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Annual Report 2011

JPMorgan European Smaller Companies Trust plc

(formerly JPMorgan European Fledgeling Investment Trust plc)

Annual Report & Accounts for the year ended 31st March 2011

Features

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Objective

Capital growth from smaller European companies (excluding the UK)

Investment Policies

- To invest in a diversified portfolio of smaller companies in Europe, excluding the UK
- To manage liquidity and borrowings to increase potential returns to shareholders The Board's current policy is to be between 80% and 120% invested
- To emphasise capital growth rather than income Therefore shareholders should not expect a dividend
- To invest no more than 15% of gross assets in other UK listed investment companies (including investment trusts)

Risk

It should be noted that the Company invests in smaller companies which tend to be more volatile than larger companies and the Company's shares should therefore be regarded as carrying greater than average risk

Benchmark

HSBC Smaller European Companies (ex UK) Total Return Index in sterling terms

Capital Structure

At 31st March 2011, the Company's issued share capital comprised 43,508 739 ordinary shares of 25p each There were no shares held in Treasury

Management Company

The Company employs JPMorgan Asset Management (UK) Limited ('JPMAM' or the 'Manager') to manage its assets

Financial Results

Total returns (includes dividends reinvested)

+27.1%
Return to shareholders[1]
(2010: +59.8%)

+21.7%
Return on net assets[2,3]
(2010: +57.7%)

+14.2%
Benchmark return[4]
(2010: +75.2%)

4.0p
Dividend
(2010: 3.0p)

Performance
for periods ended 31st March 2011

JPMorgan European Smaller Companies – return to shareholders[1]
JPMorgan European Smaller Companies – return on net assets[1]
Benchmark return[1]

A glossary of terms and definitions is provided on page 58

[1]Source Morningstar
[2]Source J P Morgan.
[3]Assumes that any shares held in Treasury were reissued in accordance with the Board's policy on the reissuance of Treasury shares No shares were held in Treasury on 31st March 2011
[4]Source HSBC The Company's benchmark is the HSBC Smaller European Companies (ex UK) Total Return Index in sterling terms

Chairman's Statement

Performance

The year to 31st March 2011 was a positive one for equity investors The Company's total return on net assets (i e with net income reinvested) was +21 7% which compares with a return of +14 2% on the same basis from the Company's benchmark, the HSBC Smaller European Companies (ex UK) Total Return Index in sterling terms It is very pleasing to have outperformed the benchmark index by a significant amount, having underperformed in the previous financial year This restores the outstanding long-term performance record, as you will note from the charts on page 1, the Company has outperformed the benchmark over three, five and ten years

A review of the market and more details on performance are given in the Investment Managers' Report on the following pages and the Company's total return for the year can be analysed by looking at the performance attribution analysis set out in the table on page 6 This shows that the Investment Managers' activities added an additional 79% on top of the benchmark return of 14 2% With a return to more normal market conditions compared to the year before, the style factor analysis on which your Investment Managers' investment process is based worked well As a result, stock selection was by far the main source of the value creation though their effective use of gearing during the year also added value for the seventh year running This is no mean achievement itself given the turbulent markets of the past few years

The other contributor to the total return on net assets was share buybacks during the year which had a modest positive impact on net assets of 0 8%, offsetting the management fees and other expenses of 1 2%, resulting in the total return on net assets of 21 7%

The discount of the Company's share price to net asset value narrowed over the year from 18 7% to 15 2% at year end, resulting in a total return to shareholders of +27 1%

Revenue and Dividends

Net revenue return for the year amounted to £2 4 million thus increasing the positive balance on the Company's Revenue Reserve Subject to shareholder approval at the forthcoming Annual General Meeting, a dividend of 4 0 pence per share will be paid on 13th July 2011 to shareholders on the register at the close of business on 17th June 2011 I would remind shareholders that the Company's objective is to achieve capital growth rather than income and so dividends may not arise every year

Share Buybacks

Consistent with most investment trust companies in the European sector, the discount to net asset value at which the Company's shares trade has remained stubbornly wide over the year despite the excellent performance averaging 16 9% The Board has continued to use its share buyback authority to attempt to manage the volatility and absolute level of the discount During the year, the number of shares bought back totalled 2,312,367, representing 5 per cent of the shares in issue at the beginning of the financial year

Tender Offer

The Board has been in discussion with a number of institutional shareholders over recent months in connection with the relatively wide level of discount of the

Company's share price to NAV which has persisted due to poor investor sentiment towards European stock markets despite the excellent relative and absolute NAV performance Whilst the large majority of those holders have been supportive of the Company and have noted the Board's pro-active efforts in utilising existing share buyback powers the Board is aware through these discussions that at least one large long-term holder is seeking a partial exit for its holding at a price which is reasonably close to NAV

The Board has considered the position of the Company carefully, including the importance of its size and place in the FTSE 250 to the liquidity of its shares Taking into account all relevant considerations the Board has decided that implementing a one off Tender Offer is in the best interest of shareholders as a whole The Tender Offer price described below, will be at a discount to the NAV on the calculation date and consequently ongoing holders following the completion of the Tender Offer will benefit from an uplift in the NAV per share

The Tender Offer is for up to a maximum of 2 155 936 shares representing 5% of the Company's issued share capital as at the record date of 16th May 2011 Shareholders who successfully tender shares will receive the tender price per share being the NAV per share (inclusive of undistributed revenue reserves as at the close of business on the calculation date) on the calculation date after subtracting the direct costs and expenses of the Tender Offer (including stamp duty and portfolio realisation costs) and a further 3% discount

Board Evaluation

The Nomination Committee carried out its annual evaluation of the Board its Committees, the individual Directors and the Chairman earlier this year The Board takes this review seriously and views it as an effective means of evaluating the continuing efficacy of the Board

The Company's Articles of Association require that all Directors who held office at the time of the two preceding AGMs and did not retire by rotation at either of them must retire at the next AGM Accordingly Tony Davidson and Federico Marescotti will retire by rotation at the forthcoming AGM Both being eligible they will stand for reappointment Carolan Dobson was appointed to the Board on 1st September 2010 and in accordance with the Company's Articles of Association, will also stand for reappointment at the AGM Following the introduction of the new UK Corporate Governance Code in June 2010 it is now best practice for all directors of FTSE 350 companies to stand for annual reappointment Whilst your Board has always followed the highest standards of corporate governance it believes that the provisions of the Company's Articles of Association ensure the appropriate level of governance in terms of Directors' reappointment whilst facilitating Board continuity and has decided not to implement annual reappointment for all Directors at this stage However it will continue to monitor market practice in this respect

The Board's composition and succession planning policy stipulates that the total term of an individual appointed to the role of Chairman having previously served as a Director, should be no more than 12 years Therefore having served as a Director for more than eleven years I shall stand down from the Board at the conclusion of the forthcoming AGM I am pleased to tell you that Paul Manduca, who has been a Director since 2005 will succeed me as Chairman

Chairman's Statement continued

Manager Evaluation

During the year the Board carried out a formal review of the Manager JPMorgan Asset Management (UK) Limited ('JPMAM') This covered the investment management, company secretarial administrative and marketing services provided to the Company by JPMAM and took into account their investment performance record management processes, investment style resources and risk control mechanisms The Board is satisfied with the performance of the Manager and concluded that its continued appointment on the existing terms is very much in the interests of shareholders as a whole

Annual General Meeting

Your Directors and I very much look forward to welcoming you to the Company's AGM which will be held at The Armourers' Hall, 81 Coleman Street, London EC2R 5BJ on Friday 8th July 2011 at 12 00 noon The Investment Managers will make a presentation reviewing the past year and commenting on the outlook for the current year The meeting will be followed by a General Meeting to approve the Tender Offer and, as usual by a buffet lunch providing shareholders the opportunity to meet the Directors and the Investment Managers

Please submit in writing, or via the Company's website, any detailed questions that you wish to raise at the AGM to the Company Secretary at Finsbury Dials, 20 Finsbury Street London EC2Y 9AQ Shareholders who are unable to attend the AGM are encouraged to use their proxy votes All shareholders are now able to cast their proxy votes electronically whether their shares are held through CREST or in certificated form and full details are set out in the form of proxy

Outlook

Our Investment Managers set out their views on the investment outlook on the next few pages They believe Europe is somewhere midway through an economic recovery but with a higher level of volatility in prospect than usual in this stage of the cycle Whilst relative valuations for smaller companies in Europe may not be compelling, they do see them as potentially attractive on an absolute basis and their challenge will continue to be one of stock picking in the context of the uncertain economic backdrop

Your Board also sees significant uncertainties in the economic outlook for Europe given the ongoing debt problems on the periphery of Europe and the possibility that this will gather momentum in southern Europe This prevailing sense of economic uncertainty, exacerbated by the unknown legacy of quantitative easing, exists outside Europe too as evidenced by recent market movements in commodity prices In this environment your Board supports the cautious, currently ungeared stance of the Investment Managers, but it is confident that their long experience and stock picking skills will enable them to continue to add value through the period ahead

Elisabeth Airey
Chairman

31st May 2011

Investment Managers' Report

Jim Campbell

Francesco Conte

Investment Process

The objective of the Company is to achieve capital growth from a portfolio of quoted smaller companies in Europe, excluding the United Kingdom The investment universe is defined at the time of purchase by the countries and market capitalisation range of the constituents of the benchmark index, the HSBC Smaller European Companies (ex UK) Index At the end of March 2011 the index consisted of 1,000 companies with a market value of between £54 million and £3 billion across 15 countries This universe of potential investments is screened using a proprietary multi-factor model, to the results of which we apply fundamental analysis The investment process is focussed on identifying growth companies with strong operational momentum and value companies with a catalyst for re-rating which have the potential to outperform the market on a sustainable basis

The portfolio is constructed within a framework where risk is managed, in terms of investment style factors relative to the benchmark index Investments are sold when there is a fundamental negative change in business prospects, the valuation is regarded as excessive or the market capitalisation has outgrown significantly the benchmark index The policy is not to hedge the currency exposure of the portfolio's assets The Board has established a liquidity range of 20% cash to 20% gearing within which the Investment Managers may operate

Market Review

The financial year to 31st March 2011 started poorly for financial markets as the European periphery deficit crisis reached a climax The Euro which had traded as high as 1 51/US$ in November 2009, reached 1 19/US$ by June 2010 with some even questioning its future viability While periphery problems would continue to afflict markets, a realisation that the weak Euro was making core Europe, namely Germany and its surrounding neighbours which account for the vast majority of European GDP even more competitive in conjunction with Germany's willingness to provide financial support to the afflicted countries improved sentiment on European stockmarkets and towards the Euro

Strong exports from European companies into robust demand from emerging markets and, to a lesser extent, the US led to very strong reporting quarters in June and September of 2010 This, coupled with the US Federal Reserve announcing that it would undertake a second round of quantitative easing, saw markets rally strongly for much of the remainder of the financial year, despite Greece Ireland and then Portugal asking for economic support from the EU and the IMF In the twelve months to 31st March 2011 the large company MSCI Europe (ex UK) Index returned 7 1% in sterling Sustained appetite for risk led to another year of outperformance by the HSBC Smaller European Companies Index which rose by 14 8%

Portfolio Performance

The net asset value of the Company increased by 21 7% over the year somewhat ahead of returns from both the benchmark smaller company HSBC Index and the large company MSCI Index The decision to maintain a geared position in a rising market was again one of the key positive contributors to performance At a stock

Investment Managers' Report continued

Performance attribution for the year ended 31st March 2011

	%	%
Contributions to total returns		
Benchmark total return		**14 2**
Asset allocation	-0 8	
Stock selection	6 2	
Gearing/cash effect	2 0	
Currency effect	0 5	
Investment manager contribution		**7 9**
Portfolio total return		**22.1**
Management fees/other expenses	-1 2	
Share buy backs	0 8	
Other effects		**-0 4**
Net asset value total return		**21 7**
Share price total return		**27 1**

Source Xamin/JPMAM and Morningstar
All figures are on a total return basis.

Performance attribution analyses how the Company achieved its recorded performance relative to its benchmark index

A glossary of terms and definitions is provided on page 58

level, the top contributors included Swiss engineering group OC Oerlikon, which rose by 82% as the benefits of restructuring became visible, German TV operator ProSiebenSat 1 Media which rose by 70% thanks to the operational leverage of a recovery in advertising revenues and Italian luxury goods producer Bulgari which gained 68% and became the subject of a takeover bid from LVMH

The annual report from last year highlighted the exceptional behaviour of investment style factors in European equities whereby those companies whose share prices had previously underperformed the most and which at the time, had the poorest relative earnings revisions, performed best and by some margin As was pointed out whilst this is not unusual at a turning point in the market, the magnitude and speed with which such companies outperformed was exceptional During the year to 31st March 2011 the performance of such style factors was more normal and owning stocks which exhibited both strong price momentum and the best relative earnings revisions once again contributed positively to performance

Style Factor Performance – 12 months to 31st March 2011 vs. long term

Source Citigroup Shows spread of returns between best and worst quintile for each factor Long term data is from 1990 to 31st March 2011

Portfolio Positioning

Industrial engineering became the portfolio's largest overweight sector relative to the benchmark index thanks to a strong performance from such holdings as Austrian process engineer Andritz and the addition of new holdings in French logistics vehicle producer Manitou and Swiss industrial products manufacturer Georg Fischer The key sector shift in the portfolio was a move from a significant underweight to significant overweight position in the recovering financial services and life insurance sectors with new investments in asset managers Azimut in Italy and GAM Holding, Helvetia Holding and Swiss Life in Switzerland A view that best of the early cycle recovery had already been seen in media and retail led to the disposal of holdings in TV operators ProSiebenSat 1 Media in Germany Modern Times Group in Sweden and Antena 3 Television in Spain, Swiss duty free operator Dufry and Belgian car rental operator D'Ieteren

Geographically the portfolio remains overweight in the central European countries of the Netherlands and Switzerland We have also increased the position in Italy and

Top 10 Sector Active Positions

March 2011

March 2010

Source JPMorgan Asset Management Factset HSBC

reduced the underweight in Spain, as their yield spreads with Germany have stabilised suggesting that for the bond markets at least, Italy and Spain will not suffer the same fate as Greece Ireland and Portugal in needing funds from the EU and the IMF New holdings include internet clothing and design retailer Yoox, pump manufacturer Interpump braking systems producer Brembo in Italy and hotel operator Sol Melia in Spain

Top 10 Country Active Positions

March 2011

March 2010

Source JPMorgan Asset Management, Factset, HSBC

Investment Managers' Report continued

Investment Cycle

Over time there is a strong correlation between the trend in consensus earnings revisions for European smaller companies and the performance of the benchmark HSBC Index As illustrated below, it is clear that revisions to earnings forecasts shown on the left hand scale, are typically negative as analysts start the year overly optimistic then have to downgrade as the year unfolds Nevertheless, for the index to make progress, as indicated on the right hand scale it is normally sufficient that the rate of downgrade should be less than around 8% Following a sharp improvement in the momentum of earnings revisions in the last two years, we are currently in the unusual position where analysts are not, on average, downgrading their estimates for corporate profitability

Correlation Between Earnings Revisions* and Index Performance

Source Citigroup/Datastream, data as at 28th April 2011. *Analysts' upgrades less downgrades as a % of total number of estimates

Smaller companies in Europe have enjoyed a period of strong performance over the last two years and, on a price to book basis now trade at a comparable valuation to that of large companies As shown below, this is towards the top end of the range in which they have traded over the last twenty years Nevertheless as can also be seen below, smaller companies are cheap on an absolute basis, currently being valued towards the bottom end of the historic range of 1 5 – 2 5x book value

Europe Small Cap Valuations

Relative Valuations – Price/Book

Absolute Valuations – Price/Book

Source European Quantitative Research, Citigroup Investment Research Data as at 28th April 2011.

Outlook

Our belief is that we are somewhere midway through an economic recovery with perhaps slightly higher than the usual level of volatility which that entails Many of the concerns which typically arise midway through a cycle are present As we write, commodity prices have gone into sharp reversal, raising questions over the speed of the global recovery Published inflation numbers are higher than estimated but it is still not certain whether it is structural or whether it is temporary with important implications on the outlook for interest rates A key question remains as to whether the peripheral crisis is over with Portugal being the last country to require funding or whether it will spread to Spain and ultimately Italy

While global growth may be moderating, it is still healthy the US economy is performing well core Europe is recovering adequately, even with Eurozone countries making a concerted effort to cut budget deficits, and growth in emerging markets remains robust Corporate earnings are recovering well and order intakes during the first quarter of 2011 have been strong with the result that consensus earnings revisions remain positive While inflation is undoubtedly rising, the perceived fragility of the recovery is likely to ensure continued relaxed monetary policies As far as the periphery is concerned, we believe that Spain, and with a higher conviction Italy, are decoupling from the other members of the periphery, as bond yield spreads seem to be suggesting

At this stage of the cycle it is normal to have a pause in the markets coupled with substantial sector rotation, typically for a period of three to six months Therefore, the level of gearing in the portfolio has been significantly reduced in order to have the investment capacity to redeploy it once this process has run its course As always our challenge is to pick the most appropriate stocks given the prevailing economic environment

Jim Campbell
Francesco Conte
Investment Managers

31st May 2011

Summary of Results

	2011	2010	
Total returns for the year ended 31st March			
Return to shareholders[1]	**+27.1%**	+59.8%	
Return on net assets[2,3]	**+21.7%**	+57.7%	
Benchmark return[4]	**+14.2%**	+75.2%	
			% change
Net asset value, share price, discount and market data at 31st March			
Shareholders' funds (£'000)	**477,428**	415,882	+14.8
Net asset value per share	**1097.3p**	907.6p	+20.9
Net asset value per share assuming reissuance of Treasury shares[3]	**1097.3p**	904.6p	+21.3
Share price	**930.0p**	735.0p	+26.5
Share price discount to net asset value assuming reissuance of Treasury shares	**15.2%**	18.7%	
Shares in issue[5]	**43,508,739**	47,084,653	
HSBC Smaller European Companies (ex UK) index in sterling terms (capital only)[6]	**345.5**	307.6	+12.3
Revenue for the year ended 31st March			
Gross revenue return (£'000)	**9,241**	8,431	+9.6
Net revenue available for shareholders (£'000)	**2,369**	2,167	+9.3
Revenue return per share	**5.33p**	4.63p	+15.1
Dividend per share	**4.0p**	3.0p	+33.3
Actual Gearing Factor[7]	**116.7%**	100.2%	
Total Expense Ratio[8]	**1.21%**	1.21%	

A glossary of terms and definitions is provided on page 58

[1]Source Morningstar

[2]Source J P Morgan

[3]Assumes that any shares held in Treasury were reissued in accordance with the Board's policy on the reissuance of Treasury shares. No shares were held in Treasury on 31st March 2011.

[4]Source HSBC. The Company's benchmark is the HSBC Smaller European Companies (ex UK) Total Return Index in sterling terms.

[5]Includes nil (2010 1,263,547) shares held in Treasury

[6]Source HSBC

[7]Actual gearing represents investments excluding holdings in liquidity funds, expressed as a percentage of shareholders' funds

[8]Management fees and all other operating expenses excluding interest, expressed as a percentage of the average of the month end net assets during the year. The Total Expense Ratio is calculated in accordance with guidance issued by the Association of Investment Companies. The prior year figure has been restated and further details are given in the Directors' Report on page 22.

Performance

Ten Year Performance

Figures have been rebased to 100 at 31st March 2001

Source Morningstar/HSBC

- JPMorgan European Smaller Companies – share price total return.
- JPMorgan European Smaller Companies – net asset value total return
- Benchmark

Performance Relative to Benchmark

Figures have been rebased to 100 at 31st March 2001

Source Morningstar/HSBC

- JPMorgan European Smaller Companies – share price total return
- JPMorgan European Smaller Companies – net asset value total return
- Benchmark

Ten Year Financial Record

At 31st March	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	**2011**
Total assets less current liabilities (£'m)	221 9	181 9	116 0	162 6	225 9	373 0	450 2	394 0	270 1	415 9	**477 4**
Net asset value per share (p)	314 9	272 4	196 9	298 2	421 8	709 0	876 8	807 8	573 6	907 6	**1097.3**
Share price (p)	285 0	221 0	144 5	246 0	369 8	636 0	805 0	680 0	460 0	735 0	**930.0**
Discount (%)	9 5	18 9	26 6	17 5	12 3	10 3	8 2	15 8	19 8	18 7	**15.2**
Actual gearing (%)	114 1	110 7	104 9	107 8	104 9	103 8	96 2	98 4	98 1	100 2	**116.7**
Year ended 31st March											
Revenue attributable to shareholders (£'000)	2,074	2,779	3,572	3,446	4,218	4 898	7767	6,149	10,067	8,431	**9,241**
(Loss)/return per share (p)	(8 26)	(2 94)	0 48	1 59	0 17	0 41	2 49	(0 75)	15 38	4 63	**5.33**
Dividend per share (p)	–	–	–	–	–	–	–	–	–	3 0	**4.0**
Total expense ratio %[1]	1 35	1 35	1 39	1 46	1 20	1 25	1 21	1 33	1 27	1 21	**1.21**
Rebased to 100 at 31st March 2001											
Share price total return[2]	100 0	77 5	50 7	86 3	129 8	223 2	282 6	238 7	161 5	258 1	**328.0**
Net asset value total return[2]	100 0	86 5	62 5	94 7	133 9	225 6	278 6	255 2	181 4	286 3	**348.5**
Benchmark[3]	100 0	95 6	70 8	112 2	147 1	220 7	262 5	240 3	147 4	258 1	**294.7**

A glossary of terms and definitions is provided on page 58

[1]Management fees and all other operating expenses, excluding interest, expressed as a percentage of the average of the month end net assets during the year (2009 and prior years the average of the opening and closing net assets)

[2]Source Morningstar

[3]Source HSBC The Company s benchmark is the HSBC Smaller European Companies (ex UK) Total Return Index in sterling terms

Ten Largest Investments

At 31st March

Company	Business	2011 Valuation £'000	2011 Valuation %[1]	2010 Valuation £'000	2010 Valuation %[1]
OC Oerlikon[2]	Precision technologies	**15,241**	**3.2**	–	–
YOOX[3]	Retailer of luxury goods	**12,333**	**2.6**	6,302	1 5
EFG International[3]	Private banking	**12,037**	**2.5**	5,902	1 4
AMG Advanced Metallurgical[2]	Speciality metals	**11,003**	**2.3**	–	–
Bucher Industries	Machinery and construction	**10,605**	**2.2**	6,375	1 5
Altran Technologies[2]	Technology consultancy	**10,537**	**2.2**	–	–
CGGVeritas[3]	Geophysical services	**10,484**	**2.2**	5,490	1 3
Interpump[2]	Pump manufacturer	**10,197**	**2.1**	–	–
Barco[3]	Display hardware manufacturer	**10,026**	**2.1**	4,837	1 2
Nyrstar[2]	Metal producer	**9,980**	**2.1**	–	–
Total[4]		**112,443**	**23.5**		

[1]Based on total assets less current liabilities of £477 4m (2010 £415 9m)

[2]Not held in the portfolio at 31st March 2010

[3]Not included in the ten largest investments at 31st March 2010

[4]At 31st March 2010 the value of the ten largest investments amounted to £69 0m representing 16 6% of total assets less current liabilities

Portfolio Analyses

Geographical Analysis	31st March 2011 Portfolio %	31st March 2011 Benchmark %	31st March 2010 Portfolio %	31st March 2010 Benchmark %
Switzerland	**18.0**	**11.2**	15.0	10.8
Italy	**16.8**	**10.8**	10.3	13.1
Netherlands	**15.4**	**4.1**	12.9	4.8
France	**12.1**	**12.5**	8.1	11.5
Spain	**9.1**	**7.6**	5.2	6.7
Germany	**9.0**	**14.4**	12.2	13.1
Finland	**9.0**	**5.9**	8.1	5.7
Sweden	**7.0**	**9.1**	6.5	8.6
Denmark	**5.4**	**3.2**	2.6	3.3
Belgium	**4.2**	**3.8**	7.8	4.1
Greece	**3.7**	**3.5**	1.0	3.5
Austria	**2.7**	**3.2**	1.9	3.7
Norway	**2.1**	**6.9**	5.3	6.4
Ireland	**1.8**	**2.2**	1.8	2.3
Portugal	**0.4**	**1.3**	0.3	1.9
Luxembourg	**–**	**0.3**	1.2	0.5
Total equities	**116.7**	**100.0**	100.2	100.0
Liquidity fund	**0.4**	**–**	3.1	–
Net current liabilities	**(17.1)**	**–**	(3.3)	–
Total	**100.0**	**100.0**	100.0	100.0

Based on total assets less current liabilities of £477.4m (2010 £415.9m)

Sector Analysis	31st March 2011 Portfolio %	31st March 2011 Benchmark %	31st March 2010 Portfolio %	31st March 2010 Benchmark %
Industrials	**39.5**	**24.4**	29.6	26.2
Financials	**25.3**	**20.9**	5.3	20.1
Consumer Discretionary	**20.3**	**15.7**	27.5	15.5
Materials	**12.0**	**8.6**	7.6	8.8
Information Technology	**11.4**	**8.0**	10.1	6.6
Health Care	**3.9**	**8.2**	6.8	7.9
Energy	**2.2**	**5.3**	6.7	5.8
Consumer Staples	**1.9**	**5.7**	6.3	6.0
Telecommunication Services	**0.2**	**0.5**	0.3	1.1
Utilities	**–**	**2.7**	–	2.0
Total equities	**116.7**	**100.0**	100.2	100.0
Liquidity fund	**0.4**	**–**	3.1	–
Net current liabilities	**(17.1)**	**–**	(3.3)	–
Total	**100.0**	**100.0**	100.0	100.0

Based on total assets less current liabilities of £477.4m (2010 £415.9m)

Investment Activity

during the year ended 31st March 2011

	Value at 31st March 2010 £'000	%	Purchases £'000	Sales £'000	Changes in value £'000	Value at 31st March 2011 £'000	%
Switzerland	62,472	15 0	145,711	133,922	11 683	**85,944**	**18.0**
Italy	43,017	10 3	94,924	77346	19,594	**80,189**	**16.8**
Netherlands	53,666	12 9	80,321	67,405	6,876	**73,458**	**15 4**
France	33 800	8 1	131,481	122,091	14,831	**58,021**	**12.1**
Spain	21,453	5 2	107,692	83 106	(2,695)	**43,344**	**9.1**
Germany	50,709	12 2	201,930	221,016	11,580	**43,203**	**9.0**
Finland	33,573	8 1	112,038	111,275	8,855	**43,191**	**9.0**
Sweden	26,812	6 5	115,365	113,401	4,648	**33,424**	**7.0**
Denmark	10,692	2 6	86,483	74,038	2 538	**25,675**	**5.4**
Belgium	32,344	7 8	34,231	49,613	3,044	**20,006**	**4.2**
Greece	4 287	1 0	14,307	2,674	1,714	**17,634**	**3.7**
Austria	8,033	1 9	26,211	24,589	3 046	**12,701**	**2.7**
Norway	22,038	5 3	58,088	65,926	(4,328)	**9,872**	**2.1**
Ireland	7,388	1 8	19,215	17,612	(453)	**8,538**	**1.8**
Portugal	1,245	0 3	2 158	1,297	(259)	**1,847**	**0.4**
Luxembourg	5,149	1 2	13 778	18,356	(571)	**–**	**–**
Total portfolio	416,678	100 2	1 243 933	1,183,667	80 103	**557,047**	**116.7**
Liquidity fund	12,934	3 1	300,848	310,841	(931)	**2,010**	**0 4**
Net current liabilities	(13,730)	(3 3)	–	–	–	**(81,629)**	**(17.1)**
Total net assets	415,882	100 0	1,544,781	1,494,508	79,172	**477,428**	**100.0**

List of Investments

at 31st March 2011

Company	Valuation £'000
Switzerland	
OC Oerlikon	15 241
EFG International	12,037
Bucher Industries	10,605
Rieter	9,976
Swiss Life	9,859
Julius Baer	8,644
Fischer (Georg)	7,998
Helvetia	5,776
Schulthess	1,441
u-blox	1,364
Schmolz + Bickenbach	1,281
Uster Technologies	1,014
Komax	708
Total	**85,944**
Italy	
YOOX	12,333
Interpump	10,197
Impregilo	8,118
Sorin	8,006
Mediolanum	7,940
Buzzi Unicem	7,923
Brembo	7,426
Gruppo Coin	5,428
Marcolin	4,642
Azimut	4,399
Carraro	2,488
Biesse	1,289
Total	**80,189**
Netherlands	
AMG Advanced Metallurgical	11,003
Bam	9,652
Koninklijke Ten Cate	9,601
Unit 4 Agresso	9,550
Aalberts Industries	9,260
SNS Reaal	8,399
Delta Lloyd	8,232
USG People	7,761
Total	**73,458**

Company	Valuation £'000
France	
Altran Technologies	10,537
CGGVeritas	10,484
Wendel	8,619
BIC	7,578
Manitou	7,394
Soitec	7,248
Lectra	2,137
LeGuide com	1,449
Haulotte	1,332
Parrot	538
NRJ	441
LVL Medical	161
Club Mediterranee	103
Total	**58,021**
Spain	
Obrascon Huarte Lain	8,513
Viscofan	7,236
Sol Melia	7,000
Bolsas y Mercados	6,922
Grifols	5,722
Fomento de Construciones y Contratas	5,388
NH Hoteles	1,466
Jazztel	1,097
Total	**43,344**
Germany	
Software	8,279
Hugo Boss[1]	8,065
Fuchs Petrolub[1]	7,712
Aareal Bank	7,003
Pfeiffer Vacuum Technology	6,343
Gerry Weber International	1,523
Delticom	1,151
Duerr	1,128
Amadeus Fire	1,101
GFK	627
Stroer Out-Of Home Media	271
Total	**43,203**

Company	Valuation £'000
Finland	
Nokian Renkaat	8,529
Konecranes	8 485
YIT	8 407
Pohjola Bank	8 006
Kemira	7,355
Ramirent	1,376
Vacon	1,033
Total	**43,191**
Sweden	
NCC	8,679
JM	8,529
Castellum	7,668
Billerud	1,585
Betsson	1,556
Bilia	1,518
New Wave	1,164
Axis	1,105
Know It	931
Proffice	689
Total	**33,424**
Denmark	
DSV	8,674
Chr Hansen	8,503
Topdanmark	7,201
Royal Unibrew	1,297
Total	**25,675**
Belgium	
Barco	10,026
Nyrstar	9,980
Total	**20,006**
Greece	
Hellenic Exchanges	9 000
Frigoglass	6,981
Intralot	1,653
Total	**17,634**

Company	Valuation £'000
Austria	
Andritz	8 684
Oesterreichische Post	1,513
CA Immobilien Anlagen	1 413
Zumtobel	1,091
Total	**12,701**
Norway	
Storebrand	7 256
Atea	1,445
Golar LNG	1,171
Total	**9,872**
Ireland	
Paddy Power	7,240
F B D	750
Glanbia	548
Total	**8,538**
Portugal	
Semapa-Sociedade de Investimento e Gestao	982
Portucel-Empresa Produtora de Pasta	865
Total	**1,847**
Liquidity Fund	
JPM Euro Liquidity Fund	2 010
Total	**2,010**
Total Investments	**559,057**

[1]Preference shares

Total investments comprise £541,270,000 in equity shares £15,777,000 in preference shares and £2,010 000 in a liquidity fund

Board of Directors
[Data to be finalised]

Elisabeth Airey (Chairman of the Board and Nomination Committee)

A Director since January 2000 Appointed Chairman in 2006

Last re-elected to the Board 2010
Remuneration £34,000
Other directorships Chairman of Unilever UK Pension Fund Trustees and a Director of Dunedin Enterprise Investment Trust plc, Tate and Lyle plc and Jupiter Fund Management plc Formerly a Director of AMEC plc
Connections with Manager Previously a Director of Fleming Natural Resources Investment Trust plc
Shared Directorships with other Directors Dunedin Enterprise Investment Trust plc (with Federico Marescotti)
Shareholding in Company 23,538

Anthony Davidson (Chairman of the Audit Committee)

A Director since May 2005

Last re-elected to the Board 2008
Remuneration £25 000
Other directorships Chairman of Shires Income PLC Director of Sun Life Assurance Company of Canada (UK) Limited, SLFC Assurance (UK) Limited and a number of life companies within The Phoenix Group Formerly Chief Executive of Provincial Insurance plc
Connections with Manager Formerly a director of JPMorgan Fleming Worldwide Income Investment Trust plc
Shared Directorships with other Directors None
Shareholding in Company 5,011

Paul Manduca

A Director since December 2005

Last re-elected to the Board 2009
Remuneration £22,500
Other directorships Chairman of AON (UK) Limited, Microlease plc and Henderson Diversified Income plc Senior Independent Director at the Prudential Group plc and a Director of Kazmunaigaz plc Formerly the Chief Executive Officer of Deutsche Asset Management Europe Limited, Chairman of the Association of Investment Companies and a Director of Wm Morrison Supermarkets plc and Development Securities plc
Connections with Manager None
Shared Directorships with any other Trust Directors None
Shareholding in Company 5,000

Federico Marescotti

A Director since December 2005

Last re-elected to the Board 2008
Remuneration £22 500
Other directorships Executive Chairman of Vela Capital Italy A Director of Ecofin Water & Power Opportunities plc and Dunedin Enterprise Investment Trust plc
Connections with Manager None
Shared Directorships with other Directors Dunedin Enterprise Investment Trust plc (with Elisabeth Airey)
Shareholding in Company 1,222

Michael Wrobel

A Director since April 2003

Last re-elected to the Board 2009
Remuneration £22 500
Other directorships Group Advisor Pension Investments at Rio Tinto plc and Chairman of The Diverse Income Trust plc Formerly a Director of Gartmore Investment Management plc and Head of Investment Trusts at F&C Management
Connections with Manager None
Shared Directorships with other Directors None
Shareholding in Company 6 000

Carolan Dobson

A Director since September 2010

Last re-elected to the Board n/a
Remuneration £22 500
Other directorships Chairman of QinetiQ Pension Fund a trustee of Avon Pension Fund, Chairman of Aberdeen Smaller Companies High Income Trust plc and member of the Competition Commission and Chairman of the Finance and Regulation Group She has a wealth of investment experience having been Head of UK Equities at Abbey Asset Managers Head of Investment Trusts at Murray Johnstone and fund manager of Murray Income plc
Connections with Manager None
Shared Directorships with any other Trust Directors None
Shareholding in Company 1 075

All Directors are members of the Audit and Nomination Committees and are considered independent of the Manager

Directors' Report

The Directors present their report and audited financial statements for the year ended 31st March 2011

Business Review

Business of the Company

The Company carries on business as an investment trust and was approved by HM Revenue and Customs as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010 (formerly Section 842 of the Income and Corporation Taxes Act 1988) for the year ended 31st March 2010 In the opinion of the Directors the Company has subsequently conducted its affairs so that it should continue to qualify The Company will continue to seek approval under Section 1158 of the Corporation Tax Act 2010 each year

Approval for the year ended 31st March 2010 is subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006 The Company is not a close company for taxation purposes On 8th July 2010, the Company changed its name from JPMorgan European Fledgeling Investment Trust plc to JPMorgan European Smaller Companies Trust plc

A review of the Company's activities and prospects is given in the Chairman's Statement on pages 2 to 4, and in the Investment Managers' Report on pages 5 to 9

Objective

The Company's objective is to achieve capital growth from smaller European companies (excluding the UK)

Investment Policies and Risk Management

In order to achieve the investment objective and to seek to manage risk the Company invests in a diversified portfolio of smaller companies in Europe excluding the UK The investment universe is defined at the time of purchase by the countries and market capitalisation range of the constituents of the benchmark index which, at the end of March 2011 consisted of 1,000 companies with a market value of between £54 million and £3 billion across 15 countries

The Company manages liquidity and borrowings to increase potential sterling returns to shareholders The Company borrows in Euros in order to hedge the currency risk in respect of the geared portion of the portfolio

The investment policy emphasises capital growth rather than income and shareholders should not therefore expect dividends to arise every year

The Board has set no minimum or maximum limits on the number of investments in the portfolio but in the year under review, the number of investments ranged between approximately 100 to 140 To gain the appropriate exposure the Investment Managers are permitted to invest in pooled funds JPMAM is responsible for management of the Company's assets On a day-to-day basis the assets are managed by two investment managers based in London, supported by a 40 strong European equity team

It should be noted that the Company invests in smaller companies which tend to be more volatile than larger companies and the Company's shares should therefore be regarded as carrying greater than average risk

Investment Restrictions and Guidelines

The Board seeks to manage the Company's risk by imposing various investment limits and restrictions

- As an investment trust, the Company cannot invest more than 15% of its assets in any one investment, at the time of acquisition The Company will not invest more than 12 5% of its total assets in any one individual stock at the time of acquisition
- The Company does not normally invest in unquoted investments and to do so requires prior Board approval
- No more than 25% of the Company's assets may be invested in the aggregate of (i) securities not listed on a recognised exchange and (ii) holdings in which the Company has 20% or more of the issued equities It is unlikely that the Company would invest in companies that fall into either of these categories and did not do so in the year under review
- In accordance with the Listing Rules of the UK Listing Authority, the Company will not invest more than 15% of its gross assets in other UK listed investment companies and will not invest more than 10% of its gross assets in companies that themselves may invest more than 15% of gross assets in UK listed investment companies
- The Board has set a normal gearing range of 80-120% invested
- The Company does not normally enter into derivative transactions and to do so requires prior Board approval

These limits and restrictions may be varied by the Board at any time at its discretion

Compliance with the Board's investment restrictions and guidelines is monitored continuously by the Manager and is reported to the Board on a monthly basis

Performance
In the year to 31st March 2011 the Company produced a total return to shareholders of +27 1% and a total return on net assets of +21 7% This compares with the return on the Company's benchmark index of +14 2% As at 31st March 2011 the value of the Company's investment portfolio was £559 1 million The Investment Managers' Report on pages 5 to 9 includes a review of developments during the year as well as information on investment activity within the Company's portfolio

Total Return, Revenue and Dividends
Gross total return for the year amounted to £86 6 million (2010 £160 6 million) and net return after deducting the management fee other administrative expenses finance costs and taxation amounted to £79 7 million (2010 £154 4 million) Net revenue return on ordinary activities after taxation for the year amounted to £2 4 million (2010 £2 2 million) The Directors have declared a dividend of 4 0p (2010 3 0p) per share This dividend will cost £1 740,000 and the revenue reserve would have amounted to £1,012,000 had the dividend been booked in the year

Key Performance Indicators ('KPIs')
The Board uses a number of financial KPIs to monitor and assess the performance of the Company The principal KPIs are

- **Performance against the benchmark**
  This is the most important KPI by which performance is judged Information on the Company's performance is given in the Chairman's Statement and the Investment Managers' Report

Performance Relative to Benchmark Index

Figures have been rebased to 100 at 31st March 2001

Source Morningstar/HSBC

- JPMorgan European Smaller Companies - share price total return
- JPMorgan European Smaller Companies - net asset value total return
- Benchmark

Ten Year Performance

Figures have been rebased to 100 at 31st March 2001

Source Morningstar/HSBC

- JPMorgan European Smaller Companies - share price total return
- JPMorgan European Smaller Companies - net asset value total return
- Benchmark

- **Performance against the Company's peers**
  The principal objective is to achieve capital growth relative to the benchmark However the Board also monitors the performance relative to a broad range of competitor funds

- **Performance attribution**
  The purpose of performance attribution analysis is to assess how the Company achieved its performance relative to its benchmark index i e to understand the impact on the Company's relative performance of the various components such as asset allocation and stock selection Details of the attribution analysis for the year ended 31st March 2011 are given in the Investment Managers' Report on page 6

- **Discount to net asset value ('NAV')**
  The Board has for several years operated a share repurchase programme which seeks to address imbalances in supply and demand for the Company's shares within the market and thereby reduce the volatility and absolute level of the discount to NAV at which the Company's shares trade In the year to 31st March 2011, the discount ranged between 11 8% and 22 3% with an average of 16 9% More information on the Board's share buy back policy is given in the Chairman's Statement

Directors' Report continued

Discount Performance

Source Datastream (month end data)

JPMorgan European Smaller Companies - Discount

- **Total expense ratio ('TER')**
  The TER represents the Company's management fee and all other operating expenses excluding interest, expressed as a percentage of the average of the month end net assets during the year The method of calculating the TER has been changed this year and the prior year restated In previous years, the TER represented the Company's management fee and other operating expenses excluding interest expressed as a percentage of the average of the opening and closing net assets The new methodology more accurately reflects the way the management fee is calculated, which is based on the month end market capitalisation The TER for the year ended 31st March 2011 was 1 21% (2010 1 21% as restated previously 1 24%)

Share Capital
The Company has authority both to issue new shares and to repurchase shares in the market (for cancellation or to be held in Treasury)

During the year the Company repurchased a total of 684 367 shares into Treasury for a total consideration of £4,591,000 and subsequently cancelled all the 1,947,914 shares held in Treasury A total of 1 628,000 shares, representing 3 6% of the issued share capital at the beginning of the year were repurchased for cancellation for a total consideration of £12 242 000 Since the year end, the Company has repurchased a further 390,000 ordinary shares for cancellation for a total consideration of £3 692,000

The Company did not issue any new shares during the year or since the Company's year end until the date of this report The Company does not have authority to reissue shares from Treasury at a discount to net asset value and will not seek such authority at the forthcoming Annual General Meeting

Resolutions to renew the authority to issue new shares and to repurchase shares will be put to shareholders at the forthcoming Annual General Meeting The full text of these resolutions are set out in the Notice of Meeting on pages 55 and 56

Principal Risks
With the assistance of the Manager the Board has drawn up a risk matrix, which identifies the key risks to the Company These key risks fall broadly under the following categories

- Investment and Strategy An inappropriate investment strategy, for example asset allocation or the level of gearing, may lead to under-performance against the Company's benchmark index and peer companies, resulting in the Company's shares trading on a wider discount The Board manages these risks by diversification of investments through its investment restrictions and guidelines which are monitored and reported by the Manager JPMAM provides the Directors with timely and accurate management information including performance data and attribution analyses, revenue estimates, liquidity reports and shareholder analyses The Board monitors the implementation and results of the investment process with the Investment Managers, who attend all Board meetings, and review data which show statistical measures of the Company's risk profile The Investment Managers employ the Company's gearing, within a strategic range set by the Board The Board holds a separate meeting devoted to strategy each year
- Market Market risk arises from uncertainty about the future prices of the Company's investments It represents the potential loss that the Company might suffer through holding investments in the face of negative market movements The Board monitors asset allocation, stock selection and levels of gearing on a regular basis and has set investment restrictions and guidelines, which are monitored and reported on by JPMAM The Board monitors the implementation and results of the investment process with the Manager
- Accounting Legal and Regulatory In order to qualify as an investment trust, the Company must comply with Section 1158 of the Corporation Tax Act 2010

('Section 1158') (formerly Section 842 of the Income and Corporation Taxes Act 1988) Details of the Company's approval are given under 'Business of the Company' above Were the Company to breach Section 1158, it might lose investment trust status and as a consequence, gains within the Company's portfolio could be subject to Capital Gains Tax The Section 1158 qualification criteria are continually monitored by JPMAM and the results reported to the Board each month The Company must also comply with the provisions of the Companies Act and since its shares are listed on the London Stock Exchange the UKLA Listing Rules and Disclosure and Transparency Rules ('DTRs') A breach of the Companies Act could result in the Company and/or the Directors being fined or the subject of criminal proceedings Breach of the UKLA Listing Rules or DTRs could result in the Company's shares being suspended from listing which in turn would breach Section 1158 The Board relies on the services of its Company Secretary, JPMAM to ensure compliance with the Companies Act and the UKLA Listing Rules and DTRs

- Corporate Governance and Shareholder Relations Details of the Company's compliance with Corporate Governance best practice including information on relations with shareholders are set out in the Corporate Governance report on pages 25 to 29
- Operational Loss of key staff by JPMAM such as the Investment Managers, could affect the performance of the Company Disruption to, or failure of JPMAM's accounting, dealing or payments systems or the custodian's records could prevent accurate reporting and monitoring of the Company's financial position Details of how the Board monitors the services provided by JPMAM and its associates and the key elements designed to provide effective internal control are included with the Internal Control section of the Corporate Governance report on pages 28 to 29
- Financial The financial risks faced by the Company include market price risk interest rate risk liability risk and credit risk Further details are disclosed in note 20 on pages 47 to 53

Future Developments

Clearly the future development of the Company is much dependent upon the success of the Company's investment strategy in the light of economic and equity market developments The Investment Managers discuss the outlook in their report on page 9

Management of the Company

The Manager and Secretary is JPMorgan Asset Management (UK) Limited ('JPMAM') JPMAM is employed under a contract which can be terminated on six months' notice without penalty If the Company wishes to terminate the contract on shorter notice the balance of remuneration is payable by way of compensation

JPMAM is a wholly-owned subsidiary of JPMorgan Chase Bank which, through other subsidiaries also provides banking dealing and custodian services to the Company

The Board has evaluated the performance of the Manager and confirms that it is satisfied that the continuing appointment of the Manager is in the interests of shareholders as a whole In arriving at this view the Board considered the investment strategy and process of the Manager noting performance against the benchmark over the long term and the quality of the support that the Company receives from JPMAM

Management Fee

The management fee is charged at the rate of 1 3% of the value of the Company's market capitalisation and is calculated and paid monthly in arrears An adjustment is made to exclude from the calculation investments in funds on which JPMAM charges a management fee

Going Concern

The Directors believe that having considered the Company's investment objective (see page 20), risk management policies (see pages 47 to 53) capital management policies and procedures (see page 53), the nature of the portfolio and expenditure projections the Company has adequate resources an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future For these reasons, they consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the accounts

Payment Policy

It is the Company's policy to obtain the best terms for all business and therefore there are no standard payment terms

Directors' Report continued

In general, the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by those terms As at 31st March 2011, the Company had no outstanding trade creditors (2010 none)

Directors

The Directors of the Company who held office at the end of the year, together with their beneficial interests in the Company's shares are shown below

	31st March 2011	1st April 2010 or as at date of appointment
Elisabeth Airey	23,538	23,538
Anthony Davidson	5,011	5,011
Carolan Dobson	–	–
Paul Manduca	5,000	5,000
Federico Marescotti	1,222	1,222
Michael Wrobel	6,000	6,000

Since the year end, Carolan Dobson has acquired 1,075 shares in the Company

Carolan Dobson was appointed a Director on 1st September 2010 and will stand for reappointment at the forthcoming Annual General Meeting

In accordance with the Company's Articles of Association, Anthony Davidson and Federico Marescotti are required to retire by rotation at the forthcoming Annual General Meeting and will stand for reappointment The Nomination Committee, having considered their qualifications performance and contribution to the Board and its committees, confirms that each Director continues to be effective and demonstrates commitment to the role and the Board recommends to shareholders that they be reappointed

Elisabeth Airey, will retire from the Board at the conclusion of the Annual General Meeting Paul Manduca will succeed her as Chairman

Director Indemnification and Insurance

As permitted by the Company's Articles of Association the Directors have the benefit of an indemnity which is a qualifying third party indemnity as defined by Section 234 of the Companies Act 2006 The indemnity was in place during the year and as at the date of this report

An insurance policy is maintained by the Company which insures the Directors of the Company against certain liabilities arising in the conduct of their duties There is no cover against fraudulent or dishonest actions

Disclosure of information to Auditors

In the case of each of the persons who are Directors of the Company at the time when this report was approved

(a) so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act) of which the Company's auditors are unaware, and

(b) each of the Directors has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's Auditors are aware of that information

The above confirmation is given and should be interpreted in accordance with the provision of Section 418 of the Companies Act 2006

Environmental Matters, Social and Community Issues

Information on environmental matters social and community issues is set out on page 29 The Company has no employees

Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as Auditors and a resolution to re-appoint them and authorise the Directors to determine their remuneration for the ensuing year, will be proposed at the Annual General Meeting

Annual General Meeting

NOTE THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION If you are in any doubt as to the action you should take, you should seek your own personal financial advice from your stockbroker, bank manager, solicitor or other financial advisor authorised under the Financial Services and Markets Act 2000

Resolutions relating to the following items of special business will be proposed at the forthcoming Annual General Meeting

(i) Authority to issue new shares for cash and disapply pre-emption rights (resolutions 8 and 9)

The Directors will seek renewal of the authority at the AGM to issue up to 2 155,936 new shares for cash up to an aggregate nominal amount of £538,984 such amount being equivalent to approximately 5% of the present issued share capital The full text of the resolutions is set out in the Notice of Meeting on page 55

It is advantageous for the Company to be able to issue new shares to investors purchasing shares through the JPMAM savings products and also to other investors when the Directors consider that it is in the best interests of shareholders to do so Any such issues would only be made at prices greater than the NAV, thereby increasing the assets underlying each share and spreading the Company's administrative expenses, other than the management fee which is charged on the value of the Company's market capitalisation, over a greater number of shares The issue proceeds would be available for investment in line with the Company's investment policies

(ii) Authority to repurchase the Company's shares (resolution 10)
The authority to repurchase up to 14 99% of the Company's issued share capital renewed by shareholders at the 2010 Annual General Meeting will expire on 7th January 2012 unless renewed at the forthcoming Annual General Meeting The Directors consider that the renewal of the authority is in the interests of shareholders as a whole as the repurchase of shares at a discount to NAV enhances the NAV of the remaining shares The Board will therefore seek shareholder approval at the Annual General Meeting to renew this authority, which will last until 7th January 2013 or until the whole of the 14 99% has been acquired, whichever is the earlier The full text of the resolution is set out in the Notice of Meeting on pages 55 to 56 Repurchases will be made at the discretion of the Board, and will only be made in the market at prices below the prevailing NAV per share thereby enhancing the NAV of the remaining shares, as and when market conditions are appropriate

Recommendation

The Board considers that resolutions 8 to 10 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do where voting rights are exercisable in respect of their own beneficial holdings which amount in aggregate to 41 846 shares representing approximately 0 1% of the existing issued share capital of the Company

Corporate Governance

Compliance
The Company is committed to high standards of corporate governance This statement, together with the Statement of Directors' Responsibilities on page 31, indicates how the Company has applied the principles of good governance of the Financial Reporting Council 2008 Combined Code (the 'Combined Code') and the Association of Investment Companies' ('AIC') Code of Corporate Governance (the 'AIC Code') which complements the Combined Code and provides a framework of best practice for investment trusts

The Board is responsible for ensuring the appropriate level of corporate governance and considers that the Company has complied with the best practice provisions of the Combined Code other than in respect of the provision relating to the appointment of a senior independent director, and the AIC Code throughout the year under review

Role of the Board
A management agreement between the Company and JPMAM sets out the matters over which the Manager has authority This includes management of the Company's assets and the provision of accounting company secretarial administration and some marketing services All other matters are reserved for the approval of the Board A formal schedule of matters reserved for Board decision has been approved This includes determination and monitoring of the Company's investment objectives and policy and its future strategic direction gearing policy management of the capital structure, appointment and removal of third party service providers, review of key investment and financial data and the Company's corporate governance and risk control arrangements

The Board meets at least five times during the year and additional meetings are arranged as necessary Full and timely information is provided to the Board to enable it to function effectively and to allow Directors to discharge their responsibilities

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense This is in addition to the access that every Director has to the advice and services of the Company Secretary JPMAM which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with

Board Composition
The Board, chaired by Elisabeth Airey consists of six non-executive Directors all of whom are regarded by the Board as independent including the Chairman The Directors have a breadth of investment, knowledge, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on pages 18 and 19

Directors' Report continued

A review of Board composition and balance is included as part of the annual performance evaluation of the Board details of which may be found below The Board has considered whether a senior independent director should be appointed and has concluded that, as the Board comprises entirely of non-executive directors, this is unnecessary The Chairman of the Audit Committee leads the evaluation of the Chairman

Tenure

Directors are initially appointed until the following Annual General Meeting When, under the Company's Articles of Association, it is required that they be reappointed by shareholders Thereafter a Director's appointment will run for a maximum term of three years Subject to the performance evaluation carried out each year the Board will agree whether it is appropriate for the Director to seek an additional term The Board does not believe that length of service in itself necessarily disqualifies a Director from seeking reappointment but, when making a recommendation, the Board will take into account the requirements of the Combined Code, including the need to refresh the Board and its Committees The Company's Articles of Association require that Directors stand for reappointment at least every three years Any Director who has served for a period of more than nine years will stand for annual reappointment thereafter

The terms and conditions of Directors' appointments are set out in formal letters of appointment copies of which are available for inspection on request at the Company's registered office and at the Annual General Meeting

The Board confirms that Carolan Dobson, who will stand for reappointment following her appointment during the year, and Anthony Davidson and Federico Marescotti, who retire by rotation at this year's Annual General Meeting, continue to be effective Directors and demonstrate commitment to their roles and therefore recommends their reappointment

Meetings and Committees

The Board delegates certain responsibilities and functions to committees Details of membership of committees are shown with the Directors' profiles on pages 18 and 19 Directors who are not members of Committees may attend at the invitation of the Chairman

The table below details the number of Board and Committee meetings attended by each Director During the year there were five Board meetings two Audit Committee meetings and two Nomination Committee meetings

Director	Board Meetings Attended	Audit Committee Meetings Attended	Nomination Committee Meetings Attended
Elisabeth Airey	5	2	2
Anthony Davidson	5	2	2
Carolan Dobson[1]	3	1	1
Paul Manduca	5	2	2
Federico Marescotti	5	2	2
Michael Wrobel	5	2	2

[1]Appointed 1st September 2010

Training and Appraisal

On appointment, the Manager and Company Secretary provide all Directors with induction training Thereafter regular briefings are provided on changes in regulatory requirements that affect the Company and the Directors Directors are encouraged to attend industry and other seminars covering issues and developments relevant to investment trusts

The Board conducts a formal evaluation of the Manager, its own performance and of that of its committees and individual Directors Questionnaires, drawn up by the Board, are completed by each Director The responses are collated and then discussed at a private meeting The evaluation of individual Directors is led by the Chairman The Audit Committee Chairman leads the evaluation of the Chairman's performance The Board as a whole evaluates the Manager its own performance and that of its committees

Board Committee

Nomination Committee

The Nomination Committee, chaired by Elisabeth Airey, consists of all of the Directors and meets at least annually to ensure that the Board has an appropriate balance of skills and experience to carry out its fiduciary duties and to select and propose suitable candidates for appointment when necessary An external agency was engaged in connection with Carolan Dobson's appointment

On an annual basis each Director submits a list of potential conflicts of interest for approval at the Nomination Committee meeting These are considered carefully, taking into account the circumstances surrounding them and if considered appropriate, are approved for a period of one year Following the introduction of The Bribery Act 2010 the Board has adopted appropriate procedures designed to prevent bribery

The Committee undertakes an annual performance evaluation to ensure that all members of the Board have devoted sufficient time and contributed adequately to the work of the Board The Committee also reviews Directors' fees and makes recommendations to the Board as and when required

Audit Committee
The Audit Committee, chaired by Anthony Davidson, consists of all the Directors and meets at least twice each year The members of the Audit Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee

The Committee reviews the actions and judgements of the Manager in relation to the half year and annual accounts and the Company's compliance with the Combined Code It reviews the terms of the management agreement and examines the effectiveness of the Company's internal control systems receives information from the Managers' Compliance department and reviews the scope and results of the external audit its cost effectiveness the balance of audit and non-audit services and the independence and objectivity of the external auditors In the Directors' opinion the auditors are considered independent Representatives of the Company's auditors attend the Audit Committee meeting at which the draft Annual Report and Accounts are considered Having reviewed the performance of the external auditors, the Committee considered it appropriate to recommend their reappointment The Board supported this recommendation and a resolution will be put to the forthcoming Annual General Meeting

The Directors' statement on the Company's system of internal control is set out on pages 28 to 29

Both the Nomination Committee and the Audit Committee have written terms of reference which define clearly their respective responsibilities, copies of which are available on the Company's website, on request at the Company's registered office and at the Company's Annual General Meeting

Relations with Shareholders
The Board regularly monitors the shareholder profile of the Company It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders quarterly each year by way of the annual report and accounts, the half year financial report and two interim management statements This is supplemented by the daily publication through the London Stock Exchange of the net asset value of the Company's shares

All shareholders are encouraged to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager are available in person to meet shareholders and answer their questions In addition a presentation is given by the Investment Managers who review the Company's performance During the year the Company's brokers the investment managers and JPMAM hold regular discussions with larger shareholders The Directors are made fully aware of their views The Chairman and Directors make themselves available as and when required to address shareholder queries The Directors may be contacted through the Company Secretary whose details are shown on page 61

The Company's Annual Report and Accounts is published in time to give shareholders at least 20 working days' notice of the Annual General Meeting Shareholders wishing to raise questions in advance of the meeting are encouraged to submit questions via the Company's website or write to the Company Secretary at the address shown on page 61

Details of the proxy voting position on each resolution will be published on the Company's website shortly after the Annual General Meeting

Section 992 Companies Act 2006

The following disclosures are made in accordance with Section 992 Companies Act 2006

Capital Structure
The Company's capital structure is summarised on the inside front cover of this report

Voting Rights in the Company's shares
As at 27th May 2011 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 43 118 739 ordinary shares, carrying one vote each Therefore the total voting rights in the Company are 43 118,739

Directors' Report continued

Notifiable Interests in the Company's Voting Rights
At the date of this report the following had declared a notifiable interest in the Company's voting rights

Shareholders	Number of voting rights	%
Chase Nominees Limited[1]	4,955,206	11.5
Lazard Asset Management LLC	3,896,140	9.0
National Grid UK Pension Scheme	2,852,879	6.6
1607 Capital Partners, LLC	2,389,519	5.5
Legal & General Investment Management	1,877,614	4.4
East Riding of Yorkshire Council	1,600,000	3.7

[1]Held on behalf of JPMAM Investment Account, ISA and SIPP participants Non-beneficial

The rules concerning the appointment and replacement of Directors amendment of the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006

There are no restrictions concerning the transfer of securities in the Company, no special rights with regard to control attached to securities no agreements between holders of securities regarding their transfer known to the Company no agreements which the Company is party to that affect its control following a takeover bid and no agreements between the Company and its Directors concerning compensation for loss of office

Internal Control

The Combined Code requires the Directors, at least annually, to review the effectiveness of the Company's system of internal control and to report to shareholders that they have done so This encompasses a review of all controls which the Board has identified as including business, financial, operational, compliance and risk management

The Directors are responsible for the Company's system of internal control, which is designed to safeguard the Company's assets maintain proper accounting records and ensure that financial information used within the business, or published, is reliable However, such a system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against fraud, material misstatement or loss

Since investment management, custody of assets and all administrative services are provided to the Company by JPMAM and its associates, the Company's system of internal control mainly comprises monitoring the services provided by JPMAM and its associates including the operating controls established by them to ensure they meet the Company's business objectives There is an ongoing process for identifying evaluating and managing the significant risks faced by the Company (see Principal Risks on pages 22 to 23) This process has been in place for the year under review and up to the date of the approval of the Annual Report & Accounts and it accords with the Turnbull guidance The Company does not have an internal audit function of its own, but relies on the internal audit department of JPMAM which reports any material failings or weaknesses The key elements designed to provide effective internal control are as follows

Financial Reporting - Regular and comprehensive review by the Board of key investment and financial data, including management accounts, revenue projections, analysis of transactions and performance comparisons

Management Agreement - Appointment of a manager and custodian regulated by the Financial Services Authority ('FSA'), whose responsibilities are clearly defined in a written agreement

Management Systems - The Managers' system of internal control includes organisational agreements which clearly define the lines of responsibility delegated authority control procedures and systems These are monitored by JPMAM's Compliance Department which regularly monitors compliance with FSA rules

Investment Strategy - Authorisation and monitoring of the Company's investment strategy and exposure limits by the Board

The Board either directly or through the Audit Committee, keeps under review the effectiveness of the Company's system of internal control by monitoring the operation of the key operating controls of the Manager and its associates as follows

- reviews the terms of the management agreement and receives regular reports from JPMAM's Compliance department
- reviews reports on the internal controls and the operations of its custodian, JPMorgan Chase Bank, which is itself independently reviewed and

- reviews every six months an independent report on the internal controls and the operations of JPMAM

By means of the procedures set out above, the Board confirms that in accordance with the Turnbull guidance, it has reviewed the effectiveness of the Company's system of internal control for the year ended 31st March 2011 and to the date of approval of this Annual Report and Accounts

During the course of its review of the system of internal control the Board has not identified or been advised of any failings or weaknesses which it has determined to be significant

Corporate Governance and Voting Policy

The Company delegates responsibility for voting to JPMAM The following is a summary of JPMAM's policy statements on corporate governance voting policy and social and environmental issues, which has been reviewed and noted by the Board

Corporate Governance
JPMAM believes that corporate governance is integral to our investment process As part of our commitment to delivering superior investment performance to our clients we expect and encourage the companies in which we invest to demonstrate the highest standards of corporate governance and best business practice We examine the share structure and voting structure of the companies in which we invest as well as the board balance, oversight functions and remuneration policy These analyses then form the basis of our proxy voting and engagement activity

Proxy Voting
JPMAM manages the voting rights of the shares entrusted to it as it would manage any other asset It is the policy of JPMAM to vote in a prudent and diligent manner, based exclusively on our reasonable judgement of what will best serve the financial interests of our clients So far as is practicable we will vote at all of the meetings called by companies in which we are invested

Stewardship/Engagement
JPMAM recognises its wider stewardship responsibilities to its clients as a major asset owner To this end, we support the introduction of the FRC Stewardship Code, which sets out the responsibilities of institutional shareholders in respect of investee companies Under the Code managers should

- *publicly disclose their policy on how they will discharge their stewardship responsibilities to their clients,*
- *disclose their policy on managing conflicts of interest,*
- *monitor their investee companies*
- *establish clear guidelines on how they escalate engagement*
- *be willing to act collectively with other investors where appropriate,*
- *have a clear policy on proxy voting and disclose their voting record, and*
- *report to clients*

JPMAM endorses the Stewardship Code for its UK investments and supports the principles as best practice elsewhere We believe that regular contact with the companies in which we invest is central to our investment process and we also recognise the importance of being an active owner on behalf of our clients

Social & Environmental
JPMAM believes that companies should act in a socially responsible manner Although our priority at all times is the best economic interests of our clients we recognise that increasingly non-financial issues such as social and environmental factors have the potential to impact the share price as well as the reputation of companies Specialists within JPMAM's environmental social and governance ('ESG') team are tasked with assessing how companies deal with and report on social and environmental risks and issues specific to their industry

JPMAM is also a signatory to the United Nations Principles of Responsible Investment which commits participants to six principles with the aim of incorporating ESG criteria into their processes when making stock selection decisions and promoting ESG disclosure Our detailed approach to how we implement the principles is available on request JPMAM is also a signatory to Carbon Disclosure Project JPMorgan Chase is a signatory to the Equator Principles on managing social and environmental risk in project finance

JPMAM's Voting Policy and Corporate Governance Guidelines are available on request from the Company Secretary or can be downloaded from JPMAM's website http //www jpmorganassetmanagement co uk/Institutional/CommentaryAndAnalysis/CorporateGovernance which also sets out its approach to the seven principles of the FRC Stewardship Code its policy relating to conflicts of interest and its detailed voting record

By order of the Board
Jonathan Latter for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
31st May 2011

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Section 421 of the Companies Act 2006 An ordinary resolution to approve this report will be put to shareholders at the forthcoming Annual General Meeting

The law requires the Company's auditors to audit certain of the disclosures provided Where disclosures have been audited they are indicated as such The auditors' opinion is included in their report on page 32

Directors' Remuneration[1]

Directors' Name	2011 £	2010 £
Elisabeth Airey	**31,000**	29,000
Anthony Davidson	**24,000**	22,500
Carolan Dobson[2]	**12,542**	–
Paul Manduca	**21,500**	20,000
Federico Marescotti	**21,500**	20 000
Michael Wrobel	**21,500**	20,000
Total	**132,042**	111,500

[1]Audited information

[2]Appointed a Director on 1st September 2010

In the year under review Directors' fees were paid at the following rates Chairman £31 000 per annum Audit Committee Chairman £24 000 per annum and other Directors £21,500 per annum With effect from 1st April 2011, fees have been increased to £34,000 £25,000 and £22,500 respectively

The Board's policy for this and subsequent years is that Directors' fees should properly reflect the time spent by the Directors on the Company's business and should be at a level to ensure that candidates of a high calibre are recruited to the Board The Chairman of the Board and the Chairman of the Audit Committee are paid higher fees than the other Directors, reflecting the greater time commitment involved in fulfilling those roles

As all of the Directors are non-executive the Board has not established a Remuneration Committee Instead the Nomination Committee reviews Directors' fees on a regular basis and makes recommendations to the Board as and when appropriate Reviews are based on information provided by the Manager JPMAM and industry research carried out by third parties on the level of fees paid to the directors of the Company's peers and within the investment trust industry generally The Directors' fees are not performance related The Articles stipulate that aggregate fees must not exceed £175 000 per annum Any increase in the maximum aggregate amount requires both Board and shareholder approval

The terms and conditions of Directors' appointments are set out in formal letters of appointment Details of the Board's policy on tenure are set out on page 26

The Company does not operate any type of incentive or pension scheme and therefore no Directors receive bonus payments or pension contributions from the Company The Directors do not have service contracts and are not paid compensation for loss of office No other payments are made to Directors, other than the reimbursement of reasonable out-of-pocket expenses incurred in connection with attending the Company's business

Five year share price and benchmark total return to 31st March 2011

Source Morningstar/HSBC

- Share price total return
- Benchmark total return.

A graph showing the Company's share price total return compared with its benchmark, the HSBC Smaller European Companies (ex UK) Total Return Index, is shown above

By order of the Board
Jonathan Latter for and on behalf of
JPMorgan Asset Management (UK) Limited,
Secretary
31st May 2011

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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 profit or loss of the Company for that period 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 respectively

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

Each of the Directors, whose names and functions are listed in the Directors' Report confirm that, to the best of their knowledge

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities financial position and return or loss of the Company and
- the Directors' Report includes 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
Elisabeth Airey
Chairman
31st May 2011

Independent Auditors' Report

To the members of JPMorgan European Smaller Companies Trust plc (formerly JPMorgan European Fledgeling Investment Trust plc)

We have audited the financial statements of JPMorgan European Smaller Companies Trust plc for the year ended 31st March 2011 which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 31 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Annual Report & Accounts to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31st March 2011 and of its net return and cash flows for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006 and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, 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, or
- certain disclosures of directors remuneration specified by law are not made or
- we have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review

- the Directors' statement, set out on page 23, in relation to going concern,
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review, and
- certain elements of the report to shareholders by the Board on Directors' remuneration

Jeremy Jensen

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

31st May 2011

Notes

(a) The maintenance and integrity of the JPMorgan European Smaller Companies Trust plc website (www jpmeuropeansmallercompanies co uk) is the responsibility of JPMAM 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 financial statements since they were initially presented on the website

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

Income Statement

for the year ended 31st March

	Notes	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000
Gains on investments held at fair value through profit or loss	2	–	78,917	78,917	–	151 221	151 221
Net foreign currency (losses)/gains		–	(1,540)	(1,540)	–	996	996
Income from investments	3	8,963	–	8,963	8,116	–	8,116
Other interest receivable and similar income	3	278	–	278	315	–	315
Gross return		9,241	77,377	86,618	8 431	152 217	160,648
Management fee	4	(4,298)	–	(4,298)	(3 627)	–	(3,627)
Other administrative expenses	5	(664)	–	(664)	(612)	–	(612)
Net return on ordinary activities before finance costs and taxation		4,279	77,377	81,656	4 192	152 217	156,409
Finance costs	6	(1,304)	–	(1,304)	(1,250)	–	(1,250)
Net return on ordinary activities before taxation		2,975	77,377	80,352	2 942	152 217	155 159
Taxation	7	(606)	–	(606)	(775)	–	(775)
Net return on ordinary activities after taxation		2,369	77,377	79,746	2 167	152,217	154,384
Return per share	9	5.33p	174.02p	179.35p	4 63p	325 04p	329 67p

Details of the dividend declared are given in note 8 on page 41

All revenue and capital items in the above statement derive from continuing operations No operations were acquired or discontinued in the year

The Total' column of this statement is the profit and loss account of the Company and the Revenue' and 'Capital' columns represent supplementary information prepared under guidance issued by the Association of Investment Companies The Total column represents all the information that is required to be disclosed in a Statement of Total Recognised Gains and Losses ('STRGL') For this reason a STRGL has not been presented

The notes on pages 37 to 53 form an integral part of these accounts

Reconciliation of Movements in Shareholders' Funds

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31st March 2009	12,178	1,312	3,458	253,547	(417)	**270,078**
Purchase of shares into Treasury	–	–	–	(8,580)	–	**(8,580)**
Cancellation of shares held in Treasury	(407)	–	407	–	–	**–**
Net return on ordinary activities	–	–	–	152,217	2,167	**154,384**
At 31st March 2010	11,771	1,312	3,865	397,184	1,750	**415,882**
Repurchase and cancellation of the Company's own shares	(407)	–	407	(12,242)	–	**(12,242)**
Purchase of shares into Treasury	–	–	–	(4,591)	–	**(4,591)**
Cancellation of shares held in Treasury	(487)	–	487	–	–	**–**
Net return on ordinary activities	–	–	–	77,377	2,369	**79,746**
Dividend appropriated in the year	–	–	–	–	(1,367)	**(1,367)**
At 31st March 2011	10,877	1,312	4,759	457,728	2,752	**477,428**

The notes on pages 37 to 53 form an integral part of these accounts

Balance Sheet
at 31st March

	Notes	2011 £'000	2010 £'000
Fixed assets			
Investments held at fair value through profit or loss		557,047	416,678
Investment in liquidity fund held at fair value through profit or loss		2,010	12,934
Total investments	10	559,057	429,612
Current assets	11		
Debtors		5,164	14 153
Cash and short term deposits		87	236
Derivative financial instruments forward currency contracts held at fair value through profit or loss		5	18
		5,256	14,407
Creditors: amounts falling due within one year	12	(86,885)	(28 137)
Net current liabilities		(81,629)	(13,730)
Total assets less current liabilities		477,428	415,882
Net assets		477,428	415,882
Capital and reserves			
Called up share capital	13	10,877	11 771
Share premium	14	1,312	1,312
Capital redemption reserve	14	4,759	3 865
Capital reserves	14	457,728	397,184
Revenue reserve	14	2,752	1 750
Equity shareholders' funds		477,428	415,882
Net asset value per share	15	1097.3p	9076p

The accounts on pages 33 to 53 were approved and authorised for issue by the Directors on 31st May 2011 and were signed on their behalf by

Elisabeth Airey
Director

The notes on pages 37 to 53 form an integral part of these accounts

Company registration number 2431143

Cash Flow Statement

for the year ended 31st March

	Notes	2011 £'000	2010 £'000
Net cash inflow from operating activities	16	**2,063**	2,676
Returns on investments and servicing of finance			
Interest paid		**(1,049)**	(1 230)
Net cash outflow from returns on investments and servicing of finance		**(1,049)**	(1,230)
Taxation			
Overseas tax recovered		**513**	450
Capital expenditure and financial investment			
Purchases of investments		**(1,542,735)**	(1,484,090)
Sales of investments		**1,504,214**	1,472,595
Other capital charges		**(253)**	(196)
Net cash outflow from capital expenditure and financial investment		**(38,774)**	(11,691)
Dividend paid		**(1,367)**	–
Net cash outflow before financing		**(38,614)**	(9,795)
Financing			
Net drawdown of loans		**56,100**	12,857
Purchase of shares into Treasury		**(5,631)**	(7,976)
Repurchase and cancellation of the Company's own shares		**(12,242)**	–
Net cash inflow from financing		**38,227**	4,881
Decrease in cash for the year	17	**(387)**	(4,914)

The notes on pages 37 to 53 form an integral part of these accounts

Notes to the Accounts

for the year ended 31st March 2011

1 Accounting policies

(a) Basis of accounting

The accounts are prepared in accordance with the Companies Act 2006 United Kingdom Generally Accepted Accounting Practice (UK GAAP') and with the Statement of Recommended Practice Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the 'SORP') issued by the AIC in January 2009 All of the Company's operations are of a continuing nature

The accounts have been prepared on a going concern basis under the historical cost convention as modified by the revaluation of investments and derivative financial instruments at fair value

The policies applied in these accounts are consistent with those applied in the preceding year

(b) Valuation of investments

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth This portfolio of financial assets is managed and its performance evaluated on a fair value basis in accordance with a documented investment strategy and information is provided internally on that basis to the Company's Board of Directors Accordingly upon initial recognition the investments are designated by the Company as 'held at fair value through profit or loss' They are included initially at fair value which is taken to be their cost excluding expenses incidental to purchase which are written off to capital at the time of acquisition Subsequently the investments are valued at fair value which are quoted bid market prices for investments traded in active markets

Changes in the value of investments held at fair value through profit or loss and gains and losses on sales are included in the capital column of the Income Statement within Gains/(losses) on investments held at fair value through profit or loss' Gains and losses on sales of investments including the related foreign exchange gains and losses of a capital nature are dealt with in capital reserves within 'Gains and losses on sales of investments' Increases and decreases in the valuation of investments held at the year end including the related foreign exchange gains and losses are dealt with in capital reserves within 'Investment holding gains and losses'

All purchases and sales are accounted for on a trade date basis

(c) Income

Dividends receivable are included in revenue on an ex-dividend basis except where, in the opinion of the Board, the dividend is capital in nature, in which case it is included in capital

Overseas dividends are included gross of any withholding tax

Where the Company has elected to receive scrip dividends in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised in revenue Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital

Deposit interest receivable is taken to revenue on an accruals basis

Stocklending income is taken to revenue on a receipts basis

(d) Expenses

All expenses are accounted for on an accruals basis Expenses are allocated wholly to revenue except for expenses incidental to purchases and sales of investments which are written off to capital These expenses are commonly referred to as transaction costs and comprise mainly brokerage commission Details of transaction costs can be found in note 10 on page 42

(e) Finance costs

Finance costs are accounted for on an accruals basis and in accordance with the provisions of FRS 25 Financial Instruments Presentation and FRS 26 'Financial Instruments Measurement

Finance costs are allocated wholly to revenue

Notes to the Accounts continued

1 **Accounting policies** continued

(f) Financial instruments

Cash and short term deposits may comprise cash and demand deposits which are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value

Other debtors and creditors do not carry any interest, are short term in nature and are accordingly stated at nominal value as reduced by appropriate allowances for estimated irrecoverable amounts

Derivative financial instruments including short term forward currency contracts, are valued at fair value, which is the net unrealised gain or loss and are included in current assets or current liabilities in the balance sheet in accordance with FRS 26 'Financial Instruments Measurement'

Bank loans are classified as loans and receivables and are measured at amortised cost They are recorded at the proceeds received net of direct issue costs and finance costs are accounted for on an accruals basis using the effective interest rate method

(g) Foreign currency

In accordance with FRS 23 'The effects of changes in Foreign Currency Exchange Rates' the Company is required to nominate a functional currency, being the currency in which the Company predominantly operates The Board, having regard to the currency of the Company's share capital and the predominant currency in which its shareholders operate, has determined that sterling is the functional currency Sterling is also the currency in which the accounts are presented

Transactions denominated in foreign currencies are converted at actual exchange rates as at the date of the transaction or in the case of forward currency contracts, at contractual rates Monetary assets and liabilities denominated in foreign currencies at the year end are translated at the rates of exchange prevailing at the year end, or at the related forward currency contract rate

Any gain or loss on monetary assets arising from a change in exchange rates subsequent to the date of a transaction is included as an exchange gain or loss in revenue or capital, depending on whether the gain or loss is of a revenue or capital nature

(h) Taxation

Deferred taxation is accounted for in accordance with FRS 19 Deferred Tax'

Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date Deferred taxation liabilities are recognised for all taxable timing differences but deferred taxation assets are only recognised to the extent that it is more likely than not that taxable profits will be available against which those timing differences can be utilised

Deferred tax is measured at the tax rate which is expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates that have been enacted or substantively enacted at the balance sheet date and is measured on an undiscounted basis

(i) Value Added Tax ('VAT')

Irrecoverable VAT is included in the expense on which it has been suffered VAT recoverable is calculated using the partial exemption method based on the proportion of zero rated supplies to total supplies

(j) Repurchase of shares to hold in Treasury

The cost of repurchasing shares into Treasury including the related stamp duty and transaction costs is charged to capital reserves and dealt with in the Reconciliation of Movements in Shareholders' Funds Share repurchase transactions are accounted for on a trade date basis Where shares held in Treasury are subsequently cancelled, the nominal value of those shares is transferred out of called up share capital and into capital redemption reserve

Should shares held in Treasury be reissued, the sales proceeds will be treated as a realised profit up to the amount of the purchase price of those shares and will be transferred to capital reserves The excess of the sales proceeds over the purchase price will be transferred to share premium

		2011 £'000	2010 £'000
2	**Gains on investments held at fair value through profit or loss**		
	Gains on investments held at fair value through profit or loss based on historical cost	66,654	87 679
	Amounts recognised as unrealised in the previous year	(58,749)	(3,410)
	Gains on sales of investments based on carrying value at previous balance sheet date	7,905	84,269
	Net movement in investment holding gains	71,267	67 171
	Other capital charges	(255)	(219)
	Total capital gains on investments held at fair value through profit or loss	78,917	151,221

		2011 £'000	2010 £'000
3	**Income**		
	Income from investments		
	Dividends from investments listed overseas	8,518	7,588
	Scrip dividends	365	478
	Dividends from liquidity fund	80	50
		8,963	8 116
	Other interest receivable and similar income		
	Stocklending fees	248	306
	Deposit interest	30	9
		278	315
	Total income	9,241	8,431

		2011 £'000	2010 £'000
4	**Management fee**		
	Management fee[1]	4,298	3,627

[1]Details of the management fee are given in the Directors' Report on page 23

		2011 £'000	2010 £'000
5.	**Other administrative expenses**		
	Administration expenses	380	358
	Directors' fees[1]	132	112
	Savings scheme costs[2]	130	120
	Auditors' remuneration for audit services[3]	22	22
		664	612

[1]Full disclosure is given in the Directors' Remuneration Report on page 30
[2]Paid to JPMAM for the marketing and administration of savings scheme products
[3]Includes £3 000 (2010 £3 000) irrecoverable VAT

	2011 £'000	2010 £'000
6 Finance costs		
Interest payable on bank loans and overdrafts	**1,304**	1 250

7 Taxation

(a) Analysis of tax charge for the year

	2011 £'000	2010 £'000
UK corporation tax at 28% (2010 28%)	**–**	–
Overseas withholding tax	**606**	775
Current tax charge for the year	**606**	775

(b) Factors affecting current tax charge for the year

The tax assessed for the year is lower (2010 lower) than the standard rate of corporation tax in the UK of 28% The factors affecting the current tax charge for the year are as follows

	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000
Net return on ordinary activities before taxation	**2,975**	**77,377**	**80,352**	2,942	152,217	155,159
Net return on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax of 28% (2010 28%)	**833**	**21,666**	**22,499**	824	42,621	43,445
Effects of						
Non taxable capital gains	**–**	**(21,666)**	**(21,666)**	–	(42,621)	(42 621)
Non taxable overseas dividends	**(2,061)**	**–**	**(2,061)**	(771)	–	(771)
Income taxed in different periods	**1**	**–**	**1**	240	–	240
Overseas taxation	**606**	**–**	**606**	775	–	775
Unrelieved expenses and charges	**1,227**	**–**	**1,227**	333	–	333
Brought forward expenses and charges utilised	**–**	**–**	**–**	(626)	–	(626)
	606	**–**	**606**	775	–	775

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £6 180 000 (2010 £5 182 000) based on a prospective corporation tax rate of 27% The Finance Act 2010 which provides for a reduction in the main rate of corporation tax from 28% to 27% effective from 1st April 2011 was substantively enacted on 21st July 2010 The Government has also indicated that it intends to enact future reductions in the main rate of corporation tax of 1% each year down to 24% by 1st April 2014 The deferred tax asset has arisen due to the cumulative excess of deductible expenses over taxable income Given the composition of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future and therefore no asset has been recognised in the accounts

Given the Company's status as an investment trust company and the intention to continue meeting the conditions required to obtain approval the Company has not provided deferred taxation on any capital gains or losses arising on the revaluation or disposal of investments

8 **Dividends**

(a) **Dividends paid and declared**

	2011 £'000	2010 £'000
Dividend paid		
2010 final dividend of 3 0p (2009 nil)	**1,367**	–
Dividend declared		
Dividend declared of 4 0p per share (2010 3 0p)	**1,740**	1 375

The dividend declared in respect of the year ended 31st March 2011 is subject to shareholder approval at the forthcoming Annual General Meeting In accordance with the accounting policy of the Company this dividend will be reflected in the accounts for the year ending 31st March 2012

The dividend declared in respect of the year ended 31st March 2010 amounted to £1 375 000 However, the amount actually paid was £1 367000 due to shares repurchased into Treasury after the balance sheet date but prior to the share register dividend record date

(b) **Dividends for the purposes of Section 1158 of the Corporation Tax Act 2010 ('Section 1158')**

The requirements of Section 1158 are considered on the basis of dividends declared in respect of the financial year as above The revenue available for distribution by way of dividend for the year is £2 369 000 (2010 £1 750,000, after deduction of the brought forward negative balance on the revenue reserve)

9 **Return per share**

The revenue return per share is based on the revenue attributable to the ordinary shares of £2 369 000 (2010 £2 167000) and on the weighted average number of shares in issue during the year of 44,464,022 (2010 46 829499 excluding shares held in Treasury)

The capital return per share is based on the capital return attributable to the ordinary shares of £77,377,000 (2010 £152,217,000) and on the weighted average number of shares in issue during the year of 44 464 022 (2010 46,829 499 excluding shares held in Treasury)

The total return per share is based on the total return attributable to the ordinary shares of £79746,000 (2010 £154 384 000) and on the weighted average number of shares in issue during the year of 44 464 022 (2010 46,829 499 excluding shares held in Treasury)

Notes to the Accounts continued

		2011 £'000	2010 £'000
10	**Investments**		
	Investments listed on a recognised stock exchange[1]	**559,057**	429 612
	Opening book cost	**362,536**	267,868
	Opening investment holding gains	**67,076**	3,315
	Opening valuation	**429,612**	271,183
	Movement in the year		
	Purchases at cost	**1,544,781**	1,490,826
	Sales - proceeds	**(1,494,508)**	(1,483,837)
	Gains on sales of investments based on the carrying value at the previous balance sheet date	**7,905**	84,269
	Net movement in investment holding gains	**71,267**	67,171
		559,057	429,612
	Closing book cost	**479,463**	362 536
	Closing investment holding gains	**79,594**	67,076
	Total investments held at fair value	**559,057**	429,612

[1]Includes the investment in the JPM Euro Liquidity Fund

Transaction costs on purchases during the year amounted to £2 168,000 (2010 £2,295,000) and on sales during the year amounted to £1,671,000 (2010 £1,779 000) These costs comprise mainly brokerage commission

During the year, prior year investment holding gains amounting to £58,749,000 have been transferred to gains on sales of investments as disclosed in note 14

		2011 £'000	2010 £'000
11	**Current assets**		
	Debtors		
	Securities sold awaiting settlement	**3,451**	13 157
	Dividends and interest receivable	**1,487**	834
	Overseas tax recoverable	**168**	109
	Other debtors	**58**	53
		5,164	14,153

The Directors consider that the carrying amount of debtors approximates to their fair value

Cash and short term deposits

Cash and short term deposits comprises bank balances and cash held by the Company, including short term deposits The carrying amount of these represents their fair value Cash balances in excess of a predetermined amount are placed on short term deposit at market rates of interest

	2011 £'000	2010 £'000
12 Creditors amounts falling due within one year		
Bank loans	**70,824**	13 380
Securities purchased awaiting settlement	**15,230**	13 549
Purchase of shares into Treasury awaiting settlement	–	1,040
Bank overdraft	**421**	–
Other creditors and accruals	**410**	168
	86,885	28,137

The bank loans which are unsecured, comprise a total of Euro 95 million drawn down on the Company's facilities with ING Bank and Scotiabank Further details of these loan facilities are given in note 20(a)(ii) on page 50

The Directors consider that the carrying amount of creditors falling due within one year approximates to their fair value

	2011 £'000	2010 £'000
13 Called up share capital		
Issued and fully paid		
Opening balance of 45,821 106 (2010 47084 653) shares, excluding shares held in Treasury	**11,455**	11,771
Repurchase of 1,628,000 (2010 nil) shares for cancellation	**(407)**	–
Repurchase of 684,367 (2010 1 263 547) shares into Treasury	**(171)**	(316)
Sub total, represented by 43,508,739 (2010 45,821,106) shares	**10,877**	11 455
Nil (2010 1,263 547) shares held in Treasury	–	316
Closing balance[1]	**10,877**	11,771

[1]Represented by 43 508,739 ordinary shares of 25p each (2010 47084 653 shares including 1,263,547 shares held in Treasury)

During the year, the Company made market purchases of 1,628 000 of its own shares, nominal value £407000 for cancellation representing 3 6% of the issued share capital at the beginning of the year The consideration paid for these shares amounted to £12 242 000

During the year the Company made market purchases of 684 367 of its own shares nominal value £171 000 into Treasury, representing 1 5% of the issued share capital at the beginning of the year The consideration paid for these shares amounted to £4 591,000

The reason for these purchases was to seek to manage the volatility and absolute level of the share price discount to net asset value per share

During the year 1 947914 shares held in Treasury were cancelled

Further details of transactions in the Company's shares are given in the Directors' Report on page 22

Notes to the Accounts continued

	Share premium £'000	Capital redemption reserve £'000	Capital reserves: Gains and losses on sales of investments £'000	Capital reserves: Investment holding gains and losses £'000	Revenue reserve £'000
14 Reserves					
Opening balance	1,312	3 865	330,177	67,007	1,750
Net foreign currency losses on cash and short term deposits	–	–	(201)	–	–
Unrealised gains on foreign currency contracts	–	–	–	5	–
Unrealised gains on foreign currency contracts now realised	–	–	18	(18)	–
Gains on sales of investments based on the carrying value at the previous balance sheet date	–	–	7905	–	–
Net movement in investment holding gains and losses	–	–	–	71,267	–
Transfer on disposal of investments	–	–	58,749	(58,749)	–
Repurchase and cancellation of the Company's own shares	–	407	(12,242)	–	–
Repurchase of shares into Treasury	–	–	(4,591)	–	–
Cancellation of shares held in Treasury	–	487	–	–	–
Unrealised foreign currency losses on loans	–	–	–	(2,041)	–
Realised foreign currency gains on repayment of loans	–	–	697	–	–
Transfer of foreign currency losses on repayment of loans	–	–	(87)	87	–
Other capital charges	–	–	(255)	–	–
Dividends appropriated in the year	–	–	–	–	(1,367)
Retained revenue for the year	–	–	–	–	2,369
Closing balance	**1,312**	**4,759**	**380,170**	**77,558**	**2,752**

15. Net asset value per share

The net asset value per share is based on the net assets attributable to the ordinary shareholders of £477 428 000 (2010 £415,882,000) and on the 43 508,739 (2010 45,821 106) shares in issue at the year end, excluding shares held in Treasury

	2011 £'000	2010 £'000
16. Reconciliation of total return on ordinary activities before finance costs and taxation to net cash inflow from operating activities		
Total return on ordinary activities before finance costs and taxation	**81,656**	156,409
Less capital return before finance costs and taxation	**(77,377)**	(152,217)
Scrip dividends received as income	**(365)**	(478)
(Increase)/decrease in accrued income	**(653)**	9
Increase in other debtors	**(5)**	(17)
(Decrease)/increase in accrued expenses	**(15)**	3
Overseas withholding tax	**(1,178)**	(1,033)
Net cash inflow from operating activities	**2,063**	2,676

	2010 £'000	Cash flow £'000	Exchange movements £'000	2011 £'000
17 Analysis of changes in net debt				
Cash and short term deposits and bank overdrafts	236	(387)	(183)	**(334)**
Bank loans falling due within one year	(13,380)	(56,100)	(1 344)	**(70,824)**
Net debt	(13 144)	(56 487)	(1 527)	**(71,158)**

18 Transactions with the Manager

Details of the management contract are set out in the Directors' Report on page 23 The management fee payable to JPMorgan Asset Management (UK) Limited (JPMAM') for the year was £4,298 000 (2010 £3 627000) of which £nil (2010 £nil) was outstanding at the year end

During the year £112,000 excluding VAT (2010 £105 000) was payable to JPMAM for the marketing and administration of savings scheme products of which £nil (2010 £nil) was outstanding at the year end

Included in administration expenses in note 5 on page 39 are safe custody fees amounting to £105 000 (2010 £86 000) excluding VAT of which £21 000 (2010 £20,000) was outstanding at the year end These fees were paid to third party custodians by JPMAM on behalf of the Company and reimbursed to JPMAM

JPMAM may carry out some of its dealing transactions through group subsidiaries These transactions are carried out at arm's length The commission payable to JPMorgan Securities for the year was £68,000 (2010 £56 000) of which £nil (2010 £nil) was outstanding at the year end

During the year the Company made purchases and sales of units in the JPMorgan Euro Liquidity Fund which is managed by JPMAM At the year end the Company's investment in this fund amounted to £2 0 million (2010 £12 9 million) or 0 4% (2010 3 0%) of the Company's investments Dividends amounting to £80 000 (2010 £50 000) were receivable from this investment during the year of which £nil (2010 £8,000) were outstanding at the year end

Stock lending fees amounting to £248 000 (2010 £306 000) were receivable by the Company during the year JPMAM commissions in respect of such transactions amounted to £53 000 (2010 £65 000)

Handling charges on dealing transactions amounting to £255 000 (2010 £219,000) were payable to JPMorgan Chase during the year of which £44,000 (2010 £42 000) was outstanding at the year end

At the year end a bank balance of £87,000 (2010 £236 000) was held with JPMorgan Chase A net amount of interest of £30 000 (2010 £9 000) was receivable by the Company during the year from JPMorgan Chase of which £nil (2010 £nil) was outstanding at the year end

Notes to the Accounts continued

19. Disclosures regarding financial instruments measured at fair value

The Company's financial instruments within the scope of FRS 29 that are held at fair value comprise its investment portfolio and derivative financial instruments The Company's liabilities are not held at fair value

The investments are categorised into a hierarchy consisting of the following three levels

Level 1 - valued using quoted prices in active markets

Level 2 - valued by reference to valuation techniques using observable inputs other than quoted market prices included within Level 1

Level 3 - valued by reference to valuation techniques using inputs that are not based on observable market data

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

Details of the valuation techniques used by the Company are given in note 1(b) on page 37

The following table sets out the fair value measurements using the FRS 29 hierarchy at 31st March

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial instruments held at fair value through profit or loss				
Equity investments	557,047	–	–	557,047
Liquidity funds	2,010	–	–	2,010
Total	559,057	–	–	559,057

	2010			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial instruments held at fair value through profit or loss				
Equity investments	416 678	–	–	416,678
Liquidity funds	12,934	–	–	12,934
Total	429 612	–	–	429 612

There have been no transfers between Levels 1, 2 or 3 during the year (2010 nil)

20 Financial instruments' exposure to risk and risk management policies

As an investment trust, the Company invests in equities and other securities for the long term in order to secure its investment objective stated on the 'Features' page In pursuing this objective the Company is exposed to a variety of risks that could result in a reduction in the Company's net assets or a reduction in the profits available for dividends These risks include market risk (comprising currency risk interest rate risk and other price risk) liquidity risk and credit risk The Directors' policy for managing these risks is set out below The Company Secretary in close co-operation with the Board and the Manager co-ordinates the Company's risk management strategy

The objectives policies and processes for managing the risks and the methods used to measure the risks that are set out below, have not changed from those applying in the comparative year

The Company's financial instruments comprise the following

- investments in equity shares of European companies and a Euro liquidity fund which are both held in accordance with the Company's investment objective
- short term debtors, creditors and cash arising directly from its operations
- short term forward currency contracts for the purpose of settling short term liabilities and
- loan facilities the purpose of which are to finance the Company's operations

(a) Market risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices This market risk comprises three elements - currency risk interest rate risk and other price risk Information to enable an evaluation of the nature and extent of these three elements of market price risk is given in parts (i) to (iii) of this note together with sensitivity analyses where appropriate The Board reviews and agrees policies for managing these risks and these policies have remained unchanged from those applying in the comparative year The 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

(i) Currency risk

Certain of the Company's assets liabilities and income are denominated in currencies other than sterling which is the Company's functional currency and the currency in which it reports As a result, movements in exchange rates may affect the sterling value of those items

Management of currency risk

The Manager monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board, which meets on at least five occasions each year The Manager measures the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and income of a movement in the rates of exchange to which the Company's assets liabilities income and expenses are exposed Foreign currency borrowing may be used to limit the Company s exposure to anticipated changes in exchange rates which might otherwise adversely affect the sterling value of the portfolio of investments This borrowing is limited to currencies and amounts commensurate with the asset exposure to those currencies Income denominated in foreign currencies is converted to sterling on receipt The Company may use short term forward currency contracts to manage working capital requirements

Foreign currency exposure

The fair values of the Company's monetary items that have foreign currency exposure at 31st March are shown below Where the Company's equity investments (which are not monetary items) are priced in a foreign currency they have been included separately in the analysis so as to show the overall level of exposure

Notes to the Accounts continued

20. Financial instruments' exposure to risk and risk management policies continued

(a) Market risk continued

(i) Currency risk continued

Foreign currency exposure continued

	2011 Euro £'000	Danish krone £'000	Norwegian krone £'000	Swedish krona £'000	Swiss francs £'000	Other £'000	Total £'000
Investments held at fair value through profit or loss that are monetary items	2,010	–	–	–	–	–	2,010
Current assets	5,355	41	23	1,969	629	–	8,017
Creditors	(86,105)	(37)	(12)	(2,043)	(698)	–	(88,895)
Foreign currency exposure on net monetary items	(78,740)	4	11	(74)	(69)	–	(78,868)
Investments held at fair value through profit or loss that are equities	402,134	25,675	9,872	33,422	85,944	–	557,047
Total net foreign currency exposure	323,394	25,679	9,883	33,348	85,875	–	478,179

	2010 Euro £'000	Danish krone £'000	Norwegian krone £'000	Swedish krona £'000	Swiss francs £'000	Other £'000	Total £'000
Investments held at fair value through profit or loss that are monetary items	12,934	–	–	–	–	–	12934
Current assets	11,193	457	2,054	8,954	1,780	1	24,439
Creditors	(25,308)	(457)	(2,236)	(7215)	(1,861)	–	(37077)
Foreign currency exposure on net monetary items	(1,181)	–	(182)	1,739	(81)	1	296
Investments held at fair value through profit or loss that are equities	294,664	10 692	22,038	26,812	62,472	–	416,678
Total net foreign currency exposure	293,483	10,692	21,856	28 551	62,391	1	416,974

In the opinion of the Directors, the above year end amounts are broadly representative of the exposure to foreign currency risk during the year

Foreign currency sensitivity

The following tables illustrate the sensitivity of return after taxation for the year and net assets with regard to the Company's monetary financial assets and financial liabilities and exchange rates The sensitivity analysis is based on the Company's monetary currency financial instruments held at each balance sheet date and the income receivable in foreign currency and assumes a 10% (2009 10%) appreciation or depreciation in sterling against the Euro, Danish krone Norwegian krone, Swedish krona Swiss francs and the other currencies to which the Company is exposed, which is considered to be a reasonable illustration based on the volatility of exchange rates during the year

If sterling had strengthened by 10% this would have had the following effect

	2011 £'000	2010 £'000
Income statement return after taxation		
Revenue return	**(896)**	(812)
Capital return	**7,887**	(30)
Total return after taxation for the year	**6,991**	(842)
Net assets	**6,991**	(842)

Conversely if sterling had weakened by 10% this would have had the following effect

	2011 £'000	2010 £'000
Income statement return after taxation		
Revenue return	**896**	812
Capital return	**(7,887)**	30
Total return after taxation for the year	**(6,991)**	842
Net assets	**(6,991)**	842

In the opinion of the Directors the above sensitivity analysis is broadly representative of the whole year

(ii) Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits and the interest payable on the Company's variable rate cash borrowings

Management of interest rate risk

The Company does not normally hold significant cash balances Short term borrowings are used when required The Company may finance part of its activities through borrowings at levels approved and monitored by the Board

The possible effects on cash flows that could arise as a result of changes in interest rates are taken into account when the Company borrows on the loan facilities However amounts drawn down on these facilities are for short term periods and therefore there is limited exposure to interest rate risk

Derivatives are not used to hedge against the exposure to interest rate risk

Interest rate exposure

The Company has no financial assets or liabilities carrying fixed rates of interest The exposure of financial assets and liabilities to floating interest rates using the year end figures giving cash flow interest rate risk when rates are re-set, is shown below

	2011 £'000	2010 £'000
Amounts exposed to floating interest rates		
Cash and short term deposits	**87**	236
JPM Euro Liquidity Fund	**2,010**	12,934
Creditors amounts falling due within one year		
Bank loans	**(70,824)**	(13,380)
Bank overdraft	**(421)**	-
Total exposure	**(69,148)**	(210)

20 Financial instruments' exposure to risk and risk management policies continued

(a) Market risk continued

(ii) Interest rate risk continued

Interest rate exposure continued

Interest receivable on cash balances or payable on overdrafts is at a margin below or above LIBOR respectively

The target interest earned on the JPM Euro Liquidity Fund is the 7 day Euro London Interbank Bid Rate

In January 2011, the Company arranged a Euro 55 million 1 year Floating Rate Loan Facility with ING Bank Under the terms of this agreement, the Company may draw down up to Euro 55 million, or its sterling or US dollar equivalent, at an interest rate of LIBOR as offered in the market for the relevant currency and loan period, plus a margin of 1 25% per annum plus the Mandatory Cost Rate, which is the lender's cost of complying with the regulatory requirements of the European Central Bank during the term of the advance At the year end the Company had drawn down the whole Euro 55 million on this facility at a weighted average interest rate of 2 31%

In January 2011, the Company also arranged a Euro 55 million 1 year Floating Rate Loan Facility with Scotiabank Under the terms of this agreement, the Company may draw down up to Euro 55 million or its sterling or US dollar equivalent, at an interest rate of LIBOR as offered in the market for the relevant currency and loan period, plus a margin of 1 25% per annum plus the Mandatory Cost Rate At the year end, the Company had drawn down Euro 40 million on this facility at an interest rate of 2 30%

At 31st March 2010 the Company had drawn down Euro 15 million on a facility similar to the above, which expired during the year

Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 1% (2010 1%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities This level of change is considered to be a reasonable illustration based on observation of current market conditions The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date, with all other variables held constant

	2011		2010	
	1% increase in rate £'000	1% decrease in rate £'000	1% increase in rate £'000	1% decrease in rate £'000
Income statement - return after taxation				
Revenue return	(691)	691	(2)	2
Capital return	–	–	–	–
Total return after taxation for the year	(691)	691	(2)	2
Net assets	(691)	691	(2)	2

In the opinion of the Directors, the above sensitivity analysis may not be representative of the Company's future exposure to interest rate changes due to the fluctuation in the level of cash balances investment in the JPM Euro Liquidity Fund and amounts drawn down on the Company's loan facilities

(iii) Other price risk

Other price risk includes changes in market prices, other than those arising from interest rate risk or currency risk, which may affect the value of equity investments

Management of market price risk

The Board meets on at least five occasions each year to consider the asset allocation of the portfolio and the risk associated with particular industry sectors The investment management team has responsibility for monitoring the portfolio which is selected in accordance with the Company's investment objectives and seeks to ensure that individual stocks meet an acceptable risk/reward profile

Market price risk exposure

The Company's exposure to changes in market prices at 31st March comprises its holdings in equity investments as follows

	2011 £'000	2010 £'000
Equity investments held at fair value through profit or loss	557,047	416 678

The above data is broadly representative of the exposure to market price risk during the year

Concentration of exposure to market price risk

An analysis of the Company's investments is given on pages 13 to 17 This shows that nearly all of the investments' value is in European companies and there is no concentration of exposure to any one country It should also be noted that an investment may not be entirely exposed to the economic conditions in its country of domicile or of listing

Market price risk sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to an increase or decrease of 10% (2010 10%) in the fair value of the Company's equities This level of change is considered to be a reasonable illustration based on observation of current market conditions The sensitivity analysis is based on the Company's equities and adjusting for change in the management fee but with all other variables held constant

	2011		2010	
	10% increase in fair value £'000	10% decrease in fair value £'000	10% increase in fair value £'000	10% decrease in fair value £'000
Income statement - return after taxation				
Revenue return	(724)	724	(439)	439
Capital return	55,705	(55,705)	41 668	(41,668)
Total return after taxation for the year and net assets	54,981	(54,981)	41 229	(41,229)

Notes to the Accounts continued

20 Financial instruments' exposure to risk and risk management policies continued

(b) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset

Management of the risk

Liquidity risk is not significant as the Company's assets comprise readily realisable securities, the liquidity of which in normal markets is frequently tested by the Investment Managers and which can be sold to meet funding requirements if necessary All of the Company's assets are considered to be realisable within one month Short term flexibility is achieved through the use of overdraft facilities The Board's policy is for the Company to remain fully invested in normal market conditions and that short term borrowings be used to manage short term liabilities and working capital requirements Details of the current loan facilities are given in part (a)(ii) to this note on page 50

Contractual maturities of the financial liabilities at the year end, based on the earliest date on which payment can be required are as follows

	2011 Three months or less £'000	2011 Not more than one year £'000	2011 Total £'000	2010 Three months or less £'000	2010 Not more than one year £'000	2010 Total £'000
Creditors amounts falling due within one year						
Securities purchased awaiting settlement	**15,230**	**–**	**15,230**	13 549	–	13 549
Bank loans	**–**	**70,824**	**70,824**	–	13,380	13 380
Purchase of shares into Treasury awaiting settlement	**–**	**–**	**–**	1,040	–	1,040
Bank overdraft	**421**	**–**	**421**	–	–	–
Other creditors and accruals	**410**	**–**	**410**	168	–	168
	16,061	**70,824**	**86,885**	14,757	13 380	28,137

(c) Credit risk

Credit risk is the risk that the counterparty to a transaction fails to discharge its obligations under that transaction which could result in loss to the Company

Management of credit risk

Portfolio dealing

The Company invests in markets that operate Delivery Versus Payment ('DVP') settlement The process of DVP mitigates the risk of losing the principal of a trade during the settlement process The Manager continuously monitors dealing activity to ensure best execution, a process that involves measuring various indicators including the quality of trade settlement and incidence of failed trades Counterparty lists are maintained and adjusted accordingly

Cash

Counterparties are subject to daily credit analysis by the Manager and trades can only be placed with counterparties that have a minimum rating of A1/P1 from Standard & Poor's and Moody's respectively

Exposure to JPMorgan Chase

The Company's assets are ring-fenced in client designated accounts Therefore these assets are designed to be protected from creditors in the event that JPMorgan Chase were to cease trading

Credit risk exposure

The amounts shown in the balance sheet under investment in liquidity fund, debtors and cash and short term deposits represent the maximum exposure to credit risk at the current and comparative year ends The liquidity fund has an AAA (2010 AAA) credit rating

Cash and short term deposits comprises balances held at banks that have a minimum credit rating of A1/P1 (2010 A1/P1) from Standard & Poor's and Moody's respectively

The aggregate value of securities on loan at 31st March 2011 amounted to £21 1 million and the maximum value of stock on loan during the year amounted to £46 4 million Collateral is obtained by JPMorgan Asset Management and is called in on a daily basis to a value of 102% of the value of the securities on loan if that collateral is denominated in the same currency as the securities on loan and 105% if it is denominated in a different currency Collateral acceptable under the Stock Lending Agreement may comprise cash in sterling euros or US dollars, Eurozone government securities, UK government securities and US government securities

(d) Fair values of financial assets and financial liabilities

All financial assets and liabilities are either included in the balance sheet at fair value or the carrying amount in the balance sheet is a reasonable approximation of fair value

21 Capital management policies and procedures

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise the income and capital return to its equity shareholders through an appropriate balance of equity capital and debt

The Board's policy is to limit gearing within the range 80% to 120% Gearing for this purpose is defined as investments, excluding holdings in liquidity funds expressed as a percentage of net assets At 31st March 2011, gearing calculated on this basis was 116 7% (2010 100 2%)

The Company's capital comprises the following

	2011 £'000	2010 £'000
Debt		
Bank loans falling due within one year	**70,824**	13 380
Equity		
Equity share capital	**10,877**	11,771
Reserves	**466,551**	404,111
Total equity	**477,428**	415,882
Total capital	**548,252**	429,262

The Board with the assistance of the Manager monitors and reviews the broad structure of the Company's capital on an ongoing basis This review includes

- the planned level of gearing which takes into account the Manager's views on the market
- the need to buy back equity shares, either for cancellation or to hold in Treasury which takes into account the share price discount or premium and
- the need for issues of new shares including issues from Treasury

Shareholder Analysis
at 31st March 2011

	Number of shares	% Holding
Pension Funds	10,441,244	24 0
Unit Trusts	6,674,441	15 4
Other Institutions	4,927,446	11 3
JPMorgan Elect plc	608,587	1 4
Insurance Companies	3,048 565	7 0
Governments	605,489	1 4
Total Institutions	**26,305,772**	**60.5**
Retail investors holding shares directly or through nominee accounts[1]	12,488 907	28 7
Individuals in the Investment Trust Investment Account[2]	2,587,528	5 9
Individuals in the Investment Trust Individual Savings Account[2]	1,652,185	3 8
Individuals in the Investment Trust SIPP[2]	474,347	1 1
Total Retail Holdings	**17,202,967**	**39.5**
Total Shares in issue	**43,508,739**	**100 0**

[1]Includes shares below threshold of 10,000 shares

[2]Savings products managed by JPMorgan

Source Richard Davies Investor Relations

Nominee accounts have been allocated to their appropriate category

Notice of Meeting

Notice is hereby given that the twenty-second Annual General Meeting of JPMorgan European Smaller Companies Trust plc will be held at The Armourers' Hall 81 Coleman Street London EC2R 5BJ on Friday 8th July 2011 at 12 00 noon for the following purposes

1 To receive the Directors' Report the Annual Accounts and the Auditors' Report for the year ended 31st March 2011

2 To approve the Directors' Remuneration Report for the year ended 31st March 2011

3 To reappoint Anthony Davidson a Director of the Company

4 To reappoint Carolan Dobson a Director of the Company

5 To reappoint Federico Marescotti a Director or the Company

6 To declare a dividend of 4 00 pence per share

7 To re-appoint PricewaterhouseCoopers LLP as Auditors to the Company and to authorise the Directors to determine their remuneration

Special Business

To consider the following resolutions

Authority to allot new shares - Ordinary Resolution

8 THAT the Directors of the Company be and they are hereby generally and unconditionally authorised (in substitution of any authorities previously granted to the Directors), pursuant to and in accordance with Section 551 of the Companies Act 2006 (the Act') to exercise all the powers for the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company ('Rights') up to an aggregate nominal amount of £538 984 representing approximately 5% of the Company's issued ordinary share capital as at the date of the passing of this resolution, provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2012 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers or agreements which would or might require shares to be allotted or Rights to be granted after such expiry and so that the Directors of the Company may allot shares and grant Rights in pursuance of such offers or agreements as if the authority conferred hereby had not expired

Authority to disapply pre-emption rights on allotment of new shares - Special Resolution

9 THAT subject to the passing of Resolution 8 set out above the Directors of the Company be and they are hereby empowered pursuant to Sections 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 8 as if Section 561(1) of the Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £538 984 representing approximately 5% of the issued share capital as at the date of the passing of this resolution at a price of not less than the net asset value per share and shall expire upon the expiry of the general authority conferred by Resolution 8 above save that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuant of such offers or agreements as if the power conferred hereby had not expired

Authority to repurchase shares - Special Resolution

10 THAT the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 701 of the Act to make market purchases (within the meaning of Section 693 of the Act) of its issued ordinary shares of 25 pence each in the capital of the Company

PROVIDED ALWAYS THAT

(i) the maximum number of ordinary shares hereby authorised to be purchased shall be 6 463 498 or if less, that number of ordinary shares which is equal to 14 99% of the Company's issued share capital as at the date of the passing of this resolution

(ii) the minimum price which may be paid for an ordinary share shall be 25 pence

(iii) the maximum price which may be paid for an ordinary share shall be an amount equal to (a) 105% of the average of the middle market quotations for an ordinary share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased, or (b) the price of the last independent trade or (c) the highest current independent bid

(iv) any purchase of ordinary shares will be made in the market for cash at prices below the prevailing net asset value per ordinary share (as determined by the Directors)

(v) the authority hereby conferred shall expire on 7th January 2013 unless the authority is renewed at the Company's Annual General Meeting in 2012 or at any other general meeting prior to such time and

Notice of Meeting continued

(vi) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of ordinary shares pursuant to any such contract notwithstanding such expiry

By order of the Board
Jonathan Latter, for and on behalf of
JPMorgan Asset Management (UK) Limited
Secretary
31st May 2011

Notes

These notes should be read in conjunction with the notes on the reverse of the proxy form

1 A member entitled to attend and vote at the Meeting may appoint another person(s) (who need not be a member of the Company) to exercise all or any of his rights to attend, speak and vote at the Meeting A member can appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attaching to different shares held by him

2 A proxy does not need to be a member of the Company but must attend the Meeting to represent you Your proxy could be the Chairman, another Director of the Company or another person who has agreed to attend to represent you Details of how to appoint the Chairman or another person(s) as your proxy or proxies using the proxy form are set out in the notes to the proxy form If a voting box on the proxy form is left blank the proxy or proxies will exercise his/their discretion both as to how to vote and whether he/they abstain(s) from voting Your proxy must attend the Meeting for your vote to count Appointing a proxy or proxies does not preclude you from attending the Meeting and voting in person

3 Any instrument appointing a proxy to be valid must be lodged in accordance with the instructions given on the proxy form

4 You may change your proxy instructions by returning a new proxy appointment The deadline for receipt of proxy appointments also applies in relation to amended instructions Any attempt to terminate or amend a proxy appointment received after the relevant deadline will be disregarded Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same Meeting, the one which is last received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the other or others as regards that share if the Company is unable to determine which was last received none of them shall be treated as valid in respect of that share

5 To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast) members must be entered on the Company's register of members as at 6 00 p m two business days prior to the Meeting (the 'specified time') If the Meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original Meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Meeting If however, the Meeting is adjourned for a longer period then, to be so entitled members must be entered on the Company's register of members as at 6 00 p m two business days prior to the adjourned Meeting or, if the Company gives notice of the adjourned Meeting at the time specified in that notice Changes to entries on the register after this time shall be disregarded in determining the rights of persons to attend or vote at the Meeting or adjourned Meeting

6 Entry to the Meeting will be restricted to shareholders and their proxy or proxies with guests admitted only by prior arrangement

7 A corporation which is a shareholder, may appoint an individual(s) to act as its representative(s) and to vote in person at the Meeting (see instructions given on the proxy form) In accordance with the provisions of the Companies Act 2006 each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company provided that they do not do so in relation to the same shares It is therefore no longer necessary to nominate a designated corporate representative

Representatives should bring to the Meeting evidence of their appointment including any authority under which it is signed

8 Members that satisfy the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to (a) the audit of the Company s accounts (including the Auditors' report and the conduct of the audit) that are to be laid before the AGM or (b) any circumstances connected with Auditors of the Company ceasing to hold office since the previous AGM which the members propose to raise at the Meeting The Company cannot require the members requesting the publication to pay its expenses Any statement placed on the website must also be sent to the Company's Auditors no later than the time it makes its statement available on the website The business which may be dealt with at the AGM includes any statement that the Company has been required to publish on its website pursuant to this right

9 Pursuant to Section 319A of the Companies Act 2006 the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the Meeting except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the Meeting or if it would involve the disclosure of confidential information

10 Under Sections 338 and 338A of the 2006 Act, members meeting the threshold requirements in those sections have the right to require the Company (i) to give, to members of the Company entitled to receive notice of the Meeting notice of a resolution which those members intend to move (and which may properly be moved) at the Meeting and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Meeting A resolution may properly be moved or a matter properly included in the business unless (a) (in the case of a resolution only) it would if passed be ineffective (whether by reason of any inconsistency with any enactment or the Company s constitution or otherwise) (b) it is defamatory of any person or (c) it is frivolous or vexatious A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business must be accompanied by a statement setting out the grounds for the request must be authenticated by the person(s) making it and

must be received by the Company not later than the date that is six clear weeks before the Meeting and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request

11 A copy of this notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 (a Nominated Person') The rights to appoint a proxy can not be exercised by a Nominated Person they can only be exercised by the member However a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the Meeting or to have someone else so appointed If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights

12 In accordance with Section 311A of the Companies Act 2006 the contents of this notice of meeting details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM the total voting rights members are entitled to exercise at the AGM and if applicable any members statements members' resolutions or members matters of business received by the Company after the date of this notice will be available on the Company's website www jpmeuropeansmallercompanies co uk

13 The register of interests of the Directors and connected persons in the share capital of the Company and the Directors letters of appointment are available for inspection at the Company's registered office during usual business hours on any weekday (Saturdays Sundays and public holidays excepted) It will also be available for inspection at the Annual General Meeting No Director has any contract of service with the Company

14 You may not use any electronic address provided in this Notice of Meeting to communicate with the Company for any purposes other than those expressly stated

15 As an alternative to completing a hard copy Form of Proxy/Voting Direction Form you can appoint a proxy or proxies electronically by visiting www sharevote co uk You will need your Voting ID, Task ID and Shareholder Reference Number (this is the series of numbers printed under your name on the Form of Proxy/Voting Direction Form) Alternatively, if you have already registered with Equiniti Limited's online portfolio service Shareview you can submit your Form of Proxy at www shareview co uk Full instructions are given on both websites

16 As at 27th May 2011 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 43,118 739 ordinary shares carrying one vote each Therefore the total voting rights in the Company are 43 118 739

Electronic appointment - CREST members

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual See further instructions on the proxy form

Glossary of Terms and Definitions

Return to Shareholders
Total return to the investor, on a mid-market price to mid-market price basis, assuming that all dividends received were reinvested without transaction costs in the shares of the Company at the time the shares were quoted ex-dividend

Return on Net Assets
Total return on net asset value (NAV) per share, on a bid market value to bid market value basis assuming that all dividends paid out by the Company were reinvested in the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend

Benchmark Return
Total return on the benchmark, on a mid-market value to mid-market value basis assuming that all dividends received were reinvested without transaction costs, in the shares of the underlying companies at the time the shares were quoted ex-dividend

The benchmark is a recognised index of stocks which should not be taken as wholly representative of the Company's investment universe The Company's investment strategy does not follow or 'track' this index and consequently there may be some divergence between the Company's performance and that of the benchmark

Benchmark Index
The Company's investment universe is defined at the time of purchase by the countries and market capitalisation range of the constituents of the benchmark index, the HSBC Smaller European Companies (ex UK) Total Return Index At 31st March 2011, the index consisted of 1,000 companies with a market capitalisation of between £54 million and £3 billion, from 15 countries

Actual Gearing Factor
Investments, excluding holdings in liquidity funds expressed as a percentage of shareholders' funds This shows the effect of gearing on the net asset value if the market value of the portfolio were to increase by 100%

Total Expense Ratio ('TER')
The TER represents the Company's management fee and all other operating expenses excluding interest expressed as a percentage of the average of the month end net assets during the year The method of calculating the TER has been changed this year and the prior year restated In previous years the TER represented the Company's management fee and other operating expenses excluding interest, expressed as a percentage of the average of the opening and closing net assets The new methodology more accurately reflects the way the management fee is calculated, which is based on the Company's month end market capitalisation

Net Asset Value ('NAV') per Share Assuming the Reissuance of Treasury Shares
The resulting NAV per share assuming all shares held in Treasury were reissued in accordance with the Board's policy on the reissuance of Treasury shares at that time

Share Price Discount/Premium to Net Asset Value ('NAV') Per Share
If the share price of an investment trust is lower than the NAV per share, the Company's shares are said to be trading at a discount. The discount is shown as a percentage of the NAV The opposite of a discount is a premium It is more common for an investment trust's shares to trade at a discount than at a premium

Performance Attribution
Analysis of how the Company achieved its recorded performance relative to its benchmark

Performance Attribution Definitions

Asset Allocation
Measures the impact of allocating assets differently to those in the benchmark via the portfolio's weighting in different countries sectors or asset types

Stock Selection
Measures the effect of investing in securities to a greater or lesser extent than their weighting in the benchmark, or of investing in securities which are not included in the benchmark

Gearing/Cash Effect
Measures the impact on returns of borrowings or cash balances on the Company's relative performance

Currency Effect
Measures the effect of currency exposure differences between the Company's portfolio and its benchmark

Management Fees/Other Expenses
The payment of fees and expenses reduces the level of total assets and therefore has a negative effect on relative performance

Share Buybacks
Measures the enhancement to the net asset value ('NAV') per share created by repurchases of the Company's shares for cancellation or repurchases into Treasury, at a discount to their NAV per share

Information about the Company

Financial Calendar

Financial year end	31st March
Final results announced	May/June
Half year end	September
Half year results announced	November
Interim Management Statements announced	July/January
Annual General Meeting	July

History

On 24th April 1990 the Company acquired the undertaking and assets of Fleming European Fledgeling Fund Limited (the 'Fund') in exchange for the issue of its shares and warrants The Fund was an open-ended unquoted investment company based in Jersey and formed in June 1987 with the same objectives and investment policies as the Company The Company adopted its present name in July 2010

Company Numbers

Company registration number 2431143
London Stock Exchange number 0341969
ISIN GB0003419693
Bloomberg code JEF LN

Market Information

The Company's net asset value ('NAV') is published daily, via the London Stock Exchange The Company's shares are listed on the London Stock Exchange The market price is shown daily in the Financial Times The Times The Daily Telegraph The Scotsman The Independent, The Herald and on the JPMorgan internet site at www jpmeuropeansmallercompanies co uk, where the share price is updated every fifteen minutes during trading hours

Website

www jpmeuropeansmallercompanies co uk

Subject to shareholders approving the proposed change of company name at the forthcoming AGM the website address will change to www jpmeuropeansmallercompanies co uk

Share Transactions

The Company's shares may be dealt in directly through a stockbroker or professional adviser acting on an investor's behalf They may also be purchased and held through the J P Morgan Investment Account J P Morgan ISA and J P Morgan SIPP These products are all available on the online wealth manager service J P Morgan WealthManager+ available at www jpmorganwealthmanagerplus co uk

aic
The Association of Investment Companies
A member of the AIC

Manager and Company Secretary

JPMorgan Asset Management (UK) Limited

Company's Registered Office

Finsbury Dials
20 Finsbury Street
London EC2Y 9AQ
Telephone 020 7742 6000

For company secretarial issues and administrative matters please contact Jonathan Latter

Registrars

Equiniti Limited
Reference 1083
Aspect House
Spencer Road
West Sussex BN99 6DA
Telephone number 0871 384 2325

Calls to this number cost 8p per minute from a BT landline Other providers' costs may vary Lines open 8 30 a m to 5 30 p m , Monday to Friday The overseas helpline number is +44 (0)121 415 7047

Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrar quoting reference 1083

Registered shareholders can obtain further details on their holdings on the internet by visiting www shareview co uk

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London SE1 2RT

Brokers

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

Savings Product Administrators

For queries on the J P Morgan Investment Account, J P Morgan ISA and J P Morgan SIPP, see contact details on the back cover of this report

J.P Morgan Helpline
Freephone 0800 20 40 20 or +44 (0)20 7742 9995

Your telephone call may be recorded for your security

www.jpmeuropeansmallercompanies.co.uk