £1bn of net assets reducing to 0.35% of net assets above £1bn. Fees are payable quarterly in arrears based on the level of assets at the relevant quarter end.

## Liquidity and Discount Management

The Board's aim is for the Company's share price to reflect closely its underlying net asset value; and also to reduce volatility and have a liquid market in the shares. The ability to influence this is, of course, limited. However, the Board intends, subject always to the overall impact on the portfolio, the pricing of other trusts and overall market conditions, to consider issuance and buybacks within a narrow band relative to net asset value. It is believed that flexibility is important and that it is not in shareholders' interests to have a specific issuance and buy-back policy.

At each Board meeting, the Board monitors the level of the Company's premium/discount to NAV per share and reviews the average premium/discount for the Company's AIC sector.

## Investing

City of London sets out to be an attractive and straightforward long-term investment vehicle for private investors. As well as investing directly, shares can be purchased through various dealing platforms and held in share plans, ISAs or pensions. Links to some of these dealing platforms can be found on our website, **www.cityinvestmenttrust.com**.

# Strategic Report: Chairman's Statement

**The Chairman of the Company, Philip Remnant, reports on the year to 30 June 2018**

I am pleased to report a net asset value total return of 6.3%, which was in line with both the average for the AIC UK Equity Income sector and the IA UK Equity Income OEIC sector. Our performance did lag the FTSE All-Share Index return but we continue to outperform that index over longer periods of five and ten years. The dividend was increased for the 52nd consecutive year, by 6.0% and well ahead of inflation.

## The Markets

Responding to another year of strong global growth as well as OPEC supply constraints, the oil price was a notable feature, rising from $48 per barrel to $79 per barrel over the 12 months. As a result, oil & gas was the best performing sector within the UK stock market. In contrast, fixed interest had a dull year with a return of 1.9% from the FTSE Actuaries UK Conventional Gilts All Stocks Index and of 0.4% from the S&P UK Investment Grade Corporate Bond Index. Sectors which are not particularly sensitive to economic activity, such as utilities, tobacco and telecommunications, and therefore linked to bond prices were notable underperformers. The negative effect of these 'bond proxy' sectors, which are mainly made up of large capitalisation stocks, outweighed the positive effect of the oil stocks, which are also of significant size. The FTSE 100 Index of large capitalisation stocks, in which City of London is principally invested, underperformed the FTSE 250 Index of medium-sized companies over the 12 months.

## Performance

Revenue earnings per share rose by 5.1% to 18.7p reflecting the underlying dividend growth from investments held. Special revenue dividends, which made up 3.7% of total income from investments, were £2.6 million. City of London increased its dividend by 6.0% over the previous year. The quarterly dividend will next be considered by the Board when the third interim is declared in April 2019.

City of London's net asset value return was 6.3% over the 12 months, which was the same as the size weighted average for the AIC UK Equity Income sector, 0.1% ahead of the IA UK Equity Income OEIC sector but 2.7% behind the FTSE All-Share Index. Despite having large holdings in Royal Dutch Shell and BP, being underweight in the oil & gas sector relative to the market average was the most costly sector detractor over the 12 months. Other negative factors were being underweight mining, overweight utilities and the fall in the share price of Provident Financial which was subsequently sold. On a more positive note, the biggest stock contributor was our stake in travel group TUI. Our three housebuilding holdings had another good year and were again among the most significant contributors. Overall, stock selection detracted 2.9% from performance.

## Some Recurring Themes

There are several features of the Company's performance which serve to underpin the consistency of City of London's long term record and to augment returns to shareholders. They merit emphasis.

### Continuing Share Issuance

During the year City of London's shares have been in strong demand and continue to trade at a premium. The Board's aim is for the Company's share price to reflect closely its underlying asset value, and to reduce volatility and facilitate liquidity in the shares. In furtherance of this objective, 15 million shares have been issued at a premium to net asset value for proceeds of £62.7 million. In the past eight years City of London has issued 145.7 million shares, which has increased its share capital by 69.9%. Since 30 June 2018 we have issued a further 2.3 million shares.

### Strengthening of Revenue Reserves

Over and above our unique dividend record, we have again added to reserves, this year to the tune of £4.5 million. This is the sixth successive year in which we have raised the dividend and yet increased revenue reserves to underpin future dividends. Revenue reserves per share now stand at 15.0p, an increase of 4.9% over last year.

### Low and Declining Ongoing Charge

The management fee which we pay Janus Henderson stands at 0.365% per annum of net assets up to £1 billion, reducing to 0.35% on the balance of net assets above that level. Although this is competitive against other actively managed equity funds, the Board does monitor this closely as costs across the industry remain under pressure. The Company's ongoing charge for the year declined to 0.41%, which is the lowest in the AIC UK Equity Income sector.

## Borrowings and Gearing

In November 2017 City of London issued £50 million of fixed rate 32 year private placement notes at an annualised coupon of 2.94%. The Board decided to take out this additional loan in order to secure long term fixed funding at a rate which is not only very attractive by historical standards but is also substantially lower than the income yield on the Company's investments which it is funding. It should, therefore, enhance shareholder returns over the longer term.

This decision is consistent with the Board's disciplined approach to the judicious use of borrowings. Whilst there may be some tactical moves in the amount of gearing dependent on market levels, shareholders should expect to see a core level of structural borrowings sustained through the cycle in order to augment prospective long run equity market returns. The remainder of our higher cost fixed rate debentures taken out in the 1980s and 1990s matures in the next two to three years and the Board will be looking to refinance these borrowings as cheaply as possible.

# Strategic Report: Chairman's Statement (continued)

Gearing started the year at 5.5% and was increased to 7.7% by the end of the period. It contributed 0.5% to our performance.

## Key Information Document ("KID")

A disappointing development in the year was one outside your Board's control. From 1 January 2018, EU legislation has required all investment companies to produce a KID in order for their shares to be made available to retail investors. The KID contains, in a highly prescriptive format, information on investment objectives and policy, risk and reward profile, costs and associated charges, and certain financial information.

The main objectives are to provide those investors with clearer disclosure, easier to understand content and better comparisons between products. Sadly, the KID achieves none of these. For example, open-ended vehicles produce similar information but on different bases. In addition, we are required to include borrowing costs within an overall cost figure, while disregarding the resultant benefits which should accrue to performance over the longer term. As a result, closed ended funds will appear relatively more expensive than their open ended cousins, who of course cannot take on gearing.

Most worrying of all is that overnight we have moved away from a world where investors are forever being warned that past performance is no guide to the future to one where they are required to be supplied with indicative future returns in certain scenarios, but based on past returns achieved in a bull market which may not be repeatable in the near term. Such projections should be treated with the utmost caution. The scope for deviation from the mandated format and even for explanatory notes is negligible.

One hesitates to describe information provided under rules promulgated by our financial regulators as misleading but I would urge all shareholders and potential investors not to read our KID in isolation but to read it in conjunction with our Annual Report, and with the financial and other information on our website. I remain hopeful that the regulators can be persuaded to allow us to present the information required in a more meaningful and helpful way.

## The Board

David Brief stepped down from the Board after nine years as a Director. He has made an invaluable contribution to the Board's deliberations during that time and we are grateful for his sound advice. Ted Holmes has joined the Board following a 20 year career with UBS Asset Management.

## Annual General Meeting

The Annual General Meeting will be held at the offices of Janus Henderson Investors, 201 Bishopsgate, London EC2M 3AE on Thursday, 1 November. 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

Global economic growth remains robust. That is a supportive backdrop for equity market performance. However, if the trade war provoked by the US administration continues to escalate, global GDP cannot but be adversely impacted and the UK will not be immune.

The outcome of the UK's negotiations to exit the European Union is still uncertain. In conjunction with our managers, we have considered the direct practical consequences of Brexit on the operations of City of London and do not consider them to be material.

In the event of a disorderly exit, there would likely be more pressure on sterling, as there was in the immediate aftermath of the referendum in 2016. With the portfolio being predominantly invested in international companies, there is a positive effect of sterling weakness on translating overseas profits back into British pounds.

If the exit negotiations are concluded successfully and the UK economy continues to grow, it is likely that the Bank of England will gradually increase the bank rate. In the US and Europe, there are also likely to be further moves away from the stimulative monetary conditions that have prevailed since the global financial crisis. Increases in interest rates and reductions in quantitative easing will pose a challenge for all asset classes.

Reflecting some of these economic and political uncertainties, the valuation of UK equities is reasonable by historical standards and attractive relative to the main investment alternatives. The dividend yield of UK equities remains significantly above bank deposit rates and UK gilt yields, and yet dividends are growing well ahead of inflation. In this context, I believe that City of London's portfolio of high quality companies with strongly cash generative businesses, capable of growing their dividends and standing on attractive yields, should continue to serve shareholders well.

Philip Remnant CBE
Chairman

# Strategic Report: Historical Performance

## Total Return Performance to 30 June 2018

| | 1 year % | 3 years % | 5 years % | 10 years % |
|---|---|---|---|---|
| Net asset value per ordinary share[1] | 6.3 | 25.5 | 53.4 | 148.6 |
| AIC UK Equity Income sector average – net asset value[2] | 6.3 | 28.0 | 56.1 | 148.6 |
| FTSE All-Share Index | 9.0 | 31.6 | 52.8 | 111.2 |
| UK Equity Income OEIC sector average | 6.2 | 24.6 | 52.4 | 120.5 |

## Share Price Performance Total Return to 30 June 2018

| Value of £1,000 with net income reinvested | 1 year £ | 3 years £ | 5 years £ | 10 years £ |
|---|---|---|---|---|
| The City of London Investment Trust plc[3] | 1,062.3 | 1,243.2 | 1,534.1 | 2,834.9 |
| AIC UK Equity Income sector average[4] | 1,054.5 | 1,232.5 | 1,483.4 | 2,642.5 |
| FTSE All-Share Index | 1,090.2 | 1,316.2 | 1,527.6 | 2,111.7 |
| UK Equity Income OEIC sector average | 1,061.5 | 1,245.7 | 1,523.6 | 2,205.2 |

## Ten Year Net Asset Value and Dividend Record

| Year ended | Net Asset Value per Ordinary Share (p)[5] | Net Asset Value per Ordinary Share (rebased)[6] | Net Dividends per Ordinary Share (p) | Net Dividends per Ordinary Share (rebased)[6] |
|---|---|---|---|---|
| 30 June 2008 | 274.4 | 100.0 | 11.60 | 100.0 |
| 30 June 2009 | 205.7 | 75.0 | 12.32 | 106.2 |
| 30 June 2010 | 245.0 | 89.3 | 12.66 | 109.1 |
| 30 June 2011 | 300.0 | 109.3 | 13.20 | 113.8 |
| 30 June 2012 | 292.9 | 106.7 | 13.74 | 118.4 |
| 30 June 2013 | 343.6 | 125.2 | 14.30 | 123.3 |
| 30 June 2014 | 377.5 | 137.6 | 14.76 | 127.2 |
| 30 June 2015 | 386.3 | 140.8 | 15.30 | 131.9 |
| 30 June 2016 | 382.2 | 139.3 | 15.90 | 137.1 |
| 30 June 2017 | 421.3 | 153.5 | 16.70 | 144.0 |
| **30 June 2018** | **429.2** | **156.4** | **17.70** | **152.6** |

1 Net asset value per share with income reinvested
2 AIC UK Equity Income sector size weighted average NAV total return (shareholders' funds)
3 Share price total return using mid-market closing price
4 AIC UK Equity Income sector size weighted average
5 Net asset value per ordinary share is calculated after deducting all prior charges, including the preference and preferred ordinary stocks, at par
6 Rebased to 100 at 30 June 2008

Sources: Morningstar for the AIC, Janus Henderson, Datastream

A glossary of terms including Alternative Performance Measures is on pages 22 and 23.

# Strategic Report: Portfolio Information

## Forty Largest Investments as at 30 June 2018

| Position | Company | Sector | Market Value £'000 | Portfolio % |
|---|---|---|---|---|
| 1 | Royal Dutch Shell | Oil & Gas Producers | 112,364 | 6.86 |
| 2 | HSBC | Banks | 73,913 | 4.51 |
| 3 | BP | Oil & Gas Producers | 64,770 | 3.95 |
| 4 | British American Tobacco | Tobacco | 58,982 | 3.60 |
| 5 | Diageo | Beverages | 53,323 | 3.26 |
| 6 | Unilever | Personal Goods | 48,208 | 2.94 |
| 7 | Prudential | Life Insurance | 46,834 | 2.86 |
| 8 | RELX | Media | 46,677 | 2.85 |
| 9 | Lloyds Banking | Banks | 44,135 | 2.70 |
| 10 | GlaxoSmithKline | Pharmaceuticals & Biotechnology | 39,010 | 2.38 |
| **Top 10** | | | **588,216** | **35.91** |
| 11 | Vodafone | Mobile Telecommunications | 35,845 | 2.19 |
| 12 | Rio Tinto | Mining | 32,768 | 2.00 |
| 13 | BAE Systems | Aerospace & Defence | 29,753 | 1.82 |
| 14 | Land Securities | Real Estate Investment Trusts | 27,511 | 1.68 |
| 15 | Taylor Wimpey | Household Goods & Home Construction | 26,835 | 1.64 |
| 16 | BHP Billiton | Mining | 26,017 | 1.59 |
| 17 | National Grid | Gas, Water & Multiutilities | 25,990 | 1.59 |
| 18 | SSE | Electricity | 25,067 | 1.53 |
| 19 | Verizon Communications | Fixed Line Telecommunications | 23,421 | 1.43 |
| 20 | Schroders | Financial Services | 22,986 | 1.40 |
| **Top 20** | | | **864,409** | **52.78** |
| 21 | AstraZeneca | Pharmaceuticals & Biotechnology | 22,010 | 1.34 |
| 22 | Croda International | Chemicals | 21,839 | 1.33 |
| 23 | Imperial Brands | Tobacco | 21,002 | 1.28 |
| 24 | Phoenix | Life Insurance | 20,764 | 1.27 |
| 25 | Persimmon | Household Goods & Home Construction | 20,268 | 1.24 |
| 26 | Reckitt Benckiser | Household Goods & Home Construction | 19,653 | 1.20 |
| 27 | TUI | Travel & Leisure | 19,315 | 1.18 |
| 28 | British Land | Real Estate Investment Trusts | 18,485 | 1.13 |
| 29 | Compass | Travel & Leisure | 18,451 | 1.13 |
| 30 | Hiscox | Nonlife Insurance | 17,073 | 1.04 |
| **Top 30** | | | **1,063,269** | **64.92** |
| 31 | BT | Fixed Line Telecommunications | 16,771 | 1.02 |
| 32 | Segro | Real Estate Investment Trusts | 16,066 | 0.98 |
| 33 | Nestlé | Food Producers | 14,860 | 0.91 |
| 34 | Ibstock | Construction & Materials | 13,751 | 0.84 |
| 35 | Direct Line Insurance | Nonlife Insurance | 13,373 | 0.81 |
| 36 | Barclays | Banks | 13,230 | 0.81 |
| 37 | Spirax-Sarco Engineering | Industrial Engineering | 13,040 | 0.80 |
| 38 | Greene King | Travel & Leisure | 12,663 | 0.77 |
| 39 | Sage | Software & Computer Services | 12,572 | 0.77 |
| 40 | Severn Trent | Gas, Water & Multiutilities | 12,372 | 0.75 |
| **Top 40** | | | **1,201,967** | **73.38** |

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

# Strategic Report: Portfolio Information (continued)

## Classification of Investments and Portfolio Weighting as at 30 June 2018

| | | Portfolio % | FTSE All-Share Index % | Relative to the FTSE All-Share Index percentage points |
|---|---|---|---|---|
| **Oil & Gas** | Oil & Gas Producers | 10.8 | 13.9 | (3.1) |
| | Oil Equipment, Services & Distribution | – | 0.3 | (0.3) |
| | | **10.8** | **14.2** | |
| **Basic Materials** | Chemicals | 2.2 | 0.8 | 1.4 |
| | Forestry & Paper | – | 0.3 | (0.3) |
| | Industrials Metals & Mining | – | 0.1 | (0.1) |
| | Mining | 4.3 | 6.5 | (2.2) |
| | | **6.5** | **7.7** | |
| **Industrials** | Aerospace & Defence | 2.3 | 2.0 | 0.3 |
| | Construction & Materials | 1.5 | 1.7 | (0.2) |
| | Electronic & Electrical Equipment | 1.7 | 0.5 | 1.2 |
| | General Industrials | 1.5 | 1.0 | 0.5 |
| | Industrial Engineering | 1.7 | 0.9 | 0.8 |
| | Industrial Transportation | 0.7 | 0.4 | 0.3 |
| | Support Services | 0.5 | 5.0 | (4.5) |
| | | **9.9** | **11.5** | |
| **Consumer Goods** | Beverages | 4.5 | 3.0 | 1.5 |
| | Food Producers | 1.5 | 0.8 | 0.7 |
| | Household Goods & Home Construction | 4.8 | 3.0 | 1.8 |
| | Personal Goods | 2.9 | 2.4 | 0.5 |
| | Tobacco | 4.9 | 4.6 | 0.3 |
| | | **18.6** | **13.8** | |
| **Health Care** | Health Care Equipment & Services | 0.6 | 1.0 | (0.4) |
| | Pharmaceuticals & Biotechnology | 5.5 | 7.8 | (2.3) |
| | | **6.1** | **8.8** | |
| **Consumer Services** | Food & Drug Retailers | 1.0 | 1.7 | (0.7) |
| | General Retailers | 1.9 | 1.8 | 0.1 |
| | Leisure Goods | – | 0.1 | (0.1) |
| | Media | 3.6 | 3.6 | – |
| | Travel & Leisure | 5.8 | 4.7 | 1.1 |
| | | **12.3** | **11.9** | |
| **Telecommunications** | Fixed Line Telecommunications | 2.9 | 0.8 | 2.1 |
| | Mobile Telecommunications | 3.3 | 2.1 | 1.2 |
| | | **6.2** | **2.9** | |
| **Utilities** | Electricity | 1.5 | 0.6 | 0.9 |
| | Gas, Water & Multiutilities | 3.2 | 2.0 | 1.2 |
| | | **4.7** | **2.6** | |
| **Financials** | Banks | 8.6 | 10.6 | (2.0) |
| | Equity Investment Instruments | – | 4.6 | (4.6) |
| | Financial Services | 2.8 | 3.1 | (0.3) |
| | Life Insurance | 4.8 | 3.8 | 1.0 |
| | Nonlife Insurance | 2.8 | 1.1 | 1.7 |
| | Real Estate Investment & Services | – | 0.4 | (0.4) |
| | Real Estate Investment Trusts | 4.6 | 2.1 | 2.5 |
| | | **23.6** | **25.7** | |
| **Technology** | Software & Computer Services | 1.3 | 0.9 | 0.4 |
| | | **1.3** | **0.9** | |
| **Total** | | **100.0** | **100.0** | |

# Strategic Report: Fund Manager's Report

**The Fund Manager of the Company, Job Curtis, reports on the year to 30 June 2018**

## Investment Background

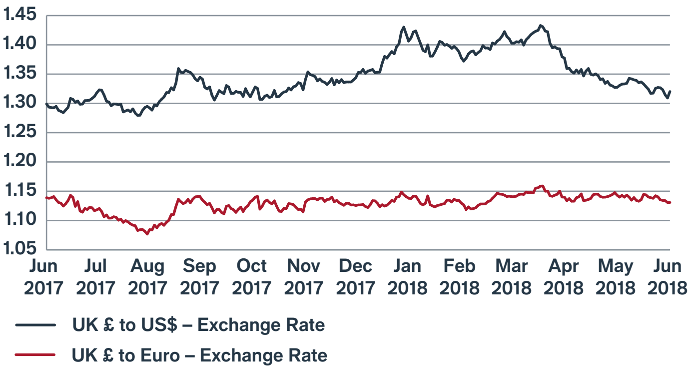
FTSE All-Share Total Return Index (rebased to 100)


Source: Datastream, as at 30 June 2018

It was another good year for global economic growth. The US benefited from tax cuts and China continued to expand at an impressive rate. The European growth rate weakened in the first half of 2018 but remained positive. The UK growth rate was also positive but below average for the leading developed economies. Inflation remained slightly above the 2% target as the fall in sterling from 2016 continued to be passed through into higher prices. Growth in UK consumers' spending was subdued for the first nine months of the period but picked up in the second quarter of 2018.

With some 70% of sales for UK listed companies coming from overseas, global growth benefited corporate profits and dividends. The UK equity market, as measured by the FTSE All-Share Index, produced a total return of 9.0%.

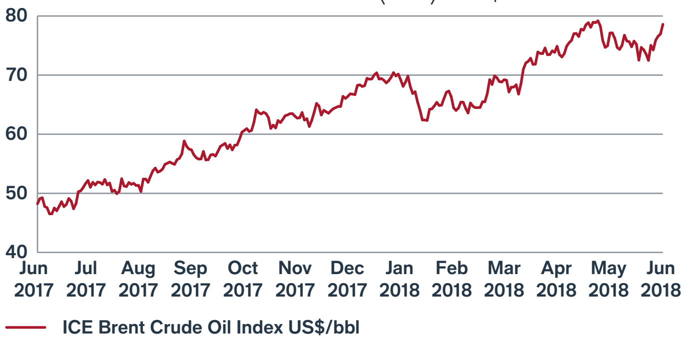
UK £ versus Euro and US$




Source: Datastream, as at 30 June 2018

Sterling started the period at an exchange rate of 1.30 against the US dollar, strengthened to a peak of 1.43 in April but then fell to end the 12 months at 1.32. Against the euro, sterling was more stable, starting at an exchange rate of 1.14, reaching a low of 1.08 in August, before finishing the 12 months at 1.13. The vicissitudes of the Brexit negotiations undoubtedly affected sterling as did relative perceptions of growth for the UK compared to other currency areas.

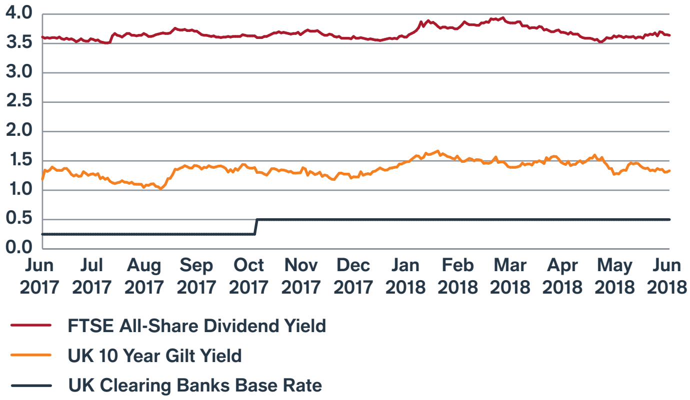
London Brent Crude Oil Index (ICE) US$/bbl




Source: Bloomberg, as at 30 June 2018

The oil price rose from $48/bbl to $79/bbl over the 12 months, an increase of 65%. There were both demand and supply factors behind this sharp appreciation. Demand for oil has increased steadily in recent years with rising global economic activity. The increase in demand has been most pronounced in emerging markets, such as India, where more people are driving cars. From a supply perspective, OPEC (the cartel of oil producing countries) and Russia restricted some of their oil output from reaching the market. In addition, the international oil companies have reduced investment in new oil fields in recent years in response to the slump in the oil price from 2014 to 2016.

UK Base Rate, FTSE All-Share Dividend Yield and UK 10 Year Gilt Yield




Source: Datastream, as at 30 June 2018

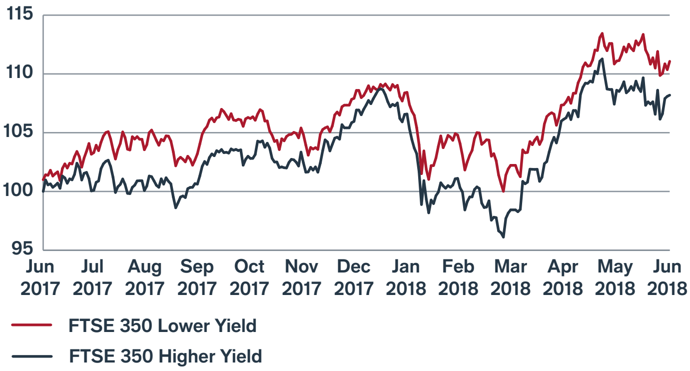
The UK base rate was increased for the first time in over eight years in October 2017. The increase from 0.25% to 0.5% reversed the cut of the same size made in August 2016 in the aftermath of the Brexit referendum. The 10 year gilt yield fluctuated between 1.1% and 1.6% over the 12 months. In contrast to the low yield available for bank deposits and government bonds, the UK equity market dividend yield

# Strategic Report: Fund Manager's Report (continued)

ranged between 3.5% and 3.9%. In addition, dividend growth was ahead of inflation. Over the 12 months, companies in City of London's portfolio increased their dividends on average by 6.7% (excluding special dividends).

The Company's gearing started the period at 5.5% and was raised to 8.8% in October ahead of the £50 million 2.94% Notes 2049 being funded. This is strategic gearing and we have a high level of confidence that City's portfolio will beat the annual interest cost of 2.94% over the 32 year life of this borrowing. The Company's gearing ended the financial year at 7.7% with the fixed rate borrowings fully invested.

## Performance of Higher Yielding Shares Compared with Lower Yielding Shares




Source: Datastream, as at 30 June 2018

The chart above compares the return of the FTSE 350 Higher Yield Index (the higher dividend yielding half of the largest 350 shares listed in the UK) with the FTSE 350 Lower Yield Index (the lower dividend yielding half of the largest 350 shares listed in the UK).

Over the 12 month period, the FTSE 350 Lower Yield Index outperformed. The higher yielding telecoms, tobacco and utilities sectors were notable laggards over the 12 months performance.

## Estimated Performance Attribution Analysis (relative to FTSE All-Share Index total return)

| | 2018 % | 2017 % |
|---|---|---|
| Stock Selection | -2.89 | -3.84 |
| Gearing | +0.47 | +0.61 |
| Expenses | -0.41 | -0.42 |
| Share Issues | +0.09 | +0.07 |
| | **-2.74** | **-3.58** |

Source: Janus Henderson

The portfolio underperformed the FTSE All-Share Index for a second year in a row. Despite Royal Dutch Shell ending the year as the largest holding and BP the third largest, the portfolio was underweight relative to the Index in oil and this was the biggest sector detractor from performance costing 0.85%. The underweight position in mining cost 0.43% and being overweight utilities cost 0.41%. The biggest stock detractor was Provident Financial which cost 0.53% and was sold. In contrast, travel group TUI was the biggest stock contributor adding 0.28% and household goods & home construction was the best sector contributing 0.51%.

Over the long term, City has significantly outperformed the Index. For example, over 10 years, City's net asset value total return is 148.6% compared with 111.2% for the FTSE All-Share Index.

## Portfolio Review

The portfolio's biggest sector contributor to performance against the FTSE All-Share Index was from housebuilding, for the second year in a row. Fundamentals remained good for the UK housing market with a combination of low interest rates, unsatisfied demand for owner occupation and fairly full employment. In addition, the government's "Help to Buy" scheme supported purchases of new homes. The three housebuilders held in the portfolio have long land banks and were well placed to meet the demand for new homes. The best performer of the three was Persimmon where some profits were taken. The holding in Berkeley was also reduced given its focus on the London market where house prices were under pressure due to the high rate of stamp duty on properties worth more than £1million. Some additions were made to Taylor Wimpey which ended the period as the Company's largest housebuilding holding. Also benefiting from the demand for new homes was City of London's holding in leading brick maker Ibstock.

The second biggest contributor was electronic and electrical equipment. The Company's three relatively small holdings in this sector, Halma, Renishaw and XP Power, returned 26%, 48% and 49% respectively. Common to these three businesses are strong technology with market leading positions and robust profit margins. The same can also be said of the Company's holding in chemicals which was the third biggest sector contributor. The three holdings, Croda, Johnson Matthey and Victrex, are all speciality chemical companies rather than operating at the bulk commodity end of that industry.

The sector which detracted most from relative performance was oil & gas. This was despite having large holdings in a strongly performing sector but because the portfolio was underweight relative to the Index. The period under review started with Royal Dutch Shell as the second largest holding and BP tenth largest but 4.1 percentage points underweight. Both stocks performed strongly, helped by the rising oil price and by their impressive control of costs. Additions were made to both holdings as their dividends became covered by cash flow. As a result, by the end of the 12 months, Royal Dutch Shell was the largest holding and BP third largest. At this point, the Company was underweight in oil and gas relative to the FTSE All-Share Index by 3.1 percentage points.

The second biggest sector detractor was financial services and this was due to the collapse in the share price of Provident Financial. Over the years, this company, which is a non-standard lender, had been a strong performer, but a disastrous change in strategy, away from part-time agents paid by commission who knew their customers well, led to losses and the suspension of its dividend. It was felt best to sell the stock because it needed new equity and its business model seemed challenged. Overall, Provident Financial cost 0.5% to relative performance against the FTSE All-Share Index over the year. More happily in financial services, the holding in NEX received a takeover bid from CME of the US and was sold at a significant profit.

# Strategic Report: Fund Manager's Report (continued)

The third biggest sector detractor was support services where some international builders' merchants and construction equipment rental companies, which had a good year, were not held. In addition, the holding in Connect was a very disappointing performer. Connect is one of two distributors of newspapers in the UK and this business although mature generates strong cash flows. Unfortunately, its diversification efforts into other distribution areas went awry leading to a share price fall that cost 0.25% to performance. It was decided to retain the holding in Connect given the value of the core newspaper distribution business and the change in its Chief Executive.

Turning to areas of the portfolio where there was notable activity, holdings in the retail sector were closely reviewed given the various pressures on the sector, including the growth of online shopping. The general retail sector exposure fell from 3.1% of the portfolio (or 1.2 percentage points overweight) to 1.9% (or 0.1 percentage points overweight). The holdings in Dixons Carphone, Inchcape and Next were sold.

In Real Estate Investment Trusts, some changes were made to take account of the shifts in relative valuations. Large profits were taken in light industrial owner Hansteen and Tritax Big Box (which specialises in warehouses) with both companies' share prices trading above their net asset values. The holdings in Civitas Social Housing and PRS (private rental housing) were sold on smaller profits but also at a premium to their net asset values. On the other hand, some additions were made to British Land and Land Securities on discounts of around 30% to their net asset values. A new holding was bought in Supermarket Income which invests in well located supermarket real estate with tenants on long leases and rents linked to inflation.

The holdings in the utility sector were reviewed against a background of rising political and regulatory risks in the UK and rising bond yields in the US. Given their relative valuation, it was decided to retain the UK utilities but Duke Energy of the US and Innogy of Germany were sold. In addition, profits were taken in John Laing Infrastructure Fund (which invests in PFI contracts) and Foresight Solar and Greencoat UK Wind (which invest respectively in solar and wind electricity generation assets). John Laing Infrastructure Fund had been a particularly successful investment since it was bought at its IPO but was standing on a material premium to its stated IPO. However, subsequently it received a takeover bid at a higher price.

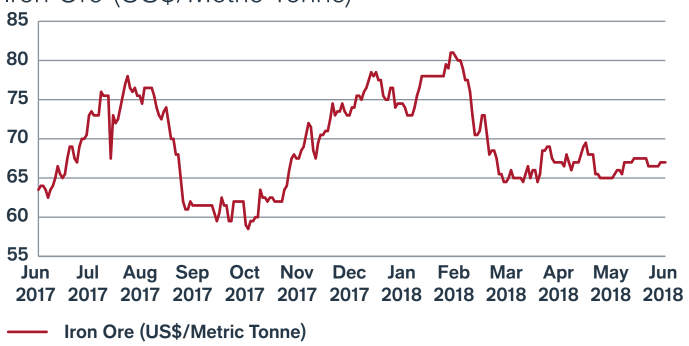
In autos, the holding in GKN was taken over by Melrose where a stake was retained in the portfolio. Daimler was sold given heavy costs needed for investing in new models, including electric vehicles.

In life insurance, the holding in Standard Life Aberdeen was sold given the dilution from the sale of its life insurance division to Phoenix and the poor flows in its remaining fund management operations. The holding in Phoenix was added to through its rights issue. In nonlife insurance, a holding was bought in the IPO of Sabre Insurance, which is a specialist motor insurer with a very good record. In banks, the holding in Swiss based Cembra Money Bank, which had performed very well since it was bought at its IPO, was sold at what seemed a full valuation. Additions were made to Lloyds Banking in the UK.

In Media, profits were taken in the long standing holding in Sky which was subject to a takeover bid from Twenty-First Century Fox. We were concerned about the possibility of the bid being blocked by the UK competition authorities as well as the long-term competitive threats from new TV services, such as Netflix. A competing bid was not anticipated because Twenty-First Century Fox already owned a 39% stake in Sky. In the event, a competing bid did materialise so the holding was sold too soon. The holding in Pearson, which cut its dividend, was also sold with recovery prospects for its important US educational business uncertain. Additions were made to the large holding in RELX, the global provider of information and analytics for academic, professional and business customers, with a consistent record of profits growth.

Four new holdings were bought with an international flavour. Anglo American is an international mining company which also owns 85% of the De Beers diamond company. After a very difficult period during 2014 and 2015, profits for Anglo American and other mining companies have benefited from the recovery in commodity prices and also from much improved control of their costs. At the levels at which iron ore and other commodities traded over the last 12 months, Anglo American and other leading mining companies were able to generate significant levels of cash, pay down debt and increase dividends.

Iron Ore (US$/Metric Tonne)




Source: Datastream, as at 30 June 2018

Additions were also made to the existing holdings in BHP Billiton and Rio Tinto in the mining sector.

A new holding was also bought in Carnival, the world leading owner and operator of cruise ships, including the Cunard and Princess Cruise lines. The fundamentals for the cruise holiday industry are good with growing demand from ageing populations and competitive costs compared with land based holidays. Carnival is well placed to benefit with its range of brands which target different parts of the market. The holding in TUI, which was the portfolio's biggest stock contributor over the year, also benefited from the growth in profits in its cruise division among its various holiday operations.

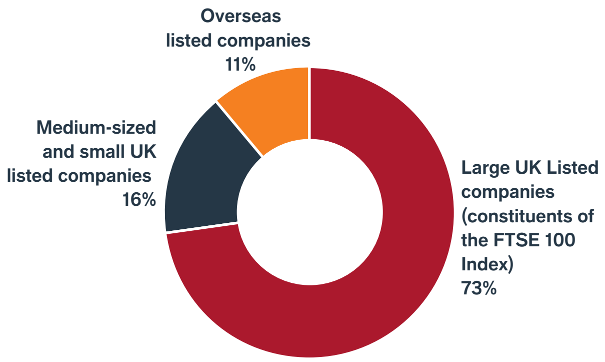
A new holding was also bought in Coca-Cola, the market leader in carbonated soft drinks, owning four of the top five brands in the world. Coca-Cola is the world's leading provider of both sparkling and still beverages and operates in 200 companies. It is a beneficiary of worldwide growth in consumers' income, especially

# Strategic Report: Fund Manager's Report (continued)

in emerging markets, and was bought on a reasonable valuation including a dividend yield of over 3%.

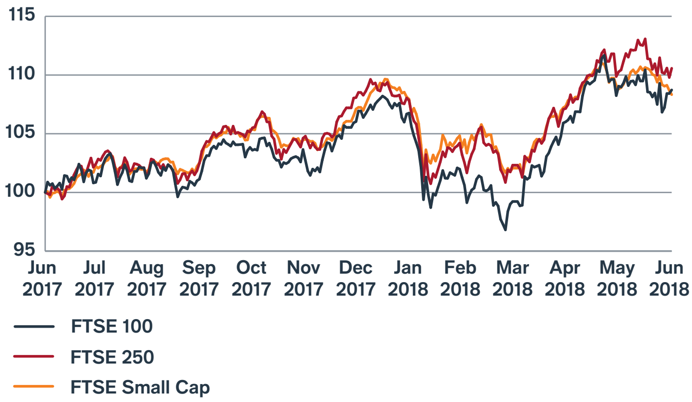
The final new holding was Orange, formerly known as France Telecom, which provides fixed line and mobile telecommunications services. Orange has the best quality mobile network in France which is helping it monetise the growth in mobile data services and it has scope for some gradual cost cutting.

## Distribution of the Portfolio as at 30 June 2018




The portion of the portfolio invested in large UK listed companies increased over the year from 69% to 73%. This was mainly due to the decline in the portion invested in medium-sized and small UK listed companies from 19% to 16%. The position in overseas listed companies also declined from 12% to 11%.

### FTSE 100, FTSE 250 & FTSE Small Cap Total Return
(rebased to 100)




Source: Datastream, as at 30 June 2018

The chart above compares the performance of the largest companies (FTSE 100) with medium-sized companies (FTSE 250) and small companies (FTSE Small Cap). As discussed in the Chairman's Statement, the positive effect on the performance of the FTSE 100 of the large companies in the oil sector was offset by the negative effect of the large capitalisation stocks in the utilities, tobacco and telecommunications sectors. Therefore the best performance over the 12 months came from medium-sized companies. The performance of large and small companies was about the same.

## Portfolio Outlook

The portfolio's qualities are well illustrated by the largest ten holdings which blend sustainable income with growth. In the oil sector, Royal Dutch Shell and BP are moving ahead with a respective share buy back and dividend increase after their successful repositioning in recent years. In banks, HSBC offers an attractive dividend yield with a leading position in the fast growing Asia Pacific region. Lloyds Banking, which is focussed on the UK, has rebuilt its capital ratios and should be able to continue increasing shareholder distributions going forward. In the various consumer staples sectors, British American Tobacco, Diageo and Unilever are well placed to grow in both developed and emerging markets. The proposed split of Prudential into two parts should liberate shareholder value. RELX is expected to continue to deliver consistent growth in profits from serving customers globally in information solutions. GlaxoSmithKline operates in growing international healthcare markets.

The top ten holdings reflect the predominantly international nature of the portfolio. Some UK domestic sectors have been held back by fears about Brexit and could have significant recovery potential, such as the UK Real Estate Investment Trusts, which make up 4.0% of the portfolio. With stakes in companies across a range of business activities, both overseas and in the UK, the portfolio is well positioned to continue to deliver competitive, risk adjusted returns.

Job Curtis
Fund Manager

# Strategic Report: Portfolio Information (continued)

## Sector Breakdown of Investments as at 30 June 2018

| | Valuation £'000 |
|---|---|
| OIL & GAS | |
| **Oil & Gas Producers** | |
| Royal Dutch Shell | 112,364 |
| BP | 64,770 |
| | **177,134** |
| **Total Oil & Gas** | **177,134** |
| BASIC MATERIALS | |
| **Chemicals** | |
| Croda International | 21,839 |
| Johnson Matthey | 7,238 |
| Victrex | 6,734 |
| | **35,811** |
| **Mining** | |
| Rio Tinto | 32,768 |
| BHP Billiton | 26,017 |
| Anglo American | 10,847 |
| | **69,632** |
| **Total Basic Materials** | **105,443** |
| INDUSTRIALS | |
| **Aerospace & Defence** | |
| BAE Systems | 29,753 |
| Meggitt | 8,183 |
| | **37,936** |
| **Construction & Materials** | |
| Ibstock | 13,751 |
| Melrose | 4,892 |
| Marshalls | 3,969 |
| Low & Bonar | 1,430 |
| | **24,042** |
| **Electronic & Electrical Equipment** | |
| Halma | 11,924 |
| Renishaw | 10,854 |
| XP Power | 4,645 |
| | **27,423** |
| **General Industrials** | |
| Smiths | 8,490 |
| Siemens[1] | 8,384 |
| Swire Pacific[1] | 8,023 |
| | **24,897** |
| **Industrial Engineering** | |
| Spirax-Sarco Engineering | 13,040 |
| IMI | 10,188 |
| Rotork | 4,016 |
| | **27,244** |
| **Industrial Transportation** | |
| Royal Mail | 11,626 |
| | **11,626** |
| **Support Services** | |
| De La Rue | 3,816 |
| Paypoint | 3,585 |
| Connect | 1,543 |
| | **8,944** |
| **Total Industrials** | **162,112** |

| | Valuation £'000 |
|---|---|
| CONSUMER GOODS | |
| **Beverages** | |
| Diageo | 53,323 |
| Britvic | 11,000 |
| Coca-Cola[1] | 8,970 |
| | **73,293** |
| **Food Producers** | |
| Nestlé[1] | 14,860 |
| Tate & Lyle | 9,702 |
| | **24,562** |
| **Household Goods & Home Construction** | |
| Taylor Wimpey | 26,835 |
| Persimmon | 20,268 |
| Reckitt Benckiser | 19,653 |
| Berkeley | 12,112 |
| | **78,868** |
| **Personal Goods** | |
| Unilever | 48,208 |
| | **48,208** |
| **Tobacco** | |
| British American Tobacco | 58,982 |
| Imperial Brands | 21,002 |
| | **79,984** |
| **Total Consumer Goods** | **304,915** |
| HEALTH CARE | |
| **Health Care Equipment & Services** | |
| Smith & Nephew | 9,087 |
| | **9,087** |
| **Pharmaceuticals & Biotechnology** | |
| GlaxoSmithKline | 39,010 |
| AstraZeneca | 22,010 |
| Merck[1] | 11,047 |
| Novartis[1] | 10,926 |
| Johnson & Johnson[1] | 7,353 |
| | **90,346** |
| **Total Health Care** | **99,433** |
| CONSUMER SERVICES | |
| **Food & Drug Retailers** | |
| J. Sainsbury | 12,125 |
| Greggs | 4,978 |
| | **17,103** |
| **General Retailers** | |
| Kingfisher | 9,150 |
| Marks & Spencer | 8,853 |
| Halfords | 5,198 |
| Pendragon | 3,668 |
| DFS | 2,467 |
| N. Brown | 2,286 |
| | **31,622** |

# Strategic Report: Portfolio Information (continued)

| | Valuation £'000 |
|---|---|
| CONSUMER SERVICES (continued) | |
| **Media** | |
| RELX[1] | 46,677 |
| Daily Mail & General | 6,079 |
| ITV | 5,481 |
| | **58,237** |
| **Travel & Leisure** | |
| TUI | 19,315 |
| Compass | 18,451 |
| Greene King | 12,663 |
| Carnival | 10,867 |
| Whitbread | 10,678 |
| Go-Ahead | 5,559 |
| Cineworld | 5,551 |
| Young | 4,347 |
| Ten Entertainment | 4,113 |
| William Hill | 3,034 |
| | **94,578** |
| **Total Consumer Services** | **201,540** |
| TELECOMMUNICATIONS | |
| **Fixed Line Telecommunications** | |
| Verizon Communications[1] | 23,421 |
| BT | 16,771 |
| Swisscom[1] | 4,517 |
| Manx Telecom | 2,832 |
| | **47,541** |
| **Mobile Telecommunications** | |
| Vodafone | 35,845 |
| Deutsche Telekom[1] | 9,163 |
| Orange[1] | 8,242 |
| | **53,250** |
| **Total Telecommunications** | **100,791** |
| UTILITIES | |
| **Electricity** | |
| SSE | 25,067 |
| | **25,067** |
| **Gas, Water & Multiutilities** | |
| National Grid | 25,990 |
| Severn Trent | 12,372 |
| United Utilities | 7,632 |
| Centrica | 6,700 |
| | **52,694** |
| **Total Utilities** | **77,761** |
| FINANCIALS | |
| **Banks** | |
| HSBC | 73,913 |
| Lloyds Banking | 44,135 |
| Barclays | 13,230 |
| Nationwide Building Society 10.25% Var Perp CCDS | 9,923 |
| | **141,201** |

| | Valuation £'000 |
|---|---|
| FINANCIALS (continued) | |
| **Financial Services** | |
| Schroders | 22,986 |
| Brewin Dolphin | 8,880 |
| TP ICAP | 7,983 |
| IG | 6,027 |
| | **45,876** |
| **Life Insurance** | |
| Prudential | 46,834 |
| Phoenix | 20,764 |
| Aviva | 10,710 |
| | **78,308** |
| **Nonlife Insurance** | |
| Hiscox | 17,073 |
| Direct Line Insurance | 13,373 |
| Sabre Insurance | 8,130 |
| Munich Re[1] | 7,303 |
| | **45,879** |
| **Real Estate Investment Trusts** | |
| Land Securities | 27,511 |
| British Land | 18,485 |
| Segro | 16,066 |
| Hammerson | 5,226 |
| Unibail-Rodamco-Westfield[1] | 5,120 |
| Supermarket Income REIT | 2,040 |
| Redefine International | 1,469 |
| | **75,917** |
| **Total Financials** | **387,181** |
| TECHNOLOGY | |
| **Software & Computer Services** | |
| Sage | 12,572 |
| Microsoft[1] | 9,025 |
| | **21,597** |
| **Total Technology** | **21,597** |
| **TOTAL INVESTMENTS** | **1,637,907** |

[1] Overseas listed

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

# Strategic Report: Directors and Fund Management

## Directors

The Directors appointed to the Board at the date of this Report are:

### Philip Remnant CBE

**Position:** Chairman of the Board and Nominations Committee
**Date of Appointment:** 1 January 2011
(Chairman on 24 October 2011)
Philip is the Senior Independent Director of Prudential plc and of UK Financial Investments Limited. He is also a non-executive Director of Severn Trent plc, Chairman of M&G Group Limited and a Deputy Chairman of the Takeover Panel. He was a Senior Adviser at Credit Suisse until December 2013, having previously been a Vice Chairman of CSFB Europe and Head of the UK Investment Banking Department. He was the Chairman of the Shareholder Executive between 2007 and 2012, and was Director General of the Takeover Panel from 2001 to 2003 and again in 2010.

### Simon Barratt

**Position:** Senior Independent Director (SID)
**Date of Appointment:** 1 October 2010 (SID on 27 October 2016)
Simon was Chairman of Costa China Brand Office until 2017. He was previously General Counsel and Company Secretary at Whitbread PLC having joined in 1991 and left in 2017. During that time he also acted as Company Secretary for the Whitbread Investment Company plc and a Director of Whitbread Pension Trustees. He was previously at Rio Tinto and Heron, having qualified as a solicitor with the law firm, Slaughter and May.

### Robert Holmes (Ted)

**Position:** Director
**Date of Appointment:** 1 January 2018
Ted joined the Board following a twenty year career at UBS Asset Management. During that time he worked as a Managing Director in both the Chicago office (previously Brinson Partners) and London office (previously Phillips and Drew) in a variety of positions, from analyst to European Head of Equities. Prior to UBS, he worked for Ernst & Young where he also earned his CPA license. He has an MBA from the University of Chicago Booth School of Business.

### Martin Morgan

**Position:** Director
**Date of Appointment:** 1 March 2012
Martin is Chairman of Wilmington plc and Signal Media. He was Chief Executive of Daily Mail and General Trust plc until May 2016, having joined the Group in 1989. He was previously Chief Executive of dmg information and also a non-executive Director of Euromoney Institutional Investor plc.

### Samantha Wren

**Position:** Chair of the Audit Committee
**Date of Appointment:** 1 September 2015
(Chair of the Audit Committee on 7 July 2016)
Samantha is Group Chief Finance Officer and Chief Operating Officer of NEX Group plc. Previously Chief Commercial Officer of ICAP plc and NEX Group plc. She was Chief Operating Officer of ICAP plc's Global Broking division. Prior to ICAP plc, she held senior finance roles at the gaming group, The Rank Group plc, latterly as Director of Corporate Finance where she was also a Director of the Rank Pension Plan Trustee Limited. She qualified as a Chartered Management Accountant at Rentokil Initial plc.

## Fund Management

Job Curtis has been City of London's Fund Manager since 1 July 1991. After graduating from Oxford University in 1983 with a BA Hons in Philosophy, Politics and Economics, he joined Grieveson, Grant stockbrokers as a trainee. In 1985, he joined Cornhill Insurance as an assistant fund manager and then moved to Touche Remnant in 1987 where he became a fund manager. Touche Remnant was taken over by Henderson Group plc in 1992 and Job is currently a member of Janus Henderson's Global Equity Income team.

Job is assisted in the management of the portfolio by David Smith who joined in 2002; Andrew Jones who joined in 2005 and Laura Foll who joined in 2009.

All Directors are independent of Janus Henderson
All Directors are members of the Nominations Committee
The Audit Committee consists of Samantha Wren, Simon Barratt and Ted Holmes

# Strategic Report: Corporate Information

## Registered Office

201 Bishopsgate
London EC2M 3AE

## Service Providers

### Alternative Investment Fund Manager

Henderson Investment Funds Limited
201 Bishopsgate
London EC2M 3AE

### Corporate Secretary

Henderson Secretarial Services Limited
201 Bishopsgate
London EC2M 3AE
Telephone: 020 7818 1818
Email: support@janushenderson.com

### Depositary and Custodian

HSBC Bank plc
8 Canada Square
London E14 5HQ

### UK

### Stockbrokers

Cenkos Securities plc
6-8 Tokenhouse Yard
London EC2R 7AS

### Registrar

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0370 889 3296

### New Zealand

### Stockbrokers

Craigs Investment Partners
PO Box 13155
Tauranga 3141
New Zealand

### Registrar

Computershare Investor Services Limited
PO Box 92119
Auckland 1142
New Zealand
Telephone (New Zealand) (64) 09 488 8777

## Independent Auditors

### Chartered Accountants and Statutory Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

## Information Sources

For more information about The City of London Investment Trust plc, visit the website at **www.cityinvestmenttrust.com**.

### HGi

HGi is a content platform provided by Janus Henderson that offers online personalisation where you can "follow" investment experts, topics and the trusts that are of interest to you. By creating your HGi profile you will be updated regularly on the topics that interest you most, bringing you closer to Janus Henderson's investment expertise.

Scan the QR code or use this short URL to register for HGi.
http://HGi.co/rb

Follow the Janus Henderson Investment Trusts on Twitter, YouTube and Facebook.

## Investing

Shares can be purchased in the market via a stockbroker or through share dealing platforms. They can also be held through share plans, ISAs or pensions and links to various providers are included on the website. Individuals holding shares through Halifax Share Dealing Limited can write to them at Lovell Park Road, Leeds LS1 1NS or contact them via telephone 03457 22 55 25, email **Henderson@halifax.co.uk** or visit their website **www.halifax.co.uk/sharedealing**.

Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances.

## Nominee Share Code

Where notification has been provided in advance, the Company will arrange for copies of shareholder communications to be provided to the operators of nominee accounts. Nominee investors may attend general meetings and speak at them when invited to do so by the Chairman. Investors in Halifax Share Dealing receive all shareholder communications. A voting instruction form is provided to facilitate voting at general meetings of the Company.

# Strategic Report: Corporate Information (continued)

## Status

The Company is an investment company as defined in Section 833 of the Companies Act 2006 ("the Act") and operates as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010 ("Section 1158") as amended. The Company is subject to the Listing Rules of the Financial Conduct Authority and also the Listing Rules of the New Zealand Stock Exchange. It is governed by its Articles of Association, amendments to which must be approved by shareholders by way of a special resolution. The Company is not a close company.

The Company has obtained approval from HM Revenue & Customs ("HMRC") of its status as an investment trust under Section 1158; the Directors are of the opinion that the Company has conducted its affairs in compliance with Section 1158 since approval was granted and intends to continue to do so. The Company is liable to corporation tax on its net revenue profits but is exempt from corporation tax on capital gains if it has complied at all times with Section 1158.

## Principal Risks

The Board, with the assistance of the Manager, has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity. In carrying out this assessment, the Board considered the market uncertainty arising from the UK's negotiations to leave the European Union.

The Board regularly considers the principal risks facing the Company. The Board has drawn up a matrix of risks facing the Company and 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, and whether the Board considers the impact of such risks has changed over the past year, are as follows:

| Risk | Mitigation |
|---|---|
| **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. 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, in addition to the scheduled meetings 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 Section 1158 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 Depositary'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>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 on page 16. |

The Board considers these risks to have remained unchanged throughout the year under review.

# Strategic Report: Corporate Information (continued)

## Borrowings

The Company has a borrowing facility of £120.0m (2017: £120.0m) with HSBC Bank plc, of which £nil was drawn at the year end (2017: £10.2m). The Company also has two debentures totalling £40.0m (2017: £40.0m) and £84.3m (2017: £34.6m) of secured notes. The level of gearing at 30 June 2018 was 7.7% of net asset value (2017: 5.5%).

## 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 0.41% 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 8.3%.
- 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. These risks, their mitigations and processes for monitoring them are set out on page 18.

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 foreseeable 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 2023.

## Future Developments

While the future performance of the Company is mainly dependent on the performance of international financial markets which are subject to various external factors, the Board's intention is that the Company will continue to pursue its stated investment objective and strategy explained earlier. The Chairman's Statement and Fund Manager's Report provide commentary on the outlook for the Company.

# Strategic Report: Corporate Information (continued)

## Key Performance Indicators ("KPIs")

In order to measure the success of the Company in meeting its objective and to evaluate the performance of the Manager, the Directors take into account the following KPIs:

| KPI | Action |
|---|---|
| **Performance against the Company's peer group** | The Company is included in the AIC UK Equity Income sector. The Board considers the size weighted average net asset value total return of its AIC peer group at each Board meeting.<br><br>During the year under review the Company's performance was consistent with that of the peer group. |
| **Performance against the OEIC sector** | The Board considers the performance of the portfolio against the IA UK Equity Income OEIC sector.<br><br>During the year under review the Company outperformed the OEIC sector by 0.1%. |
| **Performance against market indices** | The Board reviews and compares, at each meeting, the performance of the portfolio as well as the net asset value and share price for the Company and the FTSE All-Share Index.<br><br>During the year under review the Company underperformed the Index by 2.7% on a total return basis. |
| **Premium/discount to net asset value ("NAV")** | The Board's aim is for the Company's share price to reflect closely its underlying net asset value. At each Board meeting, the Board monitors the level of the Company's premium/discount to NAV per share and reviews the average premium/discount for the Company's AIC sector.<br><br>At 30 June 2018 the Company's shares were trading at a premium of 1.8% to NAV (2017: 1.8% premium) with debt at market value. |
| **Ongoing Charge** | The Board regularly reviews the ongoing charges and monitors Company expenses.<br><br>For the year ended 30 June 2018 the Ongoing Charge as a percentage of shareholders' funds was 0.41% (2017: 0.42%). |

The charts and data on pages 2 and 3 show how the Company has performed against these KPIs.

# Strategic Report: Corporate Information (continued)

## Corporate Responsibility

### Responsible Investment

Janus Henderson is responsible for reporting on its work on corporate governance and corporate responsibility issues in the companies in which it invests on its clients' behalf, across all funds as part of its management duties. In May 2005 Henderson became a founding signatory to the United Nations Principles for Responsible Investment. The Principles, developed under the auspices of the UN Secretary-General, are a voluntary and aspirational framework for incorporating environmental, social and corporate governance (ESG) issues into mainstream investment decision-making and ownership practices. The way companies respond to ESG issues can affect their business performance, both directly and indirectly. ESG factors are considered by Janus Henderson investment teams, but investments are not necessarily ruled out on ESG grounds only.

### Voting Policy and the UK Stewardship Code

The Manager has a responsible investment policy in place which sets out its approach to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients and its policy on proxy voting. The policy also sets out how Janus Henderson implements the Stewardship Code. The Company has reviewed the policy and has delegated responsibility for voting to the Manager. The Board receives regular reports on the voting undertaken by the Manager on behalf of the Company. The Board and the Manager believe that voting at general meetings is an important aspect of corporate stewardship and a means of signalling shareholder views on board policy, practices and performance. Voting recommendations are guided by the best interests of the investee companies' shareholders. The Manager actively votes at shareholder meetings and engages with companies as part of the voting process. Voting decisions are made in close consultation with the Fund Manager, with regular dialogue between fund managers and corporate governance specialists.

The responsible investment policy and further details of responsible investment activities can be found on the website, **www.janushenderson.com**.

### Employees, Social, Community, Human Rights and Environmental Matters

The Company's core activities are undertaken by Janus Henderson, which has implemented environmental management practices, including systems to limit the use of non-renewable resources and to minimise the impact of operations on the environment, and is focused on reducing greenhouse gas emissions and minimising waste, where possible. The Company has therefore not reported on these, or social, community or human rights issues.
Janus Henderson's corporate responsibility statement is included on the Company's website.

The Company's Annual Report is printed on paper produced using 50% recycled post-consumer waste and 50% wood fibre from fully sustainable forests with certification by the Forest Stewardship Council; the printing company used is certified as CarbonNeutral®.

### Modern Slavery Act 2015

As an investment vehicle, the Company does not provide goods or services in the normal course of business and does not have customers. Accordingly, the Directors consider that the Company is not required to make any slavery or human trafficking statement under the Modern Slavery Act 2015.

## Board Diversity

It is the Company's aim to have an appropriate level of diversity in the boardroom. The Nominations Committee considers diversity generally when making appointments to the Board, taking into account relevant skills, experience, knowledge and gender. Our prime responsibility, however, is the strength of the Board and our overriding aim in making any new appointments must always be to select the best candidate. Currently the Board comprises five Directors, four male and one female. The Company has no employees and, therefore, there is nothing further to report in respect of gender representation within the Company.

For and on behalf of the Board

Philip Remnant CBE
Chairman
24 September 2018

# Strategic Report: Glossary and Alternative Performance Measures

## Alternative Investment Fund Managers Directive ("AIFMD")

Agreed by the European Parliament and the Council of the European Union and transposed into UK legislation, the AIFMD classifies certain investment vehicles, including investment companies, as Alternative Investment Funds ("AIFs") and requires them to appoint an Alternative Investment Fund Manager ("AIFM") and depositary to manage and oversee the operations of the investment vehicle. The Board of the Company retains responsibility for strategy, operations and compliance and the Directors retain a fiduciary duty to shareholders.

## Association of Investment Companies ("AIC")

The Company is a member of the AIC which is the trade body for investment companies and represents the industry in relation to various matters which impact the regulation of such entities.

## Benchmark

A measure against which performance is compared. For the Company this is the size weighted average of the AIC UK Equity Income sector.

## Custodian

The Custodian is responsible for ensuring the safe custody of the Company's assets and ensuring that all transactions in the underlying holdings are transacted in an accurate and timely manner.

## Depositary

From 22 July 2014 all AIFs were required to appoint a Depositary who has responsibility for overseeing the operations of the Company including safekeeping, cash monitoring and verification of ownership and valuation. The Depositary is strictly liable for the loss of any investments or other assets in its custody unless it has notified that it has discharged its liability in certain markets. The Depositary has confirmed that it has not discharged liability in relation to any of the Company's assets.

## Derivative

A contract between two or more parties in relation to an underlying security. The value of a derivative will fluctuate in accordance with the value of the security and is a form of gearing as the fluctuations in value are usually greater than the fluctuations in the underlying security's value. Examples of derivatives are put and call options, swap contracts, futures and contracts for difference. Foreign exchange, interest rates and commodities may also be traded using derivative contracts.

## Dividend Dates

When declared or recommended, each dividend will have three key dates applied to it. The payment date is the date on which shareholders will receive their dividend, either by BACS transfer or by receipt of a dividend cheque. The record date applied to the dividend is used as a cut-off for the Company's registrars to know which shareholders should be paid a dividend. Only shareholders on the register of members at the close of business on the record date will receive the dividend. The ex-dividend date is the business day before the record date and is the date upon which the Company's net asset value will be disclosed ex-dividend.

## Gearing

Gearing means borrowing money to buy assets with the expectation that the return on investments bought will exceed the interest cost of the borrowings. The gearing percentage reflects the amount of borrowings (e.g. bank loans, overdrafts, debentures or secured notes) the Company has used to invest in the market, and is calculated by taking the difference between total investments (see Note 11) and equity shareholders' funds (see Statement of Financial Position), dividing this by equity shareholders' funds and multiplying by 100. The Company can also use synthetic gearing through derivatives and foreign exchange hedging.

## Investment Trusts

Investment trusts are public limited companies, listed on the London Stock Exchange, which provide shareholders with a professionally managed portfolio of investments. Investment trusts are exempt from tax on the capital gains arising on their investments subject to meeting certain criteria. Income, net of expenses and tax, is substantially distributed to shareholders. Investment trusts are also known as investment companies, although the tax legislation retains the reference to investment trusts.

## Liquidity

In the context of the liquidity of shares in the stock market, this refers to the availability of buyers in the market for the share in question. Where the market in a particular share is described as liquid, that share will be in demand and holders wishing to sell their shares should find ready buyers. Conversely, where the market in a share is illiquid the difficulty of finding a buyer will tend to depress the price that might be negotiated for a sale.

## Market Capitalisation

The market value of a company, calculated by multiplying the mid-market price per share by the number of shares in issue.

# Strategic Report: Glossary and Alternative Performance Measures (continued)

## Net Asset Value ("NAV") per Ordinary Share

The value of the Company's assets (i.e. investments (see Note 11) and cash held) (see Statement of Financial Position) less any liabilities (i.e. bank borrowings and debt securities) (see Notes 14 and 15) for which the Company is responsible, divided by the number of shares in issue (see Note 17). The aggregate NAV is also referred to as shareholders' funds on the Statement of Financial Position.

The NAV is published daily and includes a NAV with debt at market value and a NAV with debt at par. Performance is measured with debt at market value.

## Net Asset Value ("NAV") with Debt at Market Value

The Company's debt (bank borrowings, debenture stocks, secured notes, preference and preferred stock, further details can be found in Notes 14 and 15 on page 53) is valued in the Statement of Financial Position (on page 41) at amortised cost, which is materially equivalent to the repayment value of the debt on the assumption that it is held to maturity. This is often referred to as "Debt at Par". The current market value of the debt, which assumes it is repaid under current market conditions, is referred to as "Debt at Market value". This Market Value is detailed in note 16.4 on page 57. The difference between market and par values of the debt is subtracted from or added to the Statement of Financial Position on page 59 to derive the NAV with debt at market value. The NAV with debt at market value at 30 June 2018 was £1,503,856,000 (424.33p per share) and the NAV with debt at par was £1,520,997,000 (429.16p per share).

## Ongoing Charge

The Ongoing Charge reflects those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the Company as a collective fund, excluding the costs of acquisition or disposal of investments, financing costs and gains or losses arising on investments. The Ongoing Charge is based on actual costs incurred in the year as being the best estimate of future costs.

## Premium/Discount

The amount by which the market price per share (see page 3) of an investment trust is either higher (premium) or lower (discount) than the NAV per share, expressed as a percentage of the NAV per share.

## Revenue Earnings per share

The revenue return per share, is the revenue return for the year (see Income Statement) divided by the weighted average number of ordinary shares in issue during the year.

## Revenue Reserve per share

The revenue reserve (see Statement of Financial Position) as at the year end divided by the number of shares in issue (see Note 17) at the year end date.

## Total Return Performance

This is the return on the share price or NAV with debt at market value taking into account both the rise and fall of share prices and the dividends paid to shareholders. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares (for share price total return) or the Company's assets (for NAV with debt at market value total return). Dividends paid and payable are set out in Note 10 on page 51.

## Yield

The annual dividend (see Note 10) expressed as a percentage of the share price (see page 3).

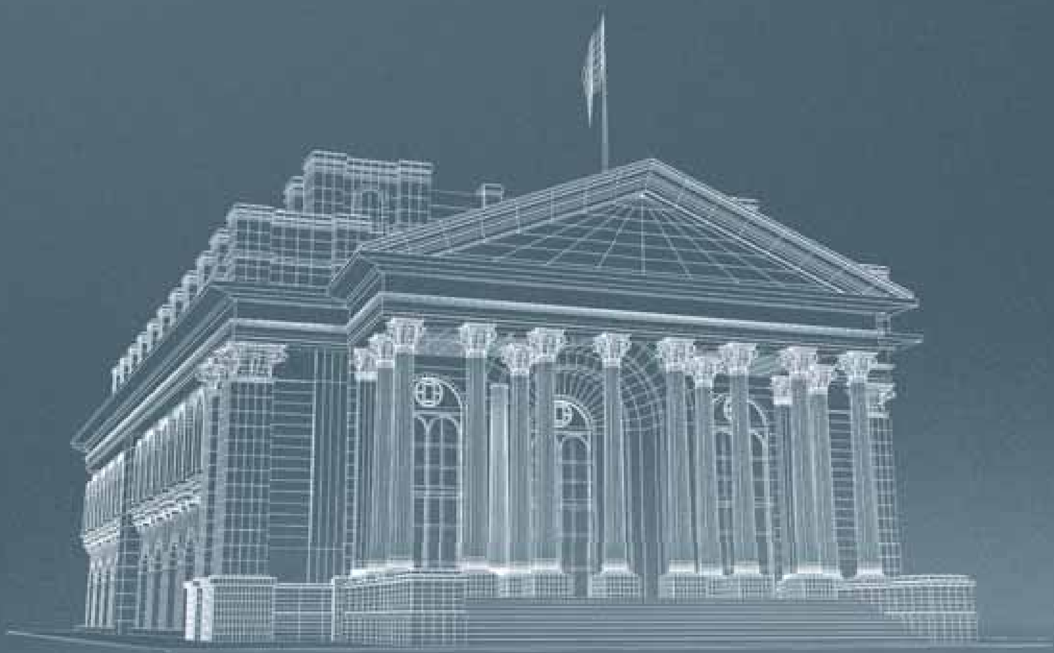
## Warning to Shareholders

Many companies are aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive. Shareholders are therefore advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

Please note that it is very unlikely that either the Company or the Company's Registrar, Computershare Investor Services PLC, would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and never in respect of investment 'advice'.

If you are in any doubt about the veracity of an unsolicited phone call, please contact the Company Secretary on the telephone number detailed on page 17.

# Corporate Report



# Report of the Directors

The Directors present the audited financial statements of the Company and their report for the year from 1 July 2017 to 30 June 2018. The City of London Investment Trust plc ("the Company") (registered in England & Wales on 26 September 1891 with company registration number 34871) was active throughout the year under review and was not dormant.

## Directors' Remuneration and Shareholdings

The Directors' Remuneration Report on pages 28 and 29 provides information on the remuneration and interests of the Directors.

## Fund Manager's Interests

Job Curtis, the Fund Manager, has a beneficial interest in 225,298 and a non-beneficial interest in 17,027 shares.

## Directors' Conflicts of Interest

The Company's Articles of Association permit the Board to consider and, if it sees fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company ("situational conflicts"). The Board has a formal system in place for Directors to declare situational conflicts to be considered for authorisation by those Directors who have no interest in the matter being considered. In deciding whether to authorise a situational conflict, the non-conflicted Directors must act honestly and in good faith with a view to the best interests of the Company and they may impose limits or conditions when giving the authorisation, or subsequently, if they think this is appropriate. Any situational conflicts considered, and any authorisations given, are recorded in the relevant meetings' minutes. The prescribed procedures have been followed in deciding whether, and on what terms, to authorise situational conflicts and the Board believes that the systems it has in place for reporting and considering situational conflicts continue to operate effectively.

## 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 on page 28.

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 sales and 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 note 23 on page 60.

## Share Capital

There are no restrictions on the transfer of the Company's share capital and there are no shares or stock which carry specific rights with regards to control of the Company.

The Company's equity and non-equity share capital comprises:

### Ordinary shares of 25p nominal value each

The voting rights of the ordinary shares on a poll are one vote for every 15 shares held. At the beginning of the year, there were 339,409,868 ordinary shares in issue. During the year, 15,000,000 shares (representing 4.4% of the number of shares in issue at the beginning of the year) were issued to Cenkos Securities plc at a price range of 396.5p – 438.25p for total proceeds (net of commissions) of £62,698,000. At 30 June 2018 the number of ordinary shares in issue (with voting rights) was 354,409,868.

Since 30 June 2018 and up to 21 September 2018, being the last practicable date prior to publication of the Annual Report, a further 2,325,000 ordinary shares have been issued for a total consideration of £9.9m. The number of shares in issue at the date of this report is 356,734,868.

### Cumulative first preference stock

The voting rights of the first preference stock on a poll are one vote per £10 of stock held. At 1 July 2017 and at 30 June 2018 there was £301,982 of first preference stock in issue.

### Non-cumulative second preference stock

Second preference stockholders have no rights to attend and vote at general meetings (except on the winding-up of the Company or if dividends are in arrears). At 1 July 2017 and at 30 June 2018 there was £507,202 of second preference stock in issue.

### Non-cumulative preferred ordinary stock

The voting rights of the preferred ordinary stock on a poll are one vote per £20 of stock held. At 1 July 2017 and at 30 June 2018 there was £589,672 of preferred ordinary stock in issue.

Further details on the first and second preference stock and the preferred ordinary stock are contained in note 15 on pages 53 and 54.

The Directors seek annual authority from the shareholders to allot new ordinary shares, to dis-apply the pre-emption rights of existing shareholders, and to buy back for cancellation or to be held in treasury the Company's ordinary shares. In addition, the Directors seek annual authority to buy back and cancel the Company's preferred and preference stocks. At the Annual General Meeting ("AGM") on 31 October 2017 the Directors were granted authority to repurchase 51,578,321 ordinary shares (with a nominal value of £12,894,580) for cancellation or to be held in treasury. The Directors have not bought back any shares and therefore at the date of this report the Directors have remaining authority to repurchase 51,578,321 shares. This authority will expire at the conclusion of the AGM in November 2018, when a new authority will be sought. The Directors believe that, from time to time and subject to market conditions, it will continue to be in the shareholders' interests to buy back the Company's shares when they are trading at a discount to the underlying net asset value per share. The Company may utilise the authority to purchase shares by either a single purchase or a series of purchases when market conditions allow, with the aim of maximising the benefit to shareholders.

# Report of the Directors (continued)

At the AGM in 2017 Directors were also granted authority to repurchase the first and second preference stock and the preferred ordinary stock. The Directors have not bought back any of the preference or preferred stock during the year.

## Holdings in the Company's Shares

There are no declarations of interests in the voting rights of the Company as at 30 June 2018 in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

No changes have been notified in the period 1 July 2018 to 21 September 2018.

At 30 June 2018, 11.17% of the issued ordinary shares were held on behalf of participants in the Halifax Share Dealing products run by Halifax Share Dealing Limited ("HSDL"). In accordance with arrangements made between HSDL and Janus Henderson the participants in this scheme are given the opportunity to instruct HSDL's nominee company to exercise the voting rights appertaining to their shares in respect of all General Meetings of the Company.

## Annual General Meeting ("AGM")

The AGM will be held on 1 November 2018 at 2.30 pm at the Company's registered office. The Notice of Meeting and details of the resolutions to be put at the AGM are contained in the separate circular being sent to shareholders with this Report.

## Corporate Governance

The Corporate Governance Statement set out on pages 30 to 33 forms part of the Report of the Directors.

## Other Information

Information on future developments and financial risks are detailed in the Strategic Report.

## Directors' Statement as to Disclosure of Information to Auditors

Each of the Directors who were members of the Board at the date of approval of this Report confirms that to the best of his or her knowledge and belief, there is no information relevant to the preparation of the Annual Report of which the Company's Auditors are unaware and he or she has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's Auditors are aware of that information.

## Global Greenhouse Gas Emissions

As an externally managed investment company, the Company has no greenhouse gas emissions to report from its operations for the year to 30 June 2018 (2017: same), nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

## Listing Rule 9.8.4

Listing Rule ("LR") 9.8.4 requires the Company to include certain information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures to be made in this regard, other than in accordance with LR 9.8.4(7), the information of which is detailed on page 25 under Share Capital.

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
24 September 2018

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and the Republic of Ireland", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the net return or loss of the Company for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

## Statement under DTR 4.1.12

Each of the Directors, who are listed on page 16, 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
24 September 2018

The financial statements are published on the website **www.cityinvestmenttrust.com**.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The maintenance and integrity of the website is the responsibility of Janus Henderson; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the Annual Report since it was initially presented on the website.

# Directors' Remuneration Report

## Introduction

This report is submitted in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 (the "Regulations"). The report also meets the relevant requirements of the Companies Act 2006 (the "Act") and the Listing Rules of the Financial Conduct Authority and describes how the Board has applied the principles relating to Directors' remuneration. The Company's remuneration policy was approved by shareholders at the AGM in 2014 and again in 2017, in accordance with section 439A of the Act. The policy will remain in place until 2020, unless amended by way of an ordinary resolution put to shareholders at a general meeting.

The Company's Auditors are required to report on certain information contained within this report; where information set out below has been audited, it is indicated as such.

All Directors are non-executive and the Company has no chief executive officer or employees; as such some of the reporting requirements contained in the Regulations are not applicable and have not been reported on, including the requirement for a future policy table and an illustrative representation of the level of remuneration that could be received by each individual Director. It is believed that all relevant information is disclosed within this report in an appropriate format.

The Board as a whole considers the Directors' remuneration in line with the Remuneration Policy; no separate Remuneration Committee has been established. The Board has not been provided with advice or services by any person in respect of its consideration of the Directors' remuneration (although the Directors review annually the fees paid to the boards of directors of other comparable investment trust companies).

## Remuneration Policy

Directors are remunerated in the form of fees, payable quarterly in arrears, to the Director personally. The Company's policy is that the fees should reflect the time spent on the Company's affairs and the responsibilities borne by the Directors and be sufficient to promote the long-term success of the Company. The Chairman of the Board is paid a higher fee in recognition of his additional responsibilities, as is the Chair of the Audit Committee. The policy is to review fee rates annually, although such review will not necessarily result in any change to the rates, and account is taken of fees paid to directors of other investment trust companies.

No Director has a service contract with the Company. There are no set notice periods, a Director may resign by notice in writing to the Board at any time and no compensation is payable for loss of office. No Director is eligible to receive bonuses, pension benefits, share options or other benefits and no long-term incentive schemes are in place.

This policy is unchanged and will remain in place until the Annual General Meeting in 2020, unless it is amended by way of ordinary resolution put to shareholders in a General Meeting. The Board may amend the level of remuneration paid to individual Directors within the parameters of the Remuneration Policy.

## Annual Statement

As Chairman, Philip Remnant reports that the Directors' fees were increased with effect from 1 January 2018. The increases were made after consideration of the fees paid to other investment trusts in the peer group, other sectors and the Janus Henderson managed investment trusts. These increases were to ensure that the Directors are properly remunerated for their services to the Company and so that the Company can remain competitive when seeking new directors. There have been no other major decisions on Directors' remuneration or any other changes to the remuneration paid to each individual Director in the year under review.

## Annual Report on Remuneration

### Directors' interests in shares (audited)

| | Ordinary shares of 25p | |
|---|---|---|
| **Beneficial:** | **30 June 2018** | **1 July 2017** |
| Simon Barratt | 21,627 | 21,627 |
| David Brief[1] | n/a | 9,985 |
| Ted Holmes[2] | 0 | n/a |
| Martin Morgan | 23,900 | 23,900 |
| Philip Remnant | 73,210 | 73,210 |
| Samantha Wren | 4,000 | 4,000 |

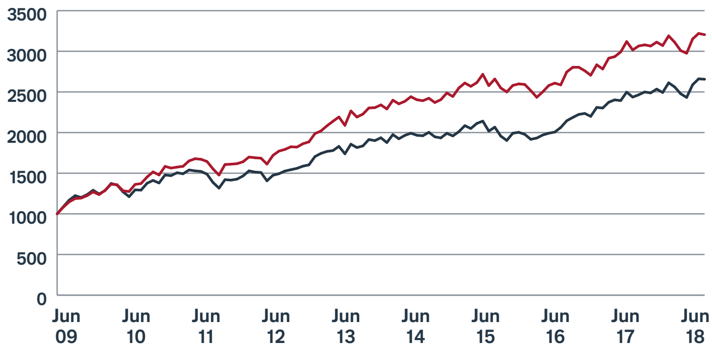
1 Ceased to be a Director on 5 April 2018
2 Appointed a Director on 1 January 2018

The interests of the Directors in the ordinary shares of the Company at the beginning and end of the financial year are shown in the preceding table. There have been no changes to any of the Directors' holdings in the period 1 July 2018 to the date of this report.

No Director has any interests in the preference or preferred stock of the Company.

### Performance

The Directors' Remuneration Report regulations require the Company to measure its performance against a "broad equity market index" on a total return basis. Therefore, the Company is not permitted to measure performance against its benchmark, the AIC UK Equity Income sector. In this report the FTSE All-Share Index has been selected as the most appropriate market index for the Company's portfolio.




City of London share price total return, assuming the investment of £1,000 on 30 June 2009 and the reinvestment of all dividends (excluding dealing expenses)

FTSE All-Share Index total return, assuming the notional investment of £1,000 on 30 June 2009 and the reinvestment of all income (excluding dealing expenses)

Sources: Morningstar for the AIC and Datastream

# Directors' Remuneration Report (continued)

## Directors' Remuneration (audited)

The remuneration paid to the Directors who served during the year ended 30 June 2018 and 30 June 2017 was as follows:

| | Year ended 30 June 2018 Total salary and fees £ | Year ended 30 June 2017 Total salary and fees £ | Year ended 30 June 2018 Total expenses and taxable benefits £ | Year ended 30 June 2017 Total expenses and taxable benefits £ | Year ended 30 June 2018 Total £ | Year ended 30 June 2017 Total £ |
|---|---|---|---|---|---|---|
| Simon Barratt | 27,950 | 27,325 | – | – | 27,950 | 27,325 |
| David Brief[3] | 21,264 | 27,325 | 355 | – | 21,619 | 27,325 |
| Richard Hextall[4] | – | 10,093 | – | – | – | 10,093 |
| Ted Holmes[5] | 14,150 | – | 827 | – | 14,977 | – |
| Martin Morgan | 27,950 | 27,325 | – | – | 27,950 | 27,325 |
| Philip Remnant[1] | 44,550 | 42,808 | – | – | 44,550 | 42,808 |
| Samantha Wren[2] | 33,412 | 32,038 | – | – | 33,412 | 32,038 |
| **Total** | **169,276** | **166,914** | **1,182** | **–** | **170,458** | **166,914** |

Notes:
The table above omits other columns set out in the relevant regulations because no payments of other types such as performance related pay and pension related payments were made

1 Chairman and highest paid Director
2 Chair of the Audit Committee
3 Ceased to be a Director on 5 April 2018
4 Ceased to be a Director on 27 October 2016
5 Appointed a Director on 1 January 2018

From 1 January 2018 the fees increased as follows (previous rates are shown in brackets): Chairman £45,100 (£44,000) per annum, Chair of the Audit Committee £33,825 (£33,000) per annum, and other Directors £28,300 (£27,600) per annum.

No other remuneration or compensation was paid or payable by the Company during the year to any of the current or former Directors or third parties.

## Relative importance of spend on pay

In order to show the relative importance of spend on pay, the table below sets out the total level of remuneration compared with the distributions to shareholders by way of dividends. There were no share buybacks during the year. There were no other significant distributions, payments or other uses of the Company's net return or cash flow deemed to assist in the understanding of the relative importance of spend on pay.

| | 2018 £ | 2017 £ | Change £ |
|---|---|---|---|
| Total remuneration | 170,458 | 166,914 | 3,544 |
| Ordinary dividends paid | 60,286,222 | 54,676,198 | 5,610,024 |

## Statement of Voting at Annual General Meeting ("AGM")

At the 2017 AGM 3,817,321 votes were received (98.5%) voting for the resolution seeking approval of the Directors' Remuneration Report, 27,773 (0.7%) were against, 30,435 (0.8%) were discretionary and 13,839 were withheld; the percentage of votes excludes votes withheld. In relation to the approval of the Company's remuneration policy, also approved at the October 2017 AGM, 3,820,918 votes (98.6%) were received voting for the resolution, 25,816 (0.7%) were against, 27,875 (0.7%) were discretionary and 14,758 were withheld.

For and on behalf of the Board

Philip Remnant CBE
Chairman
24 September 2018

# Corporate Governance Statement

The Corporate Governance Statement forms part of the Report of the Directors.

## Applicable Corporate Governance Codes

The Board is accountable to shareholders for the governance of the Company's affairs. As an investment trust, the Company's day-to-day responsibilities are delegated to third parties; the Company has no employees and the Directors are all non-executive. Therefore not all the provisions of the UK Corporate Governance Code (the "UK Code") issued by the Financial Reporting Council ("FRC") in April 2016 are directly applicable to the Company. The Board has therefore considered the principles and recommendations of the Code of Corporate Governance published by the Association of Investment Companies in July 2016 ("the AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("the AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the applicable principles set out in the UK Code as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The FRC has confirmed that, by following the AIC Guide, boards of investment companies should fully meet their obligations in relation to the UK Code and paragraph 9.8.6 of the Listing Rules.

Copies of the AIC Code, the AIC Guide and the UK Code can be found on the respective organisations' websites: **www.theaic.co.uk** and **www.frc.org.uk**.

The Board have noted the new UK Corporate Governance Code published in July 2018 which the Company will report against for the year ending 30 June 2020.

### New Zealand Listing

It should be noted that the UK Code of Corporate Governance may materially differ from the New Zealand Stock Exchange's corporate governance rules and principles of the Corporate Best Practice Code.

## Statement of Compliance

The Directors believe that the Company has complied with the recommendations of the AIC Code during the year under review and up to the date of this report, and thereby the provisions of the UK Code, except as set out below.

The UK Code includes provisions relating to:

- the role of chief executive
- executive directors' remuneration
- the need for an internal audit function

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers that these provisions are not relevant to the Company as it is an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive Directors, employees or internal operations.

## Directors

### Board Composition

The Articles of Association provide that the total number of Directors shall not be less than three nor more than seven; the Board currently consists of five non-executive Directors. All served throughout the year under review, with the exception of Ted Holmes who was appointed to the Board on 1 January 2018. The biographies of the Directors holding office at the date of this report, which are set out on page 16, demonstrate the breadth of investment, commercial and professional experience relevant to their positions as Directors.

### Directors' Appointment and Retirement

The Board may appoint Directors to the Board and any Director so appointed must stand for election by the shareholders at the AGM following appointment, in accordance with the Articles of Association.

All Directors are appointed for an initial term of three years.

The Articles of Association require one-third (or the number nearest to one-third) of the Directors to retire by rotation at each AGM. However, the UK Code and the AIC Code require all directors of FTSE 350 companies to retire annually. All the current Directors with the exception of Ted Holmes, will retire and, being eligible, have all stated that they will offer themselves for re-election. Ted Holmes will stand for election.

Under the Articles of Association, shareholders may remove a Director before the end of his or her term by passing an ordinary resolution at a general meeting.

### Board Independence

All Directors have a wide range of other interests and are not dependent on the Company itself. At the Nominations Committee meeting in July 2018, the Directors reviewed their independence and confirmed that all Directors remain wholly independent of Janus Henderson. Simon Barratt is the Company's Senior Independent Director. There were no contracts subsisting during or at the end of the year in which a Director of the Company is or was materially interested and which is or was significant in relation to the Company's business.

### Directors' Professional Development

When a new Director is appointed he or she receives an induction seminar which is held by Janus Henderson at the request of the Chairman. Directors are also provided on a regular basis with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise. Directors also regularly participate in relevant training and industry seminars. Directors' individual training requirements are considered as part of the annual evaluation process which is led by the Chairman of the Board.

# Corporate Governance Statement (continued)

### Directors' Insurance and Indemnification

Directors' and officers' liability insurance cover is in place in respect of the Directors. Under the Company's Articles of Association and subject to the provisions of UK legislation, a qualifying third party provision indemnity may be provided to Directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as Directors, in which they are acquitted or judgment is given in their favour by the Court. No indemnity was given during the year or up to the date of this report.

## The Board

### Responsibilities of the Board and its Committees

The Board's policy is for Directors to serve for no more than nine years, other than in exceptional circumstances. The Chairman is responsible for leading the Board and for ensuring that it continues to deal effectively with all the aspects of its role. He ensures that the Manager provides management, regulatory and financial information in a clear and timely manner. During the year seven Board meetings were held to deal with the important aspects of the Company's affairs. The Board has a formal schedule of matters specifically reserved for its decision, which include management, structure, capital, financial reporting, internal controls, gearing, asset allocation, share price premium/discount, contracts, investment policy, finance, risk, investment restrictions, performance, corporate governance and Board membership and appointments.

The Board is responsible for the approval of the annual and half year results and other public documents and for ensuring that such documents provide a fair, balanced and understandable assessment of the Company's position and prospects.

At each meeting the Board reviews the Company's investment performance and considers financial analyses and other reports of an operational nature. The Board monitors compliance with the Company's objective and is responsible for setting asset allocation, investment and gearing limits within which the Manager has discretion to act. The Board has responsibility for the approval of any investments in in-house funds managed or advised by the Manager. It also has adopted a procedure for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company. In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information.

The Board has two principal Committees: the Audit Committee and the Nominations Committee. The terms of reference for these Committees are available on the Company's website or via the Corporate Secretary. The Company also has an Insider Committee to deal with the obligations of the Market Abuse Regulation.

The Board has not formed a Management Engagement Committee as it remains the role of the Board as a whole to keep under review the terms of the management agreement between the Company and the Manager. A separate Remuneration Committee has not been established as the Board consists of only non-executive Directors and the Board as a whole considers the Directors' remuneration in line with the Remuneration Policy set out on page 28, which is subject to periodic shareholder approval.

## Audit Committee

The Audit Committee is chaired by Samantha Wren. The other members of the Committee are Simon Barratt and Ted Holmes. David Brief was a member of the Audit Committee until 5 April 2018 when he retired from the Board. The Report of the Audit Committee which forms part of the Corporate Governance Statement, can be found on pages 34 and 35.

## Nominations Committee

All Directors are members of the Nominations Committee. The Chairman of the Board acts as Chairman of the Committee but would not chair the Committee when the Chairman's successor was being considered. The Committee is responsible for reviewing Board succession planning, the performance of the Board as a whole and the Board Committees, and the appointment of new Directors. When considering succession planning, the Committee bears in mind the balance of skills, knowledge, experience and diversity including gender existing on the Board and will recommend when the recruitment of additional non-executive Directors is required. Given the size of the Board it is not considered appropriate to have set targets in relation to diversity. Once a decision is made to recruit additional Directors to the Board, a formal job description is drawn up and each Director is invited to submit nominations and these are considered in accordance with the Board's agreed procedures. The Committee uses external agencies as and when the requirement to recruit an additional Board member becomes necessary. Nurole Limited were used for the recruitment of Ted Holmes. The Committee also reviews and recommends to the Board the Directors seeking re-election. Recommendation is not automatic and will follow a process of evaluation of each Director's performance and consideration of the Director's independence. The Committee also takes into account the mix of skills and experience of the current Board members. In accordance with the AIC Code any Director serving for longer than six years would be subject to particularly rigorous assessment of his/her contribution.

### Performance Evaluation

The Directors recognise the importance of the AIC Code's recommendation in respect of evaluating the performance of the Board as a whole, the Committees and individual Directors. During the year, the Directors undertook a review of the Board structure, including an evaluation of the performance of the Board, the Committees and of individual Directors. The appraisal of the Chairman was led by Simon Barratt. This year the review was undertaken internally using a questionnaire approach. The evaluation concluded that the Board has a good balance of skills and experience and that the Board and its Committees continue to operate effectively. The evaluation of the Chairman concluded that he continues to provide excellent leadership.

As a FTSE 350 company, the Company is obliged to engage an external facilitator for Board evaluation every three years. In 2013 and 2016 Lintstock Limited, who are unconnected to the Company, facilitated the external review; the next external review will be in 2019.

# Corporate Governance Statement (continued)

### Board Attendance

The table below sets out the number of formal Board and Committee meetings held during the year under review and the number of meetings attended by each Director. All Directors attended the AGM in October 2017 except Ted Holmes who was appointed to the Board on 1 January 2018.

| | Board | Audit Committee | Nominations Committee |
|---|---|---|---|
| **Number of meetings** | **7** | **3** | **1** |
| Simon Barratt | 6/7 | 3/3 | 0/1 |
| David Brief[1] | 6/6 | 2/2 | 1/1 |
| Ted Holmes[2] | 3/3 | 2/2 | n/a |
| Martin Morgan | 7/7 | n/a | 1/1 |
| Philip Remnant | 7/7 | n/a | 1/1 |
| Samantha Wren | 7/7 | 3/3 | 1/1 |

1 Ceased to be a Director on 5 April 2018
2 Appointed a Director on 1 January 2018

All Directors attended 100% of Board and Committee meetings of which they were members, with the exception of Simon Barratt who was unable to attend meetings of the Board and Nomination Committee held in July 2017.

## Internal controls

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness. The Board has established an ongoing process for identifying, evaluating and managing the principal risks faced by the Company. The process accords with the FRC's guidance on Risk Management, Internal Control and Related Business and Financial Reporting published in September 2014. The system was in operation throughout the period and up to the date of this report. The system is designed to meet the specific risks faced by the Company and takes account of the nature of the Company's reliance on its service providers and their internal controls. The system therefore manages rather than eliminates the risk of failure to achieve the Company's business objectives and provides reasonable, but not absolute assurance against material misstatement or loss.

The key components of the internal control framework include:

- Clearly defined investment criteria, specifying levels of authority and exposure limits. The Board reviews reports on investment performance against and compliance with the criteria at each meeting;
- Regular financial reporting which allows the Board to assess the Company's financial position. The management accounts and forecasts are reviewed by the Board at each meeting;
- Contractual agreements with the Manager and all other third party service providers. The Board reviews performance levels and adherence to relevant provisions in the agreements on a regular basis through reporting to the Board and conducts a formal evaluation of the overall level of service provided at least annually;
- The review of controls at the Manager and other third party service providers. The Board receives quarterly reporting from the Manager and Depositary, and reviews annual assurance reports on the effectiveness of the control environments at the Company's key service providers; and
- Review of additional reporting provided by:
  - the Manager's Operational Risk team on the control environment in operation at the Manager and their view of the control environments in place at the third party service providers used by the Company; and
  - the Manager's Internal Audit team on areas of operation which are relevant to the Company.

The Board noted that the audit report of one of the Company's third party service providers which covered controls during the reporting period was qualified. The Board is aware that the Audit Committee has sought additional clarification in respect of the exceptions which resulted in the qualification and is satisfied that the matter has been considered in sufficient detail. The Board has reviewed the effectiveness of the Company's system of internal controls for the period ended 30 June 2018. During the course of its review the Board has not identified or been advised of any failings or weaknesses that have been determined as significant.

## Internal Audit Function

Systems are in operation to safeguard the Company's assets and shareholders' investments, to maintain proper accounting records and to ensure that financial information used within the business, or published, is reliable. The Company's management functions are delegated to third parties and the Board monitors the controls in place with support from the Manager's internal audit department. As such the Board has determined that there is currently no need for the Company to have its own internal audit function. The Board will continue to review this on an annual basis.

## Accountability and Relationship with Janus Henderson

The Statement of Directors' Responsibilities in respect of the financial statements is set out on page 27, the Independent Auditors' Report on pages 36 to 41 and the viability statement on page 19.

The Board has delegated contractually to external third parties, including the Manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets which is delegated through the appointment of the Depositary as explained on page 22), the day-to-day accounting, company secretarial and administration requirements and registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company.

The Board receives and considers regular reports from the Manager and ad hoc reports and information are supplied to the Board as required. In addition, the Chairman is able to attend meetings of all the chairmen of the investment trust companies managed by Janus Henderson which provide a forum to discuss industry matters which would then be reported to the Board.

# Corporate Governance Statement (continued)

The Manager takes decisions as to the purchase and sale of individual investments. The Manager also ensures that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the Manager attend each Board meeting enabling the Directors to probe further on matters of concern. The Directors have access to the advice and services of the Corporate Secretary through its appointed representative who is responsible to the Board for ensuring that Board and Committee procedures are followed and that applicable rules and regulations are complied with. The proceedings at all Board and Committee meetings are fully recorded through a process that allows any Director's concerns to be recorded in the minutes. The Board and the Manager operate in a supportive, co-operative and open environment.

The Corporate Secretary, Henderson Secretarial Services Limited, is a subsidiary of Janus Henderson with its own reporting lines and audited internal controls. There are processes and controls in place to ensure that there is a clear distinction between the two entities, particularly when dealing with any conflicts or issues between the Company and Janus Henderson. Any correspondence from shareholders addressed to the Chairman or the Company received at Janus Henderson's offices is forwarded to the Chairman of the Company in line with the audited procedures in place. Any correspondence is submitted to the next Board meeting.

Janus Henderson and BNP Paribas Securities Services, which acts for Janus Henderson, have arrangements in place by which their staff may, in confidence, raise concerns about possible improprieties in relation to financial reporting or other matters.

### Bribery Act 2010

The Board has reviewed the implications of the Bribery Act 2010, which came into force on 1 July 2011, and confirmed its zero tolerance to bribery and corruption in its business activities. It has received assurances from the Company's main contractors and suppliers that they will maintain adequate safeguards to protect against any potentially illegal behaviour by their employees and agents.

### Criminal Finances Act 2017

The Board has also considered the changes made by the Criminal Finances Act 2017, which came into effect in September 2017, which introduced a new corporate criminal offence of failing to take reasonable steps to prevent the facilitation of tax evasion. The Company has received assurances from the Company's main contractors and suppliers that they maintain a zero tolerance policy towards the provision of illegal services, including the facilitation of tax evasion.

## Continued Appointment of Janus Henderson

The Board considers the arrangements for the provision of investment management and other services to the Company on an ongoing basis. The principal contents of the agreement with the Manager are contained on page 4.

The Board reviews investment performance at each Board meeting and a formal review of the Manager is conducted annually. As part of the annual review in July 2018 the Directors discussed the quality and continuity of the personnel assigned to handle the Company's affairs, with particular reference to performance and results achieved to date. In addition, they reviewed other services provided by the Manager to the Company, such as accounting, company secretarial and administration services, and the Manager's promotion of investment and savings products linked to the Company's shares. The Board noted the Manager's resources and experience in managing and administering investment trust companies. As a result of their annual review, it is the opinion of the Directors that the continued appointment of the Manager on the terms agreed is in the interests of the Company's shareholders as a whole.

## Share Capital

Please see the Report of the Directors on page 25.

## Relations with Shareholders

Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with its shareholders is through the half year results and Annual Report which aim to provide shareholders with a clear understanding of the Company's activities and their results. This information is supplemented by the daily calculation and publication of the NAV per share at the London and New Zealand Stock Exchanges and a monthly fact sheet which is available on the website. The Manager also provides information on the Company and Fund Manager videos are on the website, via various social media channels and through its HGi content platform, more details of which are on page 17.

The Board considers that shareholders should be encouraged to attend and participate in the AGM, which will be available to watch live by visiting **www.janushenderson.com/trustslive**. Shareholders have the opportunity to address questions to the Chairman of the Board, the Chair of the Audit Committee and all other Directors at the meeting and the Fund Manager will make a presentation to shareholders. A summary of the proxy votes received on the resolutions proposed is displayed at the meeting and each substantial issue is dealt with in a separate resolution. It is the intention of the Board that the Annual Report and Notice of AGM be issued to shareholders so as to provide at least 20 working days' notice of the meeting. These documents are also included on the website. Shareholders wishing to lodge questions in advance of the meeting, or raise issues or concerns at any time, are invited to do so by writing to the Chairman at the address given on page 17.

General presentations to both shareholders and analysts follow the publication of the annual results. All meetings between the Manager and shareholders are reported to the Board.

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
24 September 2018

# Report of the Audit Committee

The Audit Committee is chaired by Samantha Wren who is a Chartered Management Accountant. The other members of the Committee are Simon Barratt and Ted Holmes.

## Meetings

The Committee met three times during the year under review. The Company's Auditors are invited to attend meetings of the Committee on a regular basis. Representatives of the Manager and BNP Paribas Securities Services may also be invited to attend if deemed necessary.

## Role and Responsibilities

The role of the Committee is to assist the Board in applying financial reporting and internal control principles and to maintain an appropriate relationship with the Auditors. The Audit Committee formally reports to the Board. The Committee's responsibilities are set out in formal terms of reference which are reviewed at least annually.

In the year under review the main duties undertaken were:

- consideration of the appropriateness of the Company's accounting policies and of the quality and effectiveness of the accounting records and management information maintained on behalf of the Company;
- a review of the half year results and the annual report, including the disclosures made therein in relation to internal controls and risk management, viability, going concern and related parties and consideration of whether the report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy in order to make recommendations to the Board;
- consideration of the internal controls in place at Janus Henderson, BNP Paribas Securities Services as administrator, and HSBC as Depositary and Custodian;
- consideration of whether there is a need for an internal audit function in order to make a recommendation to the Board;
- consideration of the Company's anti-bribery policy;
- consideration of the whistle blowing policy that Janus Henderson has put in place for its staff to raise concerns about possible improprieties, including in relation to the Company, in confidence. The policy includes the necessary arrangements for independent investigation and follow up action;
- consideration of Janus Henderson's policies in relation to cyber risk and business continuity, meeting with representatives of Janus Henderson's internal audit and risk departments periodically;
- consideration of the annual confirmation from the Company's Depositary;
- consideration of the key risks, risk management systems in place and the Company's risk map;
- consideration of the appointment of the Auditors, the Auditors' performance and remuneration; and
- consideration of the nature and scope of the external audit (and the findings therefrom), the Auditors' independence and objectivity and the effectiveness of the audit process.

## Policy on Non-Audit Services

The Audit Committee's policy is that the external Auditors will not be engaged to provide non-audit services to the Company. There may however be situations where a non-audit service is required to be carried out which is relevant to the annual audit, where legislation requires the external Auditors to carry out this service or where it is clearly more efficient for the Auditors to do so. The Audit Committee will assess and approve such services on a case-by-case basis by considering them against the criteria set out in the FRC's Revised Ethical Standard 2016 and the FRC's Guidance on Audit Committees. In any event, the external Auditors will not be engaged to provide any non-audit services which are prohibited by the FRC's Revised Ethical Standard 2016. There were no non-audit services provided during the year.

## Audit Tendering

As a Public Interest Entity listed on the London Stock Exchange, the Company is subject to the mandatory auditor rotation requirements of the European Union. The Company will put the external audit out to tender at least every ten years, and change auditors at least every twenty years. This legislation will require the Company to put the audit out to tender for the 2025 year end. The Committee will, however, continue to consider annually the need to go to tender for audit quality or independence reasons.

PricewaterhouseCoopers LLP have been the Company's Auditors since 2009. During the financial year ended 30 June 2014 the Company tendered its audit. The tender was conducted on an integrated basis with the Manager and, upon consideration of the tenders received, the Board decided to reappoint PricewaterhouseCoopers LLP.

## External Audit, Review and Auditors Reappointment

The Committee discusses the audit process with the Auditors without representatives of the Manager present and consider the effectiveness of the audit process after each audit. The Audit Committee remains satisfied with the effectiveness of the audit provided by PricewaterhouseCoopers LLP. The Committee is satisfied that the Auditors are independent of the Company. The Auditors are required to rotate partners every five years and this is the fifth year that the current partner has been in place.

PricewaterhouseCoopers LLP have indicated their willingness to continue in office. Accordingly, resolutions to confirm the appointment of PricewaterhouseCoopers LLP as Auditors to the Company, and to authorise the Audit Committee to determine their remuneration, will be proposed at the AGM.

Fees paid or payable to the Auditors are detailed in Note 6 on page 49.

# Report of the Audit Committee (continued)

## Audit for the year ended 30 June 2018

In relation to the Annual Report for the year ended 30 June 2018 the following significant issues were considered by the Committee:

| Significant issue | How the issue was addressed |
|---|---|
| **Valuation and ownership of the Company's investments** | The Directors have appointed the Manager, who outsources some of the administration and accounting services to BNP Paribas Securities Services, to perform the valuation of the assets of the Company in accordance with its responsibilities under the AIFMD rules. As required under the AIFMD rules, the Manager has adopted a written valuation policy, which may be modified from time to time. Actively traded investments are valued using stock exchange prices provided by third party pricing vendors. Ownership of listed investments are verified by reconciliation to the Custodian's records and the Directors have received quarterly reports of the Depositary who has responsibility for overseeing operations of the Company, including verification of ownership and valuation. |
| **Recognition of income** | Income received, including special dividends, is accounted for in line with the Company's accounting policy (as set out on pages 45 to 47). Special dividends, and their treatment as revenue or capital, have been reviewed by the Committee and agreed. |

The Committee is satisfied that the Annual Report for the year ended 30 June 2018, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Samantha Wren
Chair of the Audit Committee
24 September 2018

# Independent Auditors’ Report to the Members of The City of London Investment Trust plc

## Report on the audit of the financial statements

### Opinion

In our opinion, The City of London Investment Trust plc’s financial statements:

- give a true and fair view of the state of the Company’s affairs as at 30 June 2018 and of its return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”, and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Statement of Financial Position as at 30 June 2018; the Income Statement and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors’ responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC’s Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC’s Ethical Standard were not provided to the Company.

We have provided no non-audit services to the Company in the period from 1 July 2017 to 30 June 2018.

### Our audit approach

#### Overview


- Overall materiality: £15.2 million (2017: £14.3 million), based on 1% of net assets.

- The Company is a standalone Investment Trust Company and engages Henderson Investment Funds Limited (the “Manager”) to manage its assets.
- We conducted our audit of the financial statements using information from BNP Paribas Securities Services (the “Administrator”) to whom the Manager has, with the consent of the Directors, delegated the provision of certain administrative functions.
- We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.

- Valuation and existence of investments.
- Dividend income.

# Independent Auditors' Report to the Members of The City of London Investment Trust plc (continued)

## The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Company's financial statements, including, but not limited to, the Companies Act 2006 and section 1158 of the Corporation Tax Act 2010. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, enquiries with those charged with governance and testing the Company's compliance with section 1158 in the current year. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

## Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation and existence of investments**<br>Refer to page 35 (Report of the Audit Committee), page 45 (Accounting Policies) and page 48 (Notes).<br><br>The investment portfolio at the year-end principally comprised listed equity investments valued at £1,638 million.<br><br>We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Statement of Financial Position in the financial statements. | We tested the valuation of the listed equity investments by agreeing the prices used in the valuation to independent third party sources.<br><br>We tested existence by agreeing the listed equity investments to an independent custodian confirmation from HSBC Bank plc.<br><br>No material differences were identified which required reporting to those charged with governance. |

# Independent Auditors' Report to the Members of The City of London Investment Trust plc (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Dividend income**<br>Refer to page 35 (Report of the Audit Committee), page 45 (Accounting Policies) and page 48 (Notes).<br><br>We focused on the accuracy, completeness and occurrence of dividend income recognition and its presentation in the Statement of Comprehensive Income as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the "AIC SORP"). This is because incomplete or inaccurate income could have a material impact on the Company's net asset value. | We assessed the accounting policy for dividend income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that dividend income had been accounted for in accordance with this stated accounting policy. We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income has been accounted for in accordance with the stated accounting policy.<br><br>We tested dividend receipts by agreeing the dividend rates from listed equity investments to independent third party sources.<br><br>We also tested for listed equity investments, that dividends recorded had been declared in the market, and that dividends declared in the market had been recorded.<br><br>We tested occurrence by tracing a sample of dividends received to bank statements.<br><br>We tested the allocation and presentation of dividend income between the revenue and capital return columns of the Statement of Comprehensive Income in line with the requirements set out in the AIC SORP.<br><br>We tested the validity of special dividends to independent third party sources.<br><br>No material misstatements were identified by our testing which required reporting to those charged with governance. |

## How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "key audit matters" in the table above. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

## Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| **Overall materiality** | £15.2 million (2017: £14.3 million). |
| **How we determined it** | 1% of net assets. |
| **Rationale for benchmark applied** | We have applied this benchmark, a generally accepted auditing practice for investment trust audits. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £760,000 (2017: £714,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

# Independent Auditors' Report to the Members of The City of London Investment Trust plc (continued)

## Going concern

In accordance with ISAs (UK) we report as follows:

| Reporting obligation | Outcome |
|---|---|
| We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements. | We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. |
| We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit. | We have nothing to report. |

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

### Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 30 June 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors. (CA06)

### The Directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 19 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 18 of the Annual Report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

# Independent Auditors' Report to the Members of The City of London Investment Trust plc (continued)

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Company and statement in relation to the longer-term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Company and its environment obtained in the course of the audit. (Listing Rules)

### Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 27, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 34 and 35 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

### Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

## Responsibilities for the financial statements and the audit

### Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 27, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### Auditors' responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

### Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

# Independent Auditors' Report to the Members of The City of London Investment Trust plc (continued)

## Other required reporting

### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- The financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the Audit Committee, we were appointed in 2009 to audit the financial statements for the year ended 30 June 2009 and subsequent financial periods. The period of total uninterrupted engagement is 10 years, covering the years ended 30 June 2009 to 30 June 2018.

Jeremy Jensen (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 September 2018

# Income Statement

| | | Year ended 30 June 2018 | | | Year ended 30 June 2017 | | |
|---|---|---|---|---|---|---|---|
| Notes | | Revenue return £'000 | Capital return £'000 | Total return £'000 | Revenue return £'000 | Capital return £'000 | Total return £'000 |
| 2 | Gains on investments held at fair value through profit or loss | – | 31,889 | 31,889 | – | 132,750 | 132,750 |
| 3 | Income from investments held at fair value through profit or loss | 69,976 | – | 69,976 | 64,172 | – | 64,172 |
| 4 | Other interest receivable and similar income | 254 | – | 254 | 254 | – | 254 |
| | **Gross revenue and capital gains** | **70,230** | **31,889** | **102,119** | **64,426** | **132,750** | **197,176** |
| 5 | Management fees | (1,570) | (3,664) | (5,234) | (1,484) | (3,462) | (4,946) |
| 6 | Other administrative expenses | (708) | – | (708) | (688) | – | (688) |
| | **Net return before finance costs and taxation** | **67,952** | **28,225** | **96,177** | **62,254** | **129,288** | **191,542** |
| 7 | Finance costs | (2,037) | (4,385) | (6,422) | (1,794) | (3,819) | (5,613) |
| | **Net return before taxation** | **65,915** | **23,840** | **89,755** | **60,460** | **125,469** | **185,929** |
| 8 | Taxation | (1,236) | – | (1,236) | (1,042) | – | (1,042) |
| | **Net return after taxation** | **64,679** | **23,840** | **88,519** | **59,418** | **125,469** | **184,887** |
| 9 | Return per ordinary share basic and diluted | 18.69p | 6.89p | 25.58p | 17.83p | 37.64p | 55.47p |

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.

The notes on pages 45 to 60 form part of these financial statements.

# Statement of Changes in Equity

| Notes | 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 |
| 17, 18 | Issue of 15,000,000 new ordinary shares | 3,750 | 58,948 | – | – | – | 62,698 |
| 10 | Dividends paid | – | – | – | – | (60,142) | (60,142) |
| | **At 30 June 2018** | **88,603** | **520,701** | **2,707** | **855,851** | **53,135** | **1,520,997** |
| **Notes** | **Year ended 30 June 2017** | **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 2016 | 81,290 | 408,191 | 2,707 | 706,542 | 43,856 | 1,242,586 |
| | Net return after taxation | – | – | – | 125,469 | 59,418 | 184,887 |
| 17, 18 | Issue of 14,250,000 new ordinary shares | 3,563 | 53,562 | – | – | – | 57,125 |
| 10 | Dividends paid | – | – | – | – | (54,676) | (54,676) |
| | **At 30 June 2017** | **84,853** | **461,753** | **2,707** | **832,011** | **48,598** | **1,429,922** |

The notes on pages 45 to 60 form part of these financial statements.

# Statement of Financial Position

| Notes | | 30 June 2018 £'000 | 30 June 2017 £'000 |
|---|---|---|---|
| | **Fixed assets** | | |
| 11 | **Investments held at fair value through profit or loss** | | |
| | Listed at market value in the United Kingdom | 1,454,876 | 1,335,266 |
| | Listed at market value overseas | 183,031 | 173,413 |
| 12 | Investment in subsidiary undertakings | 347 | 347 |
| | | **1,638,254** | **1,509,026** |
| | **Current assets** | | |
| 13 | Debtors | 14,493 | 12,309 |
| | Cash at bank | 68 | – |
| | | **14,561** | **12,309** |
| 14 | **Creditors:** amounts falling due within one year | (6,105) | (15,381) |
| | **Net current assets/(liabilities)** | 8,456 | (3,072) |
| | **Total assets less current liabilities** | **1,646,710** | **1,505,954** |
| 15 | **Creditors:** amounts falling due after more than one year | (125,713) | (76,032) |
| | **Net assets** | **1,520,997** | **1,429,922** |
| | **Capital and reserves** | | |
| 17 | Called up share capital | 88,603 | 84,853 |
| 18 | Share premium account | 520,701 | 461,753 |
| 19 | Capital redemption reserve | 2,707 | 2,707 |
| 19 | Other capital reserves | 855,851 | 832,011 |
| 20 | Revenue reserve | 53,135 | 48,598 |
| **21** | **Total shareholders' funds** | **1,520,997** | **1,429,922** |
| 21 | Net asset value per ordinary share - basic and diluted | 429.16p | 421.30p |

The financial statements on pages 42 to 60 were approved by the Board of Directors on 24 September 2018 and signed on its behalf by:

Philip Remnant CBE
Chairman

The notes on pages 45 to 60 form part of these financial statements.

# Notes to the Financial Statements

## 1 Accounting policies

### a) 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 on page 17.

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 (which is effective for periods commencing on or after 1 January 2015), 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.

### b) 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.

### c) Valuation of investments held at fair value through profit or loss

Listed investments are valued at fair value which is deemed to be bid market prices or the last traded price depending on the convention of the exchange on which the investment is quoted.

The only unquoted investments are the Company's subsidiaries which are valued at the net asset value according to their latest financial statements and this is considered to be fair value.

Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Income Statement as "Gains/(losses) on investments held at fair value through profit or loss". Transaction costs incurred on the purchase and disposal of investments are recognised as a capital item in the Income Statement. All purchases and sales are accounted for on a trade date basis.

### d) Foreign currency

The results and financial position of the Company are expressed in pounds sterling, which is the functional currency and presentational currency of the Company. Sterling is the functional currency because it is the currency of the primary economic environment in which the Company operates.

# Notes to the Financial Statements (continued)

## 1 Accounting policies (continued)

### d) Foreign currency (continued)
Transactions recorded in overseas currencies during the year are translated into sterling at the appropriate daily exchange rates. Assets and liabilities denominated in overseas currencies at the Statement of Financial Position date are translated into sterling at the exchange rates ruling at that date.

Any gains or losses on the translation of foreign currency balances, whether realised or unrealised, are taken to the capital or to the revenue return of the Income Statement, depending on whether the gain or loss is of a capital or revenue nature.

### e) Income
Dividends receivable from equity shares are taken to the revenue return on an ex-dividend basis except where, in the opinion of Directors, the dividend is capital in nature in which case it is taken to the capital return. Bank interest and stock lending revenue are accounted for on an accruals basis.

The ordinary element of scrip dividends received in lieu of cash dividends is recognised as revenue. Any enhancement above the cash dividend is treated as capital.

Where the Company enters into a commitment to underwrite an issue of securities in exchange for the receipt of commission, this creates a derivative financial instrument. Any such derivatives are recognised initially at fair value and are subsequently re-measured at fair value, with the related gains and losses being reflected in the Income Statement. Net losses arising from derivatives, where the actual or expected loss from taking up the securities underwritten exceeds the commission income, are allocated to the capital return. Net gains are allocated to the revenue return.

Fees earned from stock lending are accounted for on an accruals basis and shown in the revenue return based on amounts to which the Company is entitled. This is after deduction of amounts withheld by the counterparty arranging the stock lending facility. The stock lending accounting policy is set out in note 16.

The accounting for option premium income is dealt with on page 47, under 'Derivative financial instruments'.

### f) Management and administrative expenses and finance costs
All expenses and finance costs are accounted for on an accruals basis. In accordance with the Board's expectation, over the long term, that investment returns will be attributable 70% to capital and 30% to revenue, the Company charges to capital 70% of the finance costs (excluding dividends payable on the preference and preferred ordinary stocks) and management fees with the remaining 30% being charged to revenue.

### g) Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using the effective tax rate of corporation tax for the accounting period.

The tax effect of different items of expenditure is allocated between the capital return and revenue return using the Company's effective rate of tax for the year. In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Income Statement is the "marginal basis". Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Income Statement, then no tax relief is transferred to the capital return column.

Deferred taxation is provided on all timing differences that have originated but not reversed by the Statement of Financial Position date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of timing differences can be deducted. Any liability to deferred tax is provided at the average rate of tax expected to apply based on tax rates and laws that have been enacted or substantially enacted at the Statement of Financial Position date. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

### h) Borrowings
Overdrafts, debentures and secured notes are recorded initially at fair value, being the proceeds received, net of direct issue costs. They are subsequently measured at amortised cost. Finance costs, including interest payable, premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Income Statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

# Notes to the Financial Statements (continued)

## 1 Accounting policies (continued)

### i) Preference stocks
Under section 22.5 of FRS 102 preference and preferred ordinary stocks are classified as financial liabilities. The dividends associated with the preference and preferred ordinary stocks are charged fully to the Company's revenue return within finance costs.

### j) Dividends payable to shareholders
Dividends payable to shareholders are recognised in the financial statements when they are paid, or in the case of final dividends, when they are approved by shareholders. Dividends are dealt with in the Statement of Changes in Equity.

### k) Issue and repurchase of ordinary shares and associated costs
The proceeds from the issue of new ordinary shares (including those relating to the sale of shares out of treasury) and the aggregate cost of repurchasing ordinary shares (including those to be held in treasury) are taken directly to equity and dealt with in the Statement of Changes in Equity. Issue costs incurred in respect of shares sold out of treasury are offset against proceeds received and dealt with in other capital reserves. Share issues and repurchase transactions are accounted for on a trade date basis.

### l) Capital and reserves
Called up share capital represents the nominal value of ordinary shares issued.

The share premium account represents the premium above nominal value received by the Company on issuing shares net of issue costs.

The revenue reserve represents accumulated revenue profits retained by the Company that have not currently been distributed to shareholders as a dividend.

The capital redemption reserve represents the nominal value of ordinary shares, preference stock and preferred ordinary shares that have been repurchased and cancelled.

Other capital reserves are split into two components, the capital reserve arising on investments sold and the capital reserve arising on revaluation of investments held. The following analyses what is accounted for in each of these components.

**Capital reserve arising on investments sold**
The following are accounted for in this reserve:
- gains and losses on disposals of investments;
- expenses and finance costs allocated to capital net of tax relief;
- realised foreign exchange differences of a capital nature; and
- cost of repurchasing ordinary share capital.

**Capital reserve arising on revaluation of investments held**
The following are accounted for in this reserve:
- increases and decreases in the valuation of investments held at the year end; and
- unrealised foreign exchange differences of a capital nature.

### m) Distributable reserves
The Company's capital reserve arising on investments sold and revenue reserve may be distributed by way of a dividend.

### n) Derivative financial instruments
Derivative transactions which the Company may enter into comprise forward exchange contracts (the purpose of which is to hedge foreign currency exposure) and futures contracts on indices appropriate to sections of the portfolio (one purpose for which may be to provide protection against falls in the capital values of the holdings). The Company may also write options on shares represented in the portfolio where such options are priced attractively relative to Janus Henderson's expectations for the relevant share prices and to generate additional return for shareholders. The Company does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Company's policies as approved by the Board.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Income Statement as they arise. If capital in nature, the associated change in value is presented as a capital item in the Income Statement.

# Notes to the Financial Statements (continued)

## 1 Accounting policies (continued)

### n) Derivative financial instruments (continued)

Where options are written for the purpose of generating revenue, applicable premiums are recognised evenly over the life of the option and shown in the revenue return, with the appropriate amount shown as capital return such that the total return reflects the overall change in the fair value of the option. No options were transacted during the year nor held at 30 June 2018 (2017: none).

## 2 Gains on investments held at fair value through profit or loss

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Gains on the sale of investments based on historical cost | 25,857 | 29,149 |
| Revaluation gains recognised in previous years | (38,061) | (27,977) |
| **(Losses)/gains on investments sold in the year based on carrying value at the previous statement of financial position date** | **(12,204)** | **1,172** |
| Revaluation of investments held at 30 June | 44,199 | 131,642 |
| Exchange losses | (106) | (64) |
| **Total gains on investments held at fair value through profit or loss** | **31,889** | **132,750** |

## 3 Income from investments held at fair value through profit or loss

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| UK dividends: | | |
| Listed – ordinary dividends | 53,311 | 48,779 |
| Listed – special dividends | 2,559 | 2,801 |
| | **55,870** | **51,580** |
| Other dividends: | | |
| Dividend income – overseas investments | 11,670 | 10,244 |
| Dividend income – overseas investments - special dividends | – | 39 |
| Dividend income – UK REIT | 2,436 | 2,279 |
| Scrip dividends | – | 30 |
| | **14,106** | **12,592** |
| | **69,976** | **64,172** |

## 4 Other interest receivable and similar income

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Bank interest | 3 | – |
| Underwriting commission (allocated to revenue)[1] | 41 | 125 |
| Stock lending revenue | 210 | 129 |
| | **254** | **254** |

1 During the year the Company was not required to take up shares in respect of its underwriting commitments (2017: none)

At 30 June 2018, the total value of securities on loan by the Company for stock lending purposes was £101,360,000 (2017: £60,385,000). The maximum aggregate value of securities on loan at any one time during the year ended 30 June 2018 was £209,315,000 (2017: £138,097,000). The Company's agent holds collateral at 30 June 2018, with a value of £110,896,000 (2017: £79,120,000) 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 109% (2017:131%) of the market value of any securities on loan.

## 5 Management fees

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Revenue return £'000 | Capital return £'000 | Total return £'000 | Revenue return £'000 | Capital return £'000 | Total return £'000 |
| Management fee | 1,570 | 3,664 | 5,234 | 1,484 | 3,462 | 4,946 |

A summary of the terms of the Management Agreement is given on page 4. Details of apportionment between revenue and capital can be found in note 1 on page 46.

# Notes to the Financial Statements (continued)

## 6 Other administrative expenses

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Directors' fees and expenses (see Directors' Remuneration Report on page 29) | 170 | 167 |
| Auditors' remuneration - for statutory audit services | 30 | 30 |
| Marketing | 97 | 111 |
| Bank charges (loan facility fees) | 10 | 10 |
| Annual and Half Year reports | 53 | 52 |
| Registrar's fees | 85 | 94 |
| AIC | 21 | 21 |
| Listing fees | 91 | 85 |
| Advisory and consultancy fees | 34 | 9 |
| Depositary fees | 62 | 61 |
| Other expenses | 55 | 48 |
| | **708** | **688** |

All transactions with Directors are disclosed in the Directors' Remuneration Report and are related party transactions.

## 7 Finance costs

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Revenue return £'000 | Capital return £'000 | Total return £'000 | Revenue return £'000 | Capital return £'000 | Total return £'000 |
| Interest on debentures and secured notes repayable wholly or partly | | | | | | |
| – between one and five years | 1,073 | 2,502 | 3,575 | 1,073 | 2,502 | 3,575 |
| – after five years | 749 | 1,748 | 2,497 | 476 | 1,110 | 1,586 |
| Amortisation of secured notes issue costs | 12 | 27 | 39 | 9 | 22 | 31 |
| Bank overdraft interest | 46 | 108 | 154 | 79 | 185 | 264 |
| Dividends per share: | | | | | | |
| – Cumulative First Preference Stock | 18 | – | 18 | 18 | – | 18 |
| – Non-cumulative Second Preference Stock | 21 | – | 21 | 21 | – | 21 |
| – Non-cumulative Preferred Ordinary Stock | 118 | – | 118 | 118 | – | 118 |
| | **2,037** | **4,385** | **6,422** | **1,794** | **3,819** | **5,613** |

Details of apportionment between revenue return and capital return can be found in note 1 on page 46.

## 8 Taxation

### Analysis of tax charge for the year

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Revenue return £'000 | Capital return £'000 | Total return £'000 | Revenue return £'000 | Capital return £'000 | Total return £'000 |
| Overseas withholding tax | 1,688 | – | 1,688 | 1,449 | – | 1,449 |
| Less: overseas withholding tax recoverable | (452) | – | (452) | (407) | – | (407) |
| | **1,236** | **–** | **1,236** | **1,042** | **–** | **1,042** |

# Notes to the Financial Statements (continued)

## 8 Taxation (continued)

The Company's profit for the accounting year is taxed at an effective rate of 19% (2017: 19.75%). The tax charge for the year is lower than the corporation tax rate. The differences are explained below:

### Factors affecting the tax charge for the year

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Revenue return £'000 | Capital return £'000 | Total return £'000 | Revenue return £'000 | Capital return £'000 | Total return £'000 |
| Net return before taxation | 65,915 | 23,840 | 89,755 | 60,460 | 125,469 | 185,929 |
| Corporation tax at 19% (2017: 19.75%) | 12,524 | 4,530 | 17,054 | 11,941 | 24,780 | 36,721 |
| Effects of: | | | | | | |
| Non-taxable UK dividends | (10,615) | – | (10,615) | (10,193) | – | (10,193) |
| Non-taxable overseas dividends | (2,217) | – | (2,217) | (2,031) | – | (2,031) |
| Overseas tax suffered | 1,236 | – | 1,236 | 1,042 | – | 1,042 |
| Income taxable in different years | (45) | – | (45) | (24) | – | (24) |
| Expenses not deductible for tax purposes | 268 | 574 | 842 | 323 | 754 | 1,077 |
| Excess management expenses | 55 | 955 | 1,010 | (47) | 684 | 637 |
| Preference and preferred ordinary dividends not allowable for tax | 30 | – | 30 | 31 | – | 31 |
| Net capital gains not subject to tax | – | (6,059) | (6,059) | – | (26,218) | (26,218) |
| | **1,236** | **–** | **1,236** | **1,042** | **–** | **1,042** |

Investment trusts are exempt from corporation tax on capital gains provided that the Company complies with tests under Section 1158 of the Corporation Tax Act 2010.

### Deferred taxation

No provision for deferred taxation has been made in the current or prior accounting year. The Company has not provided for deferred tax on capital gains or losses arising on the revaluation and disposal of investments as it is exempt from tax on these items because of its investment trust status.

### Factors that may affect future tax charges

The Company has not recognised a deferred tax asset totalling £21,460,000 (2017: £20,595,000) arising as a result of having unutilised management expenses and unutilised non-trade loan relationship deficits. These expenses will only be utilised, to any material extent, if changes are made either to the tax treatment of the capital gains made by investment trusts or to the Company's investment profile which require them to be used.

## 9 Return per ordinary share – basic and diluted

The return per ordinary share is based on the net return attributable to the ordinary shares of £88,519,000 (2017: £184,887,000) and on 346,003,431 ordinary shares (2017: 333,324,047), being the weighted average number of ordinary shares in issue during the year.

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

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Net revenue return | 64,679 | 59,418 |
| Net capital return | 23,840 | 125,469 |
| **Net total return** | **88,519** | **184,887** |
| **Weighted average number of ordinary shares in issue during the year** | **346,003,431** | **333,324,047** |

| | 2018 Pence | 2017 Pence |
|---|---|---|
| Revenue return per ordinary share | 18.69 | 17.83 |
| Capital return per ordinary share | 6.89 | 37.64 |
| **Total return per ordinary share** | **25.58** | **55.47** |

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

# Notes to the Financial Statements (continued)

## 10 Dividends paid on ordinary shares

| | Record date | Payment date | 2018 £'000 | 2017 £'000 |
|---|---|---|---|---|
| Fourth interim dividend (4.05p) for the year ended 30 June 2016 | 29 July 2016 | 31 August 2016 | – | 13,177 |
| First interim dividend (4.05p) for the year ended 30 June 2017 | 21 October 2016 | 30 November 2016 | – | 13,354 |
| Second interim dividend (4.05p) for the year ended 30 June 2017 | 27 January 2017 | 28 February 2017 | – | 13,628 |
| Third interim dividend (4.30p) for the year ended 30 June 2017 | 28 April 2017 | 31 May 2017 | – | 14,517 |
| 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 | – |
| Unclaimed dividends over 12 years old | | | (144) | – |
| | | | **60,142** | **54,676** |

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.

The total dividends payable in respect of the financial year which form the basis of the test under Section 1158 of the Corporation Tax Act 2010 are set out below.

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Revenue available for distribution by way of dividend for the year | 64,679 | 59,418 |
| First interim dividend of 4.30p (2017: 4.05p) | (14,796) | (13,354) |
| Second interim dividend of 4.30p (2017: 4.05p) | (14,826) | (13,628) |
| Third interim dividend of 4.55p (2017: 4.30p) | (16,016) | (14,517) |
| Fourth interim dividend of 4.55p (2017: 4.30p) paid on 31 August 2018[1] | (16,175) | (14,648) |
| **Undistributed revenue for Section 1158 purposes[2]** | **2,866** | **3,271** |

1 Based on 355,484,868 ordinary shares in issue at 27 July 2018 (the ex-dividend date) (2017: 340,659,868)

2 The surplus of £2,866,000 (2017: surplus of £3,271,000) has been taken to the revenue reserve

## 11 Investments held at fair value through profit or loss

| | Investments in subsidiaries £'000 | Other investments £'000 | Total £'000 |
|---|---|---|---|
| 2018: | | | |
| Valuation at 1 July 2017 | 347 | 1,508,679 | 1,509,026 |
| Investment holding gains at 1 July 2017 | – | (507,641) | (507,641) |
| **Cost at 1 July 2017** | **347** | **1,001,038** | **1,001,385** |
| Additions at cost | – | 262,827 | 262,827 |
| Disposals at cost | – | (139,736) | (139,736) |
| **Cost at 30 June 2018** | **347** | **1,124,129** | **1,124,476** |
| Investment holding gains at 30 June 2018 | – | 513,778 | 513,778 |
| **Valuation at 30 June 2018** | **347** | **1,637,907** | **1,638,254** |

# Notes to the Financial Statements (continued)

## 11 Investments held at fair value through profit or loss (continued)

| | Investments in subsidiaries £'000 | Other investments £'000 | Total £'000 |
|---|---|---|---|
| 2017: | | | |
| Valuation at 1 July 2016 | 347 | 1,341,419 | 1,341,766 |
| Investment holding gains at 1 July 2016 | – | (403,975) | (403,975) |
| **Cost at 1 July 2016** | **347** | **937,444** | **937,791** |
| Additions at cost | – | 152,009 | 152,009 |
| Disposals at cost | – | (88,415) | (88,415) |
| **Cost at 30 June 2017** | **347** | **1,001,038** | **1,001,385** |
| Investment holding gains at 30 June 2017 | – | 507,641 | 507,641 |
| **Valuation at 30 June 2017** | **347** | **1,508,679** | **1,509,026** |

The portfolio valuation at 30 June 2018 of £1,637,907,000 (2017: £1,508,679,000) is shown on the Statement of Financial Position as investments held at fair value through profit or loss.

Purchase transaction costs for the year ended 30 June 2018 were £1,167,000 (2017: £732,000). These comprise mainly of stamp duty and commission. Sale transaction costs for the year ended 30 June 2018 were £75,000 (2017: £88,000).

## 12 Investments in subsidiary undertakings

The Company's related undertakings are its three wholly-owned subsidiary undertakings, all of which are registered in England and Wales: The City of London European Trust Limited, City of London Investments Limited and The City of London Finance Company Limited.

The financial statements of the three companies 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 values of the subsidiary undertakings are not less than the amounts at which they are included in the financial statements. The subsidiaries are maintained in order to protect the Company name.

- The City of London European Trust Limited was incorporated in 1899 as Patrick & McGregor Limited and is dormant, not having traded since 1968. Its registered office is 201 Bishopsgate, London, EC2M 3AE. The aggregate amount of the capital and reserves of The City of London European Trust Limited at 30 June 2018 was £347,000 (2017: £347,000). This Company has 10,000 issued ordinary shares of £1 each.

- City of London Investments Limited is a dormant company and has not traded since its incorporation in 1982. Its registered office is 201 Bishopsgate, London, EC2M 3AE. The aggregate amount of the capital and reserves of City of London Investments Limited at 30 June 2018 was £2 (2017: £2). This Company has two issued ordinary shares of £1 each.

- The City of London Finance Company Limited is a share dealing company and was dormant throughout the year. Its registered office is 201 Bishopsgate, London, EC2M 3AE. The aggregate amount of capital and reserves of The City of London Finance Company Limited at 30 June 2018 was £2 (2017: £2). This Company has two issued ordinary shares of £1 each.

## 13 Debtors

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Share issue proceeds receivable | 428 | 881 |
| Withholding and income tax recoverable | 986 | 681 |
| Sales for future settlement | 2,333 | 1,284 |
| Prepayments and accrued income | 10,746 | 9,463 |
| | **14,493** | **12,309** |

# Notes to the Financial Statements (continued)

## 14 Creditors: amounts falling due within one year

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Bank overdraft | – | 10,220 |
| Amounts owed to subsidiary undertakings | 347 | 347 |
| Purchases for future settlement | 2,052 | 1,254 |
| Dividends payable on preference and preferred ordinary stocks | 79 | 79 |
| Accruals and deferred income | 3,627 | 3,481 |
| | **6,105** | **15,381** |

The Company has an uncommitted overdraft facility of £120,000,000 at 30 June 2018 (2017: £120,000,000) provided by its custodian and has provided a floating charge over its assets in return. The overdraft may be withdrawn by the custodian at any time and is repayable on demand. Interest on the overdraft was payable at a rate of HSBC base rate plus 1.25% at 30 June 2018 (2017: plus 1.25%). Covenants relating inter alia to a maximum level of borrowings apply to the Company's borrowing facility. A breach of these covenants may result in any overdraft drawn down becoming repayable immediately.

## 15 Creditors: amounts falling due after more than one year

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| 10.25% debenture stock 2020 | 10,000 | 10,000 |
| 8.5% debenture stock 2021 | 30,000 | 30,000 |
| 4.53% secured notes 2029 | 34,663 | 34,633 |
| 2.94% secured notes 2049 | 49,651 | – |
| £301,982 (2017: £301,982) cumulative first preference stock | 302 | 302 |
| £507,202 (2017: £507,202) non-cumulative second preference stock | 507 | 507 |
| £589,672 (2017: £589,672) non-cumulative preferred stock | 590 | 590 |
| | **125,713** | **76,032** |

On 22 January 2014 the Company issued £35,000,000 (nominal) 4.53% secured notes due 2029, net of issue costs totalling £476,000. The issue costs will be amortised over the life of the secured notes.

On 17 November 2017 the Company issued £50,000,000 (nominal) 2.94% secured notes due 2049, net of issue costs totalling £360,000. The issue costs will be amortised over the life of the secured notes.

The repayment terms of the debenture stocks and secured notes are as follows:

- £10,000,000 10¼% debenture stock 2020 redeemable at par on 30 April 2020.
- £30,000,000 8½% debenture stock 2021 redeemable at par on 31 January 2021.
- £35,000,000 4.53% secured notes 2029 redeemable at par on 22 January 2029.
- £50,000,000 2.94% secured notes 2049 redeemable at par on 17 November 2049.

The notes are secured by a first floating charge over the Company's assets, ranking pari passu with the debenture stocks.

A summary of the rights that attach to each of the Preference and Preferred Ordinary Stocks, all of which are non-redeemable, is given below.

| | First Preference Stock | Second Preference Stock | Preferred Ordinary Stock |
|---|---|---|---|
| **a) Rights to dividends** | A fixed cumulative dividend of 6% per annum, of which 5.5% is payable in preference to the dividend on the second preference stock and 0.5% is payable after it. | A fixed non-cumulative dividend of 4.2% per annum, which is payable after the first 5.5% per annum entitlement on the first preference stock. | A fixed non-cumulative dividend of 20% per annum, which is payable after the entitlements on the first and second preference stocks. |

# Notes to the Financial Statements (continued)

## 15 Creditors: amounts falling due after more than one year (continued)

| | First Preference Stock | Second Preference Stock | Preferred Ordinary Stock |
|---|---|---|---|
| **b) Priority and amounts receivable on a winding-up** | Repayment of capital in priority to payment to the other members of the Company. Any arrears of dividend are payable after the repayment of the capital on the second preference stock. | Repayment of capital after the repayment of the capital on the first preference stock. | Payment of £3.50 in respect of each £1 of capital, after the repayment of the entitlements on the first and second preference stocks. |
| **c) Voting rights at general meetings** | Right to attend and vote at general meetings. On a poll, voting rights are one vote per £10 of stock held. | No rights to attend or vote at general meetings (except on a winding-up of the Company or if dividends are in arrears). | Right to attend and vote at general meetings. On a poll, voting rights are one vote per £20 of stock held. |

Notes:
(i) The dividend entitlements of the First Preference Stock and the Preferred Ordinary Stock reverted on 6 April 1999 to the rates which applied before 6 April 1973.
(ii) In the event of a winding-up, the Preferred Ordinary Stock would be repaid at £3.50 per £1 of stock. However, its share of equity shareholders' funds is included in the financial statements at par because no winding-up is envisaged.

## 16 Risk management policies and procedures

The Directors manage investment risk principally through setting an investment policy (that is approved by shareholders) which incorporates risk parameters (see page 4), by contracting management of the Company's investments to an investment manager (Janus Henderson) under a contract which incorporates appropriate duties and restrictions and by monitoring performance in relation to these. The Board's relationship with Janus Henderson is discussed on pages 32 and 33. Internal control and the Board's approach to risk is also on page 32. There have been no material changes to the management or nature of the Company's investment risks from the prior year.

The main risks arising from the Company's pursuit of its investment objective are market risk (comprising market price risk, currency risk and interest rate risk), credit risk and liquidity risk. The effects of these can also be increased by gearing.

The Board and Janus Henderson coordinate the Company's risk management and there are various risk management systems in place as detailed below.

- Straight-through processing via a deal order and management system ("OMS") is utilised for listed securities.
- Portfolio modelling and investment management functions (including order-raising, dealing and trade execution) are performed using one of, or a combination of, the following third-party software applications: Charles River Development OMS and/or Imagine.
- Fund pricing and accounting services are outsourced to a third-party administrator (currently BNP Paribas Securities Services) which utilises HiPortfolio software.
- The IT tools to which the Janus Henderson risk, compliance and operations teams have access for independent monitoring and risk measurement purposes include:
  – Charles River Compliance module for investment restrictions monitoring;
  – Nasdaq Bwise (previously OneSumX) operational risk database;
  – RiskMetrics, UBS Delta, Style Research, FinAnalytica and Barra Aegis for market risk measurement;
  – Bloomberg for market data and price-checking; and
  – HiPortfolio for portfolio holdings and valuations.

### 16.1 Market risk

The fair value of a financial instrument held by the Company may fluctuate due to changes in market prices. This market risk comprises market price risk (see note 16.1.1), currency risk (see note 16.1.2) and interest rate risk (see note 16.1.3). The Fund Manager assesses the exposure to market risk when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

### 16.1.1 Market price risk

Market price risk (changes in market prices other than those arising from interest rate risk or currency risk) may affect the value of investments. The Company's investments are susceptible to market price risk arising from uncertainties about the future prices of the investments.

# Notes to the Financial Statements (continued)

## 16 Risk management policies and procedures (continued)

### 16.1.1 Market price risk (continued)

**Management of the risk**

The Board manages the risks inherent in the investment portfolio by ensuring full and timely access to relevant information from Janus Henderson. The Board meets regularly and at each meeting reviews investment performance. The Board monitors Janus Henderson's compliance with the Company's objectives, including investment strategy and asset allocation.

When appropriate, the Company may buy/sell put or call options or futures on indices and on equity investments in its portfolio to manage its exposure to price risk or to generate income. At 30 June 2018 the Company had no open positions (2017: nil).

**Concentration of exposure to market price risk**

An analysis of the Company's investment portfolio is shown on pages 14 and 15. This shows that the majority of the Company's investments are in UK listed companies. Accordingly, there is a concentration of exposure to the UK, though it is recognised that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

**Market price risk sensitivity**

The sensitivity of (a) the return after taxation for the year and (b) the Company's net assets to an increase or decrease of 10% in the fair values of the Company's investments at each Statement of Financial Position date is shown below. This level of change is considered to be reasonably possible, based on observation of current market conditions.

The impact of a 10% increase in the value of the investments on the revenue return as at 30 June 2018 is a decrease of £172,000 (2017: £158,000) and on the capital return is an increase of £163,390,000 (2017: £150,498,000). The total impact on equity shareholders' funds would be an increase of £163,218,000 (2017: £150,340,000).

The impact of a 10% decrease in the value of the investments on the revenue return as at 30 June 2018 is an increase of £172,000 (2017: £158,000) and on the capital return is a decrease of £163,390,000 (2017: £150,498,000). The total impact on equity shareholders' funds would be a decrease of £163,218,000 (2017: £150,340,000).

### 16.1.2 Currency risk

The Company is not itself materially exposed to currency risk, although some of the investments will be in companies that have operations that involve currency risk and pay dividends in foreign currencies.

**Management of the risk**

Investment income denominated in foreign currencies is converted into sterling on receipt. The Company does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt. However, the Company does sometimes hedge foreign currency exposure ahead of the declaration of dividends from companies in which it invests.

**Foreign currency exposure**

The fair values of the Company's monetary items that have foreign currency exposure at 30 June 2018 are £1,914,000 (2017: £1,459,000).

**Foreign currency sensitivity**

The Company's sensitivity to movements in exchange rates affecting its investment income, assuming a 10% movement in the Sterling/ US Dollar rate, will be a loss of £1,452,000 (2017: £1,309,000) if Sterling strengthens and a profit of £1,775,000 (2017: £1,600,000) if Sterling weakens. The 10% movement has been based on average market volatility in exchange rates in the previous 12 months.

### 16.1.3 Interest rate risk

Interest rate movements may affect:

- the level of income receivable from cash at bank and on deposit.
- the interest payable on the Company's variable rate bank borrowings.

**Management of the risk**

The Company, generally, does not hold significant cash balances. The Company finances part of its activities through borrowings at levels approved and monitored by the Board. Derivative contracts have not been used during the year to hedge against the exposure to interest rate risk. There has been no hedging during the year.

# Notes to the Financial Statements (continued)

## 16 Risk management policies and procedures (continued)

### 16.1.3 Interest rate risk (continued)

**Interest rate exposure**

The Company's exposure at 30 June 2018 of financial assets and financial liabilities to fixed interest rate risk can be found in note 15. The exposure to floating interest rates can be found on the Statement of Financial Position under cash at bank and under bank overdraft in note 14.

Interest receivable and finance costs are at the following rates:

- interest received on cash balances is at a margin over the HSBC Base Rate (2017: same).
- interest paid on borrowings under the overdraft facility provided by the Custodian is at a margin of 1.25% above the HSBC Base Rate (2017: Same).

The table below analyses the Company's contractual liabilities.

| | 30 June 2018 | | | 30 June 2017 | | |
|---|---|---|---|---|---|---|
| | Within 1 year £'000 | Between 1 and 5 years £'000 | More than 5 years £'000 | Within 1 year £'000 | Between 1 and 5 years £'000 | More than 5 years £'000 |
| Debenture stocks[1] | 3,575 | 44,892 | – | 3,575 | 48,467 | – |
| Secured notes[2] | 3,056 | 12,222 | 132,606 | 1,586 | 6,342 | 45,431 |
| Preference stock and preferred ordinary stock[3] | 157 | 628 | 1,399 | 157 | 628 | 1,399 |
| Bank overdrafts and interest | – | – | – | 10,220 | – | – |
| Other creditors and accruals | 6,105 | – | – | 5,161 | – | – |
| | 12,893 | 57,742 | 134,005 | 20,699 | 55,437 | 46,830 |

1 The above figures show interest payable over the remaining terms of the debenture stocks. The figures in the "between 1 and 5 years" column also include the capital to be repaid. Details of repayment are set out on page 53 and dividend/interest payment dates on page 65

2 The above figures show interest payable over the remaining term of the secured notes. The figures in the "more than 5 years" column also include the capital to be repaid. Details of repayment are set out on page 53 and interest payment dates on page 65

3 The figures in the "more than 5 years" columns do not include the ongoing annual finance cost of £157,000

**Interest rate risk sensitivity**

The Company is not materially exposed to changes in interest rates.

### 16.2 Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

**Management of the risk**

Liquidity risk is not significant as the majority of the Company's assets is in investments in quoted equities that are readily realisable. For details of the Company's bank borrowing facility, see note 14.

The Board gives guidance to Janus Henderson as to the maximum amount of the Company's resources that should be invested in any one company. The policy is that the Company should remain fully invested in normal market conditions and that short term borrowings should be used to fund short term cash requirements.

**Liquidity risk exposure**

The remaining contractual maturities of the financial liabilities at 30 June 2018, based on the earliest date on which payment can be required, is given on page 53.

### 16.3 Credit and counterparty risk

The failure of the counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss.

**Management of the risk**

The risk is not significant and is managed as follows:

- investment transactions are carried out with a large number of brokers, whose credit standard is reviewed periodically by the Fund Manager, and limits are set on the amount that may be due from any one broker.
- cash at bank and overdrafts is held only with reputable banks with high quality external credit ratings.

# Notes to the Financial Statements (continued)

## 16 Risk management policies and procedures (continued)

### 16.3 Credit and counterparty risk (continued)

Stock lending transactions are carried out with a number of approved counterparties, whose credit rating is reviewed regularly by Janus Henderson and limits are set on the amount that may be lent to any one counterparty. Stock lending is the temporary transfer of securities by a lender to a borrower, with an agreement by the borrower to return equivalent securities to the lender at an agreed future date. Stock lending revenue is received for making the investments available to the borrower, which increases the returns on the portfolio. In all cases securities lent continue to be recognised in the Statement of Financial Position. Details of the value of securities on loan at the year end, and the collateral held, can be found in note 4.

In summary, the Company only transacts with counterparties that it considers to be credit worthy. The exposure to credit and counterparty risk at 30 June 2018 was to cash at bank of £68,000 (2017: £nil) and to other debtors of £14,493,000 (2017: £12,265,000).

None of the Company's financial assets are past their due date or impaired.

### 16.4 Fair values of financial assets and financial liabilities

The financial assets and financial liabilities are either carried in the Statement of Financial Position at their fair value or the Statement of Financial Position amount is a reasonable approximation of fair value (debtors and creditors falling due within one year). The debenture stock, secured notes, preference stock and preferred ordinary stock are carried in the Statement of Financial Position at par.

At 30 June 2018, the fair value of the debenture stocks was £46,104,000 (2017: £48,230,000) and the aggregate fair value of the preferred and preference stock was £2,717,000 (2017: £2,729,000).

The valuations of the debenture stocks are obtained from brokers based on market prices. The valuations of the preferred and preference stock are from the Daily Official List quotations.

At 30 June 2018, the fair value of the secured notes was estimated to be £94,033,000 (2017: £42,670,000).

The fair value of the secured notes is calculated using a discount rate which reflects the yield of a UK Gilt of similar maturity plus a suitable credit spread.

The debenture stock, preference stock and preferred ordinary stock are categorised as level 1 in the fair value hierarchy. The secured notes are categorised as level 3 in the fair value hierarchy.

### 16.5 Fair value hierarchy disclosures

The table below sets out fair value measurements using the FRS 102 fair value hierarchy.

| Financial assets at fair value through profit or loss at 30 June 2018 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Equity investments | 1,637,907 | – | 347 | 1,638,254 |
| **Total** | **1,637,907** | **–** | **347** | **1,638,254** |

| Financial assets at fair value through profit or loss at 30 June 2017 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Equity investments | 1,508,679 | – | 347 | 1,509,026 |
| **Total** | **1,508,679** | **–** | **347** | **1,509,026** |

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

Level 1 – The unadjusted quoted prices in an active market for identical assets or liabilities that the entity can access at the measurement date;

Level 2 – Inputs other than quoted prices included within Level 1 that are observable (i.e., developed using market data) for the asset or liability, either directly or indirectly; and

Level 3 – Inputs are unobservable (i.e., for which market data is unavailable) for the asset or liability.

The valuation techniques used by the Company are explained in the accounting policies note on page 45.

# Notes to the Financial Statements (continued)

## 16 Risk management policies and procedures (continued)

### 16.5 Fair value hierarchy disclosures (continued)

There have not been any transfers during the year between any of the levels. A reconciliation of fair value movements within Level 3 is set out below.

| Reconciliation of Level 3 fair value measurement of financial assets | £'000 |
|---|---|
| Opening and closing fair value | 347 |

### 16.6 Capital management policies and procedures

The Company's capital management objectives are to ensure that it will be able to continue as a going concern, and to provide long-term growth in income and capital, principally by investment in UK equities.

The Company's total capital at 30 June 2018 was £1,646,710,000 (2017: £1,516,174,000) comprising £nil (2017: £10,220,000) of bank overdrafts, £40,000,000 (2017: £40,000,000) of Debenture Stock, £84,314,000 (2017: £34,633,000) of Secured Notes, £1,399,000 (2017: £1,399,000) of Preference and Preferred Stock and £1,520,997,000 (2017: £1,429,922,000) of equity share capital and reserves.

The Company is subject to several externally imposed capital requirements.

- borrowings under the overdraft facility are not to exceed 15% of the portfolio.
- as a public company, the Company has a minimum share capital of £50,000.
- in order to be able to pay dividends out of profits available for distribution by way of dividends, the Company has to be able to meet one of the two capital restriction tests imposed on investment companies by company law.
- the terms of the debenture trust deeds have various covenants that prescribe that moneys borrowed should not exceed the adjusted total capital and reserves as defined in the debenture trust deeds. These are measured in accordance with the policies used in the annual financial statements.

The Company has complied with these requirements.

Other than in exceptional market conditions, gearing will not exceed 20% of the net asset value at the time of the draw down of the relevant borrowings.

## 17 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 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** |
| Allotted and issued ordinary shares of 25p each | | |
| At 1 July 2016 | 325,159,868 | 81,290 |
| Issue of new ordinary shares | 14,250,000 | 3,563 |
| **At 30 June 2017** | **339,409,868** | **84,853** |

During the year the Company issued 15,000,000 (2017: 14,250,000) ordinary shares with total proceeds of £62,698,000 (2017: £57,125,000) after deduction of issue costs of £143,000 (2017: £nil). The average price of the ordinary shares that were issued was 418.0p (2017: 400.9p).

## 18 Share premium account

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| At beginning of year | 461,753 | 408,191 |
| Issue of shares | 59,091 | 53,562 |
| Less: issue costs | (143) | – |
| **At end of year** | **520,701** | **461,753** |

# Notes to the Financial Statements (continued)

## 19 Other capital reserves

| | Capital redemption reserve £'000 | Capital reserve arising on revaluation of investments held £'000 | Capital reserve arising on investments sold £'000 | Other capital reserves £'000 |
|---|---|---|---|---|
| At 1 July 2017 | 2,707 | 507,639 | 324,372 | 832,011 |
| Transfer on disposal of investments | – | (38,061) | 38,061 | – |
| Net gains on investments | – | 44,199 | (12,204) | 31,995 |
| Exchange losses | – | – | (106) | (106) |
| Management fees charged to capital | – | – | (3,664) | (3,664) |
| Finance costs charged to capital | – | – | (4,385) | (4,385) |
| **At 30 June 2018** | **2,707** | **513,777** | **342,074** | **855,851** |

| | Capital redemption reserve £'000 | Capital reserve arising on revaluation of investments held £'000 | Capital reserve arising on investments sold £'000 | Other capital reserves £'000 |
|---|---|---|---|---|
| At 1 July 2016 | 2,707 | 403,974 | 302,568 | 706,542 |
| Transfer on disposal of investments | – | (27,977) | 27,977 | – |
| Net gains on investments | – | 131,642 | 1,172 | 132,814 |
| Exchange losses | – | – | (64) | (64) |
| Management fees charged to capital | – | – | (3,462) | (3,462) |
| Finance costs charged to capital | – | – | (3,819) | (3,819) |
| **At 30 June 2017** | **2,707** | **507,639** | **324,372** | **832,011** |

## 20 Revenue reserve

| | £'000 |
|---|---|
| At 1 July 2017 | 48,598 |
| Net return for the year | 64,679 |
| Dividends paid (note 10) | (60,142) |
| **At 30 June 2018** | **53,135** |

| | £'000 |
|---|---|
| At 1 July 2016 | 43,856 |
| Net return for the year | 59,418 |
| Dividends paid (note 10) | (54,676) |
| **At 30 June 2017** | **48,598** |

## 21 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 £1,520,997,000 (2017: £1,429,922,000) and on 354,409,868 (2017: 339,409,868) shares in issue on 30 June 2018.

An alternative net asset value per ordinary share can be calculated by deducting from the total assets less current liabilities of the Company the preference and preferred ordinary stocks, the debenture stocks and the secured notes at their market (or fair) values rather than at their par (or book) values. The net asset value per ordinary share at 30 June 2018 calculated on this basis was 424.33p (2017: 416.11p).

| | £'000 |
|---|---|
| Total net assets attributable to the ordinary shares at 1 July 2017 | 1,429,922 |
| Total net return after taxation | 88,519 |
| Dividends paid on ordinary shares in the year | (60,142) |
| Issue of shares | 62,698 |
| **Total net assets attributable to the ordinary shares at 30 June 2018** | **1,520,997** |

The Company does not have any dilutive securities.

# Notes to the Financial Statements (continued)

## 22 Capital commitments and contingent liabilities

### Capital commitments

There were no capital commitments as at 30 June 2018 (2017: none).

### Contingent liabilities

As at 30 June 2018, there existed a contingent liability in respect of the sub-underwriting participation of the Phoenix Group rights issue amounting to £5,180,000 (2017: none).

The rights issue was fully subscribed and as a result no liability crystallised.

## 23 Transactions with the Manager and Related Parties

Under the terms of agreement effective from 22 July 2014 the Company has appointed subsidiaries of Janus Henderson Group plc to provide investment management, accounting, secretarial and administrative services. Janus Henderson has contracted BNP Paribas Securities Services to provide accounting and administration services.

Details of the fee arrangements for these services are given on page 4. The total of management fees paid or payable to Janus Henderson under this agreement in respect of the year ended 30 June 2018 was £5,234,000 (2017: £4,946,000). The amount outstanding at 30 June 2018 was £1,338,000 (2017: £1,259,000).

In addition to the above services, Janus Henderson has provided the Company with sales and marketing services during the year. The total fees paid or payable for these services for the year ended 30 June 2018 amounted to £90,000 including VAT (2017: £111,000) of which £72,000 was outstanding at 30 June 2018 (2017: £42,000).

Details of fees paid to Directors are included in the Directors' Remuneration Report on page 29 and in note 6 on page 49.

# Securities Financing Transactions (unaudited)

The Company engages in Securities Financing Transactions (as defined in Article 3 of Regulation (EU) 2015-2365, securities financing transactions include repurchase transactions, securities or commodities lending and securities or commodities borrowing, buy-sell back transactions and margin lending transactions). In accordance with Article 13 of the Regulation, the Company's involvement in and exposures related to securities lending for the year ended 30 June 2018 are detailed below.

## Global Data

The amount of securities on loan as a proportion of total lendable assets and the Company's net assets as at 30 June are disclosed below:

| Stock lending 2018 | | | Stock lending 2017 | | |
|---|---|---|---|---|---|
| Market value of securities on loan £'000 | % of lendable assets | % of assets under management | Market value of securities on loan £'000 | % of lendable assets | % of assets under management |
| 101,360 | 6.19 | 6.66 | 60,385 | 4.00 | 4.22 |

## Concentration Data

The ten largest collateral issuers across all the securities financing transactions as at 30 June 2018 and 2017 are disclosed below:

| Issuer | 2018 Market value of collateral received £'000 | 2017 Market value of collateral received £'000 |
|---|---|---|
| Government of Japan | 33,925 | – |
| UK Treasury | 13,133 | 2,376 |
| Government of Germany | 4,878 | – |
| Sky | 3,836 | – |
| Shire | 3,708 | 2,703 |
| Sinopec | 2,754 | – |
| Carnival | 2,113 | – |
| Persimmon | 1,673 | – |
| Alphabet | 1,635 | – |
| Petrochina | 1,540 | – |
| Unilever | – | 4,579 |
| BHP Billiton | – | 4,509 |
| GlaxoSmithKline | – | 4,300 |
| Royal Dutch Shell | – | 3,587 |
| Lloyds Banking | – | 2,813 |
| Prudential | – | 2,778 |
| Experian | – | 2,740 |
| Centrica | – | 2,530 |
| | **69,195** | **32,915** |

The top ten counterparties of each type of securities financing transactions as at 30 June 2018 and 2017 are disclosed below:

| Counterparty | 2018 Market value of securities on loan £'000 | 2017 Market value of securities on loan £'000 |
|---|---|---|
| Societe Generale | 31,992 | – |
| Bank Of Nova Scotia | 15,936 | 25,374 |
| Credit Suisse | 14,533 | 7,767 |
| Merrill Lynch | 11,611 | – |
| HSBC | 10,538 | 2,238 |
| UBS | 8,309 | 3,319 |
| Citigroup | 3,943 | 2,006 |
| BNP Paribas | 2,252 | 1,683 |
| Goldman Sachs | 1,627 | 140 |
| Abbey National | 582 | 16,816 |
| Macquarie | – | 1,042 |
| | **101,323** | **60,385** |

# Securities Financing Transactions (continued)

## Aggregate transaction data

The following table discloses a summary of aggregate transaction data related to the collateral received from securities on loan as at 30 June:

| Stock lending 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Counterparty** | **Counterparty country of origin** | **Type** | **Quality** | **Collateral CCY** | **Settlement basis** | **Custodian** | **Market value of collateral received £'000** |
| Société Générale | France | Equity | Main Market Listing | GBP | Tri-party | HSBC | 8,492 |
| | | Equity | Main Market Listing | EUR | Tri-party | HSBC | 3,036 |
| | | Equity | Main Market Listing | JPY | Tri-party | HSBC | 4,549 |
| | | Government Debt | Investment Grade | JPY | Tri-party | HSBC | 17,666 |
| Bank Of Nova Scotia | Canada | Equity | Main Market Listing | GBP | Tri-party | HSBC | 4,760 |
| | | Equity | Main Market Listing | USD | Tri-party | HSBC | 4,745 |
| | | Equity | Main Market Listing | CAD | Tri-party | HSBC | 1,140 |
| | | Equity | Main Market Listing | EUR | Tri-party | HSBC | 1,763 |
| | | Equity | Main Market Listing | HKD | Tri-party | HSBC | 2,555 |
| | | UK Gilts | Investment Grade | GBP | Tri-party | HSBC | 1,300 |
| | | Government Debt | Investment Grade | CAD | Tri-party | HSBC | 86 |
| | | Government Debt | Investment Grade | EUR | Tri-party | HSBC | 526 |
| Merrill Lynch | US | Equity | Main Market Listing | CHF | Tri-party | HSBC | 563 |
| | | Equity | Main Market Listing | HKD | Tri-party | HSBC | 119 |
| | | Government Debt | Investment Grade | EUR | Tri-party | HSBC | 2,491 |
| | | Government Debt | Investment Grade | JPY | Tri-party | HSBC | 12,275 |
| Credit Suisse | Switzerland | Equity | Main Market Listing | EUR | Tri-party | HSBC | 2,273 |
| | | Equity | Main Market Listing | HKD | Tri-party | HSBC | 4,239 |
| | | Equity | Main Market Listing | JPY | Tri-party | HSBC | 239 |
| | | Equity | Main Market Listing | NOK | Tri-party | HSBC | 1,140 |
| | | Equity | Main Market Listing | SGD | Tri-party | HSBC | 543 |
| | | Equity | Main Market Listing | USD | Tri-party | HSBC | 3,166 |
| | | Government Debt | Investment Grade | EUR | Tri-party | HSBC | 170 |
| | | Government Debt | Investment Grade | JPY | Tri-party | HSBC | 3,484 |
| | | Government Debt | Investment Grade | USD | Tri-party | HSBC | 116 |
| HSBC | Hong Kong | Equity | Main Market Listing | GBP | Bilateral | HSBC | 11,065 |
| UBS | Switzerland | Equity | Main Market Listing | GBP | Tri-party | HSBC | 2,165 |
| | | Equity | Main Market Listing | AUD | Tri-party | HSBC | 53 |
| | | Equity | Main Market Listing | EUR | Tri-party | HSBC | 1,131 |
| | | Equity | Main Market Listing | JPY | Tri-party | HSBC | 1,928 |
| | | Equity | Main Market Listing | SEK | Tri-party | HSBC | 468 |
| | | Equity | Main Market Listing | SGD | Tri-party | HSBC | 211 |
| | | Equity | Main Market Listing | USD | Tri-party | HSBC | 2,855 |
| Citigroup | US | Equity | Main Market Listing | GBP | Tri-party | HSBC | 1,407 |
| | | Equity | Main Market Listing | EUR | Tri-party | HSBC | 109 |
| | | Equity | Main Market Listing | SEK | Tri-party | HSBC | 437 |
| | | Equity | Main Market Listing | USD | Tri-party | HSBC | 686 |
| | | Global Depositary Receipt | Investment Grade | EUR | Tri-party | HSBC | 40 |
| | | UK Gilts | Investment Grade | GBP | Tri-party | HSBC | 768 |
| | | Government Debt | Investment Grade | CAD | Tri-party | HSBC | 717 |
| BNP Paribas | France | Equity | Main Market Listing | AUD | Tri-party | HSBC | 278 |
| | | Equity | Main Market Listing | EUR | Tri-party | HSBC | 822 |
| | | Equity | Main Market Listing | HKD | Tri-party | HSBC | 476 |
| | | Equity | Main Market Listing | JPY | Tri-party | HSBC | 128 |
| | | Equity | Main Market Listing | USD | Tri-party | HSBC | 177 |
| | | Government Debt | Investment Grade | JPY | Tri-party | HSBC | 501 |
| Goldman Sachs | US | Government Debt | Investment Grade | EUR | Bilateral | HSBC | 2,386 |
| Abbey National | UK | Equity | Main Market Listing | GBP | Bilateral | HSBC | 611 |
| Nomura | Japan | Equity | Main Market Listing | EUR | Tri-party | HSBC | 4 |
| | | Equity | Main Market Listing | SGD | Tri-party | HSBC | 6 |
| | | Equity | Main Market Listing | USD | Tri-party | HSBC | 7 |
| | | Global Depositary Receipt | Investment Grade | EUR | Tri-party | HSBC | 4 |
| | | Government Debt | Investment Grade | USD | Tri-party | HSBC | 20 |
| | | | | | | | **110,896** |

# Securities Financing Transactions (continued)

| Stock lending 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Counterparty** | **Counterparty country of origin** | **Type** | **Quality** | **Collateral CCY** | **Settlement basis** | **Custodian** | **Market value of collateral received £'000** |
| Bank of Nova Scotia | Canada | Equity | Main Market Listing | GBP | Tri-party | HSBC | 24,480 |
| | | Global Depositary Receipt | Main Market Listing | EUR | Tri-party | HSBC | 2,813 |
| | | Equity | Main Market Listing | EUR | Tri-party | HSBC | 838 |
| Abbey National | UK | Equity | Main Market Listing | GBP | Bilateral | HSBC | 17,656 |
| Credit Suisse | Switzerland | Equity | Main Market Listing | JPY | Tri-party | HSBC | 2,563 |
| | | Equity | Main Market Listing | EUR | Tri-party | HSBC | 1,608 |
| | | Equity | Main Market Listing | USD | Tri-party | HSBC | 1,443 |
| | | Equity | Main Market Listing | HKD | Tri-party | HSBC | 1,038 |
| | | Equity | Main Market Listing | GBP | Tri-party | HSBC | 674 |
| | | Equity | Main Market Listing | SGD | Tri-party | HSBC | 522 |
| | | Government Debt | Investment Grade | CAD | Tri-party | HSBC | 255 |
| | | Equity | Main Market Listing | AUD | Tri-party | HSBC | 111 |
| | | UK Gilts | Investment Grade | GBP | Tri-party | HSBC | 17 |
| UBS | Switzerland | Equity | Main Market Listing | USD | Tri-party | HSBC | 8,085 |
| | | Equity | Main Market Listing | AUD | Tri-party | HSBC | 3,444 |
| | | Equity | Main Market Listing | HKD | Tri-party | HSBC | 2,344 |
| | | Equity | Main Market Listing | GBP | Tri-party | HSBC | 1,070 |
| | | Equity | Main Market Listing | SEK | Tri-party | HSBC | 875 |
| | | Equity | Main Market Listing | CHF | Tri-party | HSBC | 663 |
| | | Equity | Main Market Listing | JPY | Tri-party | HSBC | 535 |
| | | Equity | Main Market Listing | EUR | Tri-party | HSBC | 441 |
| HSBC | Hong Kong | UK Gilts | Investment Grade | GBP | Bilateral | HSBC | 2,350 |
| Citigroup | US | Equity | Main Market Listing | EUR | Tri-party | HSBC | 1,053 |
| | | Equity | Main Market Listing | GBP | Tri-party | HSBC | 419 |
| | | Equity | Main Market Listing | USD | Tri-party | HSBC | 344 |
| | | Government Debt | Investment Grade | EUR | Tri-party | HSBC | 129 |
| | | Equity | Main Market Listing | SEK | Tri-party | HSBC | 100 |
| | | Equity | Main Market Listing | CHF | Tri-party | HSBC | 38 |
| | | Government Debt | Investment Grade | JPY | Tri-party | HSBC | 17 |
| | | Equity | Main Market Listing | JPY | Tri-party | HSBC | 17 |
| | | UK Gilts | Investment Grade | GBP | Tri-party | HSBC | 9 |
| BNP Paribas | France | Government Debt | Investment Grade | JPY | Tri-party | HSBC | 920 |
| | | Equity | Main Market Listing | HKD | Tri-party | HSBC | 676 |
| | | Equity | Main Market Listing | EUR | Tri-party | HSBC | 121 |
| | | Equity | Main Market Listing | JPY | Tri-party | HSBC | 51 |
| | | Government Debt | Investment Grade | EUR | Tri-party | HSBC | 7 |
| Macquarie | Australia | Equity | Main Market Listing | HKD | Tri-party | HSBC | 440 |
| | | Equity | Main Market Listing | JPY | Tri-party | HSBC | 391 |
| | | Equity | Main Market Listing | AUD | Tri-party | HSBC | 118 |
| | | Equity | Main Market Listing | EUR | Tri-party | HSBC | 70 |
| | | Equity | Main Market Listing | USD | Tri-party | HSBC | 70 |
| | | Equity | Main Market Listing | GBP | Tri-party | HSBC | 16 |
| Goldman Sachs | US | Government Debt | Investment Grade | EUR | Bilateral | HSBC | 289 |
| | | | | | | | **79,120** |

The lending and collateral transactions are on an open basis and can be recalled on demand.

## Re-use of collateral

The Company does not engage in any re-use of collateral.

## Return and cost

The return and cost of engaging in securities lending by the Company and the securities lending agent in absolute terms and as a percentage of overall returns are disclosed below:

| Total gross amount of securities lending income | Direct and indirect costs and fees deducted by securities lending agent | % return of the securities lending agent | Net securities lending income retained by the Company | % return of the Company |
|---|---|---|---|---|
| £263,000 | £53,000 | 20 | £210,000 | 80 |

2017: The gross amount of lending income was £161,000 with direct and indirect expenses deducted of £32,000.

# General Shareholder Information

## AIFMD Disclosures

In accordance with the Alternative Investment Fund Managers Directive, information in relation to the Company's leverage and remuneration of Henderson Investment Funds Limited, as the Company's Alternative Investment Fund Manager are required to be made available to investors. These disclosures, including those on the AIFM's remuneration policy, are contained in an AIFMD Disclosure document which can be found on the Company's website.

## BACS

Dividends and interest can be paid to shareholders and stockholders by means of BACS (Bankers' Automated Clearing Services); mandate forms for this purpose are available from the Registrar. Alternatively, shareholders can write to the Registrar (the address is given on page 17) to give their instructions; these must include the bank account number, the bank account title and the sort code of the bank to which payments are to be made.

## Common Reporting Standard

Tax legislation under The Organisation for Economic Co-operation and Development Common Reporting Standard for Automatic Exchange of Financial Account Information was introduced with effect from 1 January 2016. The legislation requires the Company to provide personal information to HMRC on certain investors who purchase shares in investment trusts. This information is provided annually to the local tax authority of the tax residencies of a number of non-UK based certificated shareholders and corporate entities.

## Equality Act – 2010

Copies of this report and other documents issued by the Company are available from the Corporate Secretary. If needed, copies can be made available in a variety of formats, including Braille, audio tape or larger type as appropriate.

You can contact the Registrar, Computershare Investor Services PLC, which has installed textphones to allow speech and hearing impaired people who have their own textphone to contact them directly, without the need for an intermediate operator by dialling 0870 702 0005. Specially trained operators are available during normal business hours to answer queries via this service.

Alternatively, if you prefer to go through a 'typetalk' operator (provided by the Royal National Institute for Deaf People) dial 18001 followed by the number you wish to dial.

## Foreign Account Tax Compliance ("FATCA")

FATCA is a United States federal law enacted in 2010 whose intent is to enforce the requirement for United States persons (including those living outside the U.S.) to file yearly reports on their non-U.S. financial accounts. As a result of HMRC's change of interpretation on the meaning of shares and securities 'regularly traded on an established securities market', investment trusts now need to monitor each year the trading volume and frequency of their shares and securities to assess whether they have financial accounts. The Company therefore needs to make an annual assessment, before the FATCA return is due, to determine if the shares represent financial accounts and, where they do, will need to identify and report U.S. reportable accounts to HMRC, as required.

## General Data Protection Regulation ('GDPR')

GDPR came into force on 25 May 2018. A privacy statement can be found on the website **www.janushenderson.com**.

## ISA

The Company intends to continue to manage its affairs in order to qualify as an eligible investment for a stocks and shares ISA.

## Non-Mainstream Pooled Investments Status

The Company currently conducts its affairs so that its ordinary shares of 25p each can be recommended by IFAs to ordinary retail investors in accordance with the Financial Conduct Authority's ("FCA") rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

## Packaged Retail and Insurance-based Investment Products Regulation ("PRIIPs")/ Key Information Document

Investors should be aware that the PRIIPs Regulation requires the Manager, as the PRIIP manufacturer, to prepare a key information document in respect of the Company. This KID must be made available by the Manager to retail investors prior to them making any investment decision and is available on the Company's website. The Company is not responsible for the information contained in the KID and investors should note that the procedures for calculating the risks, costs and potential returns are prescribed by the law. The figures in the KID may not reflect the expected returns for the Company and anticipated performance returns cannot be guaranteed.

## Performance Details/Share Price Information

Details of the Company's share price and NAV can be found on the website. The address is **www.cityinvestmenttrust.com**. The Company's NAV is published daily.

## Shareholder Details

Shareholders who hold their shares in certificated form can check their shareholding with the Registrar, Computershare Investor Services PLC, via **www.computershare.com**.
Please note that to gain access to your details on the Computershare site you will need the holder reference number shown on your share certificate.

## Share Price Listings

The market price of the Company's ordinary shares is published daily in The Financial Times and other leading newspapers. The Financial Times also shows figures for the estimated NAV and the premium/discount.

The market prices of the Company's preference, preferred ordinary and debenture stocks can be found in the London Stock Exchange Daily Official List.

# A Brief History

The Company was formed as City of London Brewery Company Limited in 1860 to acquire Calverts, a family brewing business at Upper Thames Street in the City of London. The brewery had extensive interests in the licensed premises trade.

In 1932 the name was changed to The City of London Brewery and Investment Trust Limited, parts of the business having been sold and the proceeds invested in securities according to investment trust principles. In 1968 the remaining part of the brewery business was sold and the Company concentrated exclusively on investments in securities.

In 1970 the Company appointed Touche, Remnant & Co. as Investment Manager and in 1982 the name was changed to TR City of London Trust PLC. In 1992 Touche, Remnant & Co. was acquired by Henderson Administration Group plc.

The name of the Company was changed to The City of London Investment Trust plc in October 1997.

Henderson Global Investors (Holdings) plc was acquired by AMP in the spring of 1998. In December 2003 Henderson Group plc, the holding company of Henderson Global Investors (Holdings) plc, was demerged from AMP which was quoted on the London and Australian Stock Exchanges.

In May 2017, Henderson Group plc merged with Janus Capital Group Inc. to become Janus Henderson Group plc which is quoted on the New York and Australian Stock Exchanges.

# Dates of Dividend and Interest Payments

## Dividends[1]

Ordinary shares:

- first interim payable on 30 November
- second interim payable on 28 February
- third interim payable on 31 May
- fourth interim payable on 31 August

Preference and preferred ordinary stocks:

- payable on 28 February and 31 August

## Debenture Interest

10¼% debenture stock 2020:

- payable on 30 April and 31 October

8½% debenture stock 2021:

- payable on 31 January and 31 July

## Secured Loan Notes

4.53% secured notes 2029:

- payable on 22 January and 22 July

2.94% secured notes 2049:

- payable on 17 May and 17 November

1 If a dividend payment date falls on a weekend or bank holiday, payment will be made on the preceding business day

The City of London Investment Trust plc
Registered as an investment company in England and Wales
Registration Number 34871
Registered Office: 201 Bishopsgate, London EC2M 3AE

ISIN number/SEDOL: Ordinary Shares: GB0001990497/0199049
London Stock Exchange (TIDM) Code: CTY
Global Intermediary Identification Number (GIIN): S55HF7.99999.SL.826
Legal Entity Identifier (LEI): 213800F3NOTF47H6AO55

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**www.cityinvestmenttrust.com**

MANAGED BY
Janus Henderson
INVESTORS

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The Association of
Investment Companies

PREMIUM MAIN MARKET
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