Company Registration
4567378

# Annual Report 2014
# JPMorgan Russian Securities plc

Annual Report & Accounts for the year ended 31st October 2014



J.P.Morgan
Asset Management

# Features

Contents



**Objective**

To provide capital growth from investment in Russian securities

**Investment Policies**

- To maintain a diversified portfolio of investments in quoted Russian securities and Russian pre-IPO stocks (up to 10% of the gross assets of the Company) or other companies which operate principally in Russia
- To use gearing when appropriate to increase potential returns to shareholders
- To invest no more than 15% of gross assets in other UK listed investment companies (including investment trusts)

Further details on investment policies and risk management are given in the Strategic Report on pages 16 to 20

**Benchmark**

The MSCI Russian 10/40 Equity Indices Index in sterling terms

**Capital Structure**

UK domiciled Full listing on the London Stock Exchange

At 31st October 2014, the Company's share capital comprised 52,532,112 ordinary shares of 1p each

**Continuation Vote**

A resolution that the Company continue as an investment trust will be put to Shareholders at the Annual General Meeting in 2017 and every five years thereafter

**Management Company and Company Secretary**

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

**FCA regulation of 'non-mainstream pooled investments'**

The Company currently conducts its affairs so that the shares issued by JPMorgan Russian Investment Trust plc can be recommended by independent financial advisers to ordinary retail investors in accordance with the Financial Conduct Authority (FCA) rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future

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

**Association of Investment Companies (AIC)**

The Company is a member of the AIC

**Website**

The Company's website, which can be found at www jpmrussian co uk, includes useful information on the Company, such as daily prices, factsheets and current and historic half year and annual reports

# Financial Results

## Total returns (includes dividends reinvested)

**-28.8%**
Return to shareholders[1]
(2013: +12.5%)

**-26.7%**
Return on net assets[2]
(2013: +13.7%)

**-21.0%**
Benchmark[3]
(2013: +7.1%)

**13.00p**
Proposed ordinary dividend[4]
(2013: 15.30p)

### Long Term Performance

for periods ended 31st October 2014

| | 3 year performance | 5 year performance | 10 year performance |
|---|---|---|---|
| Return to shareholders[1] | -24 9% | -4 2% | 117 2% |
| Return on net assets[2] | -17 7% | 0 0% | 125 8% |
| Benchmark return[3] | -20 3% | -1 3% | 164 7% |

A glossary of terms and definitions is provided on page 61

[1]Source Morningstar

[2]Source J P Morgan

[3]Source MSCI/CSFB The Benchmark is the MSCI Russian 10/40 Equity Indices Index in sterling terms Prior to 1st November 2006, the benchmark was the CSFB Russian ROS Index in sterling terms.

[4]Payable subject to the passing of a Resolution at the 2015 AGM

# Strategic Report

## Chairman's Statement

Russia's economy and external politics experienced exceptional turbulence during the year under review Western economic sanctions in response to Russia's involvement in the conflict in Ukraine, the rapid fall in the value of the Ruble and decreasing price of oil were some of the significant factors which led to strongly negative sentiment in the equity market Trading conditions deteriorated significantly with reduced liquidity and sharp price falls for individual stocks

Against this background, the Company's benchmark, the MSCI Russian 10/40 Equity Indices Index, fell 21 0% over the year It is disappointing that both the Company's return to shareholders and the net asset value total return underperformed the benchmark index, with returns of -28 8% and -26 7% respectively Since the Company's year end, market sentiment has worsened on the back of a further sharp reduction in the price of crude oil and fears of a deep recession in Russia In the two months to 31st December 2014 the benchmark index lost a further 27 3% and the Company's NAV 28 5%

As implied by the underperformance of the share price compared to the Company's NAV, the discount at which the Company's shares trade relative to the net asset value widened over the period At year end the discount to NAV was 14 0% compared with 11 3% the previous year

In the reporting period the Company's performance was 5 7% below benchmark, with stock selection being the main factor You will find details of the investment decisions which led to this underperformance in the Investment Manager's Report on pages 5 to 9

During the particular uncertainties of the summer of 2014 the Board took special steps to confirm that the Company was compliant with all sanctions in place The Company remains compliant with all sanctions, and the Board continues to track developments in the region closely, with the assistance of JPMorgan Asset Management's compliance & investment functions While the sanctions have created significant negative investor sentiment, they have not prevented the Company's Manager from maintaining a diversified portfolio of Russian equities which adheres to the Company's investment and risk control guidelines

In addition to its regular meetings, the Board carefully monitored the impact of economic sanctions against Russian entities, holding weekly reviews when the severity of sanctions applied increased We also carried out a comprehensive review of the Company's risk profile in light of the deteriorating political situation, and you will see details of what we judge to be the key risks set out on page 18

The Board continues to pay close attention to the particular political and economic risks of investing in Russia which remain at heightened levels

Regulatory change meant that we were required to ensure compliance with the demands of the Alternative Investment Fund Managers Directive ('AIFMD'), requiring the development of new agreements for the management and administration of the Company This process was successfully completed on 1st July 2014, and further details can be seen on page 23

### Dividends

Revenue for the year, after taxation, was £7,029,000 (2013 £9,657,000) and the revenue return per share, calculated on the average number of shares in issue, was 13 38 pence (2013 18 14 pence)

Therefore, based upon the revenue generated by the portfolio this year, the Board proposes a dividend of 13 00 pence (2013 15 30 pence), to be paid on 11th March 2015 to ordinary shareholders on the register at the close of business on 6th February 2015 If approved by shareholders, this distribution will amount to a total of £6,829,000 (2013 £8,058,000)

The Company's objective remains that of capital growth, and the payment of dividends to investors is dependent on Russian companies making sustained dividend distributions to their shareholders The Board reviews income expectations throughout the year Given the uncertain macro-economic outlook it is too early to make any accurate predictions for 2015 however dividend receipts and announcements of distributions by key holdings have so far been encouraging

### Discount Control

During the year the Company repurchased 135,000 (2013 1,160,000) shares for cancellation at an average discount to net asset value of 13 5% (2013 12 1%) The Board's objective is to use the share repurchase authority to assist in managing any imbalance between supply and demand for the Company's shares, thereby reducing the volatility of the discount The Board operates a policy under which the Company intends, subject to market conditions, to buy shares at discounts above 8% to achieve this Over the course of the reporting year during periods of heightened volatility in the Russian market the Board has refrained from implementing share buybacks when the discount widened beyond 8%, as in the Board's opinion purchases of shares were unlikely to assist in stabilising the discount However, post year end the Company recently repurchased 195,000 shares at an average discount of 15 9% The Board continues to monitor discount movements closely The Company will only repurchase shares at a discount to their prevailing net asset value, and issue shares when they trade at a premium to their net asset value, so as not to prejudice existing shareholders The Board will seek authority to renew the Company's share issuance and buyback powers at the forthcoming Annual General Meeting

### Board of Directors

In compliance with corporate governance best practice, all Directors will be standing for reappointment at the forthcoming Annual General Meeting Further to the Company's annual evaluation of the Directors, the Chairman, the Board and its Committees the Board recommends to shareholders that all Directors be reappointed

### Investment Manager

The Investment Manager is subject to an annual review including performance record, management processes, investment style, resources and risk control mechanisms

# Strategic Report continued

## **Chairman's Statement** continued

Following this review the Board considers that the continuing appointment of JPMorgan Funds Limited for the provision of these services is in the best interests of shareholders as a whole At a time when there is increasing downward pressure on investment management fees we have responded by requesting that JPMorgan Funds Limited reduce their fee With effect from 1st November 2014 the investment management fee has been reduced to 1 0% per annum of the Company's net assets

Vitaly Kazakov, who stood down from the investment management team in the previous reporting period has now been replaced by Sonal Tanna Both Oleg Biryulyov and Sonal Tanna are fully supported by JPMorgan Asset Management (UK) Limited's (JPMAM) emerging markets equity team

**Annual General Meeting**

The Company's Annual General Meeting will be held on Thursday, 5th March 2015 at 12 00 noon, at 60 Victoria Embankment, London EC4Y 0JP In addition to the formal part of the meeting, there will be a presentation from Oleg Biryulyov, who will be available to answer questions on the portfolio and performance There will also be an opportunity to meet the Board, the Investment Manager and representatives of JPMF and JPMAM I look forward to seeing as many of you as possible at this meeting Shareholders are asked to submit in writing any detailed or technical questions that they wish to raise at the AGM in advance to the Company Secretary at 60 Victoria Embankment, London EC4Y 0JP Alternatively you can lodge questions on the Company's website at www jpmrussian co uk

**Outlook**

The risks associated with the Russian market have not been as acute since the financial crisis of 2008/9 The market may have priced in much of the bad news, but with the current degree of uncertainty in the political arena, and the likelihood of negative fallout in the economy, Russian equities may see further downside On the other hand, our Investment Manager believes that the Russian economy will not collapse in 2015 under the significant pressures of Western economic sanctions, Ruble devaluation and the falling oil price The Russian market remains cheap relative to other emerging markets, and dividend yields remain attractive relative to historical levels and to bond markets In this environment, our Investment Manager sees grounds for caution but believes there are good reasons to remain invested and continues to seek opportunities to invest in stocks with long-term growth potential at attractive entry points

**Lysander Tennant**
Chairman

27th January 2015

# Investment Managers' Report

Oleg I Biryulyov

Sonal Tanna

**Market Review**

2014 was a difficult year for investors in the Russian market There were several internal and external factors, which led to a significant drop in the value of the Company's NAV At the time of writing this report, some three months after your Company's year end trading conditions were challenging as share price volatility has increased markedly and liquidity, particularly in the smaller cap names, has reduced considerably Despite this reduction in liquidity, we remain able to buy and sell holdings in the companies that we wish to gain or reduce exposure to We will use this opportunity to provide an explanation of our performance against the benchmark, give you our view of the current situation, the rationale for our key holdings and our outlook on the market

**Performance**

I am sorry to report that, as a result of difficult market conditions and in particular as a result of some stock specific issues, during the year under review the Company's NAV fell 26 7% on a total return basis, and the return to shareholders decreased 28 8% in sterling terms This resulted in the Company underperforming its benchmark, the MSCI Russian 10/40 Equity Indices Index by 5 7% on a net asset value basis The main driver for this underperformance was the overweight positions in domestic consumer related stocks and small cap names, which represented approximately half of the Company's NAV at year end A core part of our investment strategy is investing in smaller companies where we believe the prospects for outperformance over the longer term are greater than for larger companies However, small caps often underperform their larger peers in a falling market, as we experienced over the last 12 months We intend to maintain the portfolio's existing exposure to this sector in the belief that it will generate the best return for shareholders over the longer term

**The Economy and Political Events**

The crisis in Ukraine dominated the market this year and we do not consider a quick resolution likely We expect economic logic and the necessity for Ukraine to retain good trading relations with Russia to prevail eventually, although the timing of this is uncertain Ukraine has historically had strong economic ties with Russia and could be said to benefit from its status as a key route for goods in transit to and from its neighbour We believe the most likely scenario for Ukraine will be a gradual progression towards an uneasy peace, with prolonged negotiations and tensions between Kiev and eastern break-away provinces We do not think that full blown civil war or war with Russia will occur, but until resolution is achieved, we expect these risks to weigh heavily on the Russian equity market

In reaction to Russia's involvement in Ukraine and its annexation of the Crimea earlier in the year, the USA and EU countries imposed economic sanctions on Russia In our view, pressure from Western leaders is unlikely to compel Russia to give up the Crimea As a result, we believe that economic sanctions targeted at the Crimea will remain in place for the foreseeable future There is a chance that some EU sanctions

# Strategic Report continued

## Investment Managers' Report continued

**Performance attribution for the year ended 31st October 2014**

| | % | % |
|---|---|---|
| **Contributions to total returns** | | |
| Benchmark | | **-21 0** |
| Asset allocation | -0 1 | |
| Stock selection | -5 6 | |
| Gearing/net cash | 1 4 | |
| Investment manager contribution | | **-4 3** |
| Portfolio total return | | **-25 3** |
| Management fee/ other expenses | -1 4 | |
| Return on net assets | | **-26 7** |
| Effect of movement in discount over the year | | **-2 1** |
| Return to Ordinary shareholders | | **-28 8** |

Source FactSet JPMAM and Morningstar
All figures are on a total return basis

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

A glossary of terms and definitions is provided on page 61

will be lifted in the third quarter of 2015 but American sponsored sanctions are likely to stay in place for longer It is our view that it is not the sanctions themselves but their indirect impact and fear of escalation of the situation that is negative for market sentiment, so any improvement in outlook will have a positive impact

The recent sharp falls in the price of oil were unexpected Although it is impossible to predict with any accuracy future commodity prices, our general assumption is that some normalisation of the price will eventually take place The oil price of below $50/bbl at the time of writing will have a significant negative impact on the outlook for the Russian economy Our in-house forecast is for the oil price to stay at a level of $60+/- $10/bbl for the next six to nine months and to trend upwards over the next three to five years which will then be supportive for Russia

The rapid devaluation of the Ruble has added significantly to negative market sentiment However, this has deflected attention from what may be regarded as one of the most positive economic reforms Russia has made in the last five years - the Central Bank of Russia's decision to make the Ruble a free-floating currency This decision provided the economy with the means to adjust for oil price volatility, and as a result of the depreciation of the Ruble, the price of oil in Ruble terms has remained virtually unchanged from when crude was trading above $100/bbl Unfortunately, the Russian state is a major loser from the falling oil price, as the state collected 90% of proceeds from sales of crude when the oil price was above $60/bbl Nonetheless the Russian economy could be said to be in far better shape today than during the crises of 2008 and 1998 because Russia has limited foreign currency debt and is reported to have significant foreign currency reserves

There seems little doubt that Russia's GDP for 2015 will adjust down in USD terms on the back of the currency devaluation Our current estimate is that the economy will shrink by 20% to 25% History tells us that following a large devaluation we could see some signs of recovery the following year on the back of further import substitution and investment Therefore we believe that the current gloomy scenarios regarding the economic collapse of Russia and a further contraction of GDP in 2015 and 2016 are premature Clearly however, the Russian economy has been significantly negatively impacted by current events

Russia's domestic politics could be described as stable with President Putin currently reported to be amongst the most popular leaders globally with very high approval ratings He has another four years of his current term remaining and can stand in elections for a second term after that He is 62 years old, in good health and with little obvious significant opposition It is very likely that there will be no challenges to Mr Putin's political leadership in Russia and he seems likely to stay in power for some time

#### Portfolio Positioning

We maintain our long held preference for consumer related domestic stocks We have increased exposure to exporters, such as Surgutneftegas, Norilsk Nickel, Phosagro - which will be major beneficiaries of the current currency weakness We funded these purchases by reducing positions in Mobile Telesystems and Sberbank We continue to avoid utilities as a sector as it suffers from low pricing power, large capital expenditure requirements and a generally poor regulatory environment

The stocks responsible for the underperformance during the year included Tinkoff Credit Systems, Bashneft and Sistema holdings At 31st October 2014 we remained invested in two of these as a proxy for future market growth with almost option value, but exited Bashneft This was not because of any concerns with Bashneft's assets or management, but because we were not comfortable with the potential legal risks and challenges from the state for ownership and trading in equity with unclear privatisation status Stock selection reduced returns by 5 6%

One of the Company's largest portfolio holding is in Lukoil, which is the leading private oil company in Russia with substantial operations outside Russia, mainly in Iraq and Uzbekistan, as well as refining assets in Romania and Italy Management is confident that it can sustain 3% production growth and is committed to increase dividends by 15% p a The company still has a low dividend payout ratio of less than 20%, vs its global industry peers of 50+%, so there is still room to sustain and grow dividends even when earnings experience a slowdown Trading at 3x Price Earnings (PE) in 2014, Lukoil represents good value in our opinion

The other large position held by the Company is in Magnit The company has become one of the larger retailers in Europe in less than 15 years and is highly profitable Due to the internal structure and balance sheet discipline, Magnit continues to perform well in both good and bad times It has about 6% market share which seems likely to grow significantly over the next five years Despite such rapid growth and relatively high investment multiples it produces a very credible 2% dividend yield This is one of our core strategic positions, and as long as management adheres to its basic strategy and keeps producing good returns to shareholders, you are likely to see it in the portfolio for many years to come

Surgutneftegas, Norilsk Nickel and Moscow Exchange are three companies with similar weightings in the portfolio and are important holdings for the Company

Surgutneftegas has one of the strongest corporate balance sheets in Russia The dividend policy consists of preferred shareholders receiving 25% of its net income Our estimate is that the dividend yield for the preferred shares could be above 20% this year It seems an attractive proposition as the dividend is due to be paid within the next six months and seems likely to generate a good return

Norilsk Nickel, is the leading producer of Nickel worldwide Close to 90% of its production is exported, while 85% of its costs are Ruble denominated This could be regarded as the perfect play on currency devaluation We were impressed by the new management team and their drive to improve cost efficiency and commit firm numbers to the dividend payout In the current environment the company is expected to generate an attractive low double digit dividend yield

Moscow Exchange benefits from rising flows and deposits The company is not expected to have issues with client non-performing loans or provisions The management team is highly professional and is committed to generating returns to shareholders with the dividend policy and corporate governance as key priorities Coupled with an attractive valuation and prospects for growth in line or above its peers, Moscow Exchange is our preferred play on the Russian financial sector

# Strategic Report continued

## **Investment Managers' Report** continued

We reduced our exposure to Mobile Telesystems this year mainly as a result of the worsening operational environment in Ukraine, which represented 10% of revenue for the group We consider the management to be good quality and the company's business solid However, compared to its industry peers, revenue growth is pedestrian and lower disposable income for consumers limits its upside potential We will continue to review this holding and potentially add to it, but for now we have trimmed this position as we have better investment opportunities elsewhere

Finally, we reduced our position in Sberbank this year We believe that Sberbank is the best banking franchise in Russia and has attractive prospects for long-term growth, but 2015 is likely to be poor in terms of loan growth as the economy slows down This usually leads to an increase in non-performing loans and a rapid rise in general as well as specific provisions Interest rate hikes made through 2014 (seven increases amounting to a total increase of more than 10% overall), have reduced banking sector profitability, but over time net interest margins are likely to recover We will revisit this holding in the future and have no doubts that it will be increased over time and may one day return to the portfolio's top five largest positions

Whilst acknowledging that the Company's performance has been below benchmark there are no changes currently planned to the investment philosophy and our approach to portfolio construction, as we believe that the market will eventually turn in our favour We will continue to shy away from what we regard as state controlled and poorly regulated sectors such as utilities The balance of risk return has to be right for us to initiate a position We like less cyclical consumer demand related stories We want to have a majority of the portfolio in companies with the potential to become a national, regional and global industry leader Higher than average and sustainable rates of return on equity continue to be our key investment parameters

**Outlook**

Sentiment towards the Russian market is overwhelmingly negative at present as investors focus on the economic fallout from the falling oil price, sanctions and political risk We believe that given the possibility of further political turbulence and worsening of the economy, there is a continuing risk of further downside in the Russian market despite cheap stock valuations Nonetheless we also consider that the fundamentals for economic growth and prosperity exist in the Russian economy

Further reforms supporting property rights, privatisation and competition would be very welcome but are perhaps unlikely in the current environment High costs of capital force companies to generate extraordinarily high returns, from which investors with a higher risk tolerance and a longer time horizon will benefit We think that the Company's closed-ended structure supports a long term investment approach We believe that the fundamental case for investing in Russian equities is in place and is supported by low valuations and high dividend yields, while remaining cognisant that the current risks of investing in Russia are significantly higher than they have been historically

Once the negative news has been discounted by the market and there is greater clarity on the political front, we would expect to see an improvement in investment returns The currency seems unlikely to get substantially cheaper, unless the price of oil falls further, and valuations appear to have discounted much of the bad news Earnings may stabilise and improve as we see recovery in GDP and potentially the oil price Perceptions of political risk may erode investor value for some time to come, but we strongly believe that the market is cheap on both historic and relative bases Whilst recognising an unusually high level of current risks we believe the market presents an opportunity for the patient, long-term investor who is prepared to accept these risks

**Oleg I Biryulyov**
**Sonal Tanna**
Investment Managers 27th January 2015

# Strategic Report continued

## Summary of Results

| | 2014 | 2013 | |
|---|---|---|---|
| **Total returns** for the year ended 31st October | | | |
| Return to shareholders[1] | **-28 8%** | +12 5% | |
| Return on net assets[2] | **-26 7%** | +13 7% | |
| Benchmark[3] | **-21.0%** | +7 1% | |
| | | | % change |
| **Net asset value, share price and discount** at 31st October | | | |
| Shareholders' funds (£'000) | **236,418** | 332,403 | -28 9 |
| Net asset value per share | **450.0p** | 631 1p | -28 7[4] |
| Share price | **386.8p** | 560 0p | -30 9[4] |
| Exchange rate (US$ £1) | **1.59** | 1 61 | -1 2 |
| Exchange rate (Ruble £1) | **68.76** | 51 48 | +33 6 |
| Share price discount to net asset value per share | **14.0%** | 11 3% | |
| Shares in issue | **52,532,112** | 52,667,112 | |
| **Revenue** for the year ended 31st October | | | |
| Gross revenue return (£'000) | **9,383** | 12,902 | -27 3 |
| Net revenue return on ordinary activities after taxation (£'000) | **7,029** | 9,657 | -27 2 |
| Revenue return per share | **13.38p** | 18 14p | -25 1 |
| Proposed dividend per share[5] | **13.00p** | 15 30p | |
| **Gearing/(net cash)** at 31st October[6] | **(1.0)%** | (2 3)% | |
| **Ongoing Charges**[7] | **1.50%** | 1 44% | |

A glossary of terms and definitions is provided on page 61

[1]Source Morningstar

[2]Source J P Morgan

[3]Source MSCI/CSFB The benchmark is the MSCI Russian 10/40 Equity Indices Index in sterling terms

[4]% change, excluding dividend paid

[5]2014 Dividend proposed is subject to Shareholder approval of Resolution 4 at the 2015 Annual General Meeting

[6]Gearing represents the excess amount above shareholders funds of total assets expressed as a percentage of the shareholders funds Total assets include total investments and net current assets/liabilities less cash/cash equivalents and excluding liquidity funds and bank loans of less than one year If the amount calculated is negative, this is shown as a 'net cash position

[7]Ongoing Charges represents the management fee and all other operating expenses excluding interest, expressed as a percentage of the average of the daily net assets during the year The Ongoing Charges are calculated in accordance with guidance issued by the Association of Investment Companies (the 'AIC') in May 2012

# Performance

## Ten Year Performance

Figures have been rebased to 100 at 31st October 2004

Source Morningstar/MSCI

JPMorgan Russian Securities - share price

JPMorgan Russian Securities - net asset value per share

Benchmark

## Performance Relative to Benchmark

Figures have been rebased to 100 at 31st October 2004

Source Morningstar

JPMorgan Russian Securities - share price

JPMorgan Russian Securities - net asset value per share

The benchmark is represented by the grey dotted horizontal line

# Strategic Report continued

## Financial Record

| Year ended 31st October | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | **2014** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net assets (£'m) | 116 0 | 164 3 | 265 0 | 403 5 | 142 7 | 260 0 | 376 1 | 311 1 | 298 8 | 332 4 | **236.4** |
| Net asset value per share (p) | 206 5 | 292 5 | 473 1 | 721 4 | 255 1 | 464 9 | 680 3 | 564 4 | 555 2 | 631 1 | **450.0** |
| Share price (p) | 183 5 | 269 0 | 436 8 | 665 5 | 257 0 | 416 0 | 637 5 | 531 0 | 498 0 | 560 0 | **386.8** |
| (Discount)/premium (%) | (11 1) | (8 0) | (7 7) | (7 7) | 0 7 | (10 5) | (6 3) | (5 9) | (10 3) | (11 3) | **(14.0)** |
| Gearing/(net cash)[1] (%) | 6 3 | 3 6 | 2 8 | 5 1 | (7 0) | 0 5 | (3 0) | (2 1) | (2 1) | (2 3) | **(1.0)** |
| Ongoing Charges[2] (%) | 1 86 | 1 69 | 1 89 | 1 78 | 2 53 | 1 85 | 1 71 | 1 82 | 1 51 | 1 44 | **1.50** |
| **Year ended 31st October** | | | | | | | | | | | |
| Gross revenue (£'000) | 2,119 | 2,841 | 4,388 | 7,469 | 9,632 | 950 | 6,034 | 7,550 | 8,589 | 12,902 | **9,383** |
| Revenue/(loss) per share (p) | (0 18) | (1 55) | (1 34) | (1 32) | 0 95 | (4 11) | (0 69) | (0 63) | 5 03 | 18 14 | **13.38** |
| Dividends per share (p)[3] | – | – | – | – | – | – | – | – | – | 15 30 | **13.00** |
| **Returns rebased to 100 at 31st October 2004** | | | | | | | | | | | |
| Return to shareholders[4] | 100 0 | 146 6 | 238 0 | 362 7 | 140 0 | 226 7 | 347 3 | 289 2 | 271 3 | 305 1 | **217 2** |
| Return on net assets[4] | 100 0 | 141 7 | 229 9 | 350 5 | 123 9 | 225 9 | 330 8 | 274 4 | 269 8 | 306 7 | **225 8** |
| Benchmark return[5] | 100 0 | 137 5 | 222 3 | 328 2 | 157 7 | 268 1 | 341 8 | 331 9 | 312 8 | 335 1 | **264 7** |

A glossary of terms and definitions is provided on page 61

[1]Gearing represents the excess amount above shareholders funds of total assets expressed as a percentage of the shareholders' funds. Total assets include total investments and net current assets/liabilities less cash/cash equivalents and excluding liquidity funds and bank loans of less than one year If the amount calculated is negative, this is shown as a 'net cash' position The figure for 2012 has been restated to include net current assets, prior years were not restated

[2]Ongoing Charges represents the management fee and all other operating expenses excluding interest, expressed as a percentage of the average of the daily net assets during the year The Ongoing Charges are calculated in accordance with guidance issued by the Association of Investment Companies (the AIC ) in May 2012 and replaces the Total Expense Ratio published in previous years

[3]2014 Dividend proposed is subject to Shareholder approval of Resolution 4 at the 2015 Annual General Meeting

[4]Source Morningstar

[5]Source MSCI/CSFB The benchmark is the MSCI Russian 10/40 Equity Indices Index in sterling terms Prior to 1st November 2006 the benchmark was the CSFB Russian ROS Index in sterling terms

## Ten Largest Equity Investments
at 31st October

| Company | Sector | 2014 Valuation £'000 | %[1] | 2013 Valuation £'000 | %[2] |
|---|---|---|---|---|---|
| Magnit | Consumer Staples | **33,662** | **14 2** | 24,272 | 7 3 |
| Lukoil ADR | Energy | **26,732** | **11.3** | 40,328 | 12 1 |
| Sberbank Rossii[3] | Financials | **21,478** | **9.1** | 36,470 | 11 0 |
| MMC Norilsk Nickel ADR | Materials | **16,079** | **6 8** | 14,906 | 4 5 |
| Gazprom ADR | Energy | **13,875** | **5.9** | 14,228 | 4 3 |
| Tatneft[4] | Energy | **10,800** | **4.6** | 14,598 | 4 4 |
| Megafon GDR[5] | Telecommunication Services | **10,216** | **4.3** | 9,740 | 2 9 |
| Moscow Exchange[5] | Financials | **10,098** | **4.3** | 3,083 | 0 9 |
| Mobile Telesystems[6] | Telecommunication Services | **8,358** | **3 5** | 15,390 | 4 6 |
| Surgutneftegaz[5,7] | Energy | **8,286** | **3.5** | 8,805 | 2 6 |
| **Total[8]** | | **159,584** | **67 5** | | |

See glossary of terms on page 61 for definition of ADR and GDR

[1]Based on total assets less current liabilities of £236 4m

[2]Based on total assets less current liabilities of £332 4m

[3]Includes ADR valued at £16,220,000

[4]Includes ADR valued at £2,105,000 and preference shares valued at £8 695,000

[5]Not included in the ten largest equity investments at 31st October 2013

[6]Includes ADR valued at £5,452,000

[7]Comprises preference shares entirely

[8]At 31st October 2013, the value of ten largest equity investments amounted to £206 0m representing 62 0% of total assets less current liabilities

# Strategic Report continued

## Sector Analysis

| | 31st October 2014 | | | 31st October 2013 | | |
|---|---|---|---|---|---|---|
| | Portfolio %[1] | Benchmark % | Active Position % | Portfolio %[1] | Benchmark % | Active Position % |
| Energy | **27.8** | **40.8** | **(13 0)** | 38 4 | 42 4 | (4 0) |
| Consumer Staples | **19.2** | **9.6** | **9.6** | 13 2 | 9 3 | 3 9 |
| Materials | **14.5** | **17.0** | **(2.5)** | 7 8 | 12 2 | (4 4) |
| Financials | **14.4** | **16.8** | **(2.4)** | 15 1 | 15 3 | (0 2) |
| Telecommunication Services | **9.1** | **11.8** | **(2.7)** | 11 7 | 13 8 | (2 1) |
| Consumer Discretionary | **7 4** | **–** | **7.4** | 8 4 | – | 8 4 |
| Information Technology | **4.6** | **–** | **4.6** | – | – | – |
| Industrials | **2.1** | **–** | **2 1** | 2 2 | – | 2 2 |
| Health Care | **0.7** | **–** | **0.7** | 1 6 | – | 1 6 |
| Utilities | **–** | **4.0** | **(4 0)** | – | 7 0 | (7 0) |
| Liquidity Fund | **–** | **–** | **–** | 1 2 | – | 1 2 |
| Net current assets | **0.2** | **–** | **0.2** | 0 4 | – | 0 4 |
| **Total** | **100.0** | **100.0** | | 100 0 | 100 0 | |

[1]Based on total assets less current liabilities of £236 4m (2013 £332 4m)

# List of Investments
at 31st October 2014

| Company | Valuation £'000 |
|---|---|
| **Energy** | |
| Lukoil ADR | 26,732 |
| Gazprom ADR | 13,875 |
| Tatneft[1] | 10,800 |
| Surgutneftegaz[2] | 8,286 |
| TMK GDR | 3,351 |
| Volga Gas | 2,648 |
| **Total Energy** | **65,692** |
| **Consumer Staples** | |
| Magnit | 33,662 |
| Cherkizovo GDR | 8,177 |
| Ros Agro GDR | 3,595 |
| **Total Consumer Staples** | **45,434** |
| **Materials** | |
| MMC Norilsk Nickel ADR | 16,079 |
| OAO Severstal GDR | 5,026 |
| Uralkali GDR | 4,965 |
| Phosagro GDR | 4,293 |
| Alrosa AO | 2,028 |
| Highland Gold Mining | 1,977 |
| Mechel | 11 |
| **Total Materials** | **34,379** |
| **Financials** | |
| Sberbank Rossii[3] | 21,478 |
| Moscow Exchange | 10,098 |
| TCS | 2,442 |
| **Total Financials** | **34,018** |
| **Telecommunication Services** | |
| Megafon GDR | 10,216 |
| Mobile Telesystems[4] | 8,358 |
| Sistema[5] | 3,035 |
| **Total Telecommunication Services** | **21,609** |

| Company | Valuation £'000 |
|---|---|
| **Consumer Discretionary** | |
| Dixy | 7,851 |
| Etalon GDR | 4,498 |
| Sollers | 3,244 |
| M Video | 1,929 |
| **Total Consumer Discretionary** | **17,522** |
| **Information Technology** | |
| Qiwi | 5,191 |
| IBS | 4,592 |
| Mail Ru | 968 |
| **Total Information Technology** | **10,751** |
| **Industrials** | |
| Mostotrest | 3,553 |
| Global Ports Investments GDR[6] | 1,360 |
| **Total Industrials** | **4,913** |
| **Health Care** | |
| MD Medical GDR | 1,668 |
| **Total Health Care** | **1,668** |
| **Total Investment Portfolio** | **235,986** |

[1]Includes ADR valued at £2,105,000 and preference shares valued at £8,695,000
[2]Comprises preference shares entirely
[3]Includes ADR valued at £16,220,000
[4]Includes ADR valued at £5,452,000
[5]Includes GDR valued at £670,000
[6]For 2014, the sector index was reclassified from energy to industrials.
See Glossary for definition of ADR/GDR

# Strategic Report continued

## 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 structure and objective of the Company, its investment policies and risk management, investment limits and restrictions, performance and key performance indicators share capital, principal risks and how the Company seeks to manage those risks, the Company's environmental, social and ethical policy and finally its future developments

**Business Model**

JPMorgan Russian Securities plc is an investment trust and has a premium listing on the London Stock Exchange Its objective is to provide shareholders with capital growth, primarily from investing in equities quoted on the Russian Stock Market In seeking to achieve this objective the Company employs J P Morgan Funds Limited ('JPMF' or the 'Manager') which in turn delegates portfolio management to JPMorgan Asset Management (UK) Limited ('JPMAM') to actively manage the Company's assets The Board has determined investment policies and related guidelines and limits, as described below It aims to outperform the MSCI Russian 10/40 Equity Indices Index, in the long term with net dividends reinvested, expressed in sterling terms

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006 and has been approved by HMRC 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 to taxation on capital gains The Directors have no reason to believe that approval will not continue to be retained

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

**Investment Policies and Risk Management**

In order to achieve its objective and manage risk, the Company invests in a diversified portfolio of quoted Russian securities and Russian pre-IPO stocks or other companies which operate principally in Russia The number of investments in the portfolio will normally range between 30 and 60 The investment portfolio is managed by a Russian fund manager, currently based in London, and fully supported by a global emerging markets team, including sector specialists The Board also discusses the economy and political developments of Russia in depth at Board meetings and considers the possible implications for the investment portfolio

**Investment Limits and Restrictions**

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

- No more than 10% of the Company's gross assets are to be invested in pre-IPO stocks
- The Company will not normally invest in unlisted securities apart from pre-IPO stocks
- The Company will not normally invest in derivatives
- The Company will utilise liquidity and borrowings in a range of 10% net cash to 15% geared in typical market conditions
- No more than 15% of gross assets are to be invested in other UK listed investment companies (including investment trusts)

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

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

Following the introduction of sanctions by the USA and European Union against Russia in March 2014 and the further broadening of the sanctions regime at later dates, the Board has received assurances from the Manager that it complies with the sanctions regime The Board has also implemented a rapid response communication process with the Manager, which allowed the Board to receive immediate updates from the Manager and take decisions as quickly as possible See the Chairman's report for further details of actions taken following the introduction of sanctions

**Active Fund Management Rationale**

JPMAM believes that the Russian market is inefficient and that this is demonstrated by the high and variable volatility of many market sectors and individual companies Although corporate disclosure and transparency is improving, there still remain areas where the inefficiencies in this region can be exploited offering opportunities to experienced, well-informed investors

JPMAM's investment process has been specifically designed for emerging markets and has been refined over 20 years of active management experience in the region

Highlights of the investment strategy are

- Inefficient, immature emerging markets reward active investment management not indexation
- Identifying growth companies that are well managed to maximise shareholder returns brings outperformance through fundamental bottom-up research
- Valuation disciplines avoid overpaying for growth
- JPMAM believes that assets are best managed by specialists from the markets and regions in which they have expertise and they have therefore established a strong presence around the region Company visits and local knowledge are also key

JPMAM has a long established presence in the region, having managed money in Russia since 1994 JPMAM s Emerging Markets team is responsible for managing all emerging market equity The 36 team members are located in four offices, managing US$50 billion for clients globally

**Performance**
In the year ended 31st October 2014, the Company produced a total return to shareholders of -28 8% and a total return on net assets of -26 7% This compares with the return on the Company s benchmark of -21 0% As at 31st October 2014, the value of the Company's investment portfolio was £236 0 million The Investment Manager's Report on pages 5 to 9 includes a review of developments during the year

The results of the investment strategy, as detailed above, and the underperformance of the Company against its benchmark, as identified on page 1 are regularly reviewed by the Board together with data relating to the performance of the Company's Peers and feedback from some of the major shareholders

**Total Return, Revenue and Dividend**
Gross loss for the year totalled £82,236,000 (2013 £46,004,000 return) and net loss after deducting management fee, administrative expenses, finance costs and taxation, amounted to £87,230,000 (2013 £39,744,000 return) Net revenue after taxation for the year amounted to £7,029,000 (2013 £9,657,000)

The Directors recommend a final dividend of 13 00 pence per share payable on 11th March 2015 to holders on the register at the close of business on 6th February 2015 If approved, this distribution will amount to a total of £6,829,000

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

- **Performance against the benchmark**
  The principle objective is to achieve capital growth However, the Board also monitors performance against a benchmark index Please refer to page 11 for details of the Company's performance against the MSCI Russian 10/40 Equity Indices in sterling terms
- **Performance against the Company's peers**
  The Board also monitors the performance relative to a broad range of competitor funds The Company's performance for the current period is comparative to those of its peers
- **Performance attribution**
  The purpose of performance attribution analysis is to assess how the Company achieved its performance relative to its benchmark index, i e to understand the impact on the Company's relative performance of the various components such as asset allocation and stock selection Please refer to page 6 for the Company s performance attribution for the year ended 31st October 2014
- **Share price discount/premium to net asset value ('NAV') per share**
  The Board has adopted a share repurchase policy which seeks to address imbalances in the supply of and demand for the Company's shares in the market and thereby reduce the volatility and absolute level of the discount to NAV per share at which the Company's shares trade In the year ended 31st October 2014, the shares traded at a daily discount of between -2 45% and -13 8% See the Discount Control section of Chairman's statement for further detail page 3

# Strategic Report continued

## **Business Review** continued

### Discount/Premium Performance

Source Datastream

▬ JPMorgan Russian Securities - share price discount/premium to NAV (month end data points)

- **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 The Ongoing Charges for the year ended 31st October 2014 were 1 50% (2013 1 44%) The Board reviews each year an analysis which shows a comparison of the Company's Ongoing Charges and its main expenses with those of its peers The Board has agreed a reduction in the level of management fee from 1 20% to 1 00% of net assets effective from 1st November 2014

**Share Capital**
During the year, the Company made market purchases of 135,000 of its own shares, nominal value £1,350, for cancellation, representing 0 26% of the shares outstanding at the beginning of the year The consideration paid for these shares amounted to £718,000 The reason for the purchases was to seek to reduce the volatility and absolute level of the share price discount to net asset value per share Since the year end the Company has not repurchased any ordinary shares Further details regarding the Company's purchase of its own shares can be seen in the Chairman's report on page 3

A resolution to renew the authority to repurchase shares at a discount to NAV is due to be put to shareholders at the forthcoming Annual General Meeting

The Company did not issue any new shares during the year

**Principal Risks**
With the assistance of the Manager, the Board has drawn up a risk matrix, which identifies the key risks to the Company and the Company's actions to manage the risks

In the year under review the Board identified heightened risks arising mainly as a result of the introduction of sanctions against Russia and the significant falls in the price of oil and valuation of the Ruble which have impacted market sentiment

These key risks fall broadly under the following categories

- Investing in Russia Investors should note that there are significant risks inherent in investing in Russian securities not typically associated with investing in securities of companies in more developed countries The value of Russian securities, and therefore the net asset value of the Company, may be affected by uncertainties such as economic, political or diplomatic developments, social and religious instability, taxation and interest rates currency repatriation restrictions, crime and corruption and developments in the law or regulations in Russia and, in particular, the risks of expropriation, nationalisation and confiscation of assets and changes in legislation relating to the level of foreign ownership

  The Board, with the assistance of the Manager, monitors the Company's activities to ensure that they remain compliant with the current sanctions regime including the specific requirements applicable to the Manager as a company subject to the laws of the United States of America The Board acknowledges the negative impact of sanctions on the wider market although the current sanctions regime has not prevented the Company from operating within its investment guidelines

- Share Price Discount to Net Asset Value ( 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 widening of the discount can be seen as a disadvantage of investment trusts which could discourage investors Although it is common for an investment trust's shares to trade at a discount, the current sanctions regime and recent large falls in the price of oil and value of the Ruble have negatively impacted market sentiment and led to further increases in the Company's share discount The Board monitors the Company's discount level and seeks, where deemed prudent, to address imbalances in the supply and demand of the Company's shares through a programme of share buybacks

- Investment Under Performance and Strategy An inappropriate investment strategy, for example asset allocation or the level of gearing, may lead to underperformance against the Company s benchmark index and peer companies The Board manages these risks by diversification of investments through its investment restrictions and guidelines, which are monitored and reported on by the Manager The Manager 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

Possible actions include changing the portfolio manager or selecting another manager

- Failure of Investment Process A failure of process could lead to losses The Manager mitigates this risk by undertaking internal controls and monitoring Fraud requires immediate notification to the Board and regular reports are provided on control processes
- Loss of Investment Team or Investment Manager The sudden departure of the investment manager or several members of the wider investment management team could result in a short term deterioration in investment performance The Manager takes steps to reduce the likelihood of such an event by ensuring appropriate succession planning and the adoption of a team based approach, as well as special efforts to retain key personnel
- Operational and Cyber Crime Disruption to, or failure of, the Manager's accounting, dealing or payments systems or the Depositary or custodian's records could prevent accurate reporting and monitoring of the Company's financial position Details of how the Board monitors the services provided by JPMF and its associates and the key elements designed to provide effective internal control are included within the Internal Control section of the Corporate Governance report on pages 28 and 29 The threat of Cyber attack is increasing and regarded as having the ability to cause equivalent disruption to the Company's business as more traditional business continuity and security threats The Company benefits from JP Morgan's Cyber Security Programme The information technology controls around the physical security of JP Morgan's data centres, security of its networks and security of its trading applications are tested by Deloitte and reported every six months against the AAF standard
- Board Relationship with Shareholders The risk that the Company's strategy and performance does not align with shareholders expectations is addressed by the Manager and includes the organisation of a programme of visits to major shareholders, and the provision of an extensive range of investor information including nationwide presentations by sales teams Feedback from shareholders is received directly and via brokers which is fed back to the Board regularly
- Political and Economic Changes in financial or tax legislation including in the European Union, may adversely affect the Company The Manager makes recommendations to the Board on accounting, dividend and tax policies and the Board seeks external advice where appropriate In addition, the Company is subject to administrative risks, such as the imposition of restrictions on the free movement of capital A widening of the capital controls recently introduced by the Russian Government could negatively impact the Company The introduction of limitations on the ability of Russian companies to distribute dividends to foreign companies could materially reduce the Company's revenue and amount available for distribution to shareholders
- Regulatory and Legal Breach of regulatory rules could lead to suspension of the Company's Stock Exchange listing, financial penalties, or a qualified audit report Loss of investment trust status could lead to the Company being subject to tax on capital gains The Directors seek to comply with all relevant regulation and legislation and rely on the services of its Company Secretary, the Manager, and its professional advisors to monitor compliance with all relevant requirements
- Market and Financial The Company's assets consist of listed securities and it is therefore exposed to movements in the prices of individual securities and the market generally The Board considers asset allocation and stock selection on a regular basis and has set investment restrictions and guidelines, which are monitored and reported on by the Manager The recent significant falls in the price of oil and devaluation of the Ruble have had a negative impact on the Company's NAV The financial risks faced by the Company include market price risk, interest rate risk, foreign currency risk, liquidity risk and credit risk Further details are disclosed in note 20 on pages 51 to 56

# Strategic Report continued

## **Business Review** continued

The Board regularly monitors the liquidity of the portfolio including determining the market valuation of securities held, the average daily volume and number of days to liquidate a holding

**Board Diversity**

At 31st October 2014, there were four male Directors and one female Director on the Board The Company has no employees and therefore there is nothing further to report in respect of diversity within the Company

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

The Company is managed by JPMF, has no employees and all of its Directors are 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 Board notes the JPMAM policy statements in respect of Social, Community, Environmental and Human Rights issues, as outlined below

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

**Future Developments**

The future development of the Company is much dependent upon the success of the Company's investment strategy in the light of economic and equity market developments The investment manager discusses the outlook in his report on pages 5 and 9

By order of the Board
Paul Winship, ACIS for and on behalf of
JPMorgan Funds Limited,
Secretary

27th January 2015

# Governance

## Board of Directors

**Lysander Tennant (Chairman)†**

A Director since 2002

Last reappointed to the Board March 2014

He is an employee at Tamar Energy, a renewable energy business focusing on anaerobic digestion He was formerly a fund manager at BZW Investment Management Limited, and portfolio manager at American Express Asset Management Limited investing in Russian securities

Connections with Manager None

Shared directorships with other Directors None

Shareholding in Company 5,700

**Alexander Easton*†**

A Director since 2010

Last reappointed to the Board March 2014

He was formerly the head of European equities at UBS Investment Bank and managing director responsible for UBS Brunswick (Russia) He is currently a partner in two Russian venture capital firms

Connections with Manager None

Shared directorships with other Directors None

Shareholding in Company 12,018

**Robert Jeens (Audit Committee Chairman)*†**

A Director since 2011

Last reappointed to the Board March 2014

Following 12 years with Touche Ross & Co where he was an audit partner, Mr Jeens moved to Kleinwort Benson Group plc, becoming finance director in 1992, before becoming group finance director of Woolwich plc for three years until 1999 Since then he has held a Portfolio of non-executive appointments and is currently chairman of Allianz Technology Trust plc and a director of Henderson Group plc

Connections with Manager None

Shared directorships with other Directors None

Shareholding in Company 10,000

# Governance continued

## **Board of Directors** continued

**George Nianias*†**

A Director since 2008

Last reappointed to the Board March 2014

He is the founder and group chairman of Denholm Hall Group He has also been financial adviser to several eastern European cities including Krakow, St Petersburg and Moscow

Connections with Manager None

Shared directorships with other Directors None

Shareholding in Company Nil

**Gill Nott (Nomination Committee Chairman)*†**

A Director since 2011

Last reappointed to the Board March 2014

Mrs Nott spent the majority of the first 27 years of her career working in the energy sector In 1994 she became CEO of ProShare Due to her work in the retail savings sector, she spent six years on the Board of the Financial Services Authority from 1998 to 2004 Mrs Nott has held a portfolio of non-executive positions particularly in the closed-end fund sector, over the last 15 years She is a non-executive director of BlackRock Smaller Companies Investment Trust plc and Baronsmead VCT 2, VCT 3 and VCT 5 plc

Connections with Manager None

Shared directorships with other Directors None

Shareholding in Company 3,000

* Member of the Audit Committee

† Member of the Nomination Committee

# Directors' Report

The Directors present their report and the audited financial statements for the year ended 31st October 2014

### Management of the Company

The Manager and Company Secretary to the Company is JPMorgan Funds Limited ('JPMF') Portfolio Management is delegated to JPMorgan Asset Management UK Limited (JPMAM)

JPMF and JPMAM are wholly-owned subsidiary of JPMorgan Chase & Co which through other subsidiaries, also provides accounting, banking dealing and custodian services to the Company

The Board conducts a formal evaluation of the performance of, and 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 is value for money for shareholders No separate management engagement committee has been established because all Directors are considered to be independent of the Manager and, given the nature of the Company's business, it is felt that all Directors should take part in the review process

The Board has thoroughly reviewed the performance of the Manager in the course of the year The review covered the performance of the Manager, its management processes, investment style, resources and risk controls and the quality of support that the Company receives from the Manager including the marketing support provided The Board is of the opinion that the continuing appointment of the Manager is in the best interests of shareholders as a whole Such a review is carried out on an annual basis

### Management Agreement

The current Management Agreement was entered into with effect from 1st July 2014 following implementations of the Alternative Fund Manager Directive as referred to in the Chairman's Statement on Page 2

JPMF is employed under a contract which can be terminated on 90 days' notice, without penalty The Manager may also terminate the contract on 90 days' notice if in its sole opinion there has been a loss of confidence between the Manager and the Company so as to make the relationship unworkable If the Company wishes to terminate the contract on less than 90 days' notice the balance of the 90 days' remuneration is payable by way of compensation

The Manager is remunerated at a rate of 1 2% per annum of the Company s net assets, payable monthly in arrears Effective from 1st November 2014, the Manager is remunerated at a rate of 1 0% per annum of the Company's net assets

Investments on which the Manager earns a separate management fee are excluded from the Company's net assets for the purpose of calculating the management fee No performance fee is payable

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

JPMF, an affiliate of JPMAM, has been appointed as the Company's alternative investment fund manager ('AIFM') JPMF has been approved as an AIFM by the Financial Conduct Authority ('FCA') For the purposes of the AIFMD the Company is an alternative investment fund ('AIF')

The Company entered into a new investment management agreement with JPMF on 1st July 2014 JPMF has delegated responsibility for the day to day management of the Company's portfolio to JPMAM JPMF is required to ensure that a depositary is appointed to the Company The Company therefore has appointed BNY Mellon Trust and Depositary (UK) Limited ('BNY') as its depositary BNY has delegated its safekeeping function to the custodian, JPMorgan Chase Bank, N A , however, BNY remains 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 Investor Disclosure Documents, which set out information on the Company's investment strategy and policies, leverage, risk liquidity, administration, management, fees, conflicts of interest and other shareholder information are available on the Company's website at www jpmrussian 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 As an authorised AIFM, JPMF will make the requisite disclosures on remuneration levels and polices to the FCA at the appropriate time

### Going Concern

In assessing the Company's ability to continue as a going concern the Directors have considered the Company's investment objective (see page 16), risk management policies (see pages 51 to 56), capital management (see note 21), the nature of the portfolio and expenditure projections, and

# Governance continued

## Directors' Report continued

believe that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future For these reasons, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts The Directors considered the current political environment in Russia and the impact of sanctions in making its assessment

A resolution that the Company continue as an investment trust will be put to shareholders at the annual general meeting in 2017 and every five years thereafter

#### Directors

The Directors of the Company who held office at the end of the year are detailed on pages 21 and 22

Details of Directors' beneficial shareholdings may be found in the Directors Remuneration Report on page 32 No changes have been reported to the Directors' shareholdings since the year end

In accordance with corporate governance best practice, all Directors will retire by rotation at the forthcoming Annual General Meeting and, being eligible, will offer themselves for reappointment The Nomination Committee, having considered their qualifications, performance and contribution to the Board and its committees, confirms that each Director continues to be effective and demonstrates commitment to the role and the Board recommends to shareholders that they be reappointed

#### Director Indemnification and Insurance

As permitted by the Company's Articles of Association, the Directors have the benefit of a deed of indemnity which is a qualifying third party indemnity, as defined by Section 234 of the Companies Act 2006 The deeds of indemnity were executed on 21st January 2011 and are currently in force

An insurance policy is maintained by the Company which indemnifies 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 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 Auditor

Ernst & Young LLP have expressed their willingness to continue in office as auditor to the Company, and resolutions proposing their reappointment and authorising the Directors to determine their remuneration for the ensuing year will be put to shareholders at the Annual General Meeting

#### Annual General Meeting

**NOTE: THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should seek your own personal financial advice from your stockbroker, bank manager, solicitor or other financial 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

**(i) Authority to allot relevant securities and disapply pre-emption rights (resolutions 11 & 12)**

The Directors will seek renewal of the authority to issue up to 2,616,856 new shares or shares held in Treasury other than by a pro rata issue to existing shareholders up to an aggregate nominal amount of £26,169, such amount being equivalent to approximately 5% of the current issued share capital The full text of the resolutions is set out in the Notice of Meeting on pages 58 to 59

It is advantageous for the Company to be able to issue new shares to investors purchasing shares through the JPMAM savings products and also to other investors when the Directors consider that it is in the best interest of shareholders to do so Any such issues would only be made at prices greater than the NAV, thereby increasing the assets underlying each share

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

The authority to repurchase up to 14 99% of the Company's issued share capital, granted by shareholders at the 2014 Annual General Meeting, will expire on 5th March 2015 unless renewed at the 2015 Annual General Meeting The Directors consider that the renewal of the authority is in the interests of shareholders as a whole, as the repurchase of shares at a discount to the underlying NAV enhances the NAV of the remaining shares

The full text of the resolution is set out in the Notice of Annual General Meeting on pages 58 to 59 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 as and when market conditions are appropriate

#### 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 in respect of their own beneficial holdings which amount in aggregate to 30,718 shares representing approximately 0 1% of the voting rights in the Company

## Corporate Governance Statement

#### Compliance

The Company is committed to high standards of corporate governance This statement, together with the Statement of Directors' Responsibilities in respect of the Accounts on page 34, indicates how the Company has applied the principles of good governance of the Financial Reporting Council's UK Corporate Governance Code 2012 (the 'UK Corporate Governance Code') and the AIC's Code of Corporate Governance 2013, (the 'AIC Code'), which complements the UK Corporate Governance Code and provides a framework of best practice for investment trusts

The Board is responsible for ensuring the appropriate level of corporate governance and considers that, apart from certain matters noted below, the Company has complied with the best practice provisions of the UK Corporate Governance Code, 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 JPMorgan Funds Limited ('JPMF') (the Manager), sets out the matters over which the Manager has authority This includes management of the Company's assets and the provision of accounting company secretarial, administration, and some marketing services All other matters are reserved for the approval of the Board A formal schedule of matters reserved to the Board for decision has previously been approved This includes determination and monitoring of the Company's investment objectives and policy and its future strategic direction, gearing policy, management of the capital structure, appointment and removal of third party service providers, review of key investment and financial data and the Company's corporate governance and risk control arrangements The Board conducts a formal evaluation of the Manager every year

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 quarterly during the year and additional meetings are arranged as necessary Full and timely information is provided to the Board to enable it to function effectively and to allow Directors to discharge their responsibilities

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

#### Board Composition

The Board, chaired by Lysander Tennant, consists of five non-executive Directors, all of whom are regarded by the Board as independent The Chairman's independence was assessed upon his appointment and annually thereafter 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 There have been no changes to the Chairman's other significant commitments during the year under review

## Directors' Report continued

A review of Board composition and balance is included as part of the annual performance evaluation of the Board details of which may be found below The Board has considered whether a senior independent director should be appointed and has concluded that, as the Board consists entirely of non-executive directors, this is unnecessary at present However, the Nomination Committee Chairman leads the evaluation of the performance of the Chairman and is available to shareholders if they have concerns that cannot be resolved through discussion with the Chairman

### Tenure

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be elected by shareholders Thereafter, Directors stand for annual re-election, following the Board's adoption of corporate governance best practice Subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for the Director to seek an additional term The Board does not believe that length of service in itself necessarily disqualifies a Director from seeking re-election but, when making a recommendation, the Board will take into account the requirements of the UK Corporate Governance Code, including the need to periodically refresh the Board and its sub-Committees

The Nomination Committee, having considered their qualifications, performance and contribution to the Board and its Committees, confirms that Messrs Tennant, Easton, Jeens and Nianias and Mrs Nott continue to be effective and demonstrate commitment to the role Notwithstanding the fact that Mr Tennant has served on the Board for more than nine years, his fellow Directors believe that he remains independent in character and judgement, and accordingly the Board recommends to shareholders that all the above Directors be re-elected

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 AGM

### Meetings and Committees

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

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

| Director | Board Meetings Attended | Audit Committee Meetings Attended | Nomination Committee Meetings Attended |
|---|---|---|---|
| Lysander Tennant[1] | 5 | 2 | 1 |
| Alexander Easton | 5 | 2 | 1 |
| Robert Jeens | 5 | 2 | 1 |
| George Nianias | 5 | 2 | 1 |
| Gill Nott | 5 | 2 | 1 |

[1]Attended the Audit Committee meeting by invitation

### Training and Appraisal

On appointment, the Manager and Company Secretary provide all Directors with induction training Thereafter regular briefings are provided on changes in regulatory requirements that affect the Company and the Directors Directors are encouraged to attend industry and other seminars covering issues and developments relevant to investment trusts Regular reviews of the Directors' training needs are carried out by the Chairman, and of the Board chairman by the Nomination Committee Chairman by means of the evaluation process detailed below

### Board Committee

#### Nomination Committee

The Nomination Committee, chaired by Gill Nott, consists of all Directors and meets at least annually to ensure that the Board including the Chairman has the 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 A variety of sources, including the use of external recruitment consultants, may be used to ensure that a wide range of candidates is considered

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 and the Chairman to ensure that all Directors and the Chairman 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 On line questionnaires, developed by a firm of independent consultants Lintstock Limited, are completed by each Director and the Chairman The evaluation of all Directors and the Chairman is led by the Chairman of the Nomination Committee who also meets individually with each Director The Committee also reviews Directors' fees and makes recommendations to the Board as and when required

The Committee has procedures in place to deal with potential conflicts of interest and confirms that there were no actual or indirect interests of a Director which conflicted with the interests of the Company during the year

**Audit Committee**
The Audit Committee, chaired by Robert Jeens, consists of all the Directors, bar the Chairman of the Board, and meets at least twice each year The Chairman of the Board attends all Meetings by invitation of the Committee The members of the Audit Committee consider that they have recent and relevant financial expertise and the requisite skills and experience to fulfil the responsibilities of the Committee Relevant qualifications are a requirement for appointment as Chairman Ongoing evaluation is undertaken as detailed previously in order to identify any performance issues

The Committee reviews the actions and judgements of the Manager in relation to the half year and annual accounts and the Company's compliance with the UK Corporate Governance Code At the request of the Board, the Audit Committee provides confirmation to the Board as to how it has discharged its responsibilities so that the Board may ensure that information presented to it is fair, balanced and understandable, together with details of how it has done so

During its review of the Company's financial statements for the year ended 31st October 2014, the Audit Committee considered the following significant issues, in particular 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 investments note 1 to the accounts on page 42 The audit includes the determination of the existence and ownership of the investments |
| Political Risks including current sanctions and possible capital controls | The ability of the Board to control external political events such as the current sanctions regime and the threat of capital controls is limited However the Board together with the Manager monitors the sanctions regime closely to ensure that the Company s business operates within its requirements In addition the Board monitors the political situation and its impact on the portfolio at frequent intervals and whenever a major event arises Together with the input from the Investment Manager, efforts are made to manage exposure to certain sectors deemed to be more susceptible to political influences |
| Market risk | The ability of the Board to control external market events such as the recent large falls in the price of oil and devaluation of the Ruble is limited Portfolio selection is managed in light of the current volatility |
| Recognition of investment income | The recognition of investment income is undertaken in accordance with accounting policy note 1(c) to the accounts on page 42 The Board regularly reviews subjective elements of income and agrees their accounting treatment |
| Calculation of Management Fee | The Management fee is calculated in accordance with the Investment Management Agreement |
| Compliance with Sections 1158 and 1159 | Approval for the Company as an investment trust under Sections 1158 and 1159 has been obtained and ongoing compliance with the eligibility criteria is monitored on a regular basis by the Manager on behalf of the Board |

The Board was made fully aware of any significant financial reporting issues and judgements made in connection with the preparation of the financial statements

Having taken all available information into consideration and having discussed the content of the annual report and accounts with the Alternative Investment Fund Manager (JPMF), Investment Managers, Company Secretary and other third party service providers, the Audit Committee has concluded that the Annual Report for the year ended 31st October 2014, 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 these findings to the Board The Board's conclusions in this respect are set out in the Statement of Directors' Responsibilities on page 34

The Board was made fully aware of any significant Financial reporting issues and judgements made in connection with the preparation of the financial statements The Audit Committee reviews the terms of the Management Agreement and examines the effectiveness of the Company's internal control systems, receives information from the Manager's compliance

# Governance continued

## Directors' Report continued

department (see page 28 Risk Management and Internal Controls) and also reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors In the Directors' opinion the Auditors are independent

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 attended the Audit Committee meeting at which the draft Annual Report & Accounts were considered and also engage with 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 which will be put to shareholders at the forthcoming Annual General Meeting The current audit firm has audited the Company's financial statements since the formation of the Company The Company's year ended 31st October 2014 is the third of a five year maximum term that the current audit partner has been in the role for the Company See note 5 on page 45 for details of the auditor's fees

**Terms of Reference**
Both the Nomination Committee and the Audit Committee have written terms of reference which define clearly their respective responsibilities, copies of which are available for inspection on request at the Company's registered office, on the Company's website and at the 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 half year report This is supplemented by the daily publication, through the London Stock Exchange, of the net asset value of the Company's shares

The Company's broker, investment managers and the Manager have regular discussions with larger shareholders The Chairman and Directors make themselves available as and when required to address shareholder queries The Directors may be contacted through the Company Secretary whose details are shown on page 65 The Chairman can also be contacted via the Company's website by following the 'Ask the Chairman' link at www jpmrussian co uk

All shareholders are encouraged to attend the Company s Annual General Meeting at which the Directors and representatives of the Manager are available in person to meet shareholders and answer their questions In addition, a presentation is given by the investment manager who reviews the Company's performance

The Company's Annual Report and Accounts is published in time to give shareholders at least 20 working days' notice of the Annual General Meeting Shareholders wishing to raise questions in advance of the meeting are encouraged to write to the Company Secretary at the address shown on page 65

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

**Section 992 Companies Act 2006**

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

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

**Voting Rights in the Company's shares**
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 60

**Notifiable Interests in the Company's Voting Rights**
At the year end the following had declared a notifiable interest in the Company's voting rights

| Shareholders | Number of voting rights | % |
|---|---|---|
| City of London Investment Management Company Limited | 12,530,991 | 23 85 |
| Lazard Asset Management LLC | 10,116,839 | 19 26 |
| JPMorgan Asset Management (UK) Limited[1] | 3,395,580 | 6 46 |
| Advance Emerging Capital | 2,682,899 | 5 11 |
| Hargreaves Lansdown | 2,484,349 | 4 73 |

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

**Risk Management and Internal Controls**

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

The Directors are responsible for the Company's system of internal control which is designed to safeguard the Company's assets, maintain proper accounting records and ensure that financial information used within the business, or published, is reliable However such a system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against fraud, material mis-statement 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 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 page 18 Principle Risks 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 Turnbull 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 reviewed on an annual basis The key elements designed to provide effective internal control are as follows

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

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

Manager's Systems - The Manager's system of 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 and reports to the Board

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

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

- Reviews the terms of the management agreement and receives regular reports from the Manager's compliance department,
- Reviews the reports on the risk management and internal controls and the operations of its Depositary BNY Mellon Trust & Depositary (UK) Limited and its custodian JPMorgan Chase Bank, which are themselves independently reviewed, and
- Reviews every six months an independent report on the internal controls 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 internal control for the year ended 31st October 2014, and to the date of approval of this Annual Report and Accounts

During the course of its reviews of the system of internal control, the Board has not identified, nor been advised of any failings or weaknesses which it has determined to be significant

**Greenhouse Gas Emissions**

The Company is managed by JPMF with Portfolio Management delegated to JPMAM It has no employees and all of its Directors are 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 has no premises, consumes no electricity, gas or diesel fuel and consequently does not have a measurable carbon footprint *JPMAM is also a signatory to Carbon Disclosure Project JPMorgan Chase is a signatory to the Equator Principles on managing social and environmental risk in project finance*

**Corporate Governance and Voting Policy**

The Company delegates responsibility for voting to the Manager The following is a summary of JPMorgan Asset Management (UK) Limited ('JPMAM') policy statements on

## **Directors' Report** continued

corporate governance, voting policy and social and environmental issues, which has been reviewed and noted by the Board

***Corporate Governance***

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

***Proxy Voting***

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

***Stewardship/Engagement***

*JPMAM recognises its wider stewardship responsibilities to its clients as a major asset owner.*

*JPMAM endorses and complies with the FRC 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*. This 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.

Paul Winship

By order of the Board
Paul Winship, ACIS for and on behalf of
JPMorgan Funds Limited
Secretary

27th January 2015

## Directors' Remuneration Report

The Board has prepared this Report in accordance with the requirements of Section 421 of the Companies Act 2006 as amended

#### Directors' Remuneration Policy

The Directors' Remuneration Policy is subject to a triennial binding vote, however, a decision has been taken to seek approval annually and therefore an ordinary resolution to approve this report 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 The Chairman of the Board and the Chairman of the Audit Committee are paid higher fees than other Directors, reflecting the greater time commitment involved in fulfilling those roles

The Nomination Committee, comprising all Directors, reviews fees on a regular basis and makes recommendations to the Board as and when appropriate Reviews are based on market data provided by the Manager, and includes research carried out by Trust Associates on the level of fees paid to the directors of the Company s peers and within the investment trust industry generally

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 and 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

The Company's Articles of Association stipulate that aggregate fees must not exceed £150,000 per annum Any increase in this the maximum aggregate amount requires both Board and shareholder approval

The Company has no Chief Executive Officer and no employees and therefore there was no consultation with employees, and there is no employee comparative data to provide, in relation to the setting of the remuneration policy for Directors

The Company has not sought shareholder views on its remuneration policy The Nomination Committee considers any comments received from shareholders on remuneration policy on an ongoing basis and will take account of these views if appropriate

The Directors do not have service contracts with the Company 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 page 26

#### Directors Remuneration Policy Implementation

The Directors Remuneration Report 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 October 2013 and no changes are proposed for the year ending 31st October 2015

At the Annual General Meeting held on 5th March 2014 of votes cast, 99 92% of votes cast were in favour of (or granted discretion to the Chairman who voted in favour of) the remuneration report and 0 08% voted against

Details of voting on both the Remuneration Policy and Remuneration Policy Implementation Reports from the 2015 Annual General Meeting will be given in the annual report for the year ending 31st October 2015 Thereafter, the reporting will be annually for the advisory vote on the Remuneration Policy Implementation Report and triennially for the Remuneration Policy Report

The law requires the Company's Auditors to audit certain of the disclosures provided Where disclosures have been audited, they are indicated as such The Auditors' opinion is included in the Independent Auditors Report on pages 35 to 37

# Governance continued

## Directors' Remuneration Report continued

Details of the implementation of the Company's remuneration policy are given below No advice from remuneration consultants was received during the year under review

**Single total figure of remuneration**

The single total figure of remuneration for the Board as a whole for the year ended 31st October 2014 was £131,000 The single total figure of remuneration for each Director is detailed below together with the prior year comparative

There are no performance targets in place for the Directors of the Company and there are no benefits for any of the Directors which will vest in the future There are no benefits, pension, bonus, long term incentive plans, exit payments or arrangements in place on which to report

**Single total figure table[1]**

| | Total fees | |
|---|---|---|
| **Directors' Name** | **2014** | **2013** |
| Lysander Tennant | **£35,000** | £31,000 |
| Alex Easton | **£23,000** | £22,000 |
| Robert Jeens | **£27,000** | £26,000 |
| George Nianias | **£23,000** | £22,000 |
| Gill Nott | **£23,000** | £22,000 |
| **Total** | **£131,000** | £123,000 |

[1]Audited information

During the year under review, Directors' fees were paid at a fixed rate of £35,000 per annum for the Chairman, £27,000 per annum for the Chairman of the Audit Committee and £23,000 per annum for each other Director The last increase to Directors' fees was made on 1st November 2013 There will be no increase to Directors' fees in the forthcoming period of account to 31st October 2015

No amounts (2013 nil) were paid to third parties for making available the services of Directors

**Directors' Shareholdings**

There are no requirements pursuant to the Company's Articles of Association for the Directors to own shares in the Company The Directors' beneficial shareholdings are detailed below The Directors have no other share interests or share options in the Company and no share schemes are available

| Directors' Name | 2014[1] Number of shares held | 2013 Number of shares held |
|---|---|---|
| Lysander Tennant | **5,700** | 5,700 |
| Alex Easton | **12,018** | 10,000 |
| Robert Jeens | **10,000** | 10,000 |
| George Nianias | **nil** | nil |
| Gill Nott | **3,000** | 3,000 |
| **Total** | **30,718** | 28,700 |

[1]Audited information

A graph showing the Company's share price total return compared with the Company's benchmark index is set out below Details of the Company's performance since inception are set out on page 11

## Five Year Share Price and Benchmark Total Return Performance to 31st October 2014

Source Morningstar/MSCI

- Share price total return
- Benchmark[1]

[1]The Benchmark is the MSCI Russian 10/40 Equity Indices Index in sterling terms

A table showing the total remuneration for the role of Chairman over the five years ended 31st October 2014 is below

**Remuneration for the role of Chairman over the five years ended 31st October 2014**

| Year ended 31st October | Fees | Performance related benefits received as a percentage of maximum payable |
|---|---|---|
| 2014 | £35,000 | n/a |
| 2013 | £31,000 | n/a |
| 2012 | £31,000 | n/a |
| 2011 | £31,000 | n/a |
| 2010 | £27,000 | n/a |

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

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

| | Year ended 31st October 2014 | 2013 |
|---|---|---|
| Remuneration paid to all Directors | **£131,000** | £123,000 |
| Distribution to shareholders | | |
| – by way of share repurchases | **£718,000** | £6,176,000 |
| – by way of dividend | **£8,037,000** | – |
| **Total distribution to shareholders** | **£8,755,000** | £6,176,000 |

For and on behalf of the Board
Lysander Tennant
Chairman

27th January 2015

# Governance continued

## Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year Under that law, the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the Directors must not approve the financial statements unless they are satisfied that, taken as a whole, the annual report and accounts provide the information necessary for shareholders to assess the Company's 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 addition, to provide these confirmations, and in preparing these financial statements, the Directors must be satisfied that, taken as a whole, the annual report and accounts are fair, balanced and understandable In order to provide these confirmations and in preparing these annual 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 the going concern basis unless it is inappropriate to presume that the Company will continue in business

and the Directors confirm 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 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

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

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

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and applicable law give a true and fair view of the assets, liabilities, financial position and return or loss of the Company, and
- The Directors confirm that, taken as a whole, the annual report and accounts are fair, balanced and understandable and provide the information necessary for shareholders to assess the strategy and business model of the Company
- 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

The Board confirms 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 performance, business model and strategy of the Company

The accounts are published on the www jpmrussian 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

For and on behalf of the Board
Lysander Tennant
Chairman

27th January 2015

# Independent Auditor's Report

## to the Members of JPMorgan Russian Securities plc

**Our audit opinion on the financial statements**

In our opinion

- the financial statements give a true and fair view of the state of the company's affairs as at 31st October 2014 and of its net loss for the year then ended,
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the requirements of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

**Our audit opinion on matters prescribed by the Companies Act 2006**

In our opinion

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

**Our audit responsibilities**

We have audited the financial statements of JPMorgan Russian Securities plc for the year ended 31st October 2014 which comprise the Income Statement, the Reconciliation of Movements in Shareholders Funds, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 22

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, International Standards on Auditing (UK and Ireland) and the Auditing Practices Board's Ethical Standards for Auditors

Our report is made solely to the company s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work for this report, or for the opinions we have formed

**The directors' responsibilities**

As explained more fully in the Statement of Directors' Responsibilities set out on page 34, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

**The scope of our audit**

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 applied are appropriate to the company's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the directors, and
- the overall presentation of the financial statements

In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify any material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect or 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

**Our assessment of the risk of material misstatement and our audit response**

The risks included in the table below represent those material risks of misstatement that have had the greatest impact on our audit strategy and approach for the year ended 31st October 2014 (including the allocation of resources and the directing of efforts of the engagement team) The table also includes our audit response to each of these risks

| Risk identified | Our response |
|---|---|
| The valuation of the assets held in the investment portfolio is the key driver of the company's investment return The value of the Company s investment portfolio at 31st October 2014 was £236 0m (movements in the investment portfolio are shown in Note 10 to the financial statements)<br><br>Incorrect asset pricing or a failure to maintain proper legal title of the assets held by the company could have a significant impact on portfolio valuation and, therefore, the return generated for shareholders | • We agreed the year end prices of the investments to an independent source We did not identify any material differences<br><br>• We agreed the number of shares held in each security to a confirmation of legal title received from both the company's custodian and depositary |

# Independent Auditor's Report continued

| Risk identified | Our response |
|---|---|
| The political sanctions and other economic pressures placed on the Russian economy in recent months has had a detrimental effect on investment sentiment towards Russia and has resulted in the withdrawal of investment capital from Russia by some investors<br><br>The impact of these sanctions and economic pressures on the Company is considered in the Investment Managers report and the Directors refer to the Company's approach to mitigating these risks within the 'Principal Risks section of the Strategic Report We have considered the impact of these factors on the ability of the Company to continue to operate as a going concern | • We obtained the list of Russian companies and individuals that are subject to the economic sanctions placed on the Russian market by the European Union and the United States None of the stocks in the investment portfolio at 31st October 2014 appear on the sanctions list<br><br>We obtained the list of measures implemented by Russia against overseas jurisdictions No actions have been taken by Russia to limit the flow of investment capital into and out of Russia from foreign institutions<br><br>• We obtained the Company's Articles of Association As a closed ended investment company the company has no obligation under its Articles of Association to redeem shares issued As a result, the company is not directly impacted by the liquidity and portfolio management concerns that could result from significant investor redemption requests<br><br>We have reviewed the financial statements to ensure that the going concern considerations are appropriately disclosed Based on the above factors the disclosures made by the company and the conclusion reached regarding the company's ability to continue as a going concern for the foreseeable future appear to be appropriate |
| The fees payable by the company for investment management services are a significant component of the company's cost base and, therefore, impact the company s total return For the year to 31st October 2014 the management fee was £3 3m (as disclosed in Note 4 to the financial statements)<br><br>If the management fee is not calculated in accordance with the methodology prescribed in the investment management agreement this could have a significant impact on both costs and overall performance | • We used the terms contained in the investment management agreement to perform a recalculation of the fee payable each month<br><br>• We agreed the inputs for the monthly calculation to source data and agreed the monthly cash payments made to bank statements |

| Risk identified | Our response |
|---|---|
| The investment income receivable by the company during the period directly drives the company s ability to make a dividend payment to shareholders The investment income receivable for the year to 31st October 2014 was £9 4m (as disclosed in Note 3 to the financial statements)<br><br>If the company is not entitled to receive the dividend income recognised in the financial statements or the income recognised does not relate to the current financial year this will impact the extent of the profits available to fund dividend distributions to shareholders | We agreed a sample of dividends to the corresponding announcement made by the investee company and agreed cash received to bank statements<br><br>For a sample of dividends accrued at year end we reviewed the investee company announcements to assess whether the dividend obligation arose prior to 31st October 2014<br><br>• We agreed a sample of accrued dividends to post year end bank statements to assess the recoverability of these amounts |

Our audit opinion for the year ended 31st October 2013 identified the calculation of the dividend distribution and compliance with s1158 status as a key risk of material misstatement that impacted our audit approach The prior year was the first period in which the Company had made a dividend distribution and, therefore, we considered the work that we performed to evidence the compliance of this dividend distribution with the various legal requirements to be a significant component of our audit In the current year, we have reviewed the dividend distribution, but did not consider it to be a judgemental or complex matter relative to the matters discussed above and we have not included it as a key risk

**Our audit materiality**

We have defined the concept of materiality and planning materiality below

We determined materiality for the company to be £2 4 million, which is 1% of total equity (2013 £3 3 million based on 1% of total equity) We have derived our materiality calculation based on a proportion of total equity as we consider it to be the most important financial metric on which shareholders would judge the performance of the company

We determined performance materiality for the company to be 75% of materiality (or £1 8 million)

In addition, we agreed with the Audit Committee that we would report any audit differences in excess of £0 12 million, as well as any differences below that threshold that, in our view, warranted reporting on qualitative grounds

In accordance with the scope of our audit, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements

We apply the concept of materiality for the purposes of obtaining sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement For this reason, we also define a separate performance materiality threshold which reflects our tolerance for misstatement in an individual account balance and is set as a proportion of our overall materiality

Our objective in setting the performance materiality threshold is to identify the amount of testing required in respect of each balance to reduce to an appropriately low level the probability that the aggregate of any uncorrected and undetected misstatements in the financial statements as a whole exceeds our materiality level

We evaluate any uncorrected misstatements and potential audit differences against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations (such as the impact of any mis-statement on the company meeting total return, relative return and dividend targets)

We applied the concept of materiality in planning and performing our audit, in evaluating the effect of identified misstatements on our audit and of uncorrected misstatements on the financial statements, and in forming our audit opinion When establishing our overall audit strategy, we determined the magnitude of omissions or uncorrected misstatements that we judged would be material to the financial statements as a whole This provided a basis for determining the nature of our risk assessment procedures, identifying and assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures

**Matters on which we are required to report by exception**

We are required by the ISAs (UK and Ireland) the Companies Act 2006 and the Listing Rules to report to you by exception if certain matters are identified during the course of our audit These matters are listed below and we have nothing to report in respect of any of these matters

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is

- materially inconsistent with the information in the audited financial statements, or
- apparently materially incorrect based on or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit, or
- otherwise misleading

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed

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

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

Under the Listing Rules we are required to review

- the directors statement, set out on page 34, in relation to going concern, and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review

Ernst & Young LLP

Michael-John Albert (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
London

27th January 2015

# Financial Statements

## Income Statement
for the year ended 31st October 2014

| | Notes | 2014 Revenue £'000 | 2014 Capital £'000 | 2014 Total £'000 | 2013 Revenue £'000 | 2013 Capital £'000 | 2013 Total £'000 |
|---|---|---|---|---|---|---|---|
| **(Losses)/gains on investments held at fair value through profit or loss** | 2 | **–** | **(91,746)** | **(91,746)** | – | 33,247 | 33,247 |
| Net foreign currency gains/(losses) | | **–** | **127** | **127** | – | (145) | (145) |
| Income from investments | 3 | **9,383** | **–** | **9,383** | 12,901 | – | 12,901 |
| Other interest receivable and similar income | 3 | **–** | **–** | **–** | 1 | – | 1 |
| **Gross return/(loss)** | | **9,383** | **(91,619)** | **(82,236)** | 12,902 | 33,102 | 46,004 |
| Management fee | 4 | **(660)** | **(2,640)** | **(3,300)** | (753) | (3,014) | (3,767) |
| Other administrative expenses | 5 | **(787)** | **–** | **(787)** | (849) | – | (849) |
| **Net return/(loss) on ordinary activities before finance costs and taxation** | | **7,936** | **(94,259)** | **(86,323)** | 11,300 | 30,088 | 41,388 |
| Finance costs | 6 | **–** | **–** | **–** | – | (1) | (1) |
| **Net return/(loss) on ordinary activities before taxation** | | **7,936** | **(94,259)** | **(86,323)** | 11,300 | 30,087 | 41,387 |
| Taxation | 7 | **(907)** | **–** | **(907)** | (1,643) | – | (1,643) |
| **Net return/(loss) on ordinary activities after taxation** | | **7,029** | **(94,259)** | **(87,230)** | 9,657 | 30,087 | 39,744 |
| **Return/(loss) per share** | 9 | **13.38p** | **(179.37)p** | **(165.99)p** | 18 14p | 56 52p | 74 66p |

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

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

The accompanying notes on pages 42 to 57 form an integral part of these accounts

## Reconciliation of Movement in Shareholders' Funds

| | Called up share capital £'000 | Capital redemption reserve £'000 | Other reserve £'000 | Capital reserves £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **At 31st October 2012** | 538 | 63 | 48,482 | 251,898 | (2,146) | **298,835** |
| Repurchase of the Company's own shares for cancellation | (11) | 11 | – | (6,176) | – | **(6,176)** |
| Net return on ordinary activities | – | – | – | 30,087 | 9,657 | **39,744** |
| **At 31st October 2013** | 527 | 74 | 48,482 | 275,809 | 7,511 | **332,403** |
| Repurchase of the Company's own shares for cancellation | (1) | 1 | (718) | – | – | **(718)** |
| Net (loss)/return on ordinary activities | – | – | – | (94,259) | 7,029 | **(87,230)** |
| Dividends appropriated in the year | – | – | – | (526) | (7,511) | **(8,037)** |
| **At 31st October 2014** | 526 | 75 | 47,764 | 181,024 | 7,029 | **236,418** |

The accompanying notes on page 42 to 57 form an integral part of these accounts

# Financial Statements continued

## Balance Sheet

at 31st October 2014

| | Notes | 2014 £'000 | 2013 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments held at fair value through profit or loss | | **235,986** | 327,200 |
| Investment in liquidity fund held at fair value through profit or loss | | **–** | 4,015 |
| **Total investment portfolio** | 10 | **235,986** | 331,215 |
| **Current assets** | 11 | | |
| Debtors | | **290** | 1,939 |
| Cash and short term deposits | | **2,248** | 3,627 |
| | | **2,538** | 5,566 |
| **Creditors:** amounts falling due within one year | 12 | **(2,106)** | (4,378) |
| **Net current assets** | | **432** | 1,188 |
| **Total assets less current liabilities** | | **236,418** | 332,403 |
| **Net assets** | | **236,418** | 332,403 |
| **Capital and reserves** | | | |
| Called up share capital | 13 | **526** | 527 |
| Capital redemption reserve | 14 | **75** | 74 |
| Other reserve | 14 | **47,764** | 48,482 |
| Capital reserves | 14 | **181,024** | 275,809 |
| Revenue reserve | 14 | **7,029** | 7,511 |
| **Total equity shareholders' funds** | | **236,418** | 332,403 |
| **Net asset value per share** | 15 | **450.0p** | 631.1p |

The accounts on pages 38 to 57 were approved and authorised for issue by the Directors on 27th January 2015 and were signed on their behalf by

**Lysander Tennant**
Chairman

The accompanying notes on pages 42 to 57 form an integral part of these accounts

**Company registration number. 4567378.**

## Cash Flow Statement

for the year ended 31st October 2014

| | Notes | 2014 £'000 | 2013 £'000 |
|---|---|---|---|
| **Net cash inflow from operating activities** | 16 | **5,606** | 5,117 |
| **Returns on investments and servicing of finance** | | | |
| Interest paid | | – | (1) |
| **Taxation** | | | |
| Overseas tax recovered | | **281** | – |
| **Capital expenditure and financial investment** | | | |
| Purchases of investments | | **(188,087)** | (156,670) |
| Sales of investments | | **189,964** | 159,030 |
| Other capital charges | | **(178)** | (188) |
| **Net cash inflow from capital expenditure and financial investment** | | **1,699** | 2,172 |
| **Dividend paid** | | **(8,037)** | – |
| **Net cash (outflow)/inflow before financing** | | **(451)** | 7,288 |
| **Financing** | | | |
| Repurchase of the Company's own shares for cancellation | | **(1,055)** | (7,733) |
| **Net cash outflow from financing** | | **(1,055)** | (7,733) |
| **Decrease in cash for the year** | 17 | **(1,506)** | (445) |

The accompanying notes on pages 42 to 57 form an integral part of these accounts

# Financial Statements continued

## Notes to the Accounts
for the year ended 30th October 2014

**1 Accounting policies**

**(a) Basis of accounting**

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

The accounts have been prepared on a going concern basis

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

**(b) Valuation of investments**

The Company's business is investing in financial assets with a view to profiting from their total return in the form of capital growth This portfolio of financial assets is managed and its performance evaluated on a fair value basis in accordance with a documented investment strategy and information about the portfolio is provided internally on that basis to the 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 recognised initially at fair value which is taken to be their cost, excluding expenses incidental to acquisition which are charged to the capital column of the income statement at the time of acquisition Subsequently the investments are valued at fair value, which are quoted bid prices for investments traded in active markets

Gains and losses on sales of investments are recognised in the Income Statement and are transferred to capital reserves within 'Gains and losses on sales of investments' and represent the excess of sales proceeds over the carrying value at the previous balance sheet date Increases and decreases in the valuation of investments held at the year end are recognised in the Income Statement and are transferred to capital reserves within 'Holding gains and losses on investments'

All purchases and sales are recognised on a trade date basis

**(c) Income**

Dividends receivable from equity shares and distribution from liquidity funds 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 taken to capital

Overseas dividends are shown gross of any withholding tax

Deposit interest receivable is taken to revenue on an accruals basis

**(d) Expenses**

All expenses are accounted for on an accruals basis Expenses are allocated wholly to revenue with the following exceptions

- the management fee is allocated 20% to revenue and 80% to capital in line with the Board's expected long term split of revenue and capital return from the Company investment portfolio
- expenses incidental to the purchase or sale of an investment are charged entirely to the capital column of the income statement These expenses are commonly referred to as transaction costs and comprise mainly brokerage commission

**(e) Finance costs**

Finance costs are accounted for on an effective interest rate basis and are allocated 20% to revenue and 80% to capital in line with the Board's expected long term split of revenue and capital return from the Company investment portfolio

**(f) Financial instruments**

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

Other debtors and creditors do not carry any interest or significant price risk exposure and are accordingly stated at carrying value as reduced by appropriate allowances for estimated irrecoverable amounts The carrying value of all debtors and creditors approximates to their fair value

The Company has not utilised any derivative financial instruments in the current or comparative year

**(g) Foreign currency**

The Company is required to nominate a functional currency, being the currency in which the Company predominantly operates The Board, having regard to the currency of the Company's share capital and the predominant currency in which its shareholders operate, has determined that sterling is the functional currency Sterling is also the currency in which the accounts are presented

Transactions denominated in foreign currencies are converted at actual exchange rates at the date of the transaction Monetary assets and 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 as an exchange gain or loss in revenue or capital, depending on whether the gain or loss is of a revenue or capital nature Gains and losses on investments arising from a change in exchange rates are recognised in the Income Statement and included in 'Holding gains and losses on investments'

**(h) Taxation**

Current tax is provided on an accruals basis at the rate expected to be received or paid based on the Company's taxable profit

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

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

Irrecoverable withholding tax is recognised on any overseas dividends on an accruals basis using the applicable rate for the country of origin

**(i) Dividend payable**

Dividends are included in the accounts in the year in which they are approved for payment by shareholders

**(j) Value Added Tax ('VAT')**

Irrecoverable VAT is included in the expense on which it has been suffered Recoverable VAT is calculated using the partial exemption method based on the proportion of zero rated supplies to total supplies and is required on an accruals basis

**(k) Repurchase of ordinary shares for cancellation**

The cost of repurchasing ordinary shares including the related stamp duty and transaction costs is charged to 'Other reserve' and dealt with in the Reconciliation of Movement in Shareholders Funds 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 the capital redemption reserve

# Financial Statements continued

## **Notes to the Accounts** continued

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **2. (Losses)/gains on investments held at fair value through profit or loss** | | |
| Losses on sales of investments held at fair value through profit or loss based on historical cost | **(43,004)** | (15,346) |
| Amounts recognised as investment holding gains and losses at the previous balance sheet date in respect of investments sold during the year | **14,249** | 22,978 |
| (Losses)/gains on sales of investments based on the carrying value at the previous year end | **(28,755)** | 7,632 |
| Net movement in investment holding gains and losses | **(62,759)** | 25,795 |
| Capital charges | **(232)** | (180) |
| Total (losses)/gains on investments held at fair value through profit or loss | **(91,746)** | 33,247 |

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **3 Income** | | |
| Franked investment income | **67** | – |
| Overseas dividends | **9,298** | 12,890 |
| Dividends from liquidity fund | **18** | 11 |
| | **9,383** | 12,901 |
| Other interest receivable and similar income | | |
| Deposit interest | **–** | 1 |
| Total income | **9,383** | 12,902 |

| | 2014 Revenue £'000 | 2014 Capital £'000 | 2014 Total £'000 | 2013 Revenue £'000 | 2013 Capital £'000 | 2013 Total £'000 |
|---|---|---|---|---|---|---|
| **4. Management fee** | | | | | | |
| Management fee[1] | **660** | **2,640** | **3,300** | 753 | 3,014 | 3,767 |

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

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **5 Other administrative expenses** | | |
| Administration expenses | **396** | 454 |
| Safe custody fees | **140** | 172 |
| Directors' fees[1] | **131** | 123 |
| Savings scheme costs[2] | **76** | 73 |
| Auditors' remuneration for audit services[3,4] | **29** | 27[5] |
| Depositary fees | **15** | – |
| Total | **787** | 849 |

[1]Full disclosure is given in the Directors' Remuneration Report on pages 31 to 33
[2]These fees were payable to the Manager for the marketing and administration of savings scheme products
[3]No fees were payable to the auditors for non audit services (2013 nil)
[4]Includes irrecoverable VAT of £3,000
[5]Prior year's figure has been restated to include irrecoverable VAT of £2,000

| | 2014 Revenue £'000 | 2014 Capital £'000 | 2014 Total £'000 | 2013 Revenue £'000 | 2013 Capital £'000 | 2013 Total £'000 |
|---|---|---|---|---|---|---|
| **6. Finance costs** | | | | | | |
| Interest on bank loans and overdrafts | **–** | **–** | **–** | – | 1 | 1 |

**7 Taxation**

**(a) Analysis of tax charge in the year**

| | 2014 Revenue £'000 | 2014 Capital £'000 | 2014 Total £'000 | 2013 Revenue £'000 | 2013 Capital £'000 | 2013 Total £'000 |
|---|---|---|---|---|---|---|
| UK corporation tax | **1,293** | **–** | **1,293** | 1,257 | – | 1,257 |
| Double taxation relief | **(1,293)** | **–** | **(1,293)** | (1,257) | – | (1,257) |
| Overseas withholding tax | **907** | **–** | **907** | 1,643 | – | 1,643 |
| Current tax | **907** | **–** | **907** | 1,643 | – | 1,643 |

# Financial Statements continued

## Notes to the Accounts continued

**7. Taxation** continued

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

The tax assessed for the year is higher (2013 lower) than the amount that would be incurred by directly applying the Company's applicable rate of corporation tax for the year of 21 83% (2013 23 41%) to accounting profit The factors affecting the current tax charge for the year are as follows

| | 2014 Revenue £'000 | 2014 Capital £'000 | 2014 Total £'000 | 2013 Revenue £'000 | 2013 Capital £'000 | 2013 Total £'000 |
|---|---|---|---|---|---|---|
| Net return/(loss) on ordinary activities before taxation | **7,936** | **(94,259)** | **(86,323)** | 11,300 | 30,087 | 41,387 |
| Net return/(loss) on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax of 21 83% (2013 23 41%) | **1,732** | **(20,577)** | **(18,845)** | 2,645 | 7,043 | 9,688 |
| Effects of | | | | | | |
| Non taxable capital losses/(gains) | **–** | **20,001** | **20,001** | – | (7,749) | (7,749) |
| Non taxable UK dividends | **(15)** | **–** | **(15)** | – | – | – |
| Non taxable overseas dividends | **(152)** | **–** | **(152)** | (259) | – | (259) |
| Tax attributable to expenses and finance costs charged to capital | **(576)** | **576** | **–** | (706) | 706 | – |
| Income taxed in different periods | **411** | **–** | **411** | (421) | – | (421) |
| Overseas withholding tax | **907** | **–** | **907** | 1,643 | – | 1,643 |
| Double taxation relief | **(1,293)** | **–** | **(1,293)** | (1,257) | – | (1,257) |
| Brought forward revenue losses utilised | **(107)** | **–** | **(107)** | (2) | – | (2) |
| Current tax charge for the year | **907** | **–** | **907** | 1,643 | – | 1,643 |

**(c) Deferred taxation**

The Company has an unrecognised deferred tax asset of £265,000 (2013 £211,000) based on a prospective corporation tax rate of 21% (2013 23%) The reduction in the standard rate of corporation tax was substantively enacted on 3rd July 2014 and is effective from 1st April 2015 The Government has also indicated that it intends to extract future reductions in the main rate of corporation tax of 1% each year down to 20% by 1st April 2015 The deferred tax asset has arisen due to the cumulative excess of deductible expenses over taxable income Given the composition of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future and therefore no asset has been recognised in the accounts

Given the Company's status as an Investment Trust Company and the intention to continue meeting the conditions required to obtain approval, the Company has not provided for deferred tax on any capital gains or losses arising on the revaluation or disposal of investments

**8 Dividend**

**(a) Dividends paid and proposed**

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Dividend paid | | |
| 2013 final dividend of 15 30p (2012 nil) | **8,037** | – |
| Dividend proposed | | |
| 2014 final dividend of 13 00p (2013 15 30p) | **6,829** | 8,058 |

For the year ended 31st October 2013, the Company declared a dividend of £8,058,000 but the final dividend paid amounted to £8,037,000 due to shares repurchased for cancellation after the balance sheet date but prior to the share register record date

The final dividend proposed in respect of the year ended 31st October 2014 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 accounts for the year ending 31st October 2015

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

The proposed dividend of £6,829,000 (2013 8,058,000) is the amount on which the requirements of Section 1158 are considered The revenue available for distribution by way of dividend is £7,029,000 (2013 £9,657,000)

## 9 Return/(loss) per share

The revenue return per share is based on the revenue return attributable to the ordinary shares of £7,029,000 (2013 £9,657,000) and on the weighted average number of shares in issue during the year of 52,549,571 (2013 53,232,345)

The capital loss per share is based on the capital loss attributable to the ordinary shares of £94,259,000 (2013 £30,087,000 return) and on the weighted average number of shares in issue during the year of 52,549,571 (2013 53,232,345)

The total loss per share is based on the total loss attributable to the ordinary shares of £87,230,000 (2013 £39,744,000 return) and on the weighted average number of shares in issue during the year of 52,549,571 (2013 53,232,345)

## 10. Investments

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Investments listed on a recognised stock exchange | **235,986** | 327,200 |
| Investment in liquidity fund | **–** | 4,015 |
| | **235,986** | 331,215 |

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Opening book cost | **320,785** | 338,129 |
| Opening investment holding gains/(losses) | **10,430** | (38,343) |
| Opening valuation | **331,215** | 299,786 |
| Movements in the year | | |
| Purchases at cost | **186,095** | 156,441 |
| Sales - proceeds | **(189,810)** | (158,439) |
| (Losses)/gains on sales of investments | **(28,755)** | 7,632 |
| Net movement in investment holding gains and losses | **(62,759)** | 25,795 |
| Closing valuation | **235,986** | 331,215 |
| Closing book cost | **274,066** | 320,785 |
| Closing investment holdings (losses)/gains | **(38,080)** | 10,430 |
| Total investments held at fair value through profit or loss | **235,986** | 331,215 |

Transaction costs on purchases during the year amounted to £366,000 (2013 £303,000) and on sales during the year amounted to £138,000 (2013 £120,000), totalling £504,000 transaction costs for the year (2013 £420,900) These costs comprise mainly brokerage commission

During the year, prior year holding gains amounting to £14,249,000 (2013 £22,978,000) have been transferred to gains and losses on sales of investments as disclosed in note 14

## Notes to the Accounts continued

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **11. Current assets** | | |
| **Debtors** | | |
| Securities sold awaiting settlement | **40** | 194 |
| Overseas tax recoverable | **87** | – |
| Dividends and interest receivable | **129** | 1,702 |
| VAT recoverable | **2** | – |
| Other debtors | **32** | 43 |
| Total | **290** | 1,939 |

The Directors consider that the carrying amount of debtors approximates to their fair value The Directors do not consider any of the amounts included in the note above to be past due or impaired as at 31st October 2014 (2013 £nil)

**Cash and short term deposits**
Cash and short term deposits comprises bank balances and short term deposits The carrying amount of these represents their fair value Cash balances in excess of a predetermined amount are placed on short term deposit at market rates of interest

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **12. Creditors amounts falling due within one year** | | |
| Securities purchased awaiting settlement | **1,915** | 3,907 |
| Amounts payable for redemption of the Company's own shares | **–** | 338 |
| Other creditors and accruals | **191** | 133 |
| Total | **2,106** | 4,378 |

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

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **13. Share capital** | | |
| **Issued and fully paid** | | |
| Ordinary shares of 1p each | | |
| Opening balance of 52,667,112 (2013 53,827,112) shares | **527** | 538 |
| Repurchase and cancellation of 135,000 (2013 1,160,000) shares | **(1)** | (11) |
| Closing balance of 52,532,112 (2013 52,667,112) shares | **526** | 527 |

During the year, the Company made market purchases of 135,000 of its own shares, nominal value £1,350, for cancellation, representing 0 26% of the shares outstanding at the beginning of the year The consideration paid for these shares amounted to £718,000 The reason for the purchases was to seek to reduce the volatility and absolute level of the share price discount to net asset value per share

The holders of ordinary shares carry the right to receive all the revenue profits of the Company available for distribution and from time to time determined by the Directors to be distributed by way of dividend The holders of the ordinary shares hold all voting rights and are entitled to all the assets of the Company on a return of capital, return of assets or on a winding up

| | Capital redemption reserve[1] £'000 | Other reserve £'000 | Capital reserves: Gains and losses on sales of investments £'000 | Capital reserves: Holding gains and losses on investments £'000 | Revenue reserve £'000 |
|---|---|---|---|---|---|
| **14. Reserves** | | | | | |
| Opening balance | 74 | 48 482 | 265,379 | 10,430 | 7,511 |
| Foreign exchange gains on cash and short term deposits | – | – | 127 | – | – |
| Losses on sales of investments | – | – | (28,755) | – | – |
| Net movement in investment holding gains and losses | – | – | – | (62,759) | – |
| Transfer on disposal of investments | – | – | (14,249) | 14,249 | – |
| Repurchase of the Company's own shares for cancellation | 1 | (718) | – | – | – |
| Other capital charges | – | – | (232) | – | – |
| Management fee charged to capital | – | – | (2,640) | – | – |
| Dividends appropriated in the year | – | – | (526) | – | (7,511) |
| Revenue return for the year | – | – | – | – | 7,029 |
| Closing balance | **75** | **47,764** | **219,104** | **(38,080)** | **7,029** |

[1]The 'Other reserve' was formerly share premium which was cancelled for the purpose of financing share buy backs

**15 Net asset value per share**

The net asset value per share is based on the net assets attributable to the ordinary shareholders of £236,418,000 (2013 £332,403,000) and on the 52,532,112 (2013 52,667,112) shares in issue at the year end

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **16 Reconciliation of net (loss)/return on ordinary activities before finance costs and taxation to net cash inflow from operating activities** | | |
| Net (loss)/return on ordinary activities before finance costs and taxation | **(86,323)** | 41,388 |
| Less capital loss/(return) before finance costs and taxation | **94,259** | (30,088) |
| Decrease/(increase) in accrued income | **1,573** | (1,525) |
| Decrease in other debtors | **9** | 8 |
| Increase/(decrease) in accrued expenses | **3** | (9) |
| Management fee charged to capital | **(2,640)** | (3,014) |
| Overseas withholding tax | **(1,275)** | (1,643) |
| Net cash inflow from operating activities | **5,606** | 5,117 |

| | At 31st October 2013 £'000 | Cash flow £'000 | Exchange movement £'000 | At 31st October 2014 £'000 |
|---|---|---|---|---|
| **17. Analysis of changes in net funds** | | | | |
| Cash and short term deposits | 3,627 | (1,506) | 127 | **2,248** |
| Net funds | 3,627 | (1,506) | 127 | **2,248** |

## Notes to the Accounts continued

**18 Transactions with the Manager, affiliates of the Manager and 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 £3,300,000 (2013 £3,767,000) of which £nil (2013 £nil) was outstanding at the year end In addition £76,000 (2013 £73,000) was payable to the Manager for marketing and administration of the Company's savings scheme products, of which £nil (2013 £nil) was outstanding at the year end

Included in note 5 on page 45 are safe custody fees amounting to £140,000 (2013 £172,000) payable to JPMorgan Chase of which £31,000 (2013 £27,000) was outstanding at the year end

Included in note 2 on page 44 are handling charges on dealing transactions during the year amounting to £232,000 (2013 £180,000) payable to JPMorgan Chase of which £57,000 (2013 £2,000) was outstanding at the year end

During the year, the Company held an investment in the JPM US Dollar Liquidity Fund At 31st October 2014, the Company no longer held this investment (2013 £4,015,000) representing nil% (2013 1 21%) of the Company's investment portfolio During the year, the Company made purchases of this fund with a total value of £77,685,000 (2013 £66,365,000) and sales with a total value of £82,217,000 (2013 £64,339,000) Income receivable from this fund in the year amounted to £18,000 (2013 £11,000) of which £nil (2013 £nil) 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 arms' length The commission payable to JPMorgan Securities for the year was £8,000 (2013 £2,000) of which £nil (2013 £nil) was outstanding at the year end

At the year end, a bank balance of £2,248,000 (2013 £3,627,000) was held with JPMorgan Chase and placed on deposit with an approved list of banks A net amount of interest of £nil (2013 £1,000) was receivable by the Company during the year from JPMorgan Chase of which £nil (2013 £nil) was outstanding at the year end

Details of Directors' transactions in the Company's shares and Directors' fees are included in the Directors' Remuneration Report on page 32

**19 Disclosures regarding financial instruments measured at fair value**

The Company's financial instruments that are held at fair value comprise its investment portfolio The Company currently holds no derivative financial instruments and its liabilities are not held at fair value

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

Level 1 - valued using quoted prices in active markets

Level 2 - valued by reference to valuation techniques using observable inputs other than quoted market prices included within Level 1 Quoted investments which are deemed to be less liquid due to a lower level of trading volume in the period prior to the year end, are also included in Level 2

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

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

Details of the valuation techniques used by the Company are given in note 1 on page 42

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

| | 2014 | | | |
|---|---|---|---|---|
| | **Level 1 £'000** | **Level 2 £'000** | **Level 3 £'000** | **Total £'000** |
| **Financial instruments held at fair value through profit or loss** | | | | |
| Equity investments | **235,986** | **–** | **–** | **235,986** |
| Total | **235,986** | **–** | **–** | **235,986** |

| | 2013 | | | |
|---|---|---|---|---|
| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
| **Financial instruments held at fair value through profit or loss** | | | | |
| Equity investments | 327,200 | – | – | 327,200 |
| Investment in liquidity fund | 4,015 | – | – | 4,015 |
| Total | 331,215 | – | – | 331,215 |

There have been no transfers into or out of Level 3 during the current or comparative year

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

As an investment trust, the Company invests in equities and other securities for the long term so as to secure its investment objective stated on the 'Features' page inside the front cover 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 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 strategy

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

The Company's financial instruments comprise the following

- investments in Russian equity shares which are held in accordance with the Company's investment objective, and
- debtors, creditors and cash arising directly from its operations

### (a) Market risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices This market risk comprises three elements - currency risk, interest rate risk and other price risk (which may include factors such as country or political 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 four 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 value of the portfolio of investments This borrowing would be 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

# Financial Statements continued

## Notes to the Accounts continued

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

**(a) Market risk** continued

**(i) Currency risk** continued

**Foreign currency exposure**

The fair values of the Company's monetary items that have foreign currency exposure at 31st October 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

| | US$ £'000 | Ruble £'000 | 2014 Swedish Krona £'000 | EUR £'000 | Total £'000 |
|---|---|---|---|---|---|
| Investments held at fair value through profit or loss that are monetary items | **–** | **–** | **–** | **–** | **–** |
| Net current assets | **484** | **54** | **–** | **–** | **538** |
| Foreign currency exposure on net monetary items | **484** | **54** | **–** | **–** | **538** |
| Equity investments held at fair value | **226,770** | **–** | **–** | **4,592** | **231,362** |
| Total net foreign currency exposure | **227,254** | **54** | **–** | **4,592** | **231,900** |

| | US$ £'000 | Ruble £'000 | 2013 Swedish Krona £'000 | EUR £'000 | Total £'000 |
|---|---|---|---|---|---|
| Investments held at fair value through profit or loss that are monetary items | 4,015 | – | – | – | 4,015 |
| Net current assets | 1,450 | 129 | – | – | 1,579 |
| Foreign currency exposure on net monetary items | 5,465 | 129 | – | – | 5,594 |
| Equity investments held at fair value | 308,252 | – | 13,845 | – | 322,097 |
| Total net foreign currency exposure | 313,717 | 129 | 13,845 | – | 327,691 |

The above year end amounts are broadly representative of the exposure to foreign currency risk during the year

Equity investments held at fair value through profit or loss have all been included under their respective currency exposure in the tables above, because they are priced in that currency However it should be noted that the operating activities of these companies are primarily exposed to the Ruble

**Foreign currency sensitivity**

The following tables illustrate the sensitivity of the return after taxation for the year and net assets with regard to the Company's overseas income and 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 assumes a 10% (2013 10%) appreciation or depreciation in sterling against the US$, the Ruble and the euro The Company's monetary foreign currency financial instruments are predominantly exposed to the US$ and this is deemed a reasonable illustration based on the volatility of the sterling/US$ exchange rate during the year

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

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Income statement return after taxation | | |
| Revenue return | 932 | 1,290 |
| Capital return | 54 | 559 |
| Total return after taxation for the year | 986 | 1,849 |
| Net assets | 986 | 1,849 |

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

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Income statement return after taxation | | |
| Revenue return | (932) | (1,290) |
| Capital return | (54) | (559) |
| Total return after taxation for the year | (986) | (1,849) |
| Net assets | (986) | (1,849) |

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

**(ii) Interest rate risk**

Interest rate movements may affect the level of income receivable from cash deposits and the liquidity fund The Company has no direct exposure to fair value interest rate risk

**Management of interest rate risk**

The Company does not normally hold significant cash balances Short term borrowings may be used when required, however the Company currently has no loan facility in place

**Interest rate exposure**

The exposure of the year end financial assets and liabilities to floating interest rates, giving cash flow interest rate risk when rates are reset, is shown below

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Exposure to floating interest rates | | |
| JPM US Dollar Liquidity Fund | – | 4,015 |
| Cash and short term deposits | 2,248 | 3 627 |
| Total exposure | 2,248 | 7,642 |

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

Interest receivable on cash balances is at a margin below LIBOR

## Notes to the Accounts continued

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

**(a) Market risk** continued

**(ii) Interest rate risk** continued

**Interest rate exposure** continued

The exposure to floating interest rates during the year fluctuated as follows

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Maximum net credit and Liquidity Fund balances | 21,770 | 11,008 |
| Minimum net credit and Liquidity Fund balances | 484 | 490 |

**Interest rate sensitivity**

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 0 5% (2013 0 5%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities This level of change is considered to be a reasonable illustration based on observation of current market conditions The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date, with all other variables held constant

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | 0 5% increase in rate £'000 | 0.5% decrease in rate £'000 | 0 5% increase in rate £'000 | 0 5% decrease in rate £'000 |
| Income statement - return after taxation | | | | |
| Revenue return | 11 | (11) | 38 | (38) |
| Capital return | – | – | – | – |
| Total return after taxation for the year | 11 | (11) | 38 | (38) |
| Net assets | 11 | (11) | 38 | (38) |

In the opinion of the Directors, the above sensitivity analysis may not be representative of future years

**(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 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 objective and seeks to ensure that individual stocks meet an acceptable risk/reward profile

**Other price risk exposure**

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

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Equity investments held at fair value through profit or loss | 235,986 | 327,200 |

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 pages 13 to 15 The equity portfolio entirely comprises Russian companies Accordingly there is a concentration of exposure to that country However, it should be noted that an investment may not be wholly exposed to the economic conditions in its country of domicile

**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% (2013 10%) in the fair value of the Company's equity investments This level of change does not reflect the unusual market volatility over the past five years and is presented purely as an illustration The sensitivity analysis is based on the Company's equity investments and adjusting for change in the management fee, but with all other variables held constant

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **10% increase in fair value £'000** | **10% decrease in fair value £'000** | **10% increase in fair value £'000** | **10% decrease in fair value £'000** |
| Income statement - return after taxation | | | | |
| Revenue return | **(57)** | **57** | (79) | 79 |
| Capital return | **23,372** | **(23,372)** | 32,406 | (32,406) |
| Total return after taxation for the year and net assets | **23,315** | **(23,315)** | 32,327 | (32,327) |

**(b) Liquidity risk**

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

**Management of the risk**

Liquidity risk is not significant as the Company s assets comprise readily realisable securities, which can be sold to meet funding requirements if necessary There is currently no loan facility in place

**Liquidity risk exposure**

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

| | **2014 Three months or less £'000** | **2013 Three months or less £'000** |
|---|---|---|
| Creditors amounts falling due within one year | | |
| Securities purchased awaiting settlement | **1,915** | 3,907 |
| Capital shares redeemed payable | **–** | 338 |
| Other creditors and accruals | **191** | 133 |
| Total financial liabilities | **2,106** | 4,378 |

## Notes to the Accounts continued

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

**(c) Credit risk**

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

**Management of credit risk**

*Portfolio dealing*

The Manager's process for the exchange of securities and cash is designed to minimise the risk of losing the principal of a trade during the settlement process The Manager continuously monitors dealing activity to ensure best execution, a process that involves measuring various indicators including the quality of trade settlement and incidence of failed trades Counterparty lists are maintained and adjusted accordingly

*Cash*

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

*Custody*

BNY Mellon Trust & Depositary (UK) Limited ('BNY'), as the trust's appointed depositary, is responsible for the appointment of the custodian and its network of subcustodians Under the terms of the depositary agreement BNY has strict liability for the loss or misappropriation of assets held at custody

JPMorgan Chase is the custodian of the Company's assets The custody agreement grants a general lien over the securities credited to the securities account 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 However, no absolute guarantee can be given to investors on the protection of all the assets of the Company

**Credit risk exposure**

The amounts shown in the balance sheet under debtors and cash and short term deposits represent the maximum exposure to credit risk at the current and comparative year end

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

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

**21. Capital management**

The Company's capital comprises the following

| | 2014<br>£'000 | 2013<br>£'000 |
|---|---|---|
| **Equity** | | |
| Share capital | **526** | 527 |
| Reserves | **235,892** | 331,876 |
| Total capital | **236,418** | 332,403 |

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise capital return to its equity shareholders

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Investments excluding holdings in liquidity funds | **235,986** | 327,200 |
| Current assets excluding cash and short term deposits | **290** | 1,939 |
| Current liabilities excluding any bank loans | **(2,106)** | (4,378) |
| Total assets | **234,170** | 324,761 |
| Net assets | **236,418** | 332,403 |
| Gearing/(net cash) | **(1.0)%** | (2 3)% |

There is currently no loan facility in place (2013 none)

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 for cancellation, which takes into account the share price discount or premium, and
- the need for issues of new shares

**22. Alternative Investment Fund Managers Directive ('AIMFD')**

The Company's maximum and actual leverage (see Glossary of Terms and Definitions on page 61) levels at 31st October 2014 are shown below

| Leverage exposure | Gross method | Commitment method |
|---|---|---|
| Maximum limit | 200% | 200% |
| Actual | 9979% | 9979% |

# Shareholder Information

## Notice of Annual General Meeting

Notice is hereby given that the twelfth Annual General Meeting of JPMorgan Russian Securities plc will be held at 60 Victoria Embankment, London EC4Y 0JP on Thursday, 5th March 2015 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 October 2014

2 To approve the Company's Remuneration Policy

3 To approve the Directors' Remuneration Report for the year ended 31st October 2014

4 To approve a final dividend of 13 00p per share

5 To reappoint Lysander Tennant a Director of the Company

6 To reappoint Alexander Easton a Director of the Company

7 To reappoint Robert Jeens a Director of the Company

8 To reappoint George Nianias a Director of the Company

9 To reappoint Gillian Nott a Director of the Company

10 To reappoint Ernst & Young 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 Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers for the Company to allot relevant securities (within the meaning of Section 551 of the Act) up to an aggregate nominal amount of £26,169, representing approximately 5% of the Company's issued ordinary share capital as at the date of the passing of this resolution, provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2016 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 relevant securities to be allotted after such expiry and so that the Directors of the Company may allot relevant securities in pursuance of such offers, agreements or arrangements 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 Section 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 £26,169, representing approximately 5% of the issued ordinary share capital as at the date of the passing of this resolution at a price of not less than the net asset value per share and shall expire upon the expiry of the general authority conferred by Resolution 10 above, save that the Company may before such expiry make offers, or agreements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuant of such offers, or agreements as if the power conferred hereby had not expired

**Authority to repurchase 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 Companies Act 2006 (the 'Act') to make market purchases (within the meaning of Section 693 of the Act) of its issued ordinary shares of 1 pence each in the capital of the Company

PROVIDED ALWAYS THAT

(i) the maximum number of ordinary shares hereby authorised to be purchased shall be 7,845,333 or if less, that number of ordinary shares which is equal to 14 99% of the Company's issued share capital as at the date of the passing of this Resolution,

(ii) the minimum price which may be paid for an ordinary share will be 1 pence,

(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 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) at the date following not more than seven days before the date of purchase,

(v) the authority hereby conferred shall expire at the Company's Annual General Meeting to be held in 2016 unless the authority is renewed at a 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 and may make a purchase of shares pursuant to any such contract notwithstanding such expiry

By order of the Board
Paul Winship ACIS, for and on behalf of
JPMorgan Funds Limited,
Secretary

27th January 2015

**Notes**

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

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

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

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

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

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

# Shareholder Information continued

## **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 Auditor's report and the conduct of the audit) that are to be laid before the AGM, or (b) any circumstances connected with an Auditor of the Company ceasing to hold office since the previous AGM which the members propose to raise at the meeting The Company cannot require the members requesting the publication to pay its expenses Any statement placed on the website must also be sent to the Company s Auditors no later than the time it makes its statement available on the website The business which may be dealt with at the AGM includes any statement that the Company has been required to publish on its website pursuant to this right

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

10 Under Sections 338 and 338A of the 2006 Act members meeting the threshold requirements in those sections have the right to require the Company (i) to give to members of the Company entitled to receive notice of the Meeting notice of a resolution which those members intend to move (and which may properly be moved) at the Meeting, and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Meeting A resolution may properly be moved or a matter properly included in the business unless (a) (in the case of a resolution only) it would if passed be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise) (b) it is defamatory of any person or (c) it is frivolous or vexatious A request made pursuant to this right may be in hard copy or electronic form must identify the resolution of which notice is to be given or the matter to be included in the business must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than the date that is six clear weeks before the Meeting and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request

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

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

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

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

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

16 As at 26th January 2015 (being the latest business day prior to the publication of this Notice) the Company s issued share capital consists of 52 337 112 ordinary shares, carrying one vote each Therefore the total voting rights in the Company are 52 337 112

**Electronic appointment - CREST members**

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

## Glossary of Terms and Definitions

**Return to Shareholders**
Total return to the shareholder, on a mid-market price to mid-market price basis

**Return on Net Assets**
Return on the net asset value per share, on a bid value to bid value basis

**Benchmark Return**
Total return on the benchmark, on a mid-market value to mid-market value basis, assuming that all dividends received were reinvested 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

**Share Price Discount/Premium to Net Asset Value ('NAV') per Share**
If the share price of an investment trust is lower than the NAV per share, the 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

**Gearing/(Net Cash)**
Gearing represents the excess amount above shareholders' funds of total assets expressed as a percentage of the shareholders' funds Total assets include total investments and net current assets/liabilities less cash/cash equivalents and excluding liquidity funds and bank loans of less than one year If the amount calculated is negative, this is shown as a 'net cash' position

**Leverage**
For the purposes of the Alternative Investment Fund Managers Directive ('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 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

**Ongoing Charges**
The Ongoing Charges represent the Company's management fee and all other operating expenses excluding finance costs payable, 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

**Active Position**
The active position shows the difference between the Company's holding of an individual stock or sector compared with that stock or sector's weighting in the Company's benchmark index A positive number indicates an active decision by the Manager to own more of (i e be overweight) a particular stock or sector versus the benchmark and a negative number indicates a decision to hold less of (i e be underweight) a particular stock or sector versus the benchmark

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

**Performance Attribution Definitions**

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

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

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

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

**ADR/GDR**
American Depositary Receipts and Global Depositary Receipts ADR and GDRs' are certificates that represent shares of a foreign stock

# Notes

# Information about the Company

## Financial Calendar

| | |
|---|---|
| Financial year end | 31st October |
| Final results announced | January |
| Half year end | 30th April |
| Half year results announced | June |
| Dividend (if any) | March |
| Annual General Meeting | March |

**History**

The Company was launched in December 2002 by a placing and offer for subscription It is the successor company to The Fleming Russia Securities Fund Limited which was a closed-ended investment company incorporated in Jersey and listed on the Irish Stock Exchange The Company adopted its present name on 1st March 2006

**Life of the Company**

Directors will propose a resolution that the Company continue as an investment trust at the Annual General Meeting in 2017 and every five years thereafter

**Company Numbers**

Company registration number 4567378
London Stock Exchange number 3216473
ISIN GB0032164732
Bloomberg code JRS LN

**Market Information**

The Company lists its shares on the London Stock Exchange The market price is shown daily in The Scotsman the Financial Times The Times The Daily Telegraph and on the JPMorgan website at www jpmrussian co uk where the share price is updated every fifteen minutes during trading hours

**Website**

www jpmrussian co uk

**Share Transactions**

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

**Manager and Company Secretary**

JPMorgan Funds Limited

**Company's Registered Office**

60 Victoria Embankment
London EC4Y 0JP
Telephone 020 7742 4000

Please contact Paul Winship ACIS for company secretarial and administrative matters at the Company s registered office

**Depositary**

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

The Depositary employs JPMorgan Chase Bank N A as the Company's custodian

**Registrars**

Equiniti Limited
Reference 2610
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone 0871 384 2030

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

Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrar quoting reference 2610

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

**Independent Auditor**

Ernst & Young LLP
Chartered Accountants and Statutory Auditor
1 More London Place
London SE1 2AF

**Brokers**

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

**Savings Product Administrators**

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

A member of the AIC

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

Your telephone call may be recorded for your security

www jpmrussian.co uk