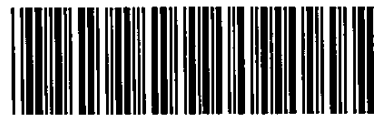


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Annual Report **2012**
JPMorgan Smaller Companies
Investment Trust plc

Annual Report & Accounts for the year ended 31st July 2012

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COMPANIES HOUSE

J.P.Morgan
Asset Management

Features

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Objective

Capital growth from UK listed smaller companies

Investment Policies

- To provide capital appreciation for shareholders from a diversified portfolio of UK listed small companies, emphasising capital rather than income growth
- To invest no more than 15% of its gross assets in other listed investment companies (including investment trusts)
- Liquidity and borrowings are managed with the aim of increasing returns to shareholders
- Further details on investment policy and risk management are contained in the Directors' Report on page 18

Benchmark

The FTSE Small Cap Index (excluding investment trusts)

Capital Structure

At 31st July 2012, the Company's issued share capital comprised 18,283,028 ordinary shares of 25p each

Management Company

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

Continuation Vote

In accordance with the Company's Articles of Association, the Directors are required to propose an ordinary resolution that the Company shall continue in existence at the Annual General Meeting in 2014 and in every third year thereafter

Financial Results

Total returns (includes dividends reinvested)

-15.0%

Return to shareholders¹
(2011: +49.0%)

-7.5%

Return on net assets²
(2011: +39.3%)

-6.2%

Benchmark return³
(2011: +21.1%)

9.0p ordinary dividend
(2011: 8.5p)

Long Term Performance

for periods ended 31st July 2012

A glossary of terms and definitions is provided on page 56

¹Source Morningstar

²Source J P Morgan

³Source Datastream The Company's benchmark is the FTSE Small Cap Index (excluding investment trusts)

Chairman's Statement

Investment Performance

Global equity markets remained volatile throughout the Company's financial year ended 31st July 2012 driven by concerns over policy responses to the Euro zone crisis and increasing signs of a slowdown in growth

Notwithstanding the Company's strong performance over the long term (as shown by the graph below), this year presented a very challenging environment for the UK smaller companies sector. Over the year, the Company's net asset value produced a negative total return of 7.5%. The share price produced a negative total return of 15.0% reflecting the widening of the share price discount from 16.5% to 23.7% over the year. These compare with a negative total return of 6.2% produced by the benchmark index the FTSE Small Cap Index (excluding investment trusts) over the same period.

■ Excess Return
■ Return on Net Assets
■ Benchmark Return

In the second half of the financial period the performance improved with the net asset value total return of 5.6%, compared to the benchmark net asset value of 5.7%

Since the year end equity markets have continued to rally and performance has improved significantly, with the net asset value per share rising 10.0% to 645.4p, and the share price 14.7% to 513.8p at 22nd October 2012. By comparison, the Company's benchmark has risen 11.9%. The current level of discount is 20.4%

The Investment Manager's Report provides a detailed commentary on the Company's investment strategy and performance.

Revenue and Dividends

Net revenue after taxation for the year was £1,666,000 (2011: £1,600,000) and revenue return per share, calculated on the average number of shares in issue, was 9.01p (2011: 8.50p). The Directors are recommending a final dividend of

9 Op per share (2011 8 5p), costing £1,645,000 (2011 £1,579,000) If approved, the dividend will be paid on 7th December 2012 to shareholders on the register on 16th November 2012

Each year the level of income received varies according to the Company's gearing, its investment stance and market conditions and, whilst it is the Company's policy to distribute substantially all the available income each year, shareholders should note that the Company's dividends may vary accordingly

Investment Manager

The Company's objective is to provide shareholders with capital growth from a portfolio of investments in UK smaller companies. The Board carried out a formal review of the capabilities and services of the Manager during the year. This covered investment management, company secretarial, administrative and marketing services provided to the Company by JPMorgan Asset Management (UK) Limited ('JPMAM') and further included their investment performance record, management processes, investment style and resources. We have concluded that JPMAM remains the most appropriate Manager of the Company's assets and that the ongoing appointment of the existing Investment Manager is in the best interests of shareholders.

Share Buy backs

At last year's AGM, shareholders granted the Directors authority to repurchase the Company's shares for cancellation, such authority to expire at the earlier of 27th May 2013 or the conclusion of the AGM in 2012. During the financial year the Company repurchased a total of 355,024 ordinary shares for cancellation for a total consideration of £1,566,000, representing 1.9% of the issued share capital at the beginning of the year. This has added approximately 2.1p per ordinary share to the net asset value for continuing shareholders.

The Board's objective remains to use the share repurchase authority to manage imbalances between the supply and demand of the Company's shares, thereby reducing the volatility of the discount. To date the Board believes this mechanism has been helpful and therefore proposes and recommends that powers to repurchase up to 14.99% of the Company's shares for cancellation be renewed for a further period.

Board of Directors

This year in line with suggested best practice, the Directors commissioned an independent firm specialising in board reviews to carry out the annual evaluation of the Board. The evaluation was comprehensive and covered a range of topics including size and composition of the Board, Board information and processes, shareholder engagement and training and accountability as well as the effectiveness of the Audit Committee, the Nomination Committee, the Chairman and the Directors. The report was very complimentary about the effectiveness, composition and mix of skills on the Board.

Chairman's Statement continued

In accordance with the Company's Articles of Association, and having served as Directors for more than nine years, both Richard Fitzalan Howard and I offer ourselves for re-election on an annual basis. The Board does not believe that length of service in itself should disqualify a Director from seeking re-election and, in proposing our re-elections, it has taken into account the ongoing requirements of the UK Corporate Governance Code. The need to refresh the Board and its Committees is kept under constant review. Furthermore, the Board has adopted corporate governance best practice and all remaining Directors will also stand for annual re-appointment. The Nomination Committee recommends to shareholders that we should all be re-appointed.

The Nomination Committee has reviewed the fees paid to Directors, which had remained unchanged since 2010. Cognisant of this fact, the strong medium to long term performance of the Company and the increased regulatory requirements that have been or are soon to be introduced, the Committee has recommended that they be increased. Details of the new fee levels can be found in the Directors' remuneration report on page 28. The aggregate level of fees payable in any one year remains below the maximum stipulated in the Articles of Association of £150,000.

Annual General Meeting

The Company's twenty second AGM will be held on Tuesday, 27th November 2012 at 2.00 p.m. at The Armourers' Hall, 81 Coleman Street, London EC2R 5BJ. In addition to the formal part of the meeting, there will be a presentation from the Investment Manager who will answer questions on the portfolio and performance. Shareholders who are unable to attend the AGM in person are encouraged to use their proxy votes.

Outlook

The overall investment environment remains exceptionally difficult. Smaller companies' valuations continue to be volatile and liquidity in markets remains poor. In the short term market values can be affected significantly by Central Bank policy decisions, and by the political processes which are uncomfortably unpredictable.

However, your Company has invested in a good spread of well positioned, well financed companies, with both UK and international exposure, which also have strong growth prospects. Your Board remains confident that the manager has an excellent approach to UK smaller company investment and the long term returns for the Company are testament to this sound approach.

Strone Macpherson
Chairman

23rd October 2012

Investment Manager's Report

Market Background

A dramatic decline in equity markets at the start of your Company's financial year, due to concerns over a faltering US recovery, a slowdown in Chinese growth, and on-going Eurozone crises, was followed by an almost equally dramatic rebound, largely driven by policy responses around the world. Throughout the year, each of these areas of concern has again been the subject of focus, macro data has been and remains the key driver of equity markets.

The optimistic growth forecasts for the UK proved to be incorrect, and after two quarters of negative growth, the UK re-entered recession. Forecast GDP growth for 2013 is anaemic at less than 1%. Global growth forecasts were also downgraded, but remain on a positive trajectory, with 2.2% GDP forecasts for 2012, rising to 2.6% for 2013.

Portfolio

Against this volatile equity backdrop, your benchmark declined by 6.2% for the year. It is disappointing to report that your fund underperformed this decline, producing a net asset value total return of -7.5%.

This underperformance is especially disappointing when we consider what went right for the portfolio in the year. Two of our largest positions were taken over during the period at significant premia to the prevailing share prices. Both of these were oil companies, Cove Energy and Nautical Petroleum, which we had owned for some time. Our original purchase price for Cove was 20p in 2009, and the company was taken over by the Thai state-owned oil company, PTT, for 240p. We first acquired stock in Nautical Petroleum around the 45p to 55p level, Cairn Energy bought the company at 450p/share. Other successful holdings within the portfolio included Anite, the telecoms testing company, and other long term positions such as Ashtead, Oxford Instruments and Elementis. We also benefitted from additional mergers and acquisitions activity ('M&A'), including take-overs of WSP, Hamworthy and Umeco.

Performance attribution						
Contributions to total return	12 months to 31st July 2012		12 months to 31st July 2011		12 months to 31st July 2010	
	%	%	%	%	%	%
Benchmark return		-6.2		21.1		15.6
Asset allocation	-0.7		0.9		2.8	
Stock selection	0.8		7.9		10.6	
Gearing/cash	-0.6		1.3		0.4	
Investment Manager's contribution		-0.5		19.1		13.8
Portfolio total return		-6.7		40.2		29.4
Management fee/other expenses	-1.2		-1.3		-1.1	
Repurchase of shares for cancellation	0.4		0.4		0.9	
VAT recovery	-		-		0.3	
Other effects		-0.8		-0.9		0.1
Return on net assets		-7.5		39.3		29.5
Impact of decrease/increase in discount		-7.5		9.7		0.7
Return to shareholders		-15.0		49.0		30.2

Source: Xamin/IPMAM/Morningstar. All figures are on a total return basis.
A glossary of terms and definitions is provided on page 56.

Investment Manager's Report continued

So where did the underperformance relative to the benchmark take place? The explanation is threefold. First, as discussed in the Interim Report, the dramatic fall in equities in August of last year, especially our holding in the FTSE 250 Index, hurt the Fund's performance. Second, two large stocks within our benchmark index which we did not hold, Pace and IP Group, produced very strong returns, which hurt performance on a relative basis. And third, while we did manage to avoid a number of significant underperformers, a few stocks within the portfolio performed very poorly in the year. Key amongst these were Exillon Energy, an oil exploration & production ('E&P') company, which disappointed on production figures and was harshly de-rated, and Cape, provider of blue-collar insulation and industrial services to the oil and gas, mining and construction industries, which had a number of profit warnings. It is our belief that the share price declines of both of these companies were excessive, and we bought more shares in both. Both of these share prices have subsequently begun to recover.

Changes to the portfolio have not been huge over the last year. We retain large sector overweights in Chemicals, Electronic & Electrical Equipment and Software, and remain significantly underweight in General Retail and Travel & Leisure. New holdings within the fund include Greencore, a supplier of convenience food to supermarkets, Sportingbet, an internet betting and gaming operator, and 888 Holdings, another online gaming company.

IPOs (initial public offerings) have been rare during the year. We have participated in a couple, buying positions in Snoozebox (portable hotel accommodation) and Eland (oil in Nigeria), and we reinvested some of the oil acquisition proceeds into other small oil E&P companies. We also significantly increased our holding in Carclo, a technology-led plastics business.

Market Outlook

It is easy to be negative on the direction of stockmarkets. Concerns about the state of the global economy abound. In addition to the enduring Eurozone crisis, the fragility of the US recovery, and the sluggish UK economy (with its stubbornly high deficit), additional new concerns have come into focus, including the so-called fiscal cliff in the US (the ending of various tax cuts and tax breaks, due December 2012), the change of Chinese leadership, and the slowdown in the stronger European economies.

However, against these negatives (and due to their existence) unprecedented liquidity has been put into the global system. In recent weeks we have seen the US Federal Reserve launch 'QE3', its third round of quantitative easing, which is open-ended in size and duration, and in addition the Fed has promised interest rates close to zero until 2015. In Europe we have seen the European Central Bank promise to do 'whatever it takes' to solve the Eurozone crisis, the plan now is to buy the shorter-dated bonds of those European countries in difficulty, as long as they agree to certain conditions. In China, there has been a new and massive commitment to infrastructure spend.

These actions by central banks underline just how fragile the economic outlook remains. But significantly they have also reduced the likelihood of a dramatic sell-off in equity markets. The question is how much of this bad news is already built into share prices. Valuations of equities are so low relative to history that despite this turmoil stockmarkets have rallied significantly this calendar year. Since 1st January 2012 up to the time of writing, the small cap index has risen by 25%.

All of this volatility confirms our long-term approach to investing. We look to invest in well-situated, well-financed companies with strong growth potential and we believe that numerous opportunities currently exist. We continue to be excited by the available opportunities, and aim to be fully invested up to our gearing limit. While the economic backdrop remains tough, these well-positioned companies should continue to grow and to outperform. The significant amount of M&A we have seen last year should also continue, as it is apparent that where equity markets are undervaluing opportunities, corporate buyers are willing to step in and make acquisitions.

Georgina Brittain
Investment Manager

23rd October 2012

Summary of Results

	2012	2011	
Total returns for the year ended 31st July			
Return to shareholders ¹	-15.0%	+49.0%	
Return on net assets ²	-7.5%	+39.3%	
Benchmark return ³	-6.2%	+21.1%	
			% change
Net asset value, share price and discount at 31st July			
Shareholders' funds (£'000)	107,282	120,126	-10.7
Net asset value per share	586.8p	644.5p	-9.0
Share price	448.0p	538.0p	-16.7
Share price discount to net asset value per share	23.7%	16.5%	
Shares in issue	18,283,028	18,638,052	
Revenue for the year ended 31st July			
Net revenue available for ordinary shareholders (£'000)	1,666	1,600	+4.1
Revenue return per share	9.01p	8.50p	+6.0
Dividend per share	9.00p	8.50p	+5.9
Actual Gearing Factor at 31st July ⁴	107%	107%	
Ongoing Charges ⁵	1.21%	1.16%	

A glossary of terms and definitions is provided on page 56

¹Source Morningstar

²Source J.P. Morgan

³Source Datastream. The Company's benchmark is the FTSE Small Cap Index (excluding investment trusts)

⁴Actual gearing represents investments excluding holdings in liquidity funds, expressed as a percentage of net assets

⁵Management fees and all other operating expenses excluding interest, expressed as a percentage of the average of the daily net assets during the year (2011 Total Expense Ratio ("TER") Management fee and all other operating expenses excluding interest, expressed as a percentage of the average of the month end net assets during the period). The Ongoing Charges are calculated in accordance with guidance issued by the Association of Investment Companies in May 2012

Performance

Ten Year Performance

Figures have been rebased to 100 at 31st July 2002

Source Morningstar/Datastream

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

Performance Relative to Benchmark

Figures have been rebased to 100 at 31st July 2002

Source Morningstar/Datastream

- JPMorgan Smaller Companies - share price total return
- JPMorgan Smaller Companies - net asset value total return
- The benchmark has been rebased to 100 and is represented by the grey horizontal line

Ten Year Financial Record

At 31st July	2002	2003	2004¹	2005¹	2006	2007	2008	2009	2010	2011	2012
Shareholders' funds (£'000)	55,204	62,954	74,217	94,753	118,326	143,657	96,035	73,016	89,460	120,126	107,282
Net asset value per share (p)	2070	2477	292 0	395 7	513 8	676 1	479 6	372 3	472 3	644 5	586.8
Share price (p)	164 0	199 5	230 0	322 0	440 5	562 0	391 3	289 0	368 0	538 0	448.0
Discount (%)	20 8	19 5	21 2	18 6	14 3	16 9	18 4	22 4	22 1	16 5	23.7
Actual gearing factor (%)	119	114	107	106	106	107	106	107	106	107	107
Year ended 31st July											
Gross revenue attributable to shareholders (£'000)	1,821	1,479	1,790	1,750	2,057	2,540	2,977	2,579	2,355	2,525	2,594
Revenue return per share (p)	3 10	2 85	3 80	3 62	4 37	5 22	8 67	11 43	8 92	8 50	9.01
Dividend per share (p)	3 00	2 85	3 75	3 75	4 25	5 00	7 00	11 00 ²	8 50	8 50	9.00
Ongoing Charges (%) ³	1 52	1 54	1 49	1 31	1 30	1 33	1 15	1 39	1 26	1 16	1.21
Rebased to 100 at 31st July 2002											
Return to shareholders ⁴	100 0	124 1	145 0	206 2	285 1	366 8	257 6	197 9	257 6	383 9	326.2
Return on net assets ⁴	100 0	121 6	143 0	196 8	260 8	346 0	245 5	195 7	253 5	353 0	326.4
Benchmark return ⁵	100 0	114 2	127 8	155 6	175 5	208 3	134 4	119 6	138 3	167 5	157.1

A glossary of terms and definitions is provided on page 56

¹The results for the year ended 31st July 2005 and 31st July 2004 have been restated in accordance with Financial Reporting Standard 21

²Includes a special dividend of 3 00p per share representing VAT recovered on investment management fees

³Management fees and all other operating expenses excluding interest, expressed as a percentage of the average of the daily net assets during the year (2009 to 2011 Total Expense Ratio ('TER') the average of the month end net assets during the year 2008 and prior years TER the average of the opening and closing net assets)

⁴Source Morningstar

⁵Source Datastream

Ten Largest Investments

Company	Sub-Sector	2012 Valuation		2011 Valuation	
		£'000	% ¹	£'000	% ¹
Carclo² Carclo is a technology led plastics and precision products manufacturing business	Chemicals	2,725	2.5	1,435	1.1
E2V Technologies² E2V Technologies manufactures high technology electronic components. The company produces radio frequency, microwave and sensing components and sub-systems. E2V manufactures imaging sensors for space missions and capturing digital images of teeth and imaging cameras for firefighters.	Electronics & Electrical Equipment	2,488	2.3	1,738	1.3
Anite² Anite provides consulting services to customers in the telecommunications and travel sectors, specialising in the telecom testing arena.	Software & Computer Services	2,428	2.3	1,716	1.3
Oxford Instruments Oxford Instruments produces advanced instrumentation equipment. The company's products are used for scientific research, chemical analysis, patient monitoring, semiconductor processing and diagnostic imaging.	Electronics & Electrical Equipment	2,359	2.2	4,659	3.6
Dialight² Dialight manufactures and sells light emitting diode (LED) products for the electronics industry. The company's products include circuit board indicators, panel mount indicators, traffic signals, vehicle lighting and solid state lighting.	Electronics & Electrical Equipment	2,357	2.2	2,179	1.7
NCC² NCC is a global provider of independent escrow and information security assurance services. The company provides business critical IT assurance and protection to public and private organisations worldwide.	Software & Computer Services	2,342	2.2	1,804	1.4
Brammer Brammer is a distributor for companies in industrial services. Brammer distributes mechanical and electrical power transmission products, bearings and motion control systems.	Support Services	2,340	2.2	3,531	2.7
Elementis² Elementis is a global speciality chemicals company. The company comprises three businesses. Speciality Products produces rheology additives that enhance the flow characteristics of liquids in a wide range of applications, such as in coatings, cosmetics and oilfield drilling. Surfactants produces surface active ingredients. Chromium manufactures a range of chromium chemicals.	Chemicals	2,326	2.2	2,453	1.9
Greencore^{2,3} Greencore manufactures and distributes a diverse range of primary foods and related products, food ingredients and prepared foods to the consumer and industrial sectors.	Food Producers	2,298	2.1	-	-
RPC RPC manufactures and sells rigid plastic packaging. The company has seven factories which produce sauce bottles and jars, lubricating oil bottles, containers for DIY/adhesive products, bottles for mineral water and other drinks, and paint containers.	General Industrials	2,285	2.1	2,636	2.1
Total⁴		23,948	22.3		

¹Based on total assets less current liabilities of £107.3m (2011: £129.1m)

²Not included in the ten largest investments at 31st July 2011

³Not held in the Portfolio as at 31st July 2011

⁴At 31st July 2011, the value of the ten largest investments amounted to £30.5m representing 23.6% of total assets less current liabilities

Portfolio Analysis

Sector	31st July 2012		31st July 2011	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Industrials	42.1	34.4	49.0	39.3
Financials	14.1	20.7	14.7	22.0
Technology	11.2	9.1	8.2	6.1
Oil & Gas	10.6	2.9	10.5	3.5
Consumer Services	10.3	18.1	8.5	14.8
Basic Materials	7.6	4.1	7.5	2.2
Consumer Goods	6.2	7.9	3.5	5.7
Health Care	2.8	2.8	1.6	4.8
Telecommunications	2.3	—	3.4	1.6
Utilities	0.3	—	0.4	—
Liquidity fund	0.7	—	0.0	—
Net current liabilities and loan balances	(8.2)	—	(7.3)	—
Total	100.0	100.0	100.0	100.0

Based on net assets of £107.3m (2011: £120.1m)

Holdings breakdown based on Market Cap as at 31st July 2012

List of Investments

at 31st July 2012

Company	Valuation £'000	Company	Valuation £'000
Industrials		General Industrials	
Support Services		RPC	2,285
Brammer	2,340	Aerospace & Defence	
Hyder Consulting	2,234	Avon Rubber	1,340
Diploma	2,121	Industrial Transportation	
Menzies (John)	2,112	Clarkson	1,326
Ashtead	1,993	Total Industrials	
Tribal	1,659		45,125
Hargreaves Services ¹	1,408	Financials	
Hogg Robinson	1,312	Real Estate	
Interserve	1,235	Unite	2,227
Fiberweb	1,063	Quintain Estates & Development	1,984
St Ives	701	St Modwen Properties	1,982
Staffline ¹	449	CLS	1,547
Harvey Nash	445	LSL Property Services	1,424
Howden Joinery	437	Development Securities	1,377
Robert Walters	320	Capital & Regional	414
Shaft Sinkers	231	General Financial	
Smith News	182	International Personal Finance	1,287
Electronics & Electrical Equipment		Lonrho	847
E2V Technologies	2,488	Non Life Insurance	
Oxford Instruments	2,359	Novae	2,052
Dialight	2,357	Equity Investment Instruments	
TT electronics	1,789	Brookwell ¹	31
Voalex	1,247	Total Financials	
Industrial Engineering			15,172
Senior	2,186		
Fenner	1,993		
Severfield-Rowen	938		
Renold	745		
Hill & Smith	312		
Construction & Materials			
Morgan Sindall	1,647		
Galliford Try	946		
Costain	925		

List of Investments continued

Company	Valuation £'000	Company	Valuation £'000
Technology		Consumer Services	
Software & Computer Services		Travel & Leisure	
Anite	2,428	Sportingbet	1,622
NCC	2,342	Fuller Smith & Turner	1,539
Innovation	1,367	Snoozebox ¹	586
Micro Focus International	902	Spirit Pub	533
Kofax	880	888	468
Advanced Computer Software ¹	612	Cupid ¹	369
Iomart ¹	448	Thomas Cook	358
AVEVA	439		
Lo-Q ¹	293	Media	
K3 Business Technology ¹	254	Entertainment One	1,289
		Chime Communications	1,209
Technology Hardware & Equipment		Tarsus	1,161
Pace	1,276	Mood Media ¹	1,050
CSR	541	ITE	567
Telit Communications ¹	243		
Total Technology	12,025	General Retailers	
		Mulberry ¹	311
Oil & Gas		Total Consumer Services	11,062
Oil & Gas Producers			
Nautical Petroleum ¹	2,219	Basic Materials	
Cove Energy ¹	1,175	Chemicals	
Exillon Energy	958	Carclo	2,725
Providence Resources ¹	510	Elementis	2,326
Faroe Petroleum ¹	496	Yule Catto	1,400
Valiant Petroleum ¹	417		
Amerisur Resources ¹	375	Mining	
Bowleven ¹	315	Gemfields ¹	567
Trap Oil ¹	225	Anglo Pacific	381
Oilex ¹	68	Avocet Mining	217
Oil Equipment, Services & Distribution		Industrial Metals	
Cape	2,233	International Ferro Metals	513
Kentz	1,128		
Lamprell	1,104	Total Basic Materials	8,129
Enteq Upstream ¹	192		
Total Oil & Gas	11,415		

Company	Valuation £'000
Consumer Goods	
Food Producers	
Greencore Group	2,298
Hilton Food	1,393
Anglo-Eastern Plantations	1,135
Devro	797
Asian Plantations ¹	549
MP Evans ¹	464
Total Consumer Goods	6,636
Health Care	
Pharmaceuticals & Biotechnology	
Vectura	1,797
Abcam ¹	969
Health Care Equipment & Services	
Immunodiagnostic Systems ¹	242
Total Health Care	3,008
Telecommunications	
Fixed Line Telecommunications	
KCOM	1,696
Alternative Networks ¹	446
Mobile Telecommunications	
Monitise ¹	306
Total Telecommunications	2,448

Company	Valuation £'000
Utilities	
Electricity	
OPG Power Venture ¹	282
Total Utilities	282
Liquidity Funds	
JPMorgan Sterling Liquidity Fund	800
Total Liquidity Funds	800
Total Investments	116,102

The portfolio comprises investments in equity shares

¹AIM listed company

Board of Directors

Strone Macpherson†‡ (Chairman of the Board and Nomination Committee)

A Director since June 1990

Last reappointed to the Board 2011

Remuneration £29,000

He is chairman of Close Brothers Group plc, British Empire Securities and General Trust plc, and Estover Energy Limited. He is a director of Best Securities Limited, and a trustee of The King's Fund and chairman of its investment committee. He is also a governor of Heriot-Watt University.

Connections with Manager Previously a director of Robert Fleming & Co Limited

Other connections Winterflood Securities Limited, the Company's broker, is a subsidiary of Close Brothers Group plc, of which Mr Macpherson is the Chairman. The Board has approved this potential conflict.

Shared directorships with other Directors British Empire Securities and General Trust plc, and Best Securities Limited (with Andrew Robson)

Shareholding in Company 24,860 shares

Ivo Coulson*†‡

A Director since October 2005

Last reappointed to the Board 2009

Remuneration £20,000

He is a director of Baring Emerging Europe plc, Eco Age Ltd, and Squint Limited. He is also an investment partner at Stanhope Capital LLP and a Fellow of the Securities Institute.

Connections with Manager None

Shared directorships with other Directors None

Shareholding in Company 5,000 shares

Richard Fitzalan Howard†‡

A Director since February 1997

Last reappointed to the Board 2011

Remuneration £20,000

He is chairman of FF&P Asset Management Limited and a director of CCFHB Limited and CCLA Investment Management Limited.

Connections with Manager Previously a director of Fleming Investment Management Limited (now JPMorgan Asset Management (UK) Limited - manager of the Company's assets) from 1986 to 2000.

Shared directorships with other Directors CCLA Investment Management Limited (with Michael Quicke)

Shareholding in Company 7,500 shares

Michael Quicke*†‡ (Chairman of the audit committee)

A Director since October 2005

Last reappointed to the Board 2011

Remuneration £23,000

He is chief executive of CCLA Investment Management Limited and a director of Albanwise Limited

Connections with Manager None

Shared directorships with other Directors CCLA Investment Management Limited (with Richard Fitzalan Howard)

Shareholding in Company 4,333 shares

Andrew Robson*†‡

A Director since April 2007

Last reappointed to the Board 2010

Remuneration £20,000

He is a director of British Empire Securities and General Trust plc, First Integrity Limited, Mobeus Income & Growth 4 VCT plc, Shires Income plc, Brambletye School Trust Limited, Peckwater Limited and Best Securities Limited. He is a chartered accountant

Connections with Manager Previously a director of Robert Fleming & Co Limited

Shared directorships with other Directors British Empire Securities and General Trust plc, and Best Securities Limited (with Strone Macpherson)

Shareholding in Company 1,163 shares

* Member of the Audit Committee

† Member of the Nomination Committee

‡ Considered independent by the Board

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31st July 2012

Business Review

Business of the Company

The Company carries on business as an investment trust and was approved by HM Revenue & Customs as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010 for the year ended 31st July 2011. In the opinion of the Directors, the Company has subsequently conducted its affairs so that it should continue to qualify as an investment trust under the HM Revenue and Customs' Qualifying rules

Approval for the year ended 31st July 2011 is subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006. The Company is not a close company for taxation purposes

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 7

Objective

The Company's objective is to achieve capital growth from UK listed smaller companies by consistent out-performance of the Company's benchmark index, the FTSE Small Cap Index (excluding investment trusts) and a rising share price over the longer term by taking carefully controlled risks

Investment Policies and Risk Management

In order to achieve this objective, the Company invests in a diversified portfolio of small companies, emphasising capital rather than income growth, with the likely result that the level of dividend will fluctuate

Investment risks are managed by investing in a diversified portfolio of UK listed smaller companies. The number of investments in the portfolio will normally range between 70 and 150. The Company seeks to manage its risk relative to its benchmark index by limiting the active portfolio exposure to stocks and sectors. The maximum exposure to an investment will normally range between +/-2% relative to the benchmark index. The maximum exposure to a sector will normally range between +/-10% relative to the benchmark index

The Company invests in smaller companies which tend to be more volatile than larger companies and the investment policy should therefore be regarded as carrying greater than average risk

Liquidity and borrowings are managed with the aim of increasing returns to shareholders. The Company does not invest more than 15% of its gross assets in other UK listed investment companies (including investment trusts)

Investment Restrictions and Guidelines

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

- As an investment trust, the Company cannot invest more than 15% of its assets in any one investment, at the time of acquisition. With effect from 1st August 2012, this limit no longer applies and instead, the Company must demonstrate that it has policies in place to spread its investment risk
- No investment in the portfolio will be greater than 10% of the Company's gross assets
- The Company will not normally invest in unlisted securities
- The Company will not normally invest in derivative instruments
- The Company will utilise liquidity and borrowings in a range of 90% to 115% invested

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

Performance

In the year ended 31st July 2012, the Company produced a total return to shareholders of -15.0% and a total return on net assets of -7.5%. This compares with the return on the Company's benchmark index of -6.2%. As at 31st July 2012, the value of the Company's investment portfolio was £116.1 million. The Investment Manager's Report on pages 5 to 7 includes a review of developments during the year as well as information on investment activity within the Company's portfolio

Total Return, Revenue and Dividends

Gross total loss for the year amounted to £8,192,000 (2011 return £35,283,000) and net total loss after deducting interest, administration expenses and taxation amounted to £9,699,000 (2011 return £33,769,000). Distributable income for the year amounted to £1,666,000 (2011 £1,600,000)

The Directors recommend a final dividend of 9.0p (2011 8.5p) per share payable on 7th December 2012 to holders on the register at the close of business on 16th November 2012. This distribution will absorb £1,645,000 (2011 £1,579,000). Following payment of the final dividend, the revenue reserve will amount to £1,026,000 (2011 £1,000,000).

Gearing

The Board sets the overall gearing policy. A £10 million unsecured floating rate borrowing facility is currently in place with ING Bank NV which expires in April 2013. This facility is highly flexible and can be used tactically as investment opportunities present themselves, with the aim of enhancing returns. As at 31st July 2012, £9 million had been drawn on the facility. Further details about the loan facility are given in note 22 to the Accounts on page 48.

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 index**
This is the most important KPI by which performance is judged. Information on the Company's performance is given in the Chairman's Statement and the Investment Manager's Report.

Over the ten years to 31st July 2012, the Company recorded a total return of 226.2% which compares very favourably with the benchmark return of 57.1%.

Performance Relative to Benchmark

Figures have been rebased to 100 at 31st July 2002.

Source: Morningstar/Datastream

- JPMorgan Smaller Companies - share price total return
- JPMorgan Smaller Companies - net asset value total return
- The benchmark is represented by the grey horizontal line

Ten Year Performance

Figures have been rebased to 100 at 31st July 2002.

Source: Morningstar/Datastream

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

- **Performance against the Company's peers**
The principal objective is to achieve capital growth relative to the benchmark. However, the Board also monitors the performance relative to a broad range of competitor funds.
- **Performance attribution**
The purpose of performance attribution analysis is to assess how the Company achieved its performance relative to its benchmark index, i.e. to understand the impact on the Company's relative performance of the various components such as asset allocation and stock selection. Details of the attribution analysis for the year ended 31st July 2012 are given in the Investment Manager's Report on page 5.
- **Share price discount to net asset value ('NAV') per share**
The Board operates a share repurchase programme that seeks to address imbalances in supply and demand for the Company's shares within the market and thereby minimise the volatility and absolute level of the discount to NAV per share at which the Company's shares trade. In the year to 31st July 2012, the discount ranged between 15.4% and 23.7%.

Directors' Report continued

Discount Performance

Source: Datastream

— JPMorgan Smaller Companies - discount

• Ongoing Charges

The ongoing charges represent the Company's 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 method of calculating the ongoing charges has been changed. In previous years the total expense ratio ('TER') was calculated which represented the Company's management fee and other operating expenses excluding interest, expressed as a percentage of the average of the month end net assets during the year. The ongoing charges for the year ended 31st July 2012 were 1.21% (2011 TER 1.16%). 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.

Share Capital

The Company has authority both to repurchase shares in the market for cancellation and issue new shares for cash.

During the year the Company repurchased a total of 355,024 ordinary shares at nominal value of approximately £89,000, for cancellation for a total consideration of £1,566,000. This amount represented 1.9% of the issued share capital at the beginning of the year. As the shares were repurchased at a discount to the underlying net asset value ('NAV') per share they enhanced the NAV per share of the remaining shares. Since the year end the Company repurchased an additional 63,656 ordinary shares for cancellation.

A resolution to renew the authority to repurchase shares will be put to shareholders at the forthcoming Annual General Meeting.

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

The Company does not currently hold any shares in Treasury and does not have authority to reissue shares from Treasury at a discount to NAV per share.

Principal Risks

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

- **Investment and Strategy** An inappropriate investment strategy, for example asset allocation or the level of gearing, may lead to under-performance against the Company's benchmark index and peer companies, resulting in the Company's shares trading on a wider discount. The Board manages these risks by diversification of investments through its investment restrictions and guidelines which are monitored and reported on. JPMorgan Asset Management (UK) Limited (JPMAM) provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates, liquidity reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the Investment Managers, who attend all Board meetings, and reviews data which shows statistical measures of the Company's risk profile. The Investment Manager employs the Company's gearing, within a strategic range set by the Board. The Board usually holds a separate meeting devoted to strategy each year.
- **Discount** A disproportionate widening of the discount relative to the Company's peers could result in loss of value for shareholders. The Board regularly discusses discount policy and has set parameters for the Manager and the Company's broker to follow.
- **Political** 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 seeks external advice where appropriate.
- **Corporate Governance and Shareholder Relations** Details of the Company's compliance with Corporate Governance best practice, including information on relations with shareholders, are set out in the Corporate Governance report on pages 23 to 27.
- **Market** Market risk arises from uncertainty about the future prices of the Company's investments. It represents the potential loss that the Company might suffer through

holding investments in the face of negative market movements. The Board considers asset allocation, stock selection and levels of gearing on a regular basis and has set investment restrictions and guidelines, which are monitored and reported on by JPMAM. The Board monitors the implication and results of the investment process with the Manager.

- **Accounting, Legal and Regulatory** In order to qualify as an investment trust, the Company must comply with Section 1158 of the Income and Corporation Tax Act 2010 ('Section 1158'). Details of the Company's approval are given under 'Business of the Company' above. Should the Company breach Section 1158, it may lose its investment trust status and as a consequence capital gains within the Company's portfolio would be subject to Capital Gains Tax. The Section 1158 qualification criteria are continually monitored by JPMAM and the results reported to the Board each month. The Company must also comply with the provisions of The Companies Act 2006 and, as its shares are listed on the London Stock Exchange, the UKLA Listing Rules and Disclosure and Transparency Rules ('DTRs'). A breach of the Companies Act 2006 could result in the Company and/or the Directors being fined or the subject of criminal proceedings. Breach of the UKLA Listing Rules or DTRs may result in the Company's shares being suspended from listing which in turn would breach Section 1158. The Board relies on the services of its Company Secretary, JPMAM, and its professional advisers to ensure compliance with the Companies Act and the UKLA Listing Rules and DTRs.
- **Operational** Disruption to, or failure of, JPMAM's accounting, dealing or payments systems or the custodian's records may prevent accurate reporting and monitoring of the Company's financial position. Details of how the Board monitors the services provided by JPMAM and its associates and the key elements designed to provide effective internal control are included within the Internal Control section of the Corporate Governance report on pages 26 and 27.
- **Financial** The financial risks faced by the Company include market price risk, interest rate risk, liquidity risk and credit risk. Bank counterparties are subject to daily credit analysis by the Manager and regular consideration at meetings of the Board. In addition the Board receives reports on the Manager's monitoring and mitigation of credit risks on share transactions carried out by the Company. Further details are disclosed in note 22 on pages 47 to 51.

Future Developments

Clearly, the future development of the Company is much dependent upon the success of the Company's investment strategy in the light of economic and equity market developments. The Investment Manager discusses the outlook in her report on pages 6 and 7.

Management of the Company

The Manager and Secretary is JPMorgan Asset Management (UK) Limited ('JPMAM'). JPMAM is employed under a contract terminable on three month's notice, without penalty. If the Company wishes to terminate the contract on shorter notice, the balance of remuneration is payable by way of compensation.

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

The Board conducts a formal evaluation of the Manager on an annual basis. The evaluation includes consideration of the investment strategy and process of the Investment Managers, noting out-performance of the benchmark over the long term, and the support that the Company receives from JPMAM. As a result of the evaluation process, the Board confirms that it is satisfied that the continuing appointment of the Manager is in the interests of shareholders as a whole.

Management Fee

The management fee is paid by monthly instalments based on the total assets less current liabilities at the beginning of each month and is charged at a rate of 0.8% per annum. Loans that are drawn down under a loan facility with an original maturity date of one year or more are not classified as current liabilities for the purpose of the management fee calculation. If the Company invests in funds managed or advised by JPMAM or any of its associated companies, the investments are excluded from the calculation and therefore attract no fee. The Company invests any surplus liquidity into a non-charging class of the JPMorgan Sterling Liquidity Fund and this Fund is therefore not excluded from the management fee calculation.

Going Concern

The Directors believe that having considered the Company's investment objective (see page 18), risk management policies (see pages 47 to 51), liquidity risk (see note 22(b) on page 50), capital management policies and procedures (see page 52), the nature of the portfolio and expenditure projections, that the

Directors' Report continued

Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future. For these reasons, they consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the accounts.

Payment Policy

It is the Company's policy to obtain the best terms for all business and therefore there are no standard payment terms. In general the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by these terms. As at 31st July 2012, the Company had no outstanding trade creditors (2011 same).

Directors

The Directors of the Company who held office at the end of the year, together with their beneficial interests in the Company's ordinary share capital, are given below.

Directors	31st July 2012	1st August 2011
Strone Macpherson	24,860	24,860
Ivo Coulson ¹	5,000	5,000
Richard Fitzalan Howard	7,500	7,500
Michael Quicke	4,333	4,333
Andrew Robson	1,163	1,163

¹Ivo Coulson also had a non-beneficial interest in 5,200 shares.

No changes in the above holdings have been recorded as at the date of this report.

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

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 indemnities were in place during the year and as at the date of this report.

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:

- so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware, and
- each of the Directors has taken all the steps that he ought to have taken as a Director in order to make himself 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 of the Companies Act 2006.

Independent Auditors

Deloitte LLP have expressed their willingness to continue in office as Auditors and a resolution proposing their reappointment, and to authorise 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 advisor authorised under the Financial Services and Markets Act 2000.

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

(i) Authority to issue new shares for cash and disapply pre-emption rights (Resolutions 10 and 11)

The Directors will seek renewal of the authority at the AGM to issue up to 5% of the present issued share capital for cash. The full text of the resolutions is set out in the Notice of Annual General Meeting on pages 53 and 54.

It is advantageous for the Company to be able to issue new shares to participants purchasing shares through the JPMAM.

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

(ii) Authority to repurchase the Company's ordinary shares (Resolution 12)

The authority to repurchase up to 14.99% of the Company's issued share capital, granted by shareholders at the 2011 Annual General Meeting, will expire on 27th May 2013. The repurchase of shares at a discount to the underlying net asset value ('NAV') would enhance the NAV of the remaining shares. The Board will therefore seek shareholder approval at the AGM to renew this authority which will last until 26th May 2014 or until the whole of the 14.99% has been acquired, whichever is the earlier.

The full text of the resolution is set out in the Notice of Annual General Meeting on pages 53 and 54. 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 10 to 12 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 42,856 shares representing approximately 0.2% of the voting rights of 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 on page 29, indicates how the Company has applied the principles of recommended governance of the Financial Reporting Council UK Corporate Governance Code (the 'UK Corporate Governance Code') and

the AIC's Code of Corporate Governance, (the 'AIC Code'), which complements the UK Corporate Governance Code and provides a framework of best practice for investment trusts.

The Board is responsible for ensuring the appropriate level of corporate governance and considers that the Company has complied with the best practice provisions of the UK Corporate Governance Code, other than in respect of the provision relating to the appointment of a senior independent director and the term of office of the directors, and with the best practice provisions of the AIC Code throughout the year under review and up to the date of approval of the annual report and accounts.

Role of the Board

A management agreement between the Company and JPMAM sets out the matters over which the Manager has authority. This includes management of the Company's assets and the provision of accounting, company secretarial, administrative, and some marketing services. All other matters are reserved for the approval of the Board. A formal schedule of matters reserved to the Board for decision has been approved. This includes 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 has procedures in place to deal with potential conflicts of interest and, following the introduction of The Bribery Act 2010, has adopted appropriate procedures designed to prevent bribery. It confirms that the procedures have operated effectively during the period under review.

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

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

Directors' Report continued

Board Composition

The Board chaired by Strone Macpherson, consists of five non-executive Directors, all of whom are regarded by the Board as independent of the Company's Manager, including the Chairman. The Directors have a breadth of investment, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on pages 16 and 17.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board details of which may be found below. The Board has considered whether a senior independent director should be appointed and has concluded that, as the Board comprises entirely of non-executive directors, this is unnecessary at present. However, the Chairman of the Audit Committee 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 appointed by shareholders. Thereafter, a Director's appointment will run for a term of three years. Subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for the Director to seek an additional term. The Board does not believe that length of service in itself necessarily disqualifies a Director from seeking reappointment but, when making a recommendation, the Board will take into account the requirements of the UK Corporate Governance Code, including the need to refresh the Board and its Committees. The Board has adopted corporate governance best practice and all Directors stand for annual reappointment.

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.

Induction and Training

On appointment, the Manager and Company Secretary provide all Directors with induction training. Thereafter regular briefings are provided on changes in law and regulatory requirements that affect the Company and the Directors. Directors are encouraged to attend industry and

other seminars covering issues and developments relevant to investment trust companies. Regular reviews of the Directors' training needs are carried out by the Chairman by means of the evaluation process described below.

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 16 and 17. Directors who are not members of Committees may attend at the invitation of the Chairman.

The table below details the number of Board and Committee meetings attended by each Director. During the year there were five full Board meetings, including a private meeting of the Directors to evaluate the Manager. There were also two Audit Committee meetings and one meeting of the Nomination Committee during the year.

Director	Board Meetings Attended	Audit Committee Meetings Attended	Nomination Committee Meetings Attended
Strone Macpherson	5	2 ¹	1
Ivo Coulson	5	2	1
Richard Fitzalan Howard	5	2 ¹	1
Michael Quicke	5	2	1
Andrew Robson	5	2	1

¹Mr Macpherson and Mr Fitzalan Howard attend the Audit Committee Meetings by invitation.

Board Committees

Nomination Committee

The Nomination Committee, chaired by Strone Macpherson, consists of all the independent Directors and meets at least annually to ensure that the Board has an appropriate balance of skills and experience to carry out its fiduciary duties and to select and propose suitable candidates for appointment when necessary. The appointment process takes account of the benefits of diversity including gender. A variety of sources, including the use of external search consultants, may be used to ensure that a wide range of candidates are considered.

The Committee conducts an annual performance evaluation of the Board, its committees and individual Directors to ensure that all Directors have devoted sufficient time and contributed

adequately to the work of the Board and its Committees. The evaluation of the Board considers the balance of experience, skills, independence, corporate knowledge, its diversity, including gender, and how it works together. This year, the Directors commissioned Lintstock, a firm of independent consultants, to facilitate the evaluation of the Board. Lintstock conducted interviews with each Director and provided the Board with a written report which was discussed by the Nomination Committee. The evaluation of individual Directors was led by the Chairman who also met with each Director. The Audit Committee Chairman lead the evaluation of the Chairman's performance.

The Committee also reviews Directors' fees and makes recommendations to the Board as and when required.

Audit Committee

The Audit Committee, chaired by Michael Quicke and whose membership is set out on pages 16 and 17, meets at least twice each year. The members of the Audit Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee and are satisfied that at least one member of the Audit Committee has recent and relevant financial experience.

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. It reviews the terms of the management agreement and examines the effectiveness of the Company's internal control systems, receives information from the Managers' Compliance department and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors including the provision of non audit services and the period of service held by the senior statutory auditor. 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 attend the Audit Committee meeting at which the draft annual report and accounts are considered. There are no contractual restrictions on the choice of the committee as to external auditors. Any decision to open the external audit to tender is taken on the recommendation of the Audit Committee.

The Committee has put in place a policy on non-audit services.

The Directors' statement on the Company's system of internal control is set out overleaf.

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 Company's AGM.

Relations with Shareholders

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

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the Directors and representatives of the Managers are available in person to meet with shareholders and answer their questions. In addition, a presentation is given by the Investment Managers who review the Company's performance. During the year the Company's brokers, the Investment Managers and JPMAM hold regular discussions with larger shareholders. The Directors are made fully aware of their views. The Chairman and Directors make themselves available as and when required to address shareholder queries. The Directors may be contacted through the Company Secretary whose details are shown on page 57.

The Company's Annual Report and Accounts are 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 57.

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

Section 992 Companies Act 2006

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

Capital Structure

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

Directors' Report continued

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 AGM on page 55

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	%
JPMorgan Asset Management ^{1,2}	3,763,868	20.59
Chase Nominees Limited ²	2,833,568	15.50
East Riding of Yorkshire	1,400,000	7.66
Royal London Asset Management	799,082	4.37
Legal & General Investment Management	782,158	4.28
City of Bradford	755,000	4.13
Rensburg Sheppards Investment	566,548	3.10

¹Includes JPMorgan Claverhouse plc 1,376,500 7.53

²Includes JPMorgan Elect plc (Managed Growth shares) 1,375,456 7.52

³Includes shares held on behalf of JPMAM Investment Account, ISA and SIPP Non beneficial

On 29th August 2012, Investec Wealth & Investment Ltd disclosed that their holding was 631,465 shares (3.45%) No further changes to these holdings had been notified as at the date of this report

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

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

Environmental Matters, Social and Community Issues

Information on environmental matters, social and community issues is set out on page 27 The Company has no employees

Risk Management and Internal Control

The UK Corporate Governance Code requires the Directors, at least annually, to review the effectiveness of the Company's system of internal control and to report to shareholders that they have done so This encompasses a review of all controls,

which the Board has identified as including business, financial operational, compliance and risk management

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

Since investment management, custody of assets and all administrative services are provided to the Company by JPMAM and its associates, the Company's system of internal control mainly comprises monitoring the services provided by JPMAM and its associates including the operating controls established by them, to ensure they meet the Company's business objectives There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company This process accounts with the Turnbull guidance The Company does not have an internal audit function of its own, but relies on the internal audit department of JPMAM This arrangement is kept under review The key elements designed to provide effective internal control are as follows

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

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

Management Systems - The 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 JPMAM's Compliance department which regularly monitors compliance with FSA rules

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

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

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

By the means of the procedures set out above, the Board confirms that it has reviewed, and is satisfied with, the effectiveness of the Company's system of internal control for the year ended 31st July 2012, and to the date of approval of this Annual Report and Accounts

During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore, a confirmation in respect of necessary actions has not been considered appropriate.

Corporate Governance and Voting Policy

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

Corporate Governance

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

Proxy Voting

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

Stewardship/Engagement

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

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

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

Social & Environmental

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

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

JPMAM's Voting Policy and Corporate Governance Guidelines are available on request from the Company Secretary or can be downloaded from JPMAM's website [http://www.jpmorganassetmanagement.co.uk/institutional/CommentaryAndAnalysis/Corporate Governance](http://www.jpmorganassetmanagement.co.uk/institutional/CommentaryAndAnalysis/Corporate%20Governance), which also sets out its approach to the seven principles of the FRC Stewardship Code, its policy relating to conflicts of interest and its detailed voting record.



By order of the Board
Divya Amin, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Company Secretary

23rd October 2012

Directors' Remuneration Report

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

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited they are indicated as such. The auditors' opinion is included in their report on page 30.

Directors' Remuneration¹

Directors Name	2012 £	2011 £
Strone Macpherson (Chairman)	27,333	27,000
Ivo Coulson	19,167	19,000
Richard Fitzalan Howard	19,167	19,000
Michael Quicke	21,333	21,000
Andrew Robson	19,167	19,000
Total	106,167	105,000

¹The above table is audited information.

The total Directors' fees of £106,167 (2011: £105,000) were all paid to Directors and £nil (2011: £nil) paid to third parties for making available the services of Directors.

Following the Nomination Committee's review of the Directors' fees, with effect from 1st June 2012, Directors' fees were raised to £29,000 per annum for the Chairman, £23,000 per annum for the Chairman of the Audit Committee and £20,000 per annum for each other Director. Prior to this, Directors' fees were last increased in 2010.

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

As all of the Directors are non-executive, the Board has not established a Remuneration Committee. Instead, the Nomination Committee reviews fees on a regular basis and makes recommendations to the Board as and when appropriate. Reviews are based on information provided by the Manager, JPMAM and industry research carried out by

third parties on the level of fees paid to the directors of the Company's peers and within the investment trust industry generally. The Directors' fees are not performance-related. The Company's Articles stipulate that aggregate fees must not exceed £150,000 per annum. Directors' fees are reviewed regularly and any increase in the maximum aggregate amount requires both Board and shareholder approval. The Directors do not have service contracts with the Company.

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

A graph showing the Company's share price total return compared with its benchmark index total return, the FTSE Small Cap Index (excluding investment trusts), over the last five years is shown below.

Five Year Share Price and Benchmark Total Return to 31st July 2012

Source: Morningstar/Datastream

- Share price total return
- Benchmark total return



By order of the Board
Divya Amin, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Company Secretary

23rd October 2012

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and accounts in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and 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.

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

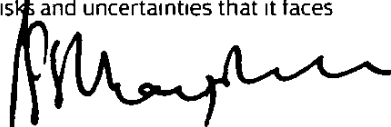
The accounts are published on the www.jpmsmallercompanies.co.uk website, which is

maintained by the Company's Manager, JPMorgan Asset Management (UK) Limited ('JPMAM'). The maintenance and integrity of the website maintained by JPMAM is, so far as it relates to the Company, the responsibility of JPMAM. 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 accounts since they were initially presented on the website. The accounts are prepared in accordance with UK legislation, which may differ from legislation in other jurisdictions.

Under applicable law and regulations the Directors are also responsible for preparing a Directors' Report and Directors' Remuneration Report that comply with that law and those regulations.

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

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and return or loss of the Company, and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.



For and on behalf of the Board
Strone Macpherson
Director

23rd October 2012

Independent Auditor's Report

Independent Auditor's Report to the members of JPMorgan Smaller Companies Investment Trust plc

We have audited the financial statements of JPMorgan Smaller Companies Investment Trust plc for the year ended 31st July 2012 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 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This 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.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31st July 2012 and of its net loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

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

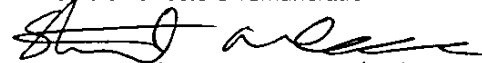
Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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, contained within the Directors' Report, in relation to going concern,
- 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, and
- certain elements of the report to the shareholders by the Board on Directors' remuneration.



Stuart McLaren (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor,
London, United Kingdom

23rd October 2012

Income Statement

for the year ended 31st July 2012

	Notes	Revenue £'000	2012 Capital £'000	Total £'000	Revenue £'000	2011 Capital £'000	Total £'000
(Losses)/gains on investments held at fair value through profit or loss	2	–	(10,786)	(10,786)	–	32,758	32,758
Income from investments	3	2,593	–	2,593	2,511	–	2,511
Other interest receivable and similar income	3	1	–	1	14	–	14
Gross return/(loss)		2,594	(10,786)	(8,192)	2,525	32,758	35,283
Management fee	4	(459)	(459)	(918)	(472)	(472)	(944)
Other administrative expenses	5	(348)	–	(348)	(333)	–	(333)
Net return/(loss) on ordinary activities before finance costs and taxation		1,787	(11,245)	(9,458)	1,720	32,286	34,006
Finance costs	6	(120)	(120)	(240)	(117)	(117)	(234)
Net return/(loss) on ordinary activities before taxation		1,667	(11,365)	(9,698)	1,603	32,169	33,772
Taxation	7	(1)	–	(1)	(3)	–	(3)
Net return/(loss) on ordinary activities after taxation		1,666	(11,365)	(9,699)	1,600	32,169	33,769
Return/(loss) per share	9	9.01p	(61.47)p	(52.46)p	8 50p	170 90p	179 40p

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

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

The notes on pages 35 to 52 form an integral part of these accounts.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31st July 2012

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 31st July 2010	4,735	18,360	1,931	61,846	2,588	89,460
Repurchase and cancellation of the Company's own shares	(75)	–	75	(1,499)	–	(1,499)
Net return on ordinary activities	–	–	–	32,169	1,600	33,769
Dividend appropriated in the year	–	–	–	–	(1,604)	(1,604)
At 31st July 2011	4,660	18,360	2,006	92,516	2,584	120,126
Repurchase and cancellation of the Company's own shares	(89)	–	89	(1,566)	–	(1,566)
Net (loss)/return on ordinary activities	–	–	–	(11,365)	1,666	(9,699)
Dividend appropriated in the year	–	–	–	–	(1,579)	(1,579)
At 31st July 2012	4,571	18,360	2,095	79,585	2,671	107,282

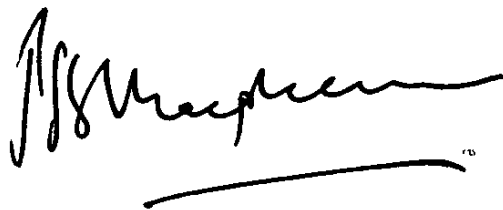
The notes on pages 35 to 52 form an integral part of these accounts

Balance Sheet

at 31st July 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Investments held at fair value through profit or loss		115,302	128,948
Investment in liquidity fund held at fair value through profit or loss		800	–
Total investments	10	116,102	128,948
Current assets	11		
Debtors		2,736	212
Cash and short term deposits		286	1,313
Creditors: amounts falling due within one year	12	3,022 (11,842)	1,525 (1,347)
Net current (liabilities)/assets		(8,820)	178
Total assets less current liabilities		107,282	129,126
Creditors: amounts falling due after more than one year		–	(9,000)
Net assets		107,282	120,126
Capital and reserves			
Called up share capital	14	4,571	4,660
Share premium	15	18,360	18,360
Capital redemption reserve	15	2,095	2,006
Capital reserves	15	79,585	92,516
Revenue reserve	15	2,671	2,584
Total equity shareholders' funds		107,282	120,126
Net asset value per share	16	586.8p	644.5p

The accounts on pages 31 to 52 were approved and authorised for issue by the Directors on 23rd October 2012 and were signed on their behalf by



Strone Macpherson
Director

The accompanying notes on pages 35 to 52 form an integral part of these accounts

Company registration number. 2515996.

Cash Flow Statement

for the year ended 31st July 2012

	Notes	2012 £'000	2011 £'000
Net cash inflow from operating activities	17	1,280	1,198
Returns on investments and servicing of finance			
Interest paid		(237)	(174)
Net cash outflow from returns on investments and servicing of finance		(237)	(174)
Capital expenditure and financial investment			
Purchases of investments		(61,115)	(70,393)
Sales of investments		62,199	71,533
Other capital charges		(9)	(19)
Net cash inflow from capital expenditure and financial investment		1,075	1,121
Dividends paid		(1,579)	(1,604)
Net cash inflow before financing		539	541
Financing			
Net drawdown of loans		—	2,000
Repurchase and cancellation of the Company's own shares		(1,566)	(1,499)
Net cash (outflow)/inflow from financing		(1,566)	501
(Decrease)/Increase in cash and cash equivalents	18	(1,027)	1,042

The accompanying notes on pages 35 to 52 form an integral part of these accounts

Notes to the Accounts

for the year ended 31st July 2012

1 Accounting policies

(a) Basis of accounting

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

All of the Company's operations are of continuing nature

The accounts have been prepared on a going concern basis. The disclosures on going concern in the Directors' Report on pages 21 and 22 form part of these accounts

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

The Company had a dormant and wholly owned subsidiary, Fleming Smaller Companies Securities Limited which was dissolved on 21st February 2012. Consolidated accounts were not prepared in the prior year as exemption under Section 405 of the Companies Act 2006 had been exercised due to the immateriality of the subsidiary

(b) Valuation of investments

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

Gains and losses on sales of investments are dealt with in capital reserves within 'Gains and losses on sales of investments'. Increases and decreases in the valuation of investments held at the year end are accounted for in capital reserves within 'Holding gains and losses on investments'.

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

(c) Income

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

UK dividends are accounted for net of tax credits.

Interest receivable is taken to revenue on an accruals basis.

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

Underwriting commission is recognised in revenue where it relates to shares that the Company is not required to take up. Where the Company is required to take up a proportion of the shares underwritten, the same proportion of commission received is deducted from the cost of the shares taken up, with the balance taken to revenue.

Notes to the Accounts continued

1. Accounting policies continued

(d) Expenses

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

- management fees are allocated 50% to revenue and 50% to capital in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio
- expenses incidental to the purchase and sale of an investment are charged to capital. These expenses are commonly referred to as transaction costs and include items such as stamp duty and brokerage commission

(e) Finance costs

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

Finance costs are allocated 50% to revenue and 50% to capital in line with the Board's expected long term split of revenue and capital returns from the Company's 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, are short term in nature and are accordingly stated at nominal value as reduced by appropriate allowances for estimated irrecoverable amounts

Interest bearing bank loans and overdrafts are recorded at the proceeds received net of direct issue costs. Finance costs, including any premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in profit or loss using the effective interest rate method

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

(g) Taxation

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

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

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

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

(h) Dividends

In accordance with FRS 21 'Events after the Balance Sheet Date', dividends are included in the accounts in the year in which they are approved by shareholders

(i) 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

	2012 £'000	2011 £'000
2. Gains/(losses) on investments held at fair value through profit or loss		
Gains on investments held at fair value through profit or loss based on historical cost	9,324	8,327
Amounts recognised in investment holding gains in the previous year in respect of investments sold during the year	(13,338)	(4,333)
(Losses)/gains on sales of investments based on fair value at previous balance sheet date	(4,014)	3,994
Net movement in investment holding gains and losses	(6,763)	28,780
Other capital charges	(9)	(16)
Total capital (losses)/gains on investments held at fair value through profit or loss	(10,786)	32,758
	2012 £'000	2011 £'000
3. Income		
Income from investments		
UK dividend income	2,343	2,410
Overseas dividends	207	95
Dividends from liquidity fund	17	4
Scrip dividends	26	2
	2,593	2,511
Other interest receivable and similar income		
Underwriting commission	-	14
Deposit interest	1	-
	1	14
Total income	2,594	2,525

Notes to the Accounts continued

	Revenue £'000	2012 Capital £'000	Total £'000	Revenue £'000	2011 Capital £'000	Total £'000
4. Management fee						
Management fee ¹	459	459	918	472	472	944

¹Details of the management fee are given in the Directors' Report on page 21

	2012 £'000	2011 £'000
5. Other administrative expenses		
Other administration expenses	85	82
Directors' fees ¹	106	105
Savings scheme costs ²	70	62
Printing costs	28	29
Brokers fees	27	24
Auditor's remuneration for audit services ³	26	25
Auditor's remuneration for all other services	6	6
	348	333

¹Full disclosure is given in the Directors' Remuneration Report on page 28

²Paid to JPMAM for the marketing and administration of savings scheme products

³Includes £4,000 (2011: £4,000) irrecoverable VAT

	Revenue £'000	2012 Capital £'000	Total £'000	Revenue £'000	2011 Capital £'000	Total £'000
6. Finance costs						
Interest on bank loans and overdrafts	120	120	240	117	117	234

7. Taxation

(a) Analysis of tax charge in the year

	2012 £'000	2011 £'000
UK corporation tax at 25.33% (2011 27.33%)	–	–
Overseas tax	1	3
Current tax charge for the year	1	3

(b) Factors affecting current tax charge for the year

The tax assessed for the year is lower (2011 lower) than the UK corporation tax rate chargeable for the year of 25.33% (2011 27.33%). The factors affecting the current tax charge for the year are as follows

	Revenue £'000	2012 Capital £'000	Total £'000	Revenue £'000	2011 Capital £'000	Total £'000
Net return/(loss) on ordinary activities before taxation	1,667	(11,367)	(9,700)	1,603	32,169	33,772
Net return/(loss) on ordinary activities before taxation multiplied by the applicable rate of corporation tax of 25.33% (2011 27.33%)	422	(2,879)	(2,457)	438	8,792	9,230
Effects of						
Non taxable capital losses/(gains)	–	2,732	2,732	–	(8,953)	(8,953)
Non taxable UK dividends	(593)	–	(593)	(659)	–	(659)
Non taxable overseas dividends	(53)	–	(53)	(26)	–	(26)
Non taxable scrip dividends	(6)	–	(6)	–	–	–
Unrelieved expenses	230	147	377	247	161	408
Overseas withholding tax	1	–	1	3	–	3
Current tax charge for the year	1	–	1	3	–	3

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £4,804,000 (2011 £5,043,000) based on a prospective corporation tax rate of 23% (2011 26%). The reduction in the standard rate of corporation tax was substantively enacted on 3rd July 2012 and is effective from 1st April 2013. The Government has also indicated that it intends to enact future reductions in the main rate of corporation tax of 1% each year down to 22% by 1st April 2014. The deferred tax asset has arisen due to the cumulative excess of deductible expenses over taxable income. Given the composition of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future and therefore no asset has been recognised in the accounts.

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

Notes to the Accounts continued

8 Dividends

(a) Dividends paid and proposed

	2012 £'000	2011 £'000
2011 final dividend of 8 5p (2010 8 5p)	1,579	1,604
Total dividends paid in the year	1,579	1,604
Final dividend proposed of 9 0p (2011 8 5p)	1,645	1,584

The final dividend proposed in respect of the year ended 31st July 2011, amounted to £1,584,000. However, the actual payment amounted to £1,579,000 due to shares repurchased and cancelled after the Balance Sheet date but prior to the share register Record Date.

The final dividend has been proposed in respect of the year ended 31st July 2012 and is subject to approval at the forthcoming Annual General Meeting. In accordance with the accounting policy of the Company, this dividend will be reflected in the accounts for the year ending 31st July 2013.

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

The requirements of Section 1158 are considered on the basis of the dividend declared in respect of the financial year as follows:

	2012 £'000	2011 £'000
Final dividend of 9 0p (2011 8 5p)	1,645	1,584

The revenue available for distribution by way of dividend for the year is £1,666,000 (2011 £1,600,000).

9. Return/(loss) per share

The revenue return per share is based on the earnings attributable to the ordinary shares of £1,666,000 (2011 £1,600,000) and on the weighted average number of shares in issue during the year of 18,488,809 (2011 18,823,179).

The capital loss per share is based on the capital loss attributable to the ordinary shares of £11,365,000 (2011 return £32,169,000) and on the weighted average number of shares in issue during the year of 18,488,809 (2011 18,823,179).

Total loss per share is based on the total loss attributable to the ordinary shares of £9,699,000 (2011 return £33,769,000) and on the weighted average number of shares in issue during the year of 18,488,809 (2011 18,823,179).

10 Investments

	2012 £'000	2011 £'000
Investments listed on a recognised stock exchange	115,302	128,871
Unlisted investments ¹	800 ²	77 ²
	116,102	128,948

	Listed £'000	Unlisted £'000	Total £'000
Opening book cost	90,213	928	91,141
Opening investment holding gains	38,658	(851)	37,807
Opening valuation	128,871	77	128,948
Movements in the year			
Prior year Unlisted investment moved to Listed in the year	77	(77)	–
Purchases at cost	44,742	17,900	62,642
Sales - proceeds	(47,611)	(17,100)	(64,711)
Losses on sales based on the carrying value at the previous balance sheet date	(4,014)	–	(4,014)
Net movement in investment holding gains and losses	(6,763)	–	(6,763)
	115,302	800	116,102
Closing book cost	97,596	800	98,396
Closing investment holding gains	17,706	–	17,706
Total investments held at fair value	115,302	800	116,102

¹Unlisted investments at 31st July 2012 comprises a holding in the JPMorgan Sterling Liquidity Fund valued at £800,000 (31st July 2011: Nil) which is not listed on a recognised stock exchange

²Includes investment in Healthcare Locums.

Transaction costs on purchases during the year amounted to £262,000 (2011: £312,000) and on sales during the year amounted to £64,000 (2011: £77,000). These costs include stamp duty and brokerage commission.

During the year £13,338,000 (2011: £4,333,000) of investment holding gains have been transferred to gains and losses on sales of investments as disclosed in note 15 on page 43.

Subsidiary Company

The Company had a wholly-owned subsidiary called Fleming Smaller Companies Securities Limited which was incorporated as a dealing company and registered in England. On 21st February 2012, the Company was dissolved. During the period to 21st February 2012 the subsidiary did not trade and had negligible assets and liabilities at 31st July 2011 and nil assets and liabilities at 21st February 2012. Therefore, consolidated accounts have not been prepared.

Notes to the Accounts continued

	2012 £'000	2011 £'000
11. Current assets		
Debtors		
Securities sold awaiting settlement	2,537	25
Dividends and interest receivable	182	174
Other debtors	17	13
	2,736	212

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

Cash and short term deposits

Cash and short term deposits comprises bank balances and 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.

	2012 £'000	2011 £'000
12. Creditors - amounts falling due within one year		
Bank loan	9,000	–
Securities purchased awaiting settlement	2,681	1,180
Other creditors and accruals	161	167
	11,842	1,347

The loan is unsecured and is drawn down on the Company's floating rate loan facility with ING Bank. In the prior year this loan was reported under 'Creditors - amounts falling due after more than one year' as shown in note 13. As this facility expires in April 2013, it now falls due within one year. Further details are given in note 22 on page 48.

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

	2012 £'000	2011 £'000
13 Creditors - amounts falling due after more than one year		
Bank loan	–	9,000

	2012 £'000	2011 £'000
14. Called up share capital		
Issued and fully paid:		
Ordinary shares of 25p each		
Opening balance of 18,638,052 (2011 18,940,023) ordinary shares	4,660	4,735
Repurchase of 355,024 (2011 301,971) ordinary shares for cancellation	(89)	(75)
Closing balance of 18,283,028 (2011 18,638,052) ordinary shares	4,571	4,660

During the year, the Company repurchased 355,024 ordinary shares, nominal value £89,000 for cancellation, representing 1.9% of the shares outstanding at the beginning of the year. The aggregate consideration paid for these shares was £1,566,000 and the reason for the purchases was to seek to manage the volatility and absolute level of the share price discount to net asset value per share.

	2012 Capital reserves				
	Share premium £'000	Capital redemption reserve £'000	Gains and losses on sales of investments £'000	Holding gains and losses on investments £'000	Revenue reserve £'000
15. Reserves					
Opening balance	18,360	2,006	54,709	37,807	2,584
Losses on sales of investments based on fair value at the previous balance sheet date	–	–	(4,014)	–	–
Transfer on disposal of investments	–	–	13,338	(13,338)	–
Net movement in investment holding gains and losses	–	–	–	(6,763)	–
Repurchase and cancellation of the Company's own shares	–	89	(1,566)	–	–
Management fee and finance costs charged to capital	–	–	(579)	–	–
Other capital charges	–	–	(9)	–	–
Dividend appropriated in the year	–	–	–	–	(1,579)
Net revenue for the year	–	–	–	–	1,666
Closing balance	18,360	2,095	61,879	17,706	2,671

Notes to the Accounts continued

16. Net asset value per share

Net asset value per share is based on the funds attributable to ordinary shareholders and on 18,283,028 (2011 18,638,052) ordinary shares in issue at the year end

	2012 £'000	2011 £'000
17. Reconciliation of total (loss)/return on ordinary activities before finance costs and taxation to net cash inflow from operating activities		
Total (loss)/return on ordinary activities before finance costs and taxation	(9,458)	34,006
Less capital (loss)/return before finance costs and taxation	11,245	(32,286)
Scrip dividends received as income	(26)	(2)
Increase in accrued income	(8)	(49)
(Increase)/decrease in other debtors	(4)	4
Decrease in accrued expenses	(9)	–
Tax on unfranked investment income	(1)	(3)
Management fee charged to capital	(459)	(472)
Net cash inflow from operating activities	1,280	1,198

	At 31st July 2011 £'000	Cash flow £'000	At 31st July 2012 £'000
18. Analysis of changes in net debt			
Cash and short term deposits	1,313	(1,027)	286
Bank loan	(9,000)	–	(9,000)
Net debt	(7,687)	(1,027)	(8,714)

19. Contingent liabilities and capital commitments

There were no contingent liabilities or capital commitments at the balance sheet date (2011 nil)

20 Transactions with the Manager and affiliates of the Manager

Details of the management contract are set out in the Directors' Report on page 21. The terms make allowance for the exclusion of management charges on investments held in funds on which JPMorgan Asset Management ('JPMAM') earns a separate management fee. The fee payable to JPMAM for the year was £918,000 (2011: £944,000) of which £nil (2011: £nil) was outstanding at the year end.

Expenses amounting to £58,000 (2011: £52,000) excluding VAT were payable to JPMAM for the marketing and administration of savings scheme products, of which £nil (2011: £nil) was outstanding at the year end.

Included in other administration expenses in note 5 on page 38 are safe custody fees payable to JPMorgan Chase amounting to £2,000 (2011: £2,000) of which £1,000 (2011: £nil) was outstanding at the year end.

JPMAM carries 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 £21,000 (2011: £28,000) of which £nil (2011: £nil) was outstanding at the year end.

Handling charges incurred on dealing transactions amounting to £9,000 (2011: £16,000) were payable to JPMorgan Chase of which £3,000 (2011: £2,000) was outstanding at the year end.

During the current and prior year, the Company made purchases and sales of units in the JPMorgan Sterling Liquidity Fund which is managed by JPMAM. At the year end, the Company's investment in this fund amounted to £800,000 (2011: £nil) and represented 0.7% (2011: nil%) of the Company's investment portfolio. Income amounting to £17,000 (2011: £4,000) was receivable from this investment for the year, of which £nil (2011: £nil) was outstanding at the year end. JPMAM earns no management fee on this fund.

At the year end, a bank balance of £286,000 (2011: £1,313,000) was held with JPMorgan Chase. Interest amounting to £1,000 (2011: £nil) was receivable by the Company from JPMorgan Chase for the year of which £nil (2011: £nil) was outstanding at the year end.

21. Disclosures regarding financial instruments measured at fair value

The Company's financial instruments within the scope of FRS 29 that are held at fair value comprise its investment portfolio.

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

Level 1 - valued using quoted prices in active markets.

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

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

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset. Details of the valuation techniques used by the Company are given in note 1(b) on page 35.

Notes to the Accounts continued

21 Disclosures regarding financial instruments measured at fair value continued

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

	2012			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial assets held at fair value through profit or loss				
Equity investments	115,302	–	–	115,302
Liquidity fund	800	–	–	800
Total	116,102	–	–	116,102

	2012 Equity investments £'000
Level 3 financial assets held at fair value through profit or loss	
Opening balance	77
Transfers out of Level 3	(77)
Net movement in investment holding gains and losses	–
Closing balance	–

The transfer from Level 3 into Level 1 relates to an investment (Healthcare Locums) for which listing had been suspended in the prior year but was re-listed during the year

	2011			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial assets held at fair value through profit or loss				
Equity investments	128,871	–	77	128,948

	2011 Equity investments £'000
Level 3 financial assets held at fair value through profit or loss	
Opening balance	–
Transfers into Level 3	870
Net movement in investment holding gains and losses	(793)
Closing balance	77

The transfer from Level 1 into Level 3 related to an investment (Healthcare Locums) for which listing had been suspended in the prior year

22 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 of this report. In pursuing this objective, the Company is exposed to a variety of risks that could result in a reduction in the Company's net assets or a reduction in the profits available for dividends. These risks include market risk (comprising 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 Company has no direct exposure to foreign currencies. 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 may comprise the following:

- investments in equity shares of UK companies and a sterling liquidity fund. These are held in accordance with the Company's investment objective,
- short term debtors, creditors and cash arising directly from its operations, and
- a sterling bank loan, the purpose of which is to raise finance for the Company's operations and provide leveraged returns for the Company's shareholders.

(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 two elements - interest rate risk and other price risk. Information to enable an evaluation of the nature and extent of these two elements of market risk is given in parts (i) and (ii) 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) Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits and investments in liquidity funds and the interest payable on the Company's variable rate cash borrowings when rates are re-set.

Management of interest rate risk

The Company does not normally hold significant cash balances. Short term borrowings are used when required.

The Company may finance part of its activities through borrowings at levels approved and monitored by the Board.

The possible effects on cash flows that could arise as a result of changes in interest rates are taken into account when the Company borrows on the loan facility. However, amounts drawn down on this facility are for short term periods and therefore exposure to interest rate risk is not significant.

Notes to the Accounts continued

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

(a) Market risk continued

(i) Interest rate risk continued

Interest rate exposure

The exposure of financial assets and liabilities to floating interest rates, giving cash flow interest rate risk when rates are re-set, is shown below

	2012 £'000	2011 £'000
Exposure to floating interest rates		
JPMorgan Sterling Liquidity Fund	800	-
Cash and short term deposits	286	1,313
Creditors - amounts falling due within one year		
Bank loan	(9,000)	-
Creditors - amounts falling due after more than one year		
Bank loan	-	(9,000)
	(7,914)	(7,687)

The target interest rate earned on the JPMorgan Sterling Liquidity Fund is the 7 day sterling London Interbank Bid rate
Interest receivable on cash balances is at a margin below LIBOR

The Company has a £100 million loan facility with ING Bank which expires in April 2013. Under the terms of this agreement the Company may draw down up to £100 million, or the equivalent in euros, at an interest rate of the interbank offer rate for the relevant currency and period, plus a margin of 1.35% per annum plus the Mandatory Cost, which is the lender's cost of complying with certain regulatory requirements of the Bank of England, FSA, or the European Central Bank. At 31st July 2012, the Company had £90 million drawn down on this facility, at an interest rate of 2.70% repayable in October 2012.

At 31st July 2011, the Company had £90 million drawn down at an interest rate of 2.49% on the same facility with ING Bank which was repayable in October 2011.

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

	2012 £'000	2011 £'000
Maximum debit interest rate exposure to floating rates - net loan balances	(7,914)	(8,571)
Minimum debit interest rate exposure to floating rates - net loan balances	(4,737)	(5,384)

Interest rate sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 1% (2011: 1%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date, with all other variables held constant.

	2012		2011	
	1% Increase in rate £'000	1% Decrease in rate £'000	1% Increase in rate £'000	1% Decrease in rate £'000
Income statement - return after taxation				
Revenue return	(34)	34	(32)	32
Capital return	(45)	45	(45)	45
Total return after taxation for the year	(79)	79	(77)	77
Net assets	(79)	79	(77)	77

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

(ii) 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 objectives 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 July comprises its holdings in equity investments as follows

	2012 £'000	2011 £'000
Equity investments held at fair value through profit or loss	115,302	128,948

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 by industry sector is given on pages 13 to 15. All of the investments value is in the UK. 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 or of listing

Other price risk sensitivity

The following table illustrates the sensitivity of the return after taxation for the year and net assets to an increase or decrease of 10% (2011: 10%) in the fair value of the Company's equities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's equities and adjusting for change in the management fee, but with all other variables held constant

Notes to the Accounts continued

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

(a) Market risk continued

(ii) Other price risk continued

Other price risk sensitivity continued

	2012		2011	
	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	(46)	46	(51)	51
Capital return	11,484	(11,484)	12,843	(12,843)
Total return after taxation for the year	11,438	(11,438)	12,792	(12,792)
Net assets	11,438	(11,438)	12,792	(12,792)

(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. Short term flexibility is achieved through the use of overdraft facilities.

The Board's policy is for the Company to remain fully invested in normal market conditions and that short term borrowings be used to manage short term liabilities, working capital requirements and to gear the Company as appropriate. Details of the current loan facility are given in part (a) (i) to this note on page 48.

Liquidity risk exposure

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

	2012			2011		
	Three months or less £'000	More than three months but not more than one year £'000	Total £'000	Three months or less £'000	One to two years £'000	Total £'000
Creditors, amounts falling due within one year						
Bank loan	62	9,105	9,167	–	–	–
Securities purchased awaiting settlement	2,681	–	2,681	1,180	–	1,180
Other creditors and accruals	161	–	161	167	–	167
Creditors, amounts falling due after more than one year						
Bank loan	–	–	–	56	9,322	9,378
	2,904	9,105	12,009	1,403	9,322	10,725

(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 Company invests in markets that operate DVP (Delivery Versus Payment) settlement. The process of DVP mitigates the risk of losing the principle 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.

Exposure to JPMorgan Chase

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 assets of the Company.

Credit risk exposure

The amounts shown in the balance sheet under investment in liquidity fund, debtors and cash and short term deposits represent the maximum exposure to credit risk at the current and comparative year ends.

The liquidity fund has a AAA (2011 AAA) credit rating.

Cash and short term deposits comprises balances held at banks that have a minimum credit rating of A1/P1 (2011 A1/P1) from Standard & Poor's and Moody's respectively.

(d) Fair values of financial assets and financial liabilities

All financial assets and financial 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.

Notes to the Accounts continued

23 Capital management policies and procedures

The Company's debt and capital structure comprises the following

	2012 £'000	2011 £'000
Debt		
Bank loan	9,000	9,000
Equity		
Share capital	4,571	4,660
Reserves	102,711	115,466
Total equity	107,282	120,126

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

The Board's policy is to limit gearing within the range 90% to 115%. Gearing for this purpose is defined as investments, excluding liquidity fund holdings, expressed as a percentage of net assets

	2012 £'000	2011 £'000
Investments excluding liquidity fund holding	115,302	128,948
Net assets	107,282	120,126
Gearing	107%	107%

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

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

Notice of Annual General Meeting

Notice is hereby given that the twenty second Annual General Meeting of JPMorgan Smaller Companies Investment Trust plc will be held at The Armourers' Hall, 81 Coleman Street, London EC2R 5BJ at 2 00 p m on 27th November 2012 for the following purposes

- 1 To receive the Directors' Report, the Annual Accounts and the Independent Auditors' Report for the year ended 31st July 2012
- 2 To approve the Directors' Remuneration Report for the year ended 31st July 2012
- 3 To approve a final dividend of 90p per ordinary share
- 4 To reappoint Strone Macpherson a Director of the Company
- 5 To reappoint Ivo Coulson a Director of the Company
- 6 To reappoint Richard Fitzalan Howard a Director of the Company
- 7 To reappoint Michael Quicke a Director of the Company
- 8 To reappoint Andrew Robson a Director of the Company
- 9 To reappoint Deloitte LLP as Auditors to the Company and to authorise the Directors to agree their remuneration

Special Business

To consider the following resolutions

Authority to allot new shares - Ordinary Resolution

10 THAT the Directors of the Company be and they are hereby generally and unconditionally authorised, (in substitution of any authorities previously granted to the Directors), pursuant to and in accordance with Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers for the Company to allot relevant securities (within the meaning of Section 551 of the Act) up to an aggregate nominal amount of £227,742, representing approximately 5% of the Company's issued ordinary share capital as at the date of the passing of this resolution and shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2013 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 new shares - Special Resolution

11 THAT subject to the passing of Resolution 10 set out above the Directors of the Company be and they are hereby empowered pursuant to Sections 570, of the Companies Act 2006 (the 'Act') to allot equity securities (within the meaning of Section 560(i) of the Act) pursuant to the authority conferred by Resolution 10 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 £227,742, representing approximately 5% of the total 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 at the conclusion of the Annual General Meeting of the Company to be held in 2013 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 equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers, agreements or arrangements as if the power conferred hereby had not expired

Authority to repurchase the Company's shares - Special Resolution

12 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 Shares of 25p each in the capital of the Company

PROVIDED ALWAYS THAT

- (i) the maximum number of ordinary shares hereby authorised to be purchased shall be 2,731,084 or if less, that number of shares which is equal to 14.99% of the Company's ordinary issued share capital as at the date of the passing of this resolution,
- (ii) the minimum price which may be paid for an ordinary share shall be 25p,
- (iii) the maximum price which may be paid for a 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 Share is purchased, or (b) the price of the last independent trade or (c) the highest current independent bid.

Notice of Annual General Meeting continued

- (iv) any purchase of ordinary shares will be made in the market for cash at prices below the prevailing net asset value per ordinary share (as determined by the Directors),
- (v) the authority hereby conferred shall expire on 26th May 2014 unless the authority is renewed at the Company's Annual General Meeting in 2013 or at any other general meeting prior to such time, and
- (vi) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority and may make a purchase of ordinary shares pursuant to any such contract notwithstanding such expiry



By order of the Board
Divya Amin, for and on behalf of
JPMorgan Asset Management (UK) Limited,
Company Secretary
23rd October 2012

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 no later than 2.00 p.m. two business days prior to the meeting (ie excluding weekends and bank holidays)
- 4 You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments (see above) also applies in relation to amended instructions. Any attempt to terminate or amend a proxy appointment received after the relevant deadline will be disregarded. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same Meeting the one which is last sent shall be treated as replacing and revoking the other or others
- 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
- 6 Entry to the Meeting will be restricted to shareholders 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 (as amended by the Shareholder Rights Directive 2009) each such representative(s) may exercise 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
- 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, no answer need be given if it is undesirable in the interests of the Company or the good order of the meeting
- 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.jpmoveoverseas.co.uk
- 13 The register of interests of the Directors and connected persons in the share capital of the Company is 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
- 14 You may not use any electronic address provided in this Notice of Meeting to communicate with the Company for any purposes other than those expressly stated
- 15 As an alternative to completing a hard copy Form of Proxy/Voting Direction Form, you can appoint a proxy or proxies electronically by visiting www.sharevote.co.uk You will need your Voting ID, Task ID and Shareholder Reference Number (this is the series of numbers printed under your name on the Form of Proxy/Voting Direction Form) Alternatively, if you have already registered with Equiniti Limited's online portfolio service Shareview, you can submit your Form of Proxy at www.shareview.co.uk Full instructions are given on both websites
- 16 As at 22nd October 2012 (being the latest business day prior to the publication of this Notice) the Company's issued share capital consists of 18,219,372 ordinary share of 25 pence each carrying one vote each Therefore the total voting rights in the Company are 18,219,372
- Electronic appointment – CREST members**
CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual See further instructions on the proxy form

Glossary of Terms and Definitions

Return to Shareholders

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

Return on Net Assets

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

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

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 follow or 'track' this index and consequently, there may be some divergence between the Company's performance and that of the benchmark

Actual Gearing Factor

Investments excluding the holding in the liquidity fund, expressed as a percentage of net assets. This shows the effect of gearing on the net asset value per share if the market value of the portfolio were to increase by 100%

Ongoing Charges

Management fees and all other operating expenses excluding interest expressed as a percentage of the average of the daily net assets during the year (2009 to 2011 Total Expense Ratio ('TER') the average of the month end net assets during the year, 2008 and prior years TER the average of the opening and closing net assets)

Share Price Discount/Premium to Net Asset Value ('NAV')

If the share price of an investment trust is lower than the NAV per share, the shares are said to be trading at a discount. The discount is shown as a percentage of the NAV per share. The opposite of a discount is a premium. It is more common for an investment trust's shares to trade at a discount than at a premium.

Performance Attribution

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

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/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

Repurchase of Shares for Cancellation

Measures the effect on relative performance of repurchasing and cancelling the Company's own shares at a price which is less than the net asset value per share

Information about the Company

Financial Calendar

Financial year end	31st July
Final results announced	October
Half year end	31st January
Half year results announced	March
Interim Management Statements announced	May/November
Dividend on ordinary shares paid	December
Annual General Meeting	November/December

History

The Company was formed in June 1990 as River & Mercantile Smaller Companies Trust plc and raised £25 million by a public offer of shares. Its original policy was to invest in a diversified portfolio of investments in UK and foreign smaller companies. Its name was changed to The Fleming Smaller Companies Investment Trust plc in April 1996, and again in November 2002 to JPMorgan Fleming Smaller Companies Investment Trust plc. The Company adopted its present name in 2006.

Company Numbers

Company registration number 2515996
London Stock Exchange code 0741600
Bloomberg code JMI LN
Reuters code JMI L

Market Information

The Company's shares are listed on the London Stock Exchange. The market price is shown daily in the Financial Times, The Times, the Daily Telegraph, The Scotsman, The Independent and on the JPMorgan website at www.jpmsmallercompanies.co.uk where the share price is updated every fifteen minutes during trading hours.

Website

www.jpmsmallercompanies.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 Asset Management (UK) Limited

Company's Registered Office

Finsbury Dials
20 Finsbury Street
London EC2Y 9AQ
Telephone 020 7742 4000

For company secretarial and administrative matters please contact Divya Amin

aic

The Association of
Investment Companies

A member of the AIC

Custodian

JPMorgan Chase Bank N A
25 Bank Street
Canary Wharf
London E14 5JP

Custodian

JPMorgan Chase Bank N A
25 Bank Street
Canary Wharf
London E14 5JP

Registrars

Equiniti Limited
Reference 1139
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone number 0871 384 2341

Calls to this number cost 8p per minute from 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 Registrars quoting reference 1139. Registered shareholders can obtain further details on individual holdings on the internet by visiting www.shareview.co.uk

Independent Auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
2 New Street Square
London EC4A 3BZ

Brokers

Winterflood Securities Limited
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

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.

JPMorgan Helpline
Freephone 0800 20 40 20 or +44 (0)20 7742 9995

Your telephone call may be recorded for your security

www.jpmsmallercompanies.co.uk
