

# JPMorgan European Smaller Companies Trust plc

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Annual Report & Accounts for the year ended 31st March 2017

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# Features

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## Objective

Capital growth from smaller European companies (excluding the United Kingdom).

## Investment Policies

- To invest in a diversified portfolio of smaller companies in Europe, excluding the United Kingdom.
- To emphasise capital growth rather than income. Therefore shareholders should expect the dividend to vary from year to year.
- To manage liquidity and borrowings to increase potential returns to shareholders. The Board's current gearing policy is to be between 20% net cash and 20% geared.
- 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 the shares of smaller companies, which tend to be more volatile than those of larger companies. The Company also employs gearing to generate greater returns. The Company's shares should therefore be regarded as carrying greater than average risk.

Further details on investment policies and risk management are given in the Business Review section of the Strategic Report on page 16.

## Benchmark

Euromoney Smaller European Companies (ex UK) Index in sterling terms.

## Capital Structure

At 31st March 2017, the Company's issued share capital comprised 159,987,885 ordinary shares of 5p each.

## Management Company

The Company employs JPMorgan Funds Limited ('JPMF') as its Alternative Investment Fund Manager. JPMF delegates the management of the Company's portfolio to JPMorgan Asset Management (UK) Limited ('JPMAM').

## AIC

The Company is a member of the Association of Investment Companies.

## Website

The Company's website, can be found at [www.jpmeuropeansmallercompanies.co.uk](http://www.jpmeuropeansmallercompanies.co.uk) and includes useful information about the Company, such as daily prices, factsheets and current and historic half year and annual reports.

## FCA Regulation of 'Non-Mainstream Pooled Investments'

The Company currently conducts its affairs so that the shares it issues can be recommended by Independent Financial Advisers to ordinary retail investors in accordance with the rules of the Financial Conduct Authority ('FCA') in relation to non-mainstream investment products, and intends to continue to do so for the foreseeable future.

The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

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# Financial Results

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## TOTAL RETURNS TO 31ST MARCH 2017 (INCLUDES DIVIDENDS REINVESTED)

**+22.4%**

Share price total return<sup>1</sup>  
(2016: +19.7%)

**+26.7%**

Net asset value total return<sup>2</sup>  
(2016: +16.6%)

**+29.0%**

Benchmark total return<sup>3</sup>  
(2016: +7.2%)

**4.7p**

Dividend  
(2016: 3.2p)

### Performance

FOR PERIOD ENDED 31ST MARCH 2017

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<sup>1</sup> Source: Morningstar.

<sup>2</sup> Source: Morning star/JPMorgan. The 10 year performance is using capital only net assets values, due to a lack of historic cum income net asset values.

<sup>3</sup> Source: Euromoney. The Company's benchmark is the Euromoney Smaller European Companies (ex UK) Index in sterling terms.

A glossary of terms and definitions is provided on page 71.

# Strategic Report

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## CHAIRMAN'S STATEMENT

Dear Shareholder,

I am pleased to present the Company's results for the year ended 31st March 2017.

### Performance

This financial year was a great one for sterling investors in European equities with the Company producing a total return on net assets of +26.7%. Bearing in mind this period covered the Brexit vote, the election of President Trump, Mr Renzi losing the Italian referendum and resigning and also the run up to French Presidential election where the National Front were doing well in the opinion polls, this is a remarkable outcome and reflects the economic recovery that is under way in Europe and the very loose monetary conditions.

The total return on net assets of +26.7% was behind the Company's benchmark index, the Euromoney Smaller European Companies (ex UK) index of +29.0%. It would have been difficult to foresee such a strong market performance as we came into the US election and the Investment Managers had positioned the portfolio somewhat defensively in the Autumn.

The medium and long term performance of your Company remains very strong with three year total return on net assets of +48.1% compared to the benchmark index of +38.4% and the five year total return on net assets of +143.1% comparing to the benchmark index of +110.6%.

The share price total return was +22.4%, a little less than that of net assets as the discount widened.

The performance attribution analysis is set out on page 6 in the Investment Managers' Report. Their report on pages 5 to 8 reviews the market and provides more detail on performance and the stocks and countries in which the Company is invested.

### Revenue and Dividends

The Board's dividend policy is to pay out the majority of the revenue available each year. This is set against the Company's objective of maximising capital growth and the Investment Managers are therefore not constrained to deliver income in any one financial year.

Net revenue return for the year increased to £7.8 million (2016: £5.7 million), reflecting an increase in dividend receipts as well as exchange rate differences. An interim dividend of 1.2 pence per share was paid on 4th January 2017. Subject to shareholder approval at the forthcoming Annual General Meeting, a final dividend of 3.5 pence per share will be paid on 18th July 2017 to shareholders on the register as at the close of business on 16th June 2017 (ex dividend date 15th June 2017).

### Discounts and Share Repurchases

The discount of the Company's share price to net asset value widened over the year from 10.8% to 13.9% at the year end and at the time of writing is 10.0%. The Board continues to monitor the level of the discount carefully and seeks to use its ability to repurchase shares to minimise the short term volatility and the absolute level of the discount. During the year the Company repurchased 160,000 shares for cancellation.

## CHAIRMAN'S STATEMENT *CONTINUED*

### Investment Management Fees and Manager Evaluation

Following constructive discussions with the Manager a revised fee arrangement was agreed in January of this year and became effective from 1st April 2017. The investment management fee is now charged on a tiered basis at an annual rate of 1.00% of the Company's net assets on the first £400 million and a reduced rate of 0.85% on net assets above that amount.

During the year, the Management Engagement Committee undertook a formal review of the Manager, covering the investment management, company secretarial, administrative and marketing services provided to the Company. The review took into account the Manager's extremely good long term investment performance record, management processes, investment style, resources and risk control mechanisms. I am pleased to report that the Board agreed with the Committee's recommendation that the continued appointment of the Manager is very much in the interests of shareholders as a whole:

### The Board

As reported in my statement in the Half Year Report, Marc van Gelder joined the Board in August last year. Marc will stand for reappointment at the Annual General Meeting and I look forward to introducing him to shareholders then. In addition, in line with the best corporate governance practice, all other Directors will offer themselves for re-appointment.

### Annual General Meeting

The Company's Annual General Meeting will be held at 60 Victoria Embankment, London EC4Y 0JP on Tuesday, 11th July 2017 at 12.00 noon. The Investment Managers will make a presentation covering the past year and give their outlook for the current year. Shareholders are invited to join the Investment Managers and the Board for lunch following the Annual General Meeting when there will be an opportunity for informal questions.

If you have any detailed or technical questions, it would be helpful if you could raise them in advance with the Company Secretary at 60 Victoria Embankment, London EC4Y 0JP or via the 'Ask a Question' link on the Company's website. Shareholders who are unable to attend the Annual General Meeting are encouraged to use their proxy votes.

### Outlook

After a year of considerable uncertainty about how political developments will effect the European union, the recent success of centre party leaders at both the French and Dutch elections and some optimistic opinion polls on the outcome for a successful election of Chancellor Merkel and Mr Renzi hopefully point to a more cohesive political outlook for Europe going forward.

This, coupled with a global economic recovery gathering more traction and the maintenance of very low interest rates should bode well for European markets over the forthcoming year. However, in the short term markets have risen strongly and could consolidate.

**Carolyn Dobson**  
Chairman

2nd June 2017

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## INVESTMENT MANAGERS' REPORT

### Investment Scope and 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 Euromoney Smaller European Companies (ex UK) Index. At the end of March 2017 the index consisted of 1,000 companies with a market value of between £22 million and £4.4 billion across 14 countries. This universe of potential investments is screened using a proprietary multi-factor model. We apply fundamental analysis to the results of this screening.

Jim Campbell

The investment process is driven by bottom-up stock selection with a focus on identifying market leading growth companies with a catalyst for outperformance. Stock position sizing is determined by investment conviction and trading liquidity. Investments are sold when there is a fundamental deterioration in business prospects or the market capitalisation has significantly outgrown the benchmark index. The Board has set a liquidity range of between 20% cash and 20% gearing within which the Managers may operate. The policy is not to hedge the currency exposure of the portfolio's assets.

### Market Review

The 2017 financial year was regularly punctuated by fears of political upheaval. Optimism from the European Central Bank's ('ECB') easing measures in March continued into early June until markets took fright at the potential negative consequences of the UK's decision to leave the European Union ('Brexit'). Fortunately these proved unfounded, as were later fears surrounding President Trump's election as US president in December and the then Prime Minister Matteo Renzi's loss of the Italian constitutional referendum in December. With economic indicators suggesting that, for the first time since the financial crisis, we had a synchronised global economic recovery, and with central banks remaining very accommodating, markets rose sharply towards the financial year end.

Francesco Conte

In the 12 months to March 2017, the MSCI Europe (ex UK) Index rose by 28.4% and the Company's benchmark index rose by 29.0%.

### Portfolio Performance

Over the financial year the net asset value of the Company rose by 26.7%, however, a cautious stock selection stance due to political uncertainties resulted in the net asset value of the Company underperforming its benchmark by 2.3%. Stocks which disappointed included Dutch exchange-traded products liquidity provider, Flow Traders, due to concerns around market share losses, Dutch bedroom furnishings retailer, Beter Bed, as it continued to lack traction in the German market due to an unattractive product portfolio, and Dutch trust and corporate services provider, Intertrust, due to further poor organic growth. Top contributors to performance included Swedish cosmetics retailer, Oriflame, as a result of continued strong growth in Emerging Markets including China, French furniture retailer, Maisons Du Monde, due to strong operational execution of its omnichannel strategy since its IPO in May 2016, and French recreational vehicle manufacturer, Trigano, as it continued to gain market share.

Edward Greaves

## INVESTMENT MANAGERS' REPORT *CONTINUED*

### PERFORMANCE ATTRIBUTION FOR THE YEAR ENDED 31ST MARCH 2017

	%	%
<b>Contributions to total returns</b>		
<b>Benchmark total return</b>		<b>29.0</b>
Asset allocation	0.6	
Stock selection	-3.0	
Gearing/cash effect	0.6	
Currency effect	0.6	
<b>Investment Managers' added contribution</b>		<b>-1.2</b>
<b>Portfolio total return</b>		<b>27.8</b>
Management fee/other expenses	-1.1	
<b>Other effects</b>		<b>-1.1</b>
<b>Net asset value total return</b>		<b>26.7</b>
<b>Share price total return</b>		<b>22.4</b>

Source: Datastream/JPMAM/Morningstar.

All figures are on a total return basis.

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

A glossary of terms and definitions is provided on page 71.

### Portfolio Positioning

Due to improving results of many industrial companies, we increased the cyclical tilt of the portfolio through the financial year, as evidenced by the higher exposure to the Industrial Engineering sector. For example, we added companies such as Italian high pressure pumps producer, Interpump, and Swedish industrial products manufacturer Trelleborg. Additionally, as a result of the stabilisation of commodity prices we purchased companies such as Norwegian oil services provider, Subsea 7, and Danish cement and mining machinery manufacturer, FLSmidth. Following the correction in bond yields we increased our exposure to the financial sector through companies such as Norwegian branchless digital bank, Skandiabanken, and Italian asset manager, Fincobank. Finally, due to recovering global luxury goods end markets we added Salvatore Ferragamo in Italy and Hugo Boss in Germany.

To fund these purchases we reduced our exposure to companies with more defensive business models including German biotech equipment manufacturer, Sartorius AG, and Italian pharmaceutical company, Recordati, as outperformance lead to the market



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capitalisations of both becoming too large to hold in the portfolio. We also sold Norwegian fish farmers, Bakkafrøst and Salmar, as the global demand/supply dynamics for salmon appeared to be worsening. The Italian premium notebook provider, Moleskine, was sold following a bid for the company by the Belgium company, D'Ieteren. We remained underweight real estate due to rising bond yields and pharmaceuticals due to unattractive valuations.

**Top 10 Sector Active Positions (relative to benchmark)**  
**31ST MARCH 2017**

**31ST MARCH 2016**

*Source: FactSet including cash/gearing.*

**Top 10 Country Active Positions (relative to benchmark)**  
**31ST MARCH 2017**

**31ST MARCH 2016**

*Source: FactSet.*

## INVESTMENT MANAGERS' REPORT *CONTINUED*

The biggest shift at the country level was the reduction in the substantial overweight exposure to the Netherlands by selling underperforming companies; Flow Traders, Beter Bed and Intertrust. Attractive new investment opportunities were identified in Italy including the pharmaceutical and food packaging machinery manufacturer, IMA, and the kitchen appliances manufacturer, De'Longhi. Our largest underweight country exposure continued to be in Spain where we continue to find valuations unattractive and are concerned by Spanish companies generally high exposure to Brazil, which remains one of the few weak economies in the world.

The level of gearing rose from 2.6% cash at the start of the period to 5.3% geared by the end of the period. We added gearing as the global economic outlook brightened through the year and this was a positive contributor to returns.

### European Smaller Company Valuations ABSOLUTE VALUATIONS – PRICE/BOOK\*

### RELATIVE VALUATIONS – PRICE/BOOK\*

Source: European Quantitative Research, Citigroup Investment Research. Data as at 31st March 2017.

### Outlook

Fears of an impending populist uprising in Continental Europe have so far proven unfounded as the Dutch and French voted overwhelmingly for centrist parties. Moreover, more recent opinion polls in Germany now expect Chancellor Merkel to win a fourth term. Mr Renzi, the newly elected Secretary of the centrist Italian Democratic Party, is also leading in the polls after several months of trailing the populist Five Star Movement party. Our overweight exposure to Italy and France reflect our expectation of benign political outcomes.

The synchronised global economic recovery is gaining traction, central banks remain supportive and we are seeing earnings growth in Europe accelerating for the first time in a number of years. Such a benign scenario is reflected in our overweight positions in sectors such as Industrial Engineering and Automobiles and Parts.

While we are fundamentally positive for the rest of the year, short term our enthusiasm is tempered by the more than 20% rise in markets since the November lows, with barely a pause for breath. With this in mind and given our high cyclical exposure we thought it prudent to reduce the gearing after the year end with a view to redeploying it at a later stage, should the opportunity arise.

**Jim Campbell\***  
**Francesco Conte**  
**Edward Greaves**  
Investment Managers

2nd June 2017

\*As announced on 21st March 2017 Mr Campbell is currently on personal leave.

## SUMMARY OF RESULTS

	2017	2016	
<b>Total returns for the year ended 31st March</b>			
Share price total return <sup>1</sup>	+22.4%	+19.7%	
Net asset value total return <sup>2</sup>	+26.7%	+16.6%	
Benchmark total return <sup>3</sup>	+29.0%	+7.2%	
<b>Net asset value, share price, discount and market data at 31st March</b>			
			<b>% change</b>
Shareholders' funds (£'000)	620,846	495,380	+25.3
Net asset value per share	388.1p	309.3p	+25.5
Share price	334.0p	276.0p	+21.0
Share price discount to net asset value per share	13.9%	10.8%	
Shares in issue	159,987,885	160,147,885	
Euromoney Smaller European Companies (ex UK) Index in sterling terms (capital only) <sup>3</sup>	528.4	416.8	+26.8
<b>Revenue for the year ended 31st March</b>			
Gross revenue return (£'000)	10,654	8,448	+26.1
Net revenue available for shareholders (£'000)	7,807	5,732	+36.2
Revenue return per share	4.88p	3.58p	+36.3
Dividend per share	4.7p	3.2p	
<b>Gearing/(net cash) at 31st March<sup>4</sup></b>	<b>5.3%</b>	<b>(2.6)%</b>	
<b>Ongoing charges</b>	<b>1.13%</b>	<b>1.18%</b>	

<sup>1</sup> Source: Morningstar.

<sup>2</sup> Source: Morningstar/JPMorgan.

<sup>3</sup> Source: Euromoney. The Company's benchmark is the Euromoney Smaller European Companies (ex UK) Index in sterling terms.

<sup>4</sup> The methodology to calculate gearing has been amended during the year. The previous year's figure has been amended for fair comparison. Please refer to the glossary of terms and definitions on page 71 for the revised calculation.

A glossary of terms and definitions is provided on page 71.

## **PERFORMANCE**

### **Ten Year Performance**

**FIGURES HAVE BEEN REBASED TO 100 SINCE 31ST MARCH 2007**

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<sup>1</sup> Source: Morningstar.

<sup>2</sup> Source: Morningstar/JPMorgan. Prior to 30th June 2008, capital only net asset value.

<sup>3</sup> Source: Euromoney. The Company's benchmark is the Euromoney Smaller European Companies (ex UK) Index in sterling terms.

### **Performance Relative to Benchmark**

**FIGURES HAVE BEEN REBASED TO 100 SINCE 31ST MARCH 2007**

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<sup>1</sup> Source: Morningstar.

<sup>2</sup> Source: Morningstar/JPMorgan. Prior to 30th June 2008, capital only net asset value.

<sup>3</sup> Source: Euromoney. The Company's benchmark is the Euromoney Smaller European Companies (ex UK) Index in sterling terms.

## TEN YEAR FINANCIAL RECORD

At 31st March	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total assets less current liabilities (£'m)	450.2	394.0	270.1	415.9	477.4	342.3	366.0	474.8	473.1	495.4	620.8
Net asset value per share (p)	175.4	161.6	114.7	181.5	219.5	170.8	195.1	270.7	268.3	309.3	388.1
Share price (p)	161.0	136.0	92.0	147.0	186.0	144.4	169.8	240.0	233.5	276.0	334.0
Share price discount (%)	8.2	15.8	19.8	18.7	15.2	15.5	13.0	11.3	13.0	10.8	13.9
(Net cash)/gearing (%) <sup>1</sup>	(3.8)	(1.6)	(1.9)	0.2	16.7	7.6	12.9	12.6	7.5	(2.8)	5.3
Ongoing charges (%)	1.21	1.33	1.27	1.21	1.21	1.27	1.26	1.31	1.32	1.18	1.13

### Year ended 31st March

Gross revenue return (£'000)	7,767	6,149	10,067	8,431	9,241	10,215	8,481	8,016	8,586	8,448	10,654
Net revenue/(loss) available for shareholders (£'000)	1,279	(376)	7,363	2,167	2,369	7,055	6,134	5,047	5,519	5,732	7,807
Revenue return/(loss) per share (p)	0.50	(0.15)	3.08	0.93	1.07	3.42	3.29	2.99	3.45	3.58	4.88
Total dividend(s) per share (p)	—	—	—	0.6	0.8	3.4	3.2	2.9	3.2	3.2	4.7

### Rebased to 100 at 31st March 2007

Share price total return <sup>2</sup>	100.0	84.5	57.1	91.3	116.1	91.4	110.2	158.3	156.1	186.7	228.6
Net asset value total return <sup>3</sup>	100.0	91.6	64.4	102.1	124.4	98.0	114.3	160.8	161.2	187.9	238.2
Benchmark total return <sup>4</sup>	100.0	91.5	56.2	98.4	112.3	90.3	103.5	137.4	137.6	147.4	190.2

<sup>1</sup> The methodology to calculate gearing has been amended during the year. 2016 has been amended for fair comparison. Please refer to the glossary of terms and definitions on page 71 for the revised calculation.

<sup>2</sup> Source: Morningstar.

<sup>3</sup> Source: Morningstar/JPMorgan. Prior to 30th June 2008, capital only net asset value.

<sup>4</sup> Source: Euromoney. The Company's benchmark is the Euromoney Smaller European Companies (ex UK) Index in sterling terms.

A glossary of terms and definitions is provided on page 71.

## TEN LARGEST EQUITY INVESTMENTS AT 31ST MARCH

Company	Country	2017 Valuation		2016 Valuation	
		£'000	% <sup>1</sup>	£'000	% <sup>1</sup>
Stabilus <sup>2</sup>	Germany	15,216	2.3	3,264	0.7
FLSmidth <sup>3</sup>	Denmark	15,109	2.3	—	—
Bücher Industries <sup>3</sup>	Switzerland	14,862	2.3	—	—
Tod's <sup>3</sup>	Italy	14,749	2.3	—	—
TKH <sup>2</sup>	Netherlands	14,704	2.3	7,923	1.6
Nokian Renkaat <sup>3</sup>	Finland	14,622	2.2	—	—
SAF-Holland <sup>3</sup>	Germany	14,582	2.2	—	—
Aalberts Industries	Netherlands	14,557	2.2	14,755	3.1
Aker Solutions <sup>3</sup>	Norway	14,362	2.2	—	—
Trelleborg 'B' <sup>3</sup>	Sweden	14,323	2.2	—	—
<b>Total<sup>4</sup></b>		<b>147,086</b>	<b>22.5</b>		

<sup>1</sup> Based on total investments of £653.6m (2016: £482.6m).

<sup>2</sup> Not included in the ten largest investments at 31st March 2016.

<sup>3</sup> Not held in the portfolio at 31st March 2016.

<sup>4</sup> At 31st March 2016, the value of the ten largest investments amounted to £133.7m representing 27.7% of total investments.

## PORTFOLIO ANALYSES

### Geographical

	31st March 2017		31st March 2016	
	Portfolio % <sup>1</sup>	Benchmark %	Portfolio % <sup>1</sup>	Benchmark %
Italy	21.6	12.3	12.4	12.4
France	19.5	12.2	17.0	13.3
Switzerland	11.4	10.5	8.0	10.6
Germany	11.2	14.4	13.8	14.3
Sweden	9.4	14.1	17.3	13.8
Norway	8.0	4.7	6.0	4.3
Denmark	7.6	4.2	2.6	3.6
Netherlands	7.0	4.7	15.9	4.8
Finland	4.3	4.5	3.2	4.6
Spain	—	7.8	0.9	7.4
Belgium	—	4.4	1.0	4.3
Austria	—	3.8	—	3.4
Portugal	—	1.4	—	1.6
Ireland	—	1.0	1.9	1.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> Based on total investments of £653.6m (2016: £482.6m).

### Sector

	31st March 2017		31st March 2016	
	Portfolio % <sup>1</sup>	Benchmark %	Portfolio % <sup>1</sup>	Benchmark %
Industrials	35.5	23.6	23.3	24.9
Consumer Discretionary	27.4	15.0	30.4	14.4
Information Technology	13.6	9.4	18.4	8.6
Financials	13.6	12.8	13.2	21.2
Energy	4.0	3.2	—	3.2
Consumer Staples	3.8	6.6	5.5	6.7
Health Care	2.1	7.9	5.1	8.4
Real Estate	—	7.8	—	—
Materials	—	7.0	1.6	6.8
Utilities	—	3.6	2.5	2.8
Telecommunication Services	—	3.1	—	3.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> Based on total investments of £653.6m (2016: £482.6m).

**INVESTMENT ACTIVITY DURING THE YEAR ENDED 31ST MARCH 2017**

	Value at 31st March 2016		Purchases	Sales	Changes in value	Value at 31st March 2017	
	£'000	%	£'000	£'000	£'000	£'000	%
Italy	59,967	12.4	145,257	(101,729)	37,386	140,881	21.6
France	81,940	17.0	110,904	(105,918)	40,815	127,741	19.5
Switzerland	38,446	8.0	74,975	(54,546)	15,791	74,666	11.4
Germany	66,393	13.8	98,030	(99,253)	7,877	73,047	11.2
Sweden	83,733	17.3	132,246	(181,230)	26,851	61,600	9.4
Norway	28,992	6.0	67,827	(50,472)	5,728	52,075	8.0
Denmark	12,792	2.6	68,604	(27,886)	(4,016)	49,494	7.6
Netherlands	76,794	15.9	23,144	(39,193)	(14,886)	45,859	7.0
Finland	15,253	3.2	95,794	(91,278)	8,487	28,256	4.3
Ireland	9,205	1.9	1,670	(9,698)	(1,177)	—	—
Belgium	4,863	1.0	11,344	(18,518)	2,311	—	—
Spain	4,212	0.9	21,570	(28,037)	2,255	—	—
<b>Total investments</b>	<b>482,590</b>	<b>100.0</b>	<b>851,365</b>	<b>(807,758)</b>	<b>127,422</b>	<b>653,619</b>	<b>100.0</b>



## LIST OF INVESTMENTS AT 31ST MARCH 2017

Company	Valuation £'000	Company	Valuation £'000
<b>Italy</b>		<b>Sweden</b>	
Tod's	14,749	Trelleborg 'B'	14,323
Amplifon	14,046	Dometic	13,027
Brembo	13,925	Oriflame	12,668
Banca Generali	13,800	Thule Group	10,676
Salvatore Ferragamo	13,564	Nordax	8,246
Industria Macchine Automatiche	13,249	Alimak	1,519
De' Longhi	13,233		
Interpump	13,190	<b>Total</b>	<b>61,600</b>
Datalogic	12,260		
FinecoBank Banca Fineco	9,608	<b>Norway</b>	
<b>Total</b>	<b>140,881</b>	Aker Solutions	14,362
<b>France</b>		TGS Nopec Geophysical	13,824
Ubisoft Entertainment	14,060	Subsea 7	12,165
Sopra Steria	13,755	Skandiabanken	11,724
Trigano	13,571	<b>Total</b>	<b>52,075</b>
Alten	13,518		
Tarkett	13,155	<b>Denmark</b>	
IPSOS	12,742	FLSmidth	15,109
Maisons du Monde	12,729	SimCorp	12,749
Rexel	12,585	Spar Nord Bank	11,266
Remy Cointreau	9,506	Jyske Bank	10,370
ID Logistics	8,552	<b>Total</b>	<b>49,494</b>
<b>Total</b>	<b>127,741</b>		
<b>Switzerland</b>		<b>Netherlands</b>	
Bucher Industries	14,862	TKH	14,704
Forbo	13,576	Aalberts Industries	14,557
AMS	13,328	IMCD	13,670
dormakaba Holding	12,022	ForFarmers	2,928
Sulzer	11,640	<b>Total</b>	<b>45,859</b>
Temenos	9,238		
<b>Total</b>	<b>74,666</b>	<b>Finland</b>	
<b>Germany</b>		Nokian Renkaat	14,622
Stabilus	15,216	Metso	13,634
SAF-Holland	14,582	<b>Total</b>	<b>28,256</b>
Jungheinrich	13,608	<b>Total Investments</b>	<b>653,619</b>
Hugo Boss	13,438		
Aumann	9,314		
Wacker Neuson	6,889		
<b>Total</b>	<b>73,047</b>		

## BUSINESS REVIEW

The aim of the Strategic Report is to provide shareholders with the ability to assess how the Directors have performed their duty to promote the success of the Company during the year under review. To assist shareholders with this assessment, the Strategic Report sets out:

- the business of the Company;
- its investment policies and risk management;
- the investment restrictions and guidelines;
- the performance and key performance indicators;
- share capital;
- borrowings;
- the Company's environmental, social and ethical policy;
- the principal risks and how the Company seeks to manage those risks; and
- the Company's long term viability.

### Business of the Company

JPMorgan European Smaller Companies Trust plc is an investment trust company that has a premium listing on the London Stock Exchange. The Company is incorporated in England and Wales. Its objective is to achieve capital growth from smaller European companies (excluding the United Kingdom). In seeking to achieve this objective, the Company employs JPMF which, in turn, delegates portfolio management to JPMAM to actively manage the Company's assets. The Board has determined an investment policy and related guidelines and limits as described below. It aims to out perform the Euromoney Smaller Companies (ex UK) Index (in sterling terms).

The Company is subject to UK and European legislation and regulations including UK company law, UK Financial Reporting Standards, the UKLA Listing, Prospectus, Disclosure Guidance and Transparency Rules, Market Abuse Regulation, taxation law and the Company's own Articles of Association.

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006 and has been approved by HM Revenue & Customs as an investment trust (for the purposes of Sections 1158 and 1159 of the Corporation Tax Act 2010). As a result the Company is not liable for taxation on capital gains. The Directors have no reason to believe that approval will not continue to be retained. The Company is not a close company for taxation purposes.

### Investment Policies and Risk Management

In order to achieve its investment objective and to seek to manage investment risks, the Company invests in a diversified portfolio of 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 which, at the end of March 2017, consisted of 1,000 companies with a market value of between £22 million and £4.4 billion across 14 countries.

The Company manages liquidity and borrowings with the aim of increasing 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 Company does not normally hedge the foreign currency exposure of the remainder of the portfolio.

The investment policy emphasises capital growth rather than income and shareholders should therefore expect dividends to vary from year to 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 50 to 70. To gain the appropriate exposure, the Investment Managers are permitted to invest in collective investment schemes. JPMF is responsible for management of the Company's assets. On a day-to-day basis the assets are managed by three Investment Managers based in London, supported by a 52-strong European equity team.

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

### Investment Restrictions and Guidelines

The Board seeks to manage the risks facing the Company by imposing various limits and restrictions;

- The Company will not invest more than 5% of its total assets in any one individual stock at the time of acquisition.
- No more than 15% of assets may be invested outside the benchmark. Any such investments must be in European ex UK companies or a UK investment company that invests in Europe.
- 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 UKLA, the Company will not invest more than 15% of its gross assets in other UK listed closed-ended investment funds and will not invest more than 10% of its gross assets in UK listed closed-ended investment funds that themselves may invest more than 15% of gross assets in UK listed

closed-ended investment funds. It is very unlikely that the Company would wish to have substantial positions in such companies and had no such investments in the year under review.

- The Board has set a normal gearing range of 20% net cash to 20% geared.
- 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 ended 31st March 2017, the Company produced a share price total return of +22.4% and a net asset value total return of +26.7%. This compares with the total return on the Company's benchmark index of +29.0%. As at 31st March 2017 the value of the Company's investment portfolio was £653.6 million (2016: £482.6 million). The Investment Managers' Report on pages 5 to 8 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 return for the year amounted to £138.2 million (2016: £77.2 million) and net total return after deducting the management fee, other administrative expenses, finance costs and taxation amounted to £131.0 million (2016: £70.8 million). Net revenue return on ordinary activities after taxation for the year amounted to £7.8 million (2016: £5.7 million). An interim dividend of 1.2p per share (2016: 1.2p) was paid during the year, costing £1.9 million (2016: £1.9 million). The Directors have proposed a final dividend of 3.5p (2016: 2.0p) per share. This dividend will cost £5.6 million and the total revenue reserve will amount to £3,971,000 after the payment of this dividend. Further details are set out in note 9(b) to the financial statements.

## Key Performance Indicators ('KPIs')

At each Board meeting the Directors consider a number of performance measures to assess the Company's success in achieving its objectives. The principal KPIs are performance relative to the benchmark index, performance against the Company's peers, performance attribution, share price discount to net asset value per share and ongoing charges. Unless there is a particular reason for the Board to change the KPIs (which would require an explanation to shareholders), consistency is maintained to provide continuity. Further details of the principal KPIs are given below.

### • Performance relative to the benchmark index

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 on pages 3 to 8.

### Performance Relative to Benchmark Index

FIGURES HAVE BEEN REBASED TO 100 SINCE 31ST MARCH 2007

Source: Morningstar/Euromoney.

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

### Ten Year Performance

FIGURES HAVE BEEN REBASED TO 100 SINCE 31ST MARCH 2007

Source: Morningstar/Euromoney.

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

### • 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 with similar objectives.

### • 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

## BUSINESS REVIEW CONTINUED

such as stock selection and asset allocation. Details of the attribution analysis for the year ended 31st March 2017 are given in the Investment Managers' Report on page 6.

- **Share price discount to net asset value ('NAV') per share**

The Board recognises that the possibility of a widening discount can be a key disadvantage of investment trusts that can discourage investors. The Board has for several years operated a share repurchase programme which seeks to address imbalances in the supply of and demand for the Company's shares within the market and thereby seek to manage the volatility and absolute level of the discount to NAV per share at which the Company's shares trade. In the year ended 31st March 2017, the discount ranged between 10.8% and 17.4%, (using month end data). More information on the Board's share repurchase policy is given in the Chairman's Statement on page 3.

### Discount

Source: Morningstar (month end data).

— JPMorgan European Smaller Companies – share price discount to net asset value per share.

- **Ongoing charges**

The ongoing charges represent the Company's management fee and all other operating expenses, excluding any finance costs, expressed as a percentage of the average daily net assets during the year. The ongoing charges for the year ended 31st March 2017 were 1.13% (2016: 1.18%). Each year the Board reviews an analysis which shows a comparison of the Company's ongoing charges and its main expenses with those of its peers.

### Share Capital

The Company has the authority both to issue new shares, or reissue shares out of Treasury, for cash at a premium to net asset value and to repurchase shares in the market for cancellation (or to be held in Treasury) at a discount to net asset value.

During the year the Company repurchased 160,000 shares for cancellation. No shares have been repurchased since the year end.

The Company did not issue any new shares during the year.

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. It will however, seek to renew its authority to reissue shares from Treasury at a premium to net asset value.

Resolutions to renew the authority to issue new shares and reissue shares from Treasury and repurchase shares for cancellation or to be held in Treasury will be put to shareholders at the forthcoming Annual General Meeting. The full text of these resolutions is set out in the Notice of Meeting on pages 68 and 69.

The issued share capital of the Company is 159,987,885 ordinary shares of 5 pence each.

### Borrowings

The Company has a €95 million unsecured loan facility with Scotiabank, of which €70 million was drawn down at the year end. This facility expires on 19th January 2018.

### Board Diversity

When recruiting a new Director, the Board's policy is to appoint individuals on merit. Diversity is important in bringing an appropriate range of skills and experience to the Board and the Board is diverse on a number of bases, namely gender, race and nationality. As at 31st March 2017, there were four male Directors and one female Director on the Board. Four Directors are British and one is Dutch.

### Employees, Social, Community and Human Rights Issues

The Company has a management contract with JPMF. It has no employees and all its Directors are non-executive. The day to day activities are carried out by third parties. There are therefore no disclosures to be made in respect of employees. The Board notes the policy statements of JPMAM in respect of Social, Community and Environmental and Human Rights issues, as highlighted in *italics*:

#### ***Social, Community, Environmental and Human Rights***

*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*

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*detailed approach to how we implement the principles is available on request.*

The Manager has implemented a policy which seeks to restrict investments in securities issued by companies that have been identified by an independent third party provider as being involved in the manufacture, production or supply of cluster munitions, depleted uranium ammunition and armour and/or anti-personnel mines. Shareholders can obtain further details on the policy by contacting the Manager.

### **Greenhouse Gas Emissions**

The Company is managed by JPMF with delegation of the active management of the Company's assets to JPMAM. JPMF acts as Company Secretary and provides administrative support. The Company has no employees, all its Directors being non-executive, the day to day activities being carried out by third parties. There are therefore no disclosures to be made in respect of employees. The Company itself has no premises, consumes no electricity, gas or diesel fuel and consequently does not have a measurable carbon footprint. JPMAM is a signatory to the Carbon Disclosure Project and JPMorgan Chase is a signatory to the Equator Principles on managing social and environmental risk in project finance.

### **The Modern Slavery Act 2015 (the 'MSA')**

The MSA requires companies to prepare a slavery and human trafficking statement for each financial year of the organisation. As the Company has no employees and does not supply goods and services, the MSA does not apply directly to it. The MSA requirements more appropriately relate to JPMF and JPMAM. JPMorgan's statement on Human Rights can be found on the following website: [www.jpmorganchase.com/corporate/About-JPMC/ab-human-rights.htm](http://www.jpmorganchase.com/corporate/About-JPMC/ab-human-rights.htm)

### **Principal Risks**

The Directors confirm that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

With the assistance of the Manager, the Board has drawn up a risk matrix, which identifies the key risks to the Company. In assessing the risks and how they can be mitigated, the Board has given particular attention to those risks that might threaten the viability of the Company. These key risks fall broadly under the following categories:

- **Investment Underperformance and Strategy:**

An inappropriate investment strategy, for example excessive concentration of investments, asset allocation, the level of gearing or the degree of portfolio risk, may lead to

underperformance against the Company's benchmark index and peer companies, which may result 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 on by the Manager. JPMF 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 reviews data which show statistical measures of the Company's risk profile. The Board sets strategic guidelines for gearing as well as investments. Once those are agreed, decisions on levels of gearing are delegated to the Investment Managers, whose decisions are subject to challenge by the Board. The Board holds a separate meeting devoted to strategy each year.

- **Market and Currency:** 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 considers 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 JPMF. The Board monitors the implementation and results of the investment process with the Manager. The majority of the Company's assets, liabilities and income are denominated in Euros rather than in the Company's functional currency of sterling (in which it reports). As a result, movements in the Euro:sterling exchange rate may affect the sterling value of those items. Therefore, there is an inherent risk from these exchange rate movements. 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 risk is given in note 21(a) on pages 57 to 60 of this report, together with details of how the Board manages these risks.

- **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'). Details of the Company's approval are given under 'Business of the Company' on page 16. Were the Company to breach Section 1158, it may lose investment trust status and, as a consequence, gains within the Company's portfolio would be subject to capital gains tax. The Section 1158 qualification criteria are continually monitored by JPMF and the results reported to the Board each month. The Company must also comply with the provisions of the Companies

## BUSINESS REVIEW CONTINUED

Act 2006 and, since its shares are listed on the London Stock Exchange, the UKLA Listing Rules, the Market Abuse Regulations ('MAR'), Disclosure Guidance and Transparency Rules ('DTRs') and, as an investment trust, the Alternative Investment Fund Managers Directive ('AIFMD'). 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. Failure of the Manager to comply with the AIFMD could lead to the Manager losing its status as an Alternative Investment Fund Manager ('AIFM') and the Company would then need to change its AIFM. The Board relies on the services of its Company Secretary, the Manager and its professional advisers to ensure compliance with the Companies Act, the UKLA Listing Rules, MAR, DTRs and AIFMD.

- **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 Statement on page 28.
- **Operational:** Loss of key staff by the Manager, such as the Investment Managers, could affect the performance of the Company. Disruption to, or failure of, the Manager's accounting, dealing or payments systems or the Depositary or Custodian's records may prevent accurate reporting and monitoring of the Company's financial position. Under the terms of its agreement, the Depositary has strict liability for the loss or misappropriation of assets held in custody. See note 21 for further details on the responsibilities of the Depositary. Details of how the Board monitors the services provided by JPMF and its associates and the key elements designed to provide effective risk management and internal control are included within the Risk Management and Internal Control section of the Corporate Governance Statement on pages 28 and 29.
- **Cyber Crime:** The threat of cyber attack, in all its guises, is regarded as at least as important as more traditional physical threats to business continuity and security. The Board has received the cyber security policies for its key third party service providers and JPMF has assured Directors that the Company

benefits directly or indirectly from all elements of JPMorgan's Cyber Security programme. The information technology controls around the physical security of JPMorgan's data centres, security of its networks and security of its trading applications are tested and reported on every six months against the AAF Standard.

- **Financial:** The financial risks arising from the Company's financial instruments include market price risk, interest rate risk, liquidity risk and credit risk. Further details are disclosed in note 21 on pages 56 to 62.

### Long Term Viability

Taking account of the Company's current position, the principal risks that it faces and their potential impact on its future development and prospects, the Directors have assessed the prospects of the Company, to the extent that they are able to do so, over the next five years. They have made that assessment by considering those principal risks, the Company's investment objective and strategy, the investment capabilities of the Manager and the current outlook for the European economies and equity markets.

In determining the appropriate period of assessment the Directors had regard to their view that, given the Company's objective of achieving long term capital growth, shareholders should consider the Company as a long term investment proposition. This is consistent with advice provided by investment advisers, that investors should consider investing in equities for a minimum of five years. Thus the Directors consider five years to be an appropriate time horizon to assess the Company's viability.

The Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of assessment.

For and on behalf of the Board  
Carolyn Dobson  
Chairman

2nd June 2017

# Governance

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## BOARD OF DIRECTORS

### **Carolyn Dobson (Chairman)**

A Director since September 2010. Appointed Chairman in 2013.

Last reappointed to the Board: 2016

Other directorships: Chairman of Brunner Investment Trust plc, Schroder UK Growth Fund plc, BlackRock Latin American Investment Trust plc and non-executive director of Woodford Patient Capital Trust plc and Nest Corporation. She has a wealth of investment experience, having previously been a Director of 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

### **Stephen White**

A Director since 1st April 2012.

Last reappointed to the Board: 2016

Other directorships: Head of European and US equities at British Steel Pension Fund, responsible for the day to day management of the Fund's Europe ex-UK and US equity portfolios. Director of Aberdeen New India Investment Trust plc and of BlackRock Frontiers Investment Trust plc and formerly a director of Global Special Opportunities Trust Plc, Head of European Equities at F&C Asset Management and Manager of Foreign & Colonial Eurotrust PLC and Deputy Manager of the Foreign & Colonial Investment Trust Plc. He is a Chartered Accountant.

Connections with Manager: None

Shared Directorships with other Directors: None

### **Ashok Gupta**

A Director since 1st January 2013.

Last reappointed to the Board: 2016

Other directorships: Non-executive Director of New Ireland Assurance plc and a member of the FRC Codes & Standards Committee and Actuarial Council. Non-executive Chairman of eValue. Formerly Non-executive Chairman of AA Insurance Services Limited and Skandia UK, Director of The Pensions Regulator, J Rothschilds Assurance and the Pearl Group.

Connections with the Manager: None

Shared Directorships with other Directors: None

## **BOARD OF DIRECTORS CONTINUED**

**Nicholas Smith (Chairman of the Audit Committee)**

A Director since 1st May 2015.

Last reappointed to the Board: 2016

Other directorships: Non-executive Chairman of Aberdeen New Thai Investment Trust plc, Schroder Asia Pacific Investment Fund and non-executive Director and Audit Committee Chairman of Polarcus Limited. FCA with a long-term career in investment banking and from 1993 to 1997 as CFO of Jardine Fleming.

Connections with the Manager: None

Shared Directorships with other Directors: None

**Marc Van Gelder**

A Director since 1st August 2016.

Last reappointed to the Board: n/a

Other directorships: Chairman of Vastned N.V., listed on Euronext, Amsterdam (AMX) and until October 2016 a Member of the Supervisory Board of GIMV, listed on the NYSE Euronext, Brussels. He has worked for 20 years in business in Europe and his former roles include CEO of Mediq, a Dutch listed pharmaceutical distributor, which was acquired by Advent in 2013.

Connections with the Manager: None

Shared Directorships with other Directors: None

All Directors are members of the Audit, Management Engagement and Nomination and Remuneration Committees and are considered by the Board to be independent of the Manager.



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## DIRECTORS' REPORT

The Directors present their report and audited financial statements for the year ended 31st March 2017.

### Management of the Company

The Manager and Company Secretary is JPMorgan Funds Limited ('JPMF'). JPMF is employed under a contract which can be terminated on six months' notice, without penalty. The contract may also be terminated on three months' notice if both Francesco Conte and Jim Campbell cease to be named managers of the Company's portfolio. If the Company wishes to terminate the contract on shorter notice, the balance of remuneration is payable by way of compensation. The active management of the Company's assets is delegated by JPMF to an affiliate, JPMorgan Asset Management (UK) Limited ('JPMAM'). The Manager is a wholly owned subsidiary of JPMorgan Chase Bank, N.A. which, through other subsidiaries, also provides accounting, banking, dealing and custodian services to the Company.

The Management Engagement Committee conducts a formal evaluation of the performance of the contractual relationship with the Manager on an annual basis. Part of this evaluation includes a consideration of the management fees and whether the service received represents value for money for shareholders. The Committee has thoroughly reviewed the performance of the Manager in the course of the year. The review covered consideration of the investment strategy and process of the Manager, resources and risk controls, performance against the benchmark over the long term and the quality of support that the Company received including the marketing support provided. The latest evaluation of the Manager was carried out in early 2017. As a result of that process, the Board confirms that it is satisfied that the continuing appointment of the Manager is in the interests of shareholders as a whole.

### The Alternative Investment Fund Managers Directive ('AIFMD')

JPMF is the Company's alternative investment fund manager ('AIFM'). It is approved as an AIFM by the FCA. For the purposes of the AIFMD the Company is an alternative investment fund ('AIF'). JPMF has delegated responsibility for the day to day management of the Company's portfolio to JPMAM. The Company has appointed BNY Mellon Trust and Depositary (UK) Limited ('BNY') as its depositary. BNY has appointed JPMorgan Chase Bank, N.A. as the Company's custodian. BNY is responsible for the oversight of the custody of the Company's assets and for monitoring its cash flows.

The AIFMD requires certain information to be made available to investors in AIFs before they invest and requires that material changes to this information be disclosed in the annual report of

each AIF. An Investor Disclosure Document, which sets out information on the Company's investment strategy and policies, leverage, risk, liquidity, administration, management, fees, conflicts of interest and other shareholder information is available on the Company's website at [www.jpmeuropeansmallercompanies.co.uk](http://www.jpmeuropeansmallercompanies.co.uk). There have been no material changes (other than those reflected in these financial statements) to this information requiring disclosure. Any information requiring immediate disclosure pursuant to the AIFMD will be disclosed to the London Stock Exchange through a primary information provider.

JPMF's remuneration disclosures are set out on page 66.

### Management Fee

With effect from 1st April 2017, the management fee has been charged at an annual rate of 1.0% of the Company's net assets on the first £400 million and at 0.85% of net assets above that amount (until 31st March 2017 it was charged at 1.0% of net assets). It is calculated and paid monthly in arrears. An adjustment is made to exclude from the calculation investments in funds on which the Manager charges a management fee and therefore attract no additional management fee. In addition, the Company reimburses the Manager for the costs of administering its shareholders who hold their shares through the JPMorgan savings products.

### Directors

Mr Federico Marescotti retired as a Director of the Company on 30th June 2016 and Marc Van Gelder was appointed with effect from 1st August 2016. All other Directors of the Company, detailed on pages 21 and 22, held office throughout the year to 31st March 2017. Details of Directors' beneficial shareholdings may be found in the Directors' Remuneration Report on page 33.

In accordance with corporate governance best practice, all Directors will retire at the forthcoming Annual General Meeting and, being eligible, will offer themselves for reappointment by shareholders.

The Nomination and Remuneration Committee, having considered their qualifications, performance and contribution to the Board and its Committees, confirms that each Director standing for reappointment continues to be effective and demonstrates commitment to the role and the Board recommends to shareholders that they be reappointed.

### Director Indemnification and Insurance

As permitted by the Company's Articles of Association, each Director has the benefit of an indemnity which is a qualifying third party indemnity, as defined by Section 234 of the Companies Act 2006. For the Directors who served during the year under review,

## DIRECTORS' REPORT *CONTINUED*

these indemnities were in place throughout the year and as at the date of this report. The effective date of the indemnity concerning Marc Van Gelder was 1st August 2016, the date of his appointment, and remains in place 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(2) of the Companies Act 2006.

### Independent Auditors

In line with corporate governance best practice, the Board undertook a formal review and tender of audit services in 2014. PricewaterhouseCoopers LLP were retained as the Company's Auditors and have expressed their willingness to continue in office as Auditors. A resolution to reappoint them and authorise the Directors to determine their remuneration for the ensuing year will be proposed at the Annual General Meeting.

### Capital Structure and Voting Rights

#### Capital Structure

At 31st March 2017, the Company's share capital comprised 159,987,885 ordinary shares of 5p each. There were no shares held in Treasury. The ordinary shares have a premium listing on the London Stock Exchange.

#### Voting Rights in the Company's shares

Details of the voting rights in the Company's shares as at the date of this report are given in Note 16 to the Notice of Annual General Meeting on page 70.

### Notifiable Interests in the Company's Voting Rights

At the end of the financial year, the following had declared a notifiable interest in the Company's voting rights:

Shareholders	Number of voting rights	%
Lazard Asset Management LLC	21,625,815	13.5
Investec Wealth & Investment Limited	7,991,575	5.5

As at 31st May 2017 Investec Wealth & Investments Limited had a notifiable interest in 5.02% of the voting rights of the Company.

The Company is also aware that as at 31st March 2017, approximately 9.1% of the Company's total voting rights were held by individuals through savings products managed by JPMorgan and registered in the name of Chase Nominees Limited. If those voting rights are not exercised by the beneficial holders, in accordance with the terms and conditions of the savings products, under certain circumstances JPMorgan has the right to exercise those voting rights. That right is subject to certain limits and restrictions and falls away at the conclusion of the relevant general meeting.

The rules concerning the appointment, reappointment and replacement of Directors, amendment of the Company's Articles of Association and powers to issue or repurchase 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 to which the Company is party that affect its control following a takeover bid; and no agreements between the Company and its Directors concerning compensation for loss of office.

### Listing Rule 9.8.4R

Listing Rule 9.8.4R requires the Company to include certain information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures to be made in this regard.

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## 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 ADVISER 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. The full text of the resolutions is set out in the Notice of Meeting on pages 68 and 69:

**(i) Authority to allot new shares and to disapply statutory pre-emption rights (resolutions 11 and 12)**

The Directors will seek renewal of the authority at the Annual General Meeting to issue new ordinary shares for cash or by way of a sale of Treasury shares up to an aggregate nominal amount of £399,969, such amount being equivalent to approximately 5% of the issued share capital (including Treasury shares) as at the latest practicable date before the publication of this document or, if different, the number of ordinary shares which is equal to 5% of the Company's issued share capital (including Treasury shares) as at the date of the passing of the resolution. This authority will expire at the conclusion of the Annual General Meeting of the Company in 2018 unless renewed at a prior general meeting.

Resolution 12 will enable the allotment of ordinary shares otherwise than by way of a pro rata issue to existing shareholders. It is advantageous for the Company to be able to issue new shares (or to reissue shares from Treasury) to 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 net asset value ('NAV'), thereby increasing the NAV per share and spreading the Company's administrative expenses, other than the management fee which is charged on the value of the Company's net assets, over a greater number of shares. The issue proceeds would be available for investment in line with the Company's investment policies. No issue of shares will be made which would effectively alter the control of the Company without the prior approval of shareholders in general meeting.

**(ii) Authority to repurchase the Company's shares (resolution 13)**

The authority to repurchase up to 14.99% of the Company's issued share capital, granted by shareholders at the 2016 Annual General Meeting, will expire on 29th January 2018 unless renewed at the forthcoming Annual General Meeting. The Directors consider that the renewal of this authority is in the interests of shareholders as a whole, as the repurchase of shares at a discount to the underlying NAV enhances the NAV of the remaining shares.

Resolution 13 gives the Company authority to repurchase its own issued ordinary shares in the market as permitted by the Companies Act 2006 (the 'Act'). The authority limits the number of shares that could be purchased to a maximum number of ordinary shares, representing approximately 14.99% of the Company's issued ordinary shares as at the latest practicable date before the publication of this document or, if less, the number of ordinary shares which is equal to 14.99% of the Company's issued share capital (excluding Treasury shares) as at the date of the passing of the resolution. The authority also sets minimum and maximum prices.

If resolution 13 is passed at the Annual General Meeting, the Board may repurchase the shares for cancellation or hold them in Treasury pursuant to the authority granted to it for possible reissue at a premium to NAV. 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. This authority will expire on 10th January 2019, or when the whole of the 14.99% has been acquired, whichever is the earlier, however it is the Board's intention to seek renewal of the authority at the 2018 Annual General Meeting.

## Recommendation

The Board considers that resolutions 11 to 13 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, as at the year end, amounted in aggregate to 90,732 shares representing approximately 0.06% of the voting rights in the Company.

## DIRECTORS' REPORT *CONTINUED*

### Corporate Governance Statement

#### Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 35, indicates how the Company has applied the principles of good governance of the Financial Reporting Council's UK Corporate Governance Code (the 'UK Corporate Governance Code') and the AIC's Code of Corporate Governance (the 'AIC Code'), which complements the UK Corporate Governance Code and provides a framework of best practice for investment trusts.

Copies of the UK Corporate Governance Code and the AIC Code may be found on the respective organisations' websites at [www.frc.org.uk](http://www.frc.org.uk) and [www.theaic.co.uk](http://www.theaic.co.uk)

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 UK Corporate Governance Code, other than the appointment of a Senior Independent Director, insofar as they are relevant to the Company's business, and the AIC Code throughout the year under review.

#### Role of the Board

A management agreement between the Company and JPMF sets out the matters which have been delegated to the Manager. 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 to the Board for decision has been approved. This includes the 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.

At each Board meeting, Directors' interests are considered. These are reviewed carefully, taking into account the circumstances surrounding them, and, if considered appropriate, are approved. It was resolved that there were no actual or indirect interests of a Director which conflicted with the interests of the Company which arose during the year.

Following the introduction of The Bribery Act 2010, the Board has adopted appropriate procedures designed to prevent bribery. It confirms that the procedures have operated effectively during the year under review.

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, 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, who is responsible to the Board for ensuring that Board procedures are followed and for compliance with applicable rules and regulations.

#### Board Composition

The Board, chaired by Carolan Dobson, currently comprises five non-executive Directors, all of whom, including the Chairman, are regarded by the Board as independent of the Company's Manager. 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 21 and 22.

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, due to the Company's nature of business as an investment trust and because the Board is comprised entirely of non-executive Directors, this is unnecessary at present. However, the Chairman of the Audit Committee leads the evaluation of the Chairman and may be contacted by shareholders if they have concerns that cannot be resolved through discussions with the Chairman.

The Board is satisfied that at least one member of the Audit Committee has recent and relevant financial experience.

#### 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. A Director's continued appointment is subject to the performance evaluation carried out each year, Board approval and shareholder reappointment. The Board has adopted corporate governance best practice and all Directors stand for annual reappointment.

The Board believes that Directors should serve more than nine years only in exceptional circumstances, except in the case of a serving Chairman. A Chairman should serve more than six years in the role only in exceptional circumstances and the total tenure of a Chairman having previously been a Director should be no more than twelve years.

To ensure adequate succession planning and continuity it has been agreed that Carolan Dobson will retire at the conclusion of the 2019 Annual General Meeting. 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 UK Corporate Governance Code and the AIC Code, including the need to refresh the Board and its Committees periodically.

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.

### Induction and Training

On appointment, the Manager and Company Secretary provide all Directors with induction training. Thereafter, regular briefings are provided on changes in law and 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 trust companies. Regular reviews of the Directors' training needs are carried out by the Chairman by means of the evaluation process described on page 27.

### Meetings and Committees

The Board delegates certain responsibilities and functions to Committees. Details of the membership of these Committees are shown with the Directors' profiles on pages 21 and 22.

The table below details the number of formal Board and Committee meetings attended by each Director. During the year there were five Board meetings, two Audit Committee meetings, two Management Engagement Committee meeting and one Nomination and Remuneration Committee meeting. These meetings were supplemented by additional meetings held to cover procedural matters and formal approvals. In addition, there is regular contact between the Directors and the Manager and Company Secretary throughout the year.

#### Meetings Attended

	Board	Audit Committee	Nomination and Remuneration Committee	Management Engagement
Carolyn Dobson	5	2	1	2
Marc Van Gelder <sup>1</sup>	3	1	1	2
Ashok Gupta	5	2	1	2
Federico Marescotti <sup>2</sup>	2	1	—	—
Nicholas Smith	5	2	1	2
Stephen White	5	2	1	2

<sup>1</sup> Appointed 1st August 2016.

<sup>2</sup> Retired 30th June 2016.

### Board Committees

#### Nomination and Remuneration Committee

The Nomination and Remuneration Committee, chaired by Carolyn Dobson, consists of all 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. The appointment process takes account of the benefits of diversity, including gender. An independent third party, Trust Associates, was engaged to search for a new Director and Marc Van Gelder subsequently appointed. Trust Associates have no other connection with the Board or the Manager.

The Board's policy on diversity, including gender, is to take account of the benefits of these during the appointment process. However, the Board remains committed to appointing the most appropriate candidate, regardless of gender or other forms of diversity. Therefore, no targets have been set against which to report.

The Committee conducts an annual performance evaluation of the Board, its Committees and individual Directors to ensure that all Directors have devoted sufficient time and contributed adequately to the work of the Board and its Committees. The evaluation of the Board considers the balance of experience, skills, independence, corporate knowledge, its diversity, including gender, and how it works together. Questionnaires, drawn up by the Board, with the assistance of the Manager and a firm of independent consultants, are completed by each Director. The responses are collated and then discussed by the Committee. The evaluation of individual Directors is led by the Chairman. The Audit Committee Chairman leads the evaluation of the Chairman's performance.

The Committee also reviews Directors' fees and makes recommendations to the Board as and when appropriate in relation to the remuneration policy. This review forms only a minimal part of discussions and therefore it is felt to be appropriate for Carolyn Dobson to act as Chairman to the Committee.

#### Management Engagement Committee

The membership of the Management Engagement Committee consists of all the independent Directors and is chaired by Carolyn Dobson. The Committee meets at least once a year to review the terms of the management agreement between the Company and the Manager, to review the performance of the Manager, to review the notice period that the Board has with the Manager and to make recommendations to the Board on the continued appointment of the Manager following these reviews.

#### Audit Committee

The Report of the Audit Committee is set out on pages 30 and 31.

## DIRECTORS' REPORT *CONTINUED*

### Corporate Governance Statement *continued*

#### Terms of Reference

All of the Committees have written terms of reference which define clearly their respective responsibilities, copies of which are available for inspection 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 twice each year by way of the Annual Report and Accounts and the Half Year Report. These are supplemented by the daily publication, through the London Stock Exchange, of the net asset value of the Company's shares and the Company's level of gearing.

All shareholders have the opportunity and 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 support these meetings and to address shareholder queries. The Directors may be contacted through the Company Secretary whose details are shown on page 73, or via the Company's website.

The Company's Annual Report and Accounts are published in time to give shareholders at least twenty working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to do so via the Company's website or write to the Company Secretary at the address shown on page 73. A formal process is in place for all letters to the Directors to be immediately forwarded. As part of this process, any feedback from shareholders is also communicated to the Board.

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

#### Risk Management and Internal Control

The UK Corporate Governance Code requires the Directors, at least annually, to review the effectiveness of the Company's system of risk management and 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 risk management and 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 the Manager and its associates, the Company's system of risk management and internal control mainly comprises monitoring the services provided by the Manager 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 19 and 20). This process has been in place for the year under review and up to the date of the approval of the Annual Report and Accounts, and it accords with the Financial Reporting Council's guidance. Whilst the Company does not have an internal audit function of its own, the Board considers that it is sufficient to rely on the internal audit department of the Manager. This arrangement is kept under review.

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.

**Information Technology Systems** – The Manager and the Company's other suppliers have security systems in place to protect the Company's information. Information technology controls are tested and reported on regularly by independent third parties.

**Management** – Appointment of a manager and depositary, regulated by the FCA, whose responsibilities are clearly defined in written agreements.

**Management Systems** – The Manager's system of risk management and internal control includes organisational agreements which clearly define the lines of responsibility, delegated authority, control procedures and systems. These are monitored by the Manager's Compliance department which regularly monitors compliance with FCA 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 risk

management and 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 the Manager's Compliance department;
- reviews reports on the risk management and internal control and the operations of its Custodian, JPMorgan Chase Bank, N.A., the latter of which is itself independently reviewed; and
- reviews every six months an independent report on the risk management and internal control and the operations of the Manager.

By means of the procedures set out above, the Board confirms that it has reviewed the effectiveness of the Company's system of risk management and internal control for the year ended 31st March 2017 and to the date of approval of this Annual Report and Accounts.

The Board confirms that any failings or weaknesses identified during the course of its review of the system of risk management and internal control were not significant and did not affect the Company.

### **Corporate Governance and Voting Policy**

The Company delegates responsibility for voting to JPMAM through the Manager. 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. Details on social and environmental issues are included in the Strategic Report on pages 18 and 19.

#### **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.*

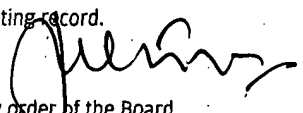
#### **Stewardship/Engagement**

*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.*

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.jpmorganinvestmenttrusts.co.uk/governance>, 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 Funds Limited,  
Company Secretary

2nd June 2017

## REPORT OF THE AUDIT COMMITTEE

### Role and composition

The Audit Committee, chaired by Nicholas Smith, 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 Audit Committee and have a combination of financial, investment and other experience gained throughout their careers. Carolan Dobson is a member of the Audit Committee. This is permitted under corporate governance rules because the Chairman was deemed to be independent on appointment.

The Audit Committee keeps under review its Terms of Reference and recommends any necessary changes to the Board.

### Financial statements and significant accounting matters

The Audit 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 UK Corporate Governance Code.

During its review of the Company's financial statements for the year ended 31st March 2017, the Audit Committee considered the following significant issues, including those communicated by the Auditors during their reporting:

Significant issue	How the issue was addressed
Valuation, existence and ownership of investments	The valuation of investments is undertaken in accordance with the accounting policies, disclosed in note 1(b) to the financial statements on page 46. The audit includes the determination of the existence and ownership of the investments. The Company has appointed BNY Mellon Trust and Depositary (UK) Limited ('BNY') as its depositary. BNY has appointed JPMorgan Chase Bank, N.A., as the Company's custodian. BNY remains responsible for the oversight of the custody of the Company's assets.
Recognition of investment income	The recognition of investment income is undertaken in accordance with accounting policy note 1(d) to the financial statements on page 46. The Board regularly reviews subjective elements of income such as special dividends and agrees their accounting treatment.
Compliance with Sections 1158 and 1159 of the Corporation Taxes Act 2010	Approval for the Company as an investment trust under Sections 1158 and 1159 for financial years commencing on or after 1st April 2013 has been obtained and ongoing compliance with the eligibility criteria is monitored on a regular basis.

The Board is required to be made fully aware of any significant financial reporting issues and judgements made in connection with the preparation of the Financial Statements.

### Going Concern

The Directors believe that, having considered the Company's investment objective (see page 16), risk management policies (see pages 56 to 62), capital management policies and procedures (see page 62), the nature of the portfolio and expenditure and cash flow

projections, the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence. For these reasons, they consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the Company's financial statements. They have not identified any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of these financial statements.

Having taken all available information into consideration and having discussed the content of the Annual Report and Accounts with the AIFM, the Investment Managers, the Company Secretary and other third party service providers, the Audit Committee has concluded that the Annual Report and Accounts for the year ended 31st March 2017, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, and has reported on any findings to the Board. The Board's conclusions in this respect are set out in the Statement of Directors' Responsibilities on page 35.

### Risk and Internal Control

The Audit Committee also examines the effectiveness of the Company's internal control systems and receives information from the Manager's compliance department. The Directors' statement on the Company's system of Risk Management and Internal Control is set out on pages 28 and 29. The Audit Committee also 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 independent.

The Audit Committee considers the key risks facing the Company and the adequacy and effectiveness of the risk management process.

### Auditor appointment and tenure

The Audit Committee also has a primary responsibility for making recommendations to the Board on the reappointment and removal of external Auditors. Representatives of the Company's Auditors attend the Audit Committee meeting at which the draft Annual Report and Accounts are considered and also engage with the Directors as and when required. Having reviewed the performance of the external Auditors, including assessing the quality of work, timing of communications and work with the Manager, the Committee considered it appropriate to recommend their reappointment. The Board supported this recommendation and a resolution proposing their reappointment will be put to shareholders at the forthcoming Annual General Meeting.

The current audit firm has audited the Company's financial statements since 1998. As a result of a formal tender exercise undertaken in 2014, PricewaterhouseCoopers LLP were retained as Auditors to the Company and Alex Bertolotti's second audit is in respect of this year ended 31st March 2017. Details of the fees paid for audit services are included in note 6 on page 49.



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### **Provision on non-audit services**

The Board reviews and approves any non-audit services provided by the independent Auditors and assesses the impact of any non-audit work on the ability of the Auditors to remain independent. No such work was undertaken during the year. As part of its review of the continuing appointment of the Auditors, the Audit Committee considered the length of tenure of the audit firm, its fee, its independence from JPMF and the Investment Managers and any matters raised during the audit.

Nicholas Smith  
Chairman of the Audit Committee

2nd June 2017

## DIRECTORS' REMUNERATION REPORT

The Board presents the Directors' Remuneration Report for the year ended 31st March 2017 which has been prepared in accordance with the requirements of Section 421 of the Companies Act 2006 as amended.

The law requires the Company's Auditors to audit certain disclosures provided. Where disclosures have been audited they are indicated as such. The Auditors' opinion is included in their report on pages 36 to 41.

Remuneration of the Directors is considered by the Nomination and Remuneration Committee on a regular basis. The Committee makes recommendations to the Board as and when appropriate.

### Directors' Remuneration Policy

The Directors' Remuneration Policy is subject to a triennial binding vote. However, the Board has decided to seek approval annually, and therefore an ordinary resolution to approve this policy will be put to shareholders at the forthcoming Annual General Meeting. The policy subject to the vote is set out in full below and is currently in force.

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 and retained. 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.

Reviews are based on information provided by the Manager, 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 involvement of remuneration consultants has not been deemed necessary as part of this review. The Company has no Chief Executive Officer and no employees and therefore no consultation of employees is required and there is no employee comparative data to provide, in relation to the setting of the remuneration policy for Directors.

All of the Directors are non-executive. There are no performance-related elements to their fees and the Company does not operate any type of incentive, share scheme, award or pension scheme. Therefore no Directors receive bonus payments or pension contributions from the Company or hold options to acquire shares in the Company. Directors are not granted exit payments and are not provided with compensation for loss of office. No other

payments are made to Directors, other than the reimbursement of reasonable out-of-pocket expenses incurred in attending the Company's business.

In the year under review, Directors' fees were paid at the following rates: Chairman £36,500; Chairman of the Audit Committee £30,000; and other Directors £24,500. With effect from 1st April 2017, the fees have been increased to the following rates: Chairman £37,000; Chairman of the Audit Committee £30,500; and other Directors £25,000.

The Company's Articles of Association provide that any increase in the maximum aggregate annual limit on Directors' fees, currently £175,000, requires both Board and shareholder approval.

The Company has not sought shareholder views on its remuneration policy. The Nomination and Remuneration Committee considers any comments received from shareholders on remuneration policy on an ongoing basis and takes account of those views.

The terms and conditions of Directors' appointments are set out in formal letters of appointment which are available for review at the Company's Annual General Meeting and the Company's registered office. Details of the Board's policy on tenure are set out on pages 26 and 27.

### Directors' Remuneration Policy Implementation

The Directors' Remuneration Report, which includes details of the Directors' remuneration policy and its implementation, is subject to an annual advisory vote and therefore an ordinary resolution to approve this report will be put to shareholders at the forthcoming Annual General Meeting. There have been no changes to the policy compared with the year ended 31st March 2016 and no changes are proposed for the year ending 31st March 2018.

At the Annual General Meeting held on 30th June 2016, of votes cast in respect of the Remuneration Policy, 99.6% were in favour (or granted discretion to the Chairman who voted in favour) and 0.4% were against. Abstentions were received from less than 1.0% of the votes cast. Of votes cast in respect of the Remuneration Report, 99.6% were in favour (or granted discretion to the Chairman who voted in favour) and 0.4% were against. Abstentions were received from less than 1.0% of the votes cast.

Details of the implementation of the Company's remuneration policy are given below.

## Single total figure of remuneration

The single total figure of remuneration for each Director is detailed below together with the prior year comparative.

### Single total figure table<sup>1</sup>

	2017			2016		
	Fees	Taxable expenses <sup>2</sup>	Total	Fees	Taxable expenses <sup>2</sup>	Total
	£	£	£	£	£	£
Carolyn Dobson	36,500	1,539	38,039	36,000	—	36,000
Anthony Davidson <sup>3</sup>	—	—	—	8,283	—	8,283
Marc van Gelder <sup>4</sup>	16,333	—	16,333	—	—	—
Ashok Gupta	24,500	37	24,537	24,000	—	24,000
Federico Marescotti <sup>5</sup>	6,125	—	6,125	24,000	—	24,000
Nicholas Smith	30,000	—	30,000	26,005	—	26,005
Stephen White	24,500	—	24,500	24,000	—	24,000
<b>Total</b>	<b>137,958</b>	<b>1,576</b>	<b>139,534</b>	<b>142,288</b>	<b>—</b>	<b>142,288</b>

<sup>1</sup> Audited information. Other subject headings for the single figure table as prescribed by regulation are not included because there is nothing to disclose in relation thereto.

<sup>2</sup> Taxable travel and subsistence expenses incurred in attending Board and Committee meetings.

<sup>3</sup> Retired 10th July 2015.

<sup>4</sup> Appointed 1st August 2016.

<sup>5</sup> Retired 30th June 2016.

A table showing the total remuneration for the Chairman over the five years ended 31st March 2017 is below:

### Remuneration for the Chairman over the five years ended 31st March 2017

Year ended 31st March	Fees
2017	£36,500
2016	£36,000
2015	£35,500
2014	£35,500
2013	£34,000

## Directors' Shareholdings<sup>1</sup>

There are no requirements pursuant to the Company's Articles of Association for the Directors to own shares in the Company. The beneficial shareholdings of the Directors who held office at the year end are detailed below.

Directors' Name	31st March 2017 or as at date of retirement	31st March 2016 or as at date of appointment
Carolyn Dobson	10,000	10,000
Marc Van Gelder <sup>2</sup>	30,000	nil
Ashok Gupta	7,500	7,500
Federico Marescotti <sup>3</sup>	6,632	6,632
Nicholas Smith	11,600	5,000
Stephen White	25,000	25,000
<b>Total</b>	<b>90,732</b>	<b>54,132</b>

<sup>1</sup> Audited information.

<sup>2</sup> Appointed 1st August 2016.

<sup>3</sup> Retired 30th June 2016.

As at the latest practicable date before the publication of this document, there have been no changes to the Directors' shareholdings.

The Directors have no other share interests or share options in the Company and no share schemes are available.

In accordance with the Companies Act 2006, a graph showing the Company's share price total return compared with its benchmark, the Euromoney Smaller European Companies (ex UK) Index (the 'Index'), over the last eight years is shown on page 34. The Board believes that the Index is the most representative comparator for the Company, because the Company's investment universe is defined at the time of purchase by the countries and market capitalisation range of the constituents of the Index.

## DIRECTORS' REMUNERATION REPORT *CONTINUED*

### Eight Year Share Price and Benchmark Total Return Performance to 31st March 2017

Source: Morningstar/Euromoney.

— Share price total return.  
— Benchmark total return.

A table showing actual expenditure by the Company on remuneration and distributions to shareholders for the year and the prior year is below:

#### Expenditure by the Company on remuneration and distributions to shareholders

	Year ended 31st March	
	2017	2016
	£	£
Remuneration paid to all Directors	139,534	142,288
Distribution to shareholders		
– by way of dividends paid	5,123,000	5,125,000
– by way of share repurchases	447,000	—

For and on behalf of the Board  
Carolyn Dobson  
Chairman

2nd June 2017

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## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and Accounts 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 elected to prepare 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, taken as a whole, the Annual Report and Accounts are fair, balanced and understandable, provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy and that they give a true and fair view of the state of affairs of the Company and of the total return or loss of the Company for that period. In order to provide these confirmations, and in preparing these financial statements, the Directors are required to:

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

and the Directors confirm that they have done so.

The Directors are responsible for keeping proper 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements are published on the [www.jpmeuropeansmallercompanies.co.uk](http://www.jpmeuropeansmallercompanies.co.uk) website, which is maintained by the Company's Manager. The maintenance and

integrity of the website maintained by the Manager is, so far as it relates to the Company, the responsibility of the Manager. The work carried out by the Auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the Auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. The financial statements are prepared in accordance with UK legislation, which may differ from legislation in other jurisdictions.

Under applicable law and regulations the Directors are also responsible for preparing a Directors' Report, Strategic Report, Statement of Corporate Governance and Directors' Remuneration Report that comply with that law and those regulations.

Each of the Directors, whose names and functions are listed on pages 21 and 22 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 Strategic 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.

The Board confirms that it is satisfied that the Annual Report and Accounts taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the strategy and business model of the Company.

The Board also confirms that it is satisfied that the Strategic Report and Directors' Report include a fair review of the development and performance of the business, and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

For and on behalf of the Board  
Carolyn Dobson  
Chairman

2nd June 2017

# Independent Auditors' Report

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## TO THE MEMBERS OF JPMORGAN EUROPEAN SMALLER COMPANIES TRUST PLC

### Report on the financial statements

#### Our opinion

In our opinion, JPMorgan European Smaller Companies Trust plc's financial statements (the 'financial statements'):

- give a true and fair view of the state of the Company's affairs as at 31st March 2017 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.

#### What we have audited

The financial statements, included within the Annual Report & Accounts (the 'Annual Report'), comprise:

- the Statement of Financial Position as at 31st March 2017;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law (United Kingdom Generally Accepted Accounting Practice).

#### Our audit approach

JPMorgan European Smaller Companies Trust plc is an Investment Trust Company listed on the London Stock Exchange and invests primarily in European equities. The operations of the Company are located in the UK. We focus our audit primarily on the valuation and existence of investments and income.

#### Overview

- Overall materiality: £6.2 million which represents 1% of net assets.
- The Company is an Investment Trust Company and engages JPMorgan Funds Limited (the 'Manager') to manage its assets.
- We conducted our audit of the financial statements from information provided by JPMorgan Corporate & Investment Bank (the 'Administrator') to whom the Manager has, with the consent of the Directors, delegated the provision of certain administrative functions.
- We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.
- Income.
- Valuation and existence of investments.

#### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

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

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

Area of focus	How our audit addressed the area of focus
<p><b>Income</b>  <i>Refer to page 30 (Directors' Report), page 46 (Accounting Policies) and pages 49 and 51 (Notes to the Financial Statements).</i></p> <p>We focused on the accuracy and completeness of dividend income recognition and its presentation in the Statement of Comprehensive Income as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the 'AIC SORP'). This is because incomplete or inaccurate income could have material impact on the Company's net assets value.</p> <p>We also focused on the accuracy and occurrence of realised and unrealised gains or losses on the investment portfolio.</p>	<p>We assessed the accounting policy for income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy.</p> <p>We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income has been accounted for in accordance with the stated accounting policy.</p> <p>In addition, we tested dividend income by agreeing the dividend rate from investments to independent third party sources. No misstatements were identified which required reporting to those charged with governance.</p> <p>To test for completeness, we checked that the appropriate dividends had been received in the year by reference to independent data of dividends declared for a sample of investment holdings in the portfolio. Our testing did not identify any unrecorded dividends.</p> <p>We tested the allocation and presentation of dividend income between the revenue and capital return columns of the Statement of Comprehensive Income in line with the requirements set out in the AIC SORP. We then tested the validity of revenue and capital special dividends to independent third party sources. We did not find any special dividends that were not treated in accordance with the AIC SORP.</p> <p>We also checked that the gains or losses on investments held at fair value comprise realised and unrealised gains or losses. For realised gains or losses, we tested a sample of disposal proceeds to bank statements. For unrealised gains or losses, we tested the valuation of the portfolio at the year-end, and also tested the reconciliation of opening and closing investments. No misstatements were identified by our testing.</p>
<p><b>Valuation and existence of investments</b>  <i>Refer to page 30 (Directors' Report), page 46 (Accounting Policies) and page 52 (Notes to the Financial Statements).</i></p> <p>The investment portfolio at the year-end principally comprised of listed equity investments.</p> <p>We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Statement of Financial Position in the financial statements.</p>	<p>We tested the valuation of the listed investment portfolio by agreeing the prices used in the valuation to independent third party sources.</p> <p>No misstatements were identified by our testing which required reporting to those charged with governance.</p> <p>We tested the existence of the investment portfolio by agreeing the holdings for investments to an independent custodian confirmation from JPMorgan Chase Bank, N.A.</p> <p>No misstatements were identified by our testing which required reporting to those charged with governance.</p>

## Independent Auditors' Report *continued*

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### How we tailored the audit scope

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

The Company's accounting is delegated to the Administrator who maintain their own accounting records and controls and report to the Manager and the Directors.

As part of our risk assessment, we assessed the control environment in place at both the Manager and the Administrator to the extent relevant to our audit. This assessment of the operating and accounting structure in place at both organisations involved obtaining and reading the relevant control reports issued by the independent auditor of the Manager and the Administrator in accordance with generally accepted assurance standards for such work. We then identified those key controls at the Administrator on which we could place reliance to provide audit evidence. We also assessed the gap period of six months between the period covered by the controls report and the year-end of the Company. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements, including whether we needed to perform additional testing in respect of those key controls to support our substantive work. For the purposes of our audit, we determined that additional testing of controls in place at the Administrator was not required because additional substantive testing was performed.

### Materiality

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

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

<b>Overall materiality</b>	£6.20 million (2016: £4.95 million).
<b>How we determined it</b>	1% of net assets.
<b>Rationale for benchmark applied</b>	We have applied this benchmark, a generally accepted auditing practice for investment trust audits, in the absence of indicators that an alternative benchmark would be appropriate and because we believe this provides an appropriate and consistent year-on-year basis for our audit.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £310,000 (2016: £248,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons).

### Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 30, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Company's ability to continue as a going concern.

### Other required reporting

#### Consistency of other information and compliance with applicable requirements

##### *Companies Act 2006 opinion*

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and



- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

#### **ISAs (UK & Ireland) reporting**

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

<ul style="list-style-type: none"> <li>• information in the Annual Report is: <ul style="list-style-type: none"> <li>– materially inconsistent with the information in the audited financial statements; or</li> <li>– apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or</li> <li>– otherwise misleading.</li> </ul> </li> </ul>	We have no exceptions to report.
<ul style="list-style-type: none"> <li>• the statement given by the Directors on page 35, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company acquired in the course of performing our audit.</li> </ul>	We have no exceptions to report.
<ul style="list-style-type: none"> <li>• the section of the Annual Report on pages 30 and 31, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.</li> </ul>	We have no exceptions to report.

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

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

<ul style="list-style-type: none"> <li>• the Directors' confirmation on page 19 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.</li> </ul>	We have nothing material to add or to draw attention to.
<ul style="list-style-type: none"> <li>• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.</li> </ul>	We have nothing material to add or to draw attention to.
<ul style="list-style-type: none"> <li>• the Directors' explanation on page 20 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.</li> </ul>	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Company and the Directors' statement in relation to the longer-term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

## **Independent Auditors' Report** *continued*

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### **Adequacy of accounting records and information and explanations received**

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have no exceptions to report arising from this responsibility.

### **Directors' remuneration**

#### ***Directors' Remuneration Report – Companies Act 2006 opinion***

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

#### ***Other Companies Act 2006 reporting***

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

### **Corporate governance statement**

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

## **Responsibilities for the financial statements and the audit**

### **Our responsibilities and those of the Directors**

As explained more fully in the Statement of Directors' Responsibilities, 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 ISAs (UK & 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.

### **What an audit of financial statements involves**

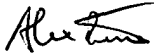
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- 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.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



**Alex Bertolotti** (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

2nd June 2017

# Financial Statements

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST MARCH 2017

	Notes	Revenue £'000	2017 Capital £'000	Total £'000	Revenue £'000	2016 Capital £'000	Total £'000
<b>Gains on investments held at fair value through profit or loss</b>	3	—	127,358	127,358	—	69,936	69,936
Net foreign currency gains/(losses)		—	164	164	—	(1,191)	(1,191)
Income from investments	4	10,587	—	10,587	8,357	—	8,357
Interest receivable and similar income <sup>1</sup>	4	67	—	67	91	—	91
<b>Gross return</b>		<b>10,654</b>	<b>127,522</b>	<b>138,176</b>	<b>8,448</b>	<b>68,745</b>	<b>77,193</b>
Management fee	5	(1,622)	(3,785)	(5,407)	(1,345)	(3,139)	(4,484)
Other administrative expenses <sup>1</sup>	6	(779)	—	(779)	(792)	—	(792)
<b>Net return on ordinary activities before finance costs and taxation</b>		<b>8,253</b>	<b>123,737</b>	<b>131,990</b>	<b>6,311</b>	<b>65,606</b>	<b>71,917</b>
Finance costs	7	(218)	(508)	(726)	(240)	(560)	(800)
<b>Net return on ordinary activities before taxation</b>		<b>8,035</b>	<b>123,229</b>	<b>131,264</b>	<b>6,071</b>	<b>65,046</b>	<b>71,117</b>
Taxation	8	(228)	—	(228)	(339)	—	(339)
<b>Net return on ordinary activities after taxation</b>		<b>7,807</b>	<b>123,229</b>	<b>131,036</b>	<b>5,732</b>	<b>65,046</b>	<b>70,778</b>
<b>Return per share</b>	10	<b>4.88p</b>	<b>76.97p</b>	<b>81.85p</b>	<b>3.58p</b>	<b>40.62p</b>	<b>44.20p</b>

<sup>1</sup> Negative interest income from the liquidity fund was included within expenses in the prior year, this has been reclassified under income in the current year, with retrospective amendment to the comparative.

A final dividend of 3.5p per share (2016: 2.0p per share) is proposed in respect of the year ended 31st March 2017, costing £5,600,000 (2016: £3,203,000). More details can be found in note 9(a) on page 51.

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 net return on ordinary activities after taxation represents the profit for the year and also Total Comprehensive Income.

The notes on pages 46 to 62 form an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST MARCH 2017

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve <sup>1</sup> £'000	Total £'000
At 31st March 2015	8,008	1,312	7,628	406,499	6,280	429,727
Net return on ordinary activities	—	—	—	65,046	5,732	70,778
Dividends paid in the year	—	—	—	—	(5,125)	(5,125)
At 31st March 2016	8,008	1,312	7,628	471,545	6,887	495,380
Repurchase and cancellation of the Company's own shares	(8)	—	8	(447)	—	(447)
Net return on ordinary activities	—	—	—	123,229	7,807	131,036
Dividends paid in the year	—	—	—	—	(5,123)	(5,123)
At 31st March 2017	8,000	1,312	7,636	594,327	9,571	620,846

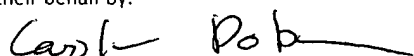
<sup>1</sup> This reserve forms the distributable reserve of the Company and may be used to fund distribution of profits to investors via dividend payments.

The notes on pages 46 to 62 form an integral part of these financial statements.

**STATEMENT OF FINANCIAL POSITION AT 31ST MARCH 2017**

	Notes	2017 £'000	2016 £'000
<b>Fixed assets</b>			
Investments held at fair value through profit or loss	11	653,619	482,590
<b>Current assets</b>	12		
Derivative financial instruments		–	1
Debtors		8,293	2,889
Cash and cash equivalents		24,285	53,392
		<b>32,578</b>	<b>56,282</b>
<b>Current liabilities</b>	13		
Creditors: amounts falling due within one year		(65,351)	(43,492)
<b>Net current (liabilities)/assets</b>		<b>(32,773)</b>	<b>12,790</b>
<b>Total assets less current liabilities</b>		<b>620,846</b>	<b>495,380</b>
<b>Net assets</b>		<b>620,846</b>	<b>495,380</b>
<b>Capital and reserves</b>			
Called up share capital	14	8,000	8,008
Share premium	15	1,312	1,312
Capital redemption reserve	15	7,636	7,628
Capital reserves	15	594,327	471,545
Revenue reserve	15	9,571	6,887
<b>Total equity shareholders' funds</b>		<b>620,846</b>	<b>495,380</b>
<b>Net asset value per share</b>	16	<b>388.1p</b>	<b>309.3p</b>

The financial statements on pages 42 to 62 were approved and authorised for issue by the Directors on 2nd June 2017 and were signed on their behalf by:



Carolan Dobson  
Director

The notes on pages 46 to 62 form an integral part of these financial statements.

Company registration number: 2431143.

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST MARCH 2017

	Notes	2017 £'000	2016 £'000
<b>Net cash outflow from operations before dividends and interest</b>	17	(2,990)	(2,552)
Dividends received		8,177	6,497
Interest paid on cash and cash equivalents <sup>1</sup>		(8)	(17)
Overseas tax recovered		800	249
Interest paid		(688)	(769)
<b>Net cash inflow from operating activities</b>		<b>5,291</b>	<b>3,408</b>
Purchases of investments and derivatives		(848,845)	(881,746)
Sales of investments and derivatives		802,734	933,115
Settlement of foreign currency contracts		97	(62)
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(46,014)</b>	<b>51,307</b>
Dividends paid		(5,123)	(5,125)
Repurchase and cancellation of the Company's own shares		(447)	–
Drawdown of bank loans		60,190	28,622
Repayment of bank loans		(43,017)	(36,142)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>11,603</b>	<b>(12,645)</b>
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(29,120)</b>	<b>42,070</b>
Cash and cash equivalents at start of year		53,392	11,292
Exchange movements		13	30
Cash and cash equivalents at end of year		24,285	53,392
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(29,120)</b>	<b>42,070</b>
Cash and cash equivalents consist of:			
Cash and short term deposits		265	6,248
Cash held in JPMorgan Euro Liquidity Fund		24,020	47,144
<b>Total</b>		<b>24,285</b>	<b>53,392</b>

<sup>1</sup> Negative interest income from the liquidity fund was included within expenses in the prior year, this has been reclassified under income in the current year, with retrospective amendment to the comparative.

The notes on pages 46 to 62 form an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2017

### 1. Accounting policies

#### (a) Basis of accounting

The financial statements are prepared under the historical cost convention, modified to include fixed asset investments at fair value, and in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice ('UK GAAP'), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the 'SORP') issued by the Association of Investment Companies in November 2014, and updated in January 2017.

All of the Company's operations are of a continuing nature.

The financial statements have been prepared on a going concern basis. The disclosures on going concern on page 30 of the Report of the Audit Committee form part of these financial statements.

The policies applied in these financial statements are consistent with those applied in the preceding year.

#### (b) Valuation of investments

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

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. The 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 prices for investments traded in active markets. For investments which are not traded in active markets, unlisted and restricted investments, the Board takes into account the latest traded prices, other observable market data and asset values based on the latest management accounts.

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

#### (c) Accounting for reserves

Gains and losses on sales of investments including the related foreign exchange gains and losses, realised gains and losses on foreign currency cash balances and loans, realised gains and losses on foreign currency contracts, management fee and finance costs allocated to capital and any other capital charges, are included in the Statement of Comprehensive Income and 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, plus unrealised gains and losses on foreign currency contracts or foreign currency loans are included in the Statement of Comprehensive Income and dealt with in capital reserves within 'Investment holding gains and losses'.

#### (d) Income

Dividends receivable from equity shares 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.

UK dividends are included net of tax credits. Overseas dividends are included gross of any withholding tax.

Special dividends are looked at individually to ascertain the reason behind the payment. This will determine whether they are treated as income or capital.

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.

Stock lending income is taken to revenue on a receipts basis.



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**(e) Expenses**

All expenses are accounted for on an accruals basis. Expenses are allocated wholly to the revenue column of the Statement of Comprehensive Income with the following exceptions:

- The management fee is allocated 30% to revenue and 70% to capital, in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.
- Expenses incidental to the purchase of an investment are included within the cost of the investment and those incidental to the sale are deducted from the sale proceeds. These expenses are commonly referred to as transaction costs and comprise brokerage commission and stamp duty. Details of transaction costs are given in note 11 on page 52.

**(f) Finance costs**

Finance costs are accounted for on an accruals basis using the effective interest rate method.

Finance costs are allocated 30% to revenue and 70% to capital, in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.

**(g) Financial instruments**

Cash and cash equivalents may comprise cash including demand deposits which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. Liquidity funds are considered cash equivalents as they are held for cash management purposes as an alternative to cash.

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

Bank loans are classified as financial liabilities measured at amortised cost. They are initially measured as proceeds and subsequently measured at amortised cost. Interest payable on the bank loan is accounted for on an accruals basis in the Statement of Comprehensive Income.

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 Statement of Financial Position.

**(h) Taxation**

Current tax is provided at the amounts expected to be paid or received.

Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax liabilities are recognised for all taxable timing differences but deferred tax 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.

Tax relief is allocated to expenses charged to capital on the 'marginal basis'. On this basis, if taxable income is capable of being entirely offset by revenue expenses, then no tax relief is transferred to the capital column.

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')**

Expenses are disclosed inclusive of the related irrecoverable VAT. Recoverable VAT is calculated using the partial exemption method based on the proportion of zero rated supplies to total supplies.

## NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

### 1. Accounting policies *continued*

#### (j) Foreign currency

The Company is required to identify its functional currency, being the currency of the primary economic environment in which the Company 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 financial statements are presented.

Transactions denominated in foreign currencies are converted at actual exchange rates at the date of the transaction. Monetary assets, liabilities and equity investments held at fair value, denominated in foreign currencies at the year end are translated at the rates of exchange prevailing at the year end.

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

#### (k) Dividends payable

Dividends are included in the financial statements in the year in which they are approved by shareholders.

#### (l) Repurchase of ordinary shares for cancellation

The cost of repurchasing ordinary shares including the related stamp duty and transactions costs is charged to 'Capital reserves' and dealt with in the Statement of Changes in Equity. Share repurchase transactions are accounted for on a trade date basis. The nominal value of ordinary share capital repurchased and cancelled is transferred out of 'Called up share capital' and into 'Capital redemption reserve'.

### 2. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements on occasion requires the Directors to make judgements, estimates and assumptions that affect the reported amounts in the primary financial statements and the accompanying disclosures. These assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in the current and future periods, depending on circumstance.

The Directors do not believe that any accounting judgements or estimates have been applied to this set of financial statements that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

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

	2017 £'000	2016 £'000
Gains on investments held at fair value through profit or loss based on historical cost	78,847	47,443
Amounts recognised in investment holding gains and losses in the previous year in respect of investments sold during the year	(50,934)	(48,845)
Gains/(losses) on sales of investments based on carrying value at previous balance sheet date	27,913	(1,402)
Net movement in investment holding gains and losses	99,509	71,463
Other capital charges	(64)	(125)
<b>Total capital gains on investments held at fair value through profit or loss</b>	<b>127,358</b>	<b>69,936</b>

#### 4. Income

	2017 £'000	2016 £'000
<b>Income from investments</b>		
Overseas dividends	9,662	7,469
Scip dividends	925	888
	<b>10,587</b>	<b>8,357</b>
<b>Interest receivable and similar income</b>		
Interest received on overseas tax recovered	109	–
Stock lending income	75	108
Interest from liquidity fund <sup>1</sup>	(117)	(26)
Deposit interest	–	9
	<b>67</b>	<b>91</b>
<b>Total income</b>	<b>10,654</b>	<b>8,448</b>

<sup>1</sup> Negative interest income from the liquidity fund was included within expenses in the prior year, this has been reclassified under income in the current year, with retrospective amendment to the comparative.

#### 5. Management fee

	Revenue £'000	2017 Capital £'000	Total £'000	Revenue £'000	2016 Capital £'000	Total £'000
Management fee	1,622	3,785	5,407	1,345	3,139	4,484

Details of the management fee are given in the Directors' Report on page 23.

#### 6. Other administrative expenses

	2017 £'000	2016 £'000
Administration expenses <sup>1</sup>	349	346
Savings scheme costs <sup>2</sup>	141	163
Directors' fees <sup>3</sup>	138	142
Depositary fees <sup>4</sup>	116	100
Auditors' remuneration for audit services <sup>5</sup>	25	25
Overseas board trip expenses	10	16
	<b>779</b>	<b>792</b>

<sup>1</sup> Negative interest income from the liquidity fund was included within expenses in the prior year, this has been reclassified under income in the current year, with retrospective amendment to the comparative.

<sup>2</sup> Paid to the Manager for the marketing and administration of savings scheme products. Includes £21,000 (2016: £25,000) irrecoverable VAT.

<sup>3</sup> Full disclosure is given in the Directors' Remuneration Report on pages 32 to 34.

<sup>4</sup> Includes £17,000 (2016: £16,000) irrecoverable VAT.

<sup>5</sup> Includes £4,000 (2016: £4,000) irrecoverable VAT.

#### 7. Finance costs

	Revenue £'000	2017 Capital £'000	Total £'000	Revenue £'000	2016 Capital £'000	Total £'000
Interest on bank loans and overdrafts	218	508	726	240	560	800

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****8. Taxation****(a) Analysis of tax charge in the year**

	2017 £'000	2016 £'000
Overseas withholding tax	644	339
Overseas tax from previous years recovered	(416)	–
<b>Total tax charge for the year</b>	<b>228</b>	<b>339</b>

**(b) Factors affecting total tax charge for the year**

The tax charged for the year is lower (2016: lower) than the Company's applicable rate of corporation tax for the year of 20% (2016: 20%). The factors affecting the total tax charge for the year are as follows:

	Revenue £'000	2017 Capital £'000	Total £'000	Revenue £'000	2016 Capital £'000	Total £'000
Net return on ordinary activities before taxation	8,035	123,229	131,264	6,071	65,046	71,117
Net return on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax of 20% (2016: 20%)	1,607	24,646	26,253	1,215	13,009	14,224
Effects of:						
Non taxable capital losses	–	(25,505)	(25,505)	–	(13,749)	(13,749)
Non taxable overseas dividends	(1,932)	–	(1,932)	(1,494)	–	(1,494)
Non taxable scrip dividends	(185)	–	(185)	(178)	–	(178)
Overseas withholding tax	644	–	644	339	–	339
Unrelieved expenses and charges	510	859	1,369	457	740	1,197
Overseas tax from previous years recovered	(416)	–	(416)	–	–	–
<b>Total tax charge for the year</b>	<b>228</b>	<b>–</b>	<b>228</b>	<b>339</b>	<b>–</b>	<b>339</b>

**(c) Deferred taxation**

The Company has an unrecognised deferred tax asset of £9,609,000 (2016: £8,942,000) based on a prospective corporation tax rate of 17% (2016: 18%). The UK Government announced in July 2015 that the corporation tax rate is set to be cut to 19% in 2017 and 18% in 2020. In March 2016 a further cut to 17% in 2020 was announced. These reductions in the standard rate of corporation tax were substantively enacted on 15th September 2016 and became effective from 1st January 2017. 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 financial statements.

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 for deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

## 9. Dividends

### (a) Dividends paid and proposed

	2017 £'000	2016 £'000
<b>Dividends paid</b>		
2016 final dividend of 2.0p (2015: 2.0p) per share	3,203	3,203
2017 interim dividend of 1.2p (2016: 1.2p) per share	1,920	1,922
<b>Total dividends paid in the year</b>	<b>5,123</b>	<b>5,125</b>
<b>Dividend proposed</b>		
2017 final dividend of 3.5p (2016: 2.0p) per share	5,600	3,203

All dividends paid and declared in the period have been funded from the revenue reserve.

The final dividend has been proposed in respect of the year ended 31st March 2017 and is subject to approval at the forthcoming Annual General Meeting. In accordance with the accounting policy of the Company, this dividend will be reflected in the financial statements for the year ending 31st March 2018.

### (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, shown below. The revenue available for distribution by way of dividend for the year is £7,807,000 (2016: £5,732,000). The revenue reserve after payment of the final dividend will amount to £3,971,000 (2016: £3,684,000).

	2017 £'000	2016 £'000
Interim dividend of 1.2p (2016: 1.2p) per share	1,920	1,922
Final dividend of 3.5p (2016: 2.0p) per share	5,600	3,203
	<b>7,520</b>	<b>5,125</b>

## 10. Return per share

	2017 £'000	2016 £'000
Revenue return	7,807	5,732
Capital return	123,229	65,046
<b>Total return</b>	<b>131,036</b>	<b>70,778</b>
Weighted average number of shares in issue during the year	160,090,789	160,147,885
Revenue return per share	4.88p	3.58p
Capital return per share	76.97p	40.62p
<b>Total return per share</b>	<b>81.85p</b>	<b>44.20p</b>

## NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

### 11. Investments

	2017 £'000	2016 £'000
Investments listed on a recognised stock exchange	653,619	482,590
Opening book cost	402,778	408,027
Opening investment holding gains	79,812	57,194
Opening valuation	482,590	465,221
Movements in the year:		
Purchases at cost	851,365	876,725
Sales - proceeds	(807,758)	(929,417)
Gains/(losses) on sales of investments based on the carrying value at the previous balance sheet date	27,913	(1,402)
Net movement in investment holding gains and losses	99,509	71,463
	653,619	482,590
Closing book cost	525,232	402,778
Closing investment holding gains	128,387	79,812
<b>Total investments held at fair value through profit or loss</b>	<b>653,619</b>	<b>482,590</b>

Transaction costs on purchases during the year amounted to £1,205,000 (2016: £1,599,000) and on sales during the year amounted to £770,000 (2016: £886,000). These costs comprise mainly brokerage commission.

During the year, prior year investment holding gains amounting to £50,934,000 have been transferred to gains on sales of investments as disclosed in note 15 on page 54.

### 12. Current assets

	2017 £'000	2016 £'000
<b>Derivative financial instruments</b>		
Forward foreign currency contracts	—	1
	—	1
<b>Debtors</b>		
Securities sold awaiting settlement	6,996	2,048
Dividends and interest receivable	823	445
Overseas tax recoverable	449	370
Other debtors	25	26
	<b>8,293</b>	<b>2,889</b>

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

#### Cash and cash equivalents

Cash and cash equivalents comprise bank balances, short term deposits and liquidity funds. The carrying amount of these represents their fair value.

### 13. Current liabilities

	2017 £'000	2016 £'000
<b>Creditors:</b> amounts falling due within one year		
Floating rate loan facility	59,873	—
Fixed rate loan facility	—	39,642
Securities purchased awaiting settlement	5,250	3,655
Loan interest payable	84	46
Other creditors and accruals	144	149
	<b>65,351</b>	<b>43,492</b>

In January 2014, the Company arranged a Euro 50 million three year fixed rate loan facility with Scotiabank Europe which matured on 20th January 2017. The facility was fully drawn at the previous year end.

In January 2017, the Company arranged a Euro 95 million one year multicurrency floating rate facility with Scotiabank Ireland. Under the terms of this agreement, the Company may draw down up to Euro 95 million, or its equivalent in another currency. At the year end the Company had drawn down Euro 70 million.

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

### 14. Called up share capital

	2017 £'000	2016 £'000
<b>Ordinary shares allotted and fully paid</b>		
Opening balance of 160,147,885 (2016: 160,147,885) shares of 5p each	8,008	8,008
Repurchase of 160,000 shares (2016: nil) shares for cancellation	(8)	—
<b>Closing balance of 159,987,885 (2016: 160,147,885) shares of 5p each</b>	<b>8,000</b>	<b>8,008</b>

Further details of transactions in the Company's shares are given in the Business Review on page 18.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**
**15. Capital and reserves**

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves		Revenue reserve <sup>1</sup> £'000	Total £'000
				Gains and losses on sales of investments £'000	Investment holding gains and losses £'000		
Opening balance	8,008	1,312	7,628	390,556	80,989	6,887	495,380
Transfer of prior period unrealised loss on liquidity <sup>2</sup>	—	—	—	(313)	313	—	—
Net foreign currency gains on cash and cash equivalents	—	—	—	3,222	—	—	3,222
Unrealised gains on forward foreign currency contracts from prior period now realised	—	—	—	1	(1)	—	—
Gains on sales of investments based on the carrying value at the previous balance sheet date	—	—	—	27,913	—	—	27,913
Net movement in investment holding gains and losses	—	—	—	—	99,509	—	99,509
Transfer on disposal of investments	—	—	—	50,934	(50,934)	—	—
Repurchase and cancellation of the Company's own shares	(8)	—	8	(447)	—	—	(447)
Unrealised foreign currency gains on loans	—	—	—	—	317	—	317
Realised losses on repayment of loans	—	—	—	(3,375)	—	—	(3,375)
Transfer re loans repaid in period	—	—	—	1,489	(1,489)	—	—
Management fee and finance costs allocated to capital	—	—	—	(4,293)	—	—	(4,293)
Other capital charges	—	—	—	(64)	—	—	(64)
Dividends paid in the year	—	—	—	—	—	(5,123)	(5,123)
Retained revenue for the year	—	—	—	—	—	7,807	7,807
<b>Closing balance</b>	<b>8,000</b>	<b>1,312</b>	<b>7,636</b>	<b>465,623</b>	<b>128,704</b>	<b>9,571</b>	<b>620,846</b>

<sup>1</sup> This reserve forms the distributable reserve of the Company and may be used to fund distribution of profits to investors via dividend payments.

<sup>2</sup> Transfer of opening liquidity fund unrealised loss between reserves as a result of the reclassification of liquidity holdings from investments to cash equivalents.

**16. Net asset value per share**

	2017	2016
Net assets (£'000)	620,846	495,380
Number of shares in issue	159,987,885	160,147,885
Net asset value per share	388.1p	309.3p



## 17. Reconciliation of net return on ordinary activities before finance costs and taxation to net cash outflow from operations before dividends and interest

	2017 £'000	2016 £'000
Net return on ordinary activities before finance costs and taxation	131,990	71,917
Less capital return on ordinary activities before finance costs and taxation	(123,737)	(65,606)
Scrip dividends received as income	(925)	(888)
Increase in accrued income and other debtors	(377)	(301)
Increase in accrued expenses	7	16
Overseas withholding tax	(1,107)	(665)
Management fee allocated to capital	(3,785)	(3,139)
Dividends received	(8,177)	(6,497)
Interest paid on cash and cash equivalents <sup>1</sup>	8	17
Realised gain on foreign exchange transactions	330	388
Exchange gain on liquidity fund	2,783	2,206
<b>Net cash outflow from operations before dividends and interest</b>	<b>(2,990)</b>	<b>(2,552)</b>

<sup>1</sup> Negative interest income from the liquidity fund was included within expenses in the prior year, this has been reclassified under income in the current year, with retrospective amendment to the comparative.

## 18. Contingent liabilities and capital commitments

At the balance sheet date there were no contingent liabilities or capital commitments (2016: same).

## 19. Related party transactions

Details of the management contract are set out in the Directors' Report on page 23. The management fee payable to the Manager for the year was £5,407,000 (2016: £4,484,000) of which £nil (2016: £nil) was outstanding at the year end.

During the year £141,000 (2016: £163,000), including VAT, was payable to JPMAM for the marketing and administration of savings scheme products, of which £13,000 (2016: £nil) was outstanding at the year end.

Included in administration expenses in note 6 on page 49 are safe custody fees payable to JPMorgan Chase amounting to £72,000 (2016: £62,000) excluding VAT of which £14,000 (2016: £11,000) was outstanding at the year end.

The Manager 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 Limited for the year was £38,000 (2016: £192,000) of which £nil (2016: £nil) was outstanding at the year end.

The Company also holds cash in JPMorgan Euro Liquidity Fund, which is managed by JPMorgan. At the year end, this was valued at £24.0 million (2016: £47.1 million). Interest amounting to £117,000 was payable (2016: £26,000) during the year of which £nil (2016: £nil) was outstanding at the year end.

Stock lending income amounting to £75,000 (2016: £108,000) were receivable by the Company during the year. JPMAM commissions in respect of such transactions amounted to £13,000 (2016: £19,000).

Handling charges on dealing transactions amounting to £64,000 (2016: £125,000) were payable to JPMorgan Chase during the year of which £14,000 (2016: £26,000) was outstanding at the year end.

At the year end, a bank balance of £265,000 (2016: £6,248,000) was held with JPMorgan Chase. A net amount of interest of £nil (2016: £9,000) was receivable by the Company during the year from JPMorgan Chase of which £nil (2016: £nil) was outstanding at the year end.

Full details of Directors' remuneration and shareholdings can be found on page 33.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****20. Disclosures regarding financial instruments measured at fair value**

The Company's financial instruments within the scope of FRS 102 that are held at fair value comprise its investment portfolio and derivative financial instruments.

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

**(1) The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date**

The best evidence of fair value is a quoted price for an identical asset in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the current bid price.

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

When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (e.g. because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.

**(3) Inputs are unobservable (i.e.: for which market data is unavailable) for the asset or liability**

If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

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 46.

The following table sets out the fair value measurements using the FRS 102 hierarchy at 31st March.

	2017		2016	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1	653,619	–	482,590	–
Level 2 <sup>1</sup>	–	–	1	–
Level 3	–	–	–	–
<b>Total</b>	<b>653,619</b>	<b>–</b>	<b>482,591</b>	<b>–</b>

<sup>1</sup> Includes forward foreign currency contracts.

There have been no transfers between Levels 1, 2 or 3 during the year (2016: nil).

**21. Financial instruments' exposure to risk and risk management policies**

As an investment trust, the Company invests in equities for the long term so as to secure its investment objective stated on the 'Features' page. In pursuing this objective, the Company is exposed to a variety of financial risks that could result in a reduction in the Company's net assets or a reduction in the profits available for dividends.

These financial 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 cooperation with the Board and the Manager, coordinates the Company's risk management policy.

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 classes of financial instruments are as follows:

- investments in European equity shares, which are held in accordance with the Company's investment objective;
- cash held within a liquidity fund;
- 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 of 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 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.

	2017						
	Euro £'000	Swiss francs £'000	Danish krone £'000	Swedish krona £'000	Norwegian krone £'000	US Dollar £'000	Total £'000
Current assets	32,041	—	517	276	99	1	32,934
Creditors	(65,201)	—	(138)	(298)	—	—	(65,637)
Foreign currency exposure on net monetary items	(33,160)	—	379	(22)	99	1	(32,703)
Investments held at fair value through profit or loss	415,784	74,666	49,494	61,600	52,075	—	653,619
<b>Total net foreign currency exposure</b>	<b>382,624</b>	<b>74,666</b>	<b>49,873</b>	<b>61,578</b>	<b>52,174</b>	<b>1</b>	<b>620,916</b>

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****21. Financial instruments' exposure to risk and risk management policies *continued*****(a) Market risk *continued*****(i) Currency risk *continued***

	Euro £'000	Swiss francs £'000	Danish krone £'000	2016 Swedish krona £'000	Norwegian krone £'000	US Dollar £'000	Total £'000
Current assets	54,940	290	23	1,095	62	1	56,411
Creditors	(43,116)	(226)	—	(99)	—	(127)	(43,568)
Foreign currency exposure on net monetary items	11,824	64	23	996	62	(126)	12,843
Investments held at fair value through profit or loss	318,626	38,446	12,793	83,733	28,992	—	482,590
<b>Total net foreign currency exposure</b>	<b>330,450</b>	<b>38,510</b>	<b>12,816</b>	<b>84,729</b>	<b>29,054</b>	<b>(126)</b>	<b>495,433</b>

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

**Foreign currency sensitivity**

The following table illustrates 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% (2016: 10%) appreciation or depreciation in sterling against the Euro, Swiss francs, Danish krone, Swedish krona, Norwegian krone and US dollar to which the Company is exposed, which is considered to be a reasonable illustration based on the volatility of exchange rates during the year.

	2017		2016	
	If sterling strengthens by 10% £'000	If sterling weakens by 10% £'000	If sterling strengthens by 10% £'000	If sterling weakens by 10% £'000
Statement of Comprehensive Income – return after taxation				
Revenue return	(1,058)	1,058	(836)	836
Capital return <sup>1</sup>	3,270	(3,270)	(1,284)	1,284
<b>Total return after taxation</b>	<b>2,212</b>	<b>(2,212)</b>	<b>(2,120)</b>	<b>2,120</b>
<b>Net assets</b>	<b>2,212</b>	<b>(2,212)</b>	<b>(2,120)</b>	<b>2,120</b>

<sup>1</sup> Prior year's signage was incorrect, the comparative figures have been amended.

In the opinion of the Directors, the above sensitivity analysis is broadly representative of the current and comparative year.

**(ii) Interest rate risk**

Interest rate movements may affect the level of income receivable on cash deposits, the liquidity fund and the interest payable on variable rate borrowings when interest rates are reset.

**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 floating rate loan facility. However, amounts drawn down on this facility 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 a loan carrying a fixed rate of interest and the exposure is therefore already quantifiable. 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 reset, is shown below.

	2017 £'000	2016 £'000
Exposure to floating interest rates:		
Cash and short term deposits	265	6,248
JPMorgan Euro Liquidity Fund	24,020	47,144
Floating rate loan facility	(59,873)	—
<b>Total exposure</b>	<b>(35,588)</b>	<b>53,392</b>

Interest receivable on cash balances, or paid on overdrafts, is at a margin below or above LIBOR respectively (2016: same).

The target interest earned on the JPMorgan Euro Liquidity Fund is the 7 day Euro London Interbank Bid Rate. Details of the bank loan are given in note 13 on page 53.

### Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 1% (2016: 1%) increase or decrease in interest rates with regard 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.

	2017		2016	
	1% increase in rate £'000	1% decrease in rate £'000	1% increase in rate £'000	1% decrease in rate £'000
Statement of Comprehensive Income - return after taxation				
Revenue return	63	(63)	534	(534)
Capital return	(419)	419	—	—
<b>Total return after taxation</b>	<b>(356)</b>	<b>356</b>	<b>534</b>	<b>(534)</b>
<b>Net assets</b>	<b>(356)</b>	<b>356</b>	<b>534</b>	<b>(534)</b>

In the opinion of the Directors, this sensitivity analysis may not be representative of the Company's future exposure to interest rate changes due to fluctuations in the level of cash balances, cash held in the 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 other price risk

The Board meets on at least four 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.

## NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

### 21. Financial instruments' exposure to risk and risk management policies *continued*

#### (a) Market risk *continued*

##### (iii) Other price risk *continued*

##### Other price risk exposure

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

	2017 £'000	2016 £'000
Equity investments held at fair value through profit or loss	653,619	482,590

The above data is broadly representative of the exposure to other price risk during the current and comparative year.

##### Concentration of exposure to other price risk

An analysis of the Company's investments is given on page 15. This shows that 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.

##### Other 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% (2016: 10%) in the market value of equity investments. 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, adjusting for changes in the management fee but with all other variables held constant.

	2017		2016	
	10% increase in fair value £'000	10% decrease in fair value £'000	10% increase in fair value £'000	10% decrease in fair value £'000
Statement of Comprehensive Income - return after taxation				
Revenue return	(167)	167	(145)	145
Capital return	64,973	(64,973)	47,921	(47,921)
Total return after taxation	64,806	(64,806)	47,776	(47,776)
Net assets	64,806	(64,806)	47,776	(47,776)

#### (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 mainly readily realisable securities, which can be sold to meet funding requirements if necessary. 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 and to gear the Company as appropriate.

### Liquidity risk exposure

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

	2017			Total £'000
	Three months or less £'000	More than three months but not more than one year £'000	More than one year £'000	
<b>Creditors</b>				
Securities purchased awaiting settlement	5,250	—	—	5,250
Other creditors	144	—	—	144
Bank loans, including interest	191	60,116	—	60,307
	<b>5,585</b>	<b>60,116</b>	<b>—</b>	<b>65,701</b>
	2016			Total £'000
	Three months or less £'000	More than three months but not more than one year £'000	More than one year £'000	
<b>Creditors</b>				
Securities purchased awaiting settlement	3,655	—	—	3,655
Other creditors	149	—	—	149
Bank loans, including interest	157	39,999	—	40,156
	<b>3,961</b>	<b>39,999</b>	<b>—</b>	<b>43,960</b>

The liabilities shown above represent future contractual payments and therefore may differ from the amounts shown in the Statement of Financial Position.

### (c) Credit risk

Credit risk is the risk that the failure of the counterparty to a transaction to discharge its obligations under that transaction could result in loss to the Company.

#### Management of credit risk

##### Portfolio dealing

The Company invests in markets that operate DVP (Delivery Versus Payment) 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 and cash equivalents

Counterparties are subject to regular credit analysis by the Manager and deposits can only be placed with counterparties that have been approved by JPMAM's Counterparty Risk Group. The Board regularly reviews the counterparties used by the Manager. The JPMorgan Euro Liquidity Fund has a AAA rating.

##### Exposure to JPMorgan Chase

JPMorgan Chase Bank, N.A. is the custodian of the Company's assets. The Company's assets are segregated from JPMorgan Chase's own trading assets. Therefore these assets are designed to be protected from creditors in the event that JPMorgan Chase were to cease trading. The Depositary, BNY Mellon Trust and Depositary (UK) Limited, is responsible for the safekeeping of all custodial assets of the Company and for verifying and maintaining a record of all other assets of the Company. However, no absolute guarantee can be given on the protection of all the assets of the Company.

## NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

### 21. Financial instruments' exposure to risk and risk management policies *continued*

#### (c) Credit risk *continued*

##### Credit risk exposure

The amounts shown in the Statement of Financial Position under debtors and cash and cash equivalents represent the maximum exposure to credit risk at the current and comparative year ends.

The aggregate value of securities on loan at 31st March 2017 amounted to £34.2 million and the maximum value of stock on loan during the year amounted to £34.2 million. Collateral is obtained by JPMorgan Asset Management (UK) Limited ('JPMAM') 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.

#### (d) Fair values of financial assets and financial liabilities

All financial assets and liabilities are either included in the Statement of Financial Position at fair value or the carrying amount is a reasonable approximation of fair value.

### 22. Capital management policies and procedures

The Company's debt and capital structure comprises the following:

	2017 £'000	2016 £'000
<b>Debt:</b>		
Bank loans	59,873	39,642
<b>Equity:</b>		
Called up share capital	8,000	8,008
Reserves	612,846	487,372
	620,846	495,380
<b>Total debt and equity</b>	<b>680,719</b>	<b>535,022</b>

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 level of gearing.

The Board's policy is to limit gearing within the range of 20% net cash to 20% geared.

	2017 £'000	2016 £'000
Investments held at fair value through profit or loss	653,619	482,590
<b>Net assets</b>	<b>620,846</b>	<b>495,380</b>
<b>Gearing/(net cash)</b>	<b>5.3%</b>	<b>(2.6)%</b>

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;
- the opportunity for issues of new shares, including issues from Treasury; and
- the level of dividend distributions in excess of that which is required to be distributed.

### 23. Subsequent events

The Directors have evaluated the period since the year end and have not identified any subsequent events.



# Regulatory Disclosures

## SECURITIES FINANCING TRANSACTIONS REGULATION ('SFTR') DISCLOSURE (UNAUDITED)

The Company engages in Securities Financing Transactions (as defined in Article 3 of Regulation (EU) 2015/2365, securities financing transactions include repurchase transactions, securities or commodities lending and securities or commodities borrowing, buy-sell back transactions or sell-buy back transactions and margin lending transactions). In accordance with Article 13 of the Regulation, the Company's involvement in and exposures related to SFT for the accounting period ended 31st March 2017 are detailed below.

### Global Data

#### Amount of securities on loan

The total value of securities on loan as a proportion of the Company's total lendable assets, as at the balance sheet date, is 5.23%. Total lendable assets represents the aggregate value of asset types forming part of the Company's securities lending programme.

#### Amount of assets engaged in securities lending

The following table represents the total value of assets engaged in securities lending:

	Value £'000	% of AUM
Securities lending	34,166	5.50%

### Concentration Data

#### Collateral issuers

The following table lists the issuers by value of non-cash collateral received by the Company by way of title transfer collateral arrangement across securities lending transactions, as at the balance sheet date:

Issuer	Collateral Value £'000
French Republic Government	12,180
United Kingdom Treasury	10,250
United States of America Treasury	6,324
Federal Republic of Germany	3,395
Republic of Austria Government	2,310
Kingdom of Belgium Government	1,490
Kingdom of Netherlands Government	383
Republic of Finland Government	272
	36,604

Non-cash collateral received by way of title transfer collateral arrangement in relation to securities lending transactions cannot be sold, re-invested or pledged.

## Regulatory Disclosures *continued*

### SECURITIES FINANCING TRANSACTIONS REGULATION ('SFTR') DISCLOSURE (UNAUDITED) *CONTINUED*

#### Counterparties

The following table provides details of the counterparties (based on gross volume of outstanding transactions with exposure on a gross absolute basis) in respect of securities lending as at the balance sheet date:

Counterparty	Value £'000
Morgan Stanley	14,173
Goldman Sachs	5,712
Barclays	5,426
Credit Suisse	5,244
Merrill Lynch International	3,493
Deutsche Bank	118
<b>Total</b>	<b>34,166</b>

#### Aggregate transaction data

##### Type, quality and currency of collateral

The following table provides an analysis of the type, quality and currency of collateral received by the Company in respect of securities lending transactions as at the balance sheet date.

Type	Quality	Currency	Value £'000
Bonds	Investment Grade	EUR	20,030
Bonds	Investment Grade	GBP	10,250
Bonds	Investment Grade	USD	6,324
<b>Total</b>			<b>36,604</b>

##### Maturity tenor of collateral

The following table provides an analysis of the maturity tenor of collateral received in relation to securities lending transactions as at the balance sheet date

Maturity	Value £'000
1 to 4 weeks	667
1 to 3 months	910
3 to 6 months	889
3 to 12 months	677
more than 1 year	33,461
	<b>36,604</b>

##### Maturity tenor of Security lending transactions

The Company's securities lending transactions have open maturity.

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**Country in which counterparties are established**

<b>Counterparty</b>	<b>Country of incorporation</b>
Morgan Stanley	United Kingdom
Goldman Sachs	United Kingdom
Barclays	United Kingdom
Credit Suisse	United Kingdom
Merrill Lynch International	United Kingdom

**Settlement and clearing**

The Company's securities lending transactions including related collaterals are settled and cleared either bi-laterally, tri-party or through a central counterparty.

**Re-use of collateral****Share of collateral received that is reused and reinvestment return**

Non-cash collateral received by way of title transfer collateral arrangement in relation to securities lending transactions cannot be sold, re-invested or pledged.

Cash collateral received in the context of securities lending transactions may be reused in accordance with the provisions contained within the Prospectus, however the Company does not currently reinvest cash collateral received in respect of securities lending transactions.

**Safekeeping of collateral**

All collateral received (£36,604,000) by the Company in respect of securities lending transactions as at the balance sheet date is held by the Depositary.

**Return and cost**

JPMorgan Chase Bank, N.A (JPMCB), the lending agent, receives a fee of 15% of the gross revenue for its services related to the Stock Lending Transactions. The remainder of the revenue, 85%, is received by the Company i.e. for the benefit of shareholders.

## ALTERNATIVE INVESTMENT FUND MANAGERS' DIRECTIVE ('AIFMD') DISCLOSURES (UNAUDITED)

### Leverage

For the purposes of the Alternative Investment Fund Managers Directive (the 'AIFMD'), leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and is calculated on a gross and a commitment method, in accordance with the AIFMD. Under the gross method, exposure represents the sum of the Company's positions without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated after certain hedging and netting positions are offset against each other.

The Company is required to state its maximum and actual leverage levels, calculated as prescribed by the AIFMD, as at 31st March 2017, which gives the following figures:

	Gross Method	Commitment Method
Leverage Exposure		
Maximum limit	200%	200%
Actual	109%	109%

### JPMF Remuneration

JPMF is the authorised manager of the Company and is part of the JPMorgan Chase & Co. group of companies. In this disclosure, the terms 'JPMorgan' or 'Firm' refer to that group, and each of the entities in that group globally, unless otherwise specified.

This disclosure has been prepared in accordance with the AIFMD, the European Commission Delegated Regulation supplementing the AIFMD, the 'Guidelines on sound remuneration policies' under the AIFMD issued by the European Securities and Markets Authority under the AIFMD. The disclosure has also been prepared in accordance with the relevant provisions of the Financial Conduct Authority Handbook (FUND 3.3.5 and COLL 4.5.7).

### JPMF Remuneration Policy

The current remuneration policy for the Management Company (the 'Remuneration Policy') can be found at <https://am.jpmorgan.com/gb/en/asset-management/gim/per/legal/emea-remuneration-policy>. This policy includes details of how remuneration benefits are calculated, including the financial and non-financial criteria used to evaluate performance. The responsibilities and composition of the Firm's Compensation and Management Development and the measures adopted to avoid or manage conflicts of interest. A copy of this policy can be requested free of charge from the Management Company. The Remuneration Policy applies to all employees of the Management Company, including individuals whose professional activities may have a material impact on the risk profile of the Management Company or the funds it manages ('Identified Staff'). The Identified Staff include members of the Board of the Management Company (the 'Board'), senior management, the heads of relevant Control Functions, and holders of other key functions. Individuals are notified of their identification and the implications of this status on at least an annual basis.

JPMF reviews and adopts the Remuneration Policy on an annual basis, and oversees its implementation, including the classification of Identified Staff. The Board last reviewed and adopted the Remuneration Policy in February 2016 with no material changes and was satisfied with its implementation.

### JPMF Quantitative Disclosures

Disclosures in accordance with FUND 3.3.5, Article 22(2)e and 22(2)f of the AIFMD and Article 107 of the Delegated Regulation are disclosed on the Company's website at [www.jpmeuropeansmallercompanies.co.uk](http://www.jpmeuropeansmallercompanies.co.uk)

# Shareholder Information

## SHAREHOLDER ANALYSIS

	At 31st March 2017		At 31st March 2016
	Number of shares	% Holding	% Holding
Pension funds	35,212,521	22.0	19.1
Insurance companies	5,146,035	3.2	3.8
Mutual funds	13,879,589	8.7	11.4
JPMorgan Elect plc	1,642,830	1.0	1.2
Fund of funds	4,606,945	2.9	0.9
Other institutions	12,132,908	7.6	
<b>Total Institutions</b>	<b>72,620,828</b>	<b>45.4</b>	<b>43.4</b>
<b>Market Trading Accounts</b>	<b>627,641</b>	<b>0.4</b>	<b>0.3</b>
Retail investors holding shares directly or through nominee or private client broker accounts <sup>1</sup>	72,159,820	45.1	46.7
Individual in the JPMorgan Investment Trust Investment Account/ISA	14,579,596	9.1	9.6
<b>Total Retail Holdings</b>	<b>86,739,416</b>	<b>54.2</b>	<b>56.3</b>
<b>Total Shares in Issue</b>	<b>159,987,885</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> Includes shares below threshold of 10,000 shares

Source: Richard Davies Investor Relations

Nominee financial statements have been allocated to their appropriate category.

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the twenty-eighth Annual General Meeting of JPMorgan European Smaller Companies Trust plc will be held at 60 Victoria Embankment, London EC4Y 0JP on Tuesday, 11th July 2017 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 2017.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Remuneration Report for the year ended 31st March 2017.
4. To declare a final dividend of 3.5 pence per share.
5. To reappoint Carolan Dobson as a Director of the Company.
6. To reappoint Marc Van Gelder as a Director of the Company.
7. To reappoint Ashok Gupta as a Director of the Company.
8. To reappoint Nicholas Smith as a Director of the Company.
9. To reappoint Stephen White as a Director of the Company.
10. To reappoint 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

11. 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 £399,969 or, if different the aggregate nominal amount representing approximately 5% of the Company's issued ordinary share capital (including Treasury shares) 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 2018 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers, agreements or arrangements 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 relevant securities – Special Resolution

12. THAT subject to the passing of Resolution 11 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 11 or by way of a sale of Treasury shares 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 £399,969 or, if different the aggregate nominal amount representing approximately 5% of the issued share capital as at the date of the passing of this resolution (including Treasury shares) 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 11 above, save that the Company may before such expiry make offers, agreements or arrangements 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 pursuance of such offers, agreements or arrangements as if the power conferred hereby had not expired.

#### Authority to repurchase the Company's shares – Special Resolution

13. 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 in the capital of the Company on such terms and in such manner as the Directors may from time to time determine:

##### PROVIDED ALWAYS THAT

- (i) the maximum number of ordinary shares hereby authorised to be purchased shall be the number of ordinary shares which is equal to 14.99% of the Company's issued share capital (less shares held in Treasury) as at the date of the passing of this Resolution;
- (ii) the minimum price which may be paid for an ordinary share shall be the nominal value of such ordinary share;

- 
- (iii) the maximum price which may be paid for an ordinary share shall be an amount equal to the highest of:
    - (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 contracted to be 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 10th January 2019 unless the authority is renewed at the Company's Annual General Meeting in 2018 or at any other general meeting prior to such time; and
  - (vi) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which contract will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares pursuant to any such contract.

By order of the Board  
Jonathan Latter, for and on behalf of  
JPMorgan Funds Limited,  
Secretary  
9th June 2017

#### 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 Annual General Meeting (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 no later than 12 noon two business days prior to the Meeting (i.e. excluding weekends and bank holidays).
4. You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments (see above) 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 6.30 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 6.30 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.

## NOTICE OF ANNUAL GENERAL MEETING *CONTINUED*

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(s) 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 Meeting; or (b) any circumstances connected with Auditors of the Company ceasing to hold office since the previous Meeting, 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 Meeting 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 Meeting any question relating to the business being dealt with at the Meeting 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 of Meeting 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 cannot 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 Meeting, the total voting rights members are entitled to exercise at the Meeting and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this Notice of Meeting will be available on the Company's website [www.jpmeuropeansmallercompanies.co.uk](http://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). They will also be available for inspection at the 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 Instruction Form, you can appoint a proxy or proxies electronically by visiting [www.sharevote.co.uk](http://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 Instruction 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](http://www.shareview.co.uk). Full instructions are given on both websites.
16. As at 31st May 2017 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 159,987,885 ordinary shares, carrying one vote each. Therefore the total voting rights in the Company are 159,987,885.

### 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.



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## GLOSSARY OF TERMS AND DEFINITIONS

### Share Price Total Return

Total return to the investor, on a last traded price to last traded price basis, assuming that all dividends received were reinvested, without transaction costs, into the shares of the Company at the time the shares were quoted ex-dividend.

### Net Asset Value Total Return

Total return on net asset value ('NAV') per share, on a bid value to bid value basis, assuming that all dividends paid out by the Company were reinvested, without transaction costs, into the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

In accordance with industry practice, dividends payable which have been declared but which are unpaid at the balance sheet date are deducted from the NAV per share when calculating the return on net assets.

### Benchmark Total Return

Total return on the benchmark, on a closing-market value to closing-market value basis, assuming that all dividends received were reinvested, without transaction costs, into 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 '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 Euromoney Smaller European Companies (ex UK) Index (formerly known as the HSBC Smaller European Companies (ex UK) Index). At 31st March 2017, the index consisted of 1,000 companies with a market capitalisation of between £60 million and £4 billion across 15 countries.

### Gearing/Net Cash

Gearing represents the excess amount above shareholders' funds of total investments, expressed as a percentage of the shareholders' funds. Previously gearing represented the excess amount above shareholders' funds of total assets expressed as a percentage of

shareholders' funds. Total assets include total investments and net current assets/liabilities less cash/cash equivalents and excluding bank loans of less than one year. If the amount calculated is negative, this is shown as a 'net cash' position.

### Ongoing Charges

The ongoing charges represent the Company's management fee and all other operating expenses, excluding finance costs, expressed as a percentage of the average of the daily net assets during the year and is calculated in accordance with guidance issued by the Association of Investment Companies.

### Share Price Discount/Premium to NAV Per Share

If the share price of an investment trust is lower than the NAV per share, the shares are said to be trading at a discount. The discount is shown as a percentage of the NAV per share. 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.

### Premium Listing

The listing of the Company's ordinary shares on the London Stock Exchange.

### Performance Attribution Definitions:

#### Stock Selection/Asset Allocation

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

#### 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 Repurchases

Measures the positive effect on relative performance of repurchasing the Company's shares for cancellation, or repurchases into Treasury, at a discount to their net asset value ('NAV') per share.

## WHERE TO BUY JPMORGAN INVESTMENT TRUSTS

You can invest in a JPMorgan investment trust through the following:

### 1. Directly from JPMorgan

#### Investment Account

The Company's shares are available in the JPMorgan Investment Account, which facilitates both regular monthly investments and occasional lump sum investments in the Company's ordinary shares. Shareholders who would like information on the Investment Account should call JPMorgan Asset Management free on 0800 20 40 20 or visit its website at [am.jpmorgan.co.uk/investor](http://am.jpmorgan.co.uk/investor)

#### Stocks & Shares Individual Savings Accounts (ISA)

The Company's shares are eligible investments within a JPMorgan ISA. For the 2017/18 tax year, from 6th April 2017 and ending 5th April 2018, the total ISA allowance is £20,000. The shares are also available in a JPMorgan Junior ISA. Details are available from JPMorgan Asset Management free on 0800 20 40 20 or via its website at [am.jpmorgan.co.uk/investor](http://am.jpmorgan.co.uk/investor)

### 2. Via a third party provider

Third party providers include;

AJ Bell	Interactive Investor
Alliance Trust Savings	James Brearley
Barclays Stockbrokers	James Hay
Bestinvest	Selftrade
Charles Stanley Direct	TD Direct
FundsNetwork	The Share Centre
Hargreaves Lansdown	

Please note this list is not exhaustive and the availability of individual trusts may vary depending on the provider. These websites are third party sites and JPMorgan Asset Management does not endorse or recommend any. Please observe each site's privacy and cookie policies as well as their platform charges structure.

### 3. Through a professional adviser

Professional advisers are usually able to access the products of all the companies in the market and can help you find an investment that suits your individual circumstances. An adviser will let you know the fee for their service before you go ahead. You can find an adviser at [unbiased.co.uk](http://unbiased.co.uk)

You may also buy investment trusts through stockbrokers, wealth managers and banks.

To familiarise yourself with the Financial Conduct Authority (FCA) adviser charging and commission rules, visit [fca.org.uk](http://fca.org.uk)

# 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
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: GBO0BMTS0Z37  
Bloomberg code: JESC LN

## Market Information

The Company's net asset value ('NAV') per share 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 and The Scotsman and on the Company's website at [www.jpmeuropeansmallercompanies.co.uk](http://www.jpmeuropeansmallercompanies.co.uk), where the share price is updated every fifteen minutes during trading hours.

## Website

[www.jpmeuropeansmallercompanies.co.uk](http://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 JPMorgan Investment Account, JPMorgan ISA and JPMorgan Junior ISA. These products are all available on the online service at [jpmorgan.co.uk/online](http://jpmorgan.co.uk/online)

## Manager and Company Secretary

JPMorgan Funds Limited

## Company's Registered Office

60 Victoria Embankment  
London EC4Y 0JP  
Telephone: 020 7742 4000

For company secretarial issues and administrative matters, please contact Jonathan Latter.

## Depositary

BNY Mellon Trust and Depositary (UK) Limited  
BNY Mellon Centre  
160 Queen Victoria Street  
London EC4V 4LA

The Depositary has appointed JPMorgan Chase Bank, N.A. as the Company's custodian.

## Registrars

Equiniti Limited  
Reference 1083  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA  
Telephone number: 0371 384 2325

Lines open 8.30 a.m. to 5.30 p.m. Monday to Friday. Calls to the helpline will cost no more than a national rate call to a 01 or 02 number. Callers from overseas should dial +44 121 415 0225

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](http://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 JPMorgan Investment Account and JPMorgan ISA, see contact details on the back cover of this report.

**aic**

The Association of  
Investment Companies

A member of the AIC

[www.jpmeuropeansmallercompanies.co.uk](http://www.jpmeuropeansmallercompanies.co.uk)

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**J.P. Morgan Helpline**

Freephone 0800 20 40 20 or +44 (0) 1268 444470.

Telephone lines are open Monday to Friday, 9.00am to 5.30pm.

Telephone calls may be recorded and monitored for security and training purposes.