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Invesco Enhanced Income Limited
(formerly Invesco Perpetual Enhanced
Income Limited)

ANNUAL FINANCIAL REPORT
YEAR ENDED 30 SEPTEMBER 2019

If you have any queries about Invesco Enhanced Income Limited or any of the other specialist funds managed by Invesco, please contact Invesco Client Services Team on

 0800 085 8677

 www.invesco.co.uk/enhancedincome

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Nature of the Company

Invesco Enhanced Income Limited (the 'Company') is a Jersey investment company whose shares are listed and traded on the London Stock Exchange. The business of the Company consists of investing the pooled funds of its shareholders, according to a specified investment objective and policy (set out on pages 9 and 10), with the aim of spreading investment risk and generating a return for shareholders. The Company is able to borrow, the proceeds from which can also be invested according to the investment policy with the aim of enhancing returns to shareholders. This additional investment increases the potential risk to shareholders should the value of the investments fall.

The Company has contracted with an external investment manager, Invesco Fund Managers Limited ('IFML', the 'Manager'), to manage its investments. The Company is an Alternative Investment Fund and IFML is the Alternative Investment Fund Manager. Administrative functions are contracted to external service providers, the main one being with JTC Fund Solutions (Jersey) Limited for company secretarial and administrative services who were appointed on 10 December 2019. Prior to this date R&H Fund Services (Jersey) Limited provided this service. The Company has a Board of non-executive Directors who oversee and monitor the activities of the Manager and other service providers on behalf of shareholders and ensure that the investment policy is adhered to. The Company has no employees.

Investment Policy

The principal objective of the Company is to provide shareholders with a high level of income whilst seeking to maximise total return through investing in a diversified portfolio of high yielding corporate and Government bonds. The Company may also invest in equities and other instruments that the Manager considers appropriate.

The Company seeks to balance the attraction of high yield securities with the need for protection of capital and to manage volatility. The Company generally employs gearing in its Investment Policy. Full details of the Company's Investment Policy can be found on pages 9 and 10.

Borrowings and Repo Finance

The Company uses borrowings in its investment policy, the principal component of which is repo finance, whereby the Company participates in sale and repurchase arrangements in connection with its portfolio. Under these arrangements, the Company sells fixed interest securities and is contractually obliged to repurchase them at a fixed price on a fixed date.

The Company's shares qualify to be considered as a mainstream investment product suitable for promotion to retail investors.

The Company is a
member of

aic

The Association of
Investment Companies

Performance Statistics

Total Return⁽¹⁾

Change for the year	2019	2018
Net asset value ('NAV') ⁽²⁾⁽³⁾	+8.9%	+0.8%
Share price ⁽²⁾	+6.7%	+0.1%
3 month LIBOR rate	+0.8%	+0.8%

Balance sheet at 30 September

	2019	2018	% CHANGE
Shareholders' funds (£'000) ⁽⁴⁾	126,157	120,677	+4.5
Net asset value ⁽²⁾ per ordinary share	74.2p	73.1p	+1.5
Share price ⁽¹⁾⁽²⁾	75.2p	75.4p	-0.3
Premium per ordinary share ⁽²⁾	1.3%	3.1%	
Gross borrowing ⁽²⁾	19%	18%	
Net borrowing ⁽²⁾	15%	16%	

	YEAR ENDED 30 SEPTEMBER 2019	YEAR ENDED 30 SEPTEMBER 2018
Revenue		
Gross income (£'000)	8,688	8,917
Net revenue return (£'000)	7,808	7,602
Dividends per ordinary share:		
– first interim	1.25p	1.25p
– second interim	1.25p	1.25p
– third interim	1.25p	1.25p
– fourth interim	1.25p	1.25p
– Total	5.00p	5.00p
Ongoing Charges⁽²⁾⁽⁵⁾	1.04%	1.06%
Return per Ordinary Share⁽⁶⁾		
Revenue return	4.7p	4.6p
Capital return	1.3p	(4.0)p
Total return	6.0p	0.6p

(1) Source: Refinitiv.

(2) See Glossary of Terms and Alternative Performance Measures (APM) on pages 68 to 71 of the financial report for details of the explanation and reconciliation of APMS.

(3) The increase in total return NAV includes a 0.08% enhancement to NAV generated by the issue of ordinary shares at a premium to NAV during the year.

(4) Reflects 5,075,000 (2018: 3,227,852) ordinary shares issued in the year.

(5) The management fee was reduced with effect from 1 January 2018.

(6) The return per ordinary share is the amount of profit (or loss) generated for the financial year divided by the weighted average number of ordinary shares in issue for the financial year.

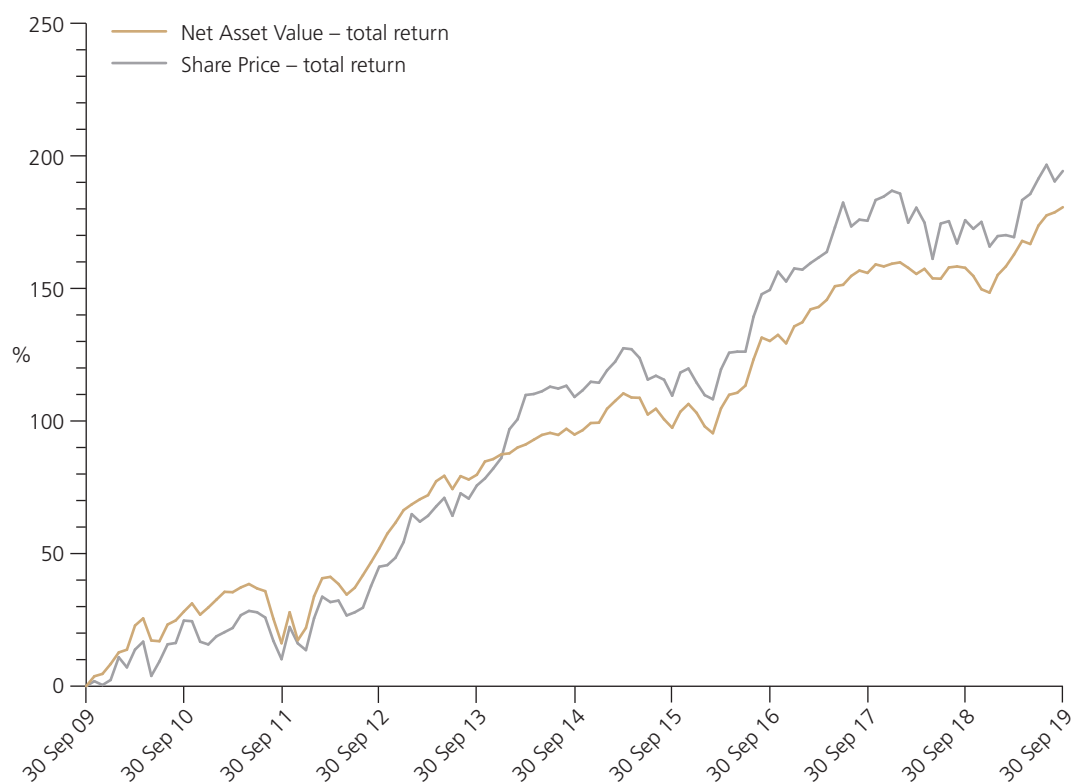
Ten Year Historical Record

TO 30 SEPTEMBER	GROSS INCOME £'000	NET REVENUE AVAILABLE FOR ORDINARY SHARES £'000	DIVIDENDS ON ORDINARY SHARES		TOTAL ASSETS LESS CURRENT LIABILITIES ⁽²⁾ £'000	ORDINARY SHARES	
			COST £'000	RATE ⁽¹⁾ p		NET ASSET VALUE p	SHARE PRICE p
2010	7,613	6,695	5,570	5.0	102,688	65.9	62.8
2011	7,203	6,283	5,570	5.0	101,701	54.3	50.0
2012	6,879	5,988	5,565	5.0	100,163	65.1	59.9
2013	6,905	6,056	5,564	5.0	113,511	71.7	67.0
2014	6,550	5,578	5,583	5.0	114,964	72.6	74.4
2015	6,697	5,753	5,991	5.0	116,976	68.7	69.8
2016	6,729	5,743	6,397	5.0	125,389	74.5	77.4
2017	7,499	6,484	7,423	5.0	153,854	77.5	80.3
2018	8,917	7,602	8,240	5.0	143,092	73.1	75.4
2019	8,688	7,808	8,363	5.0	150,624	74.2	75.2

(1) Dividends are in respect of the year and are paid on a quarterly basis.

(2) Excludes repo financing.

Ten Year Total Return Performance

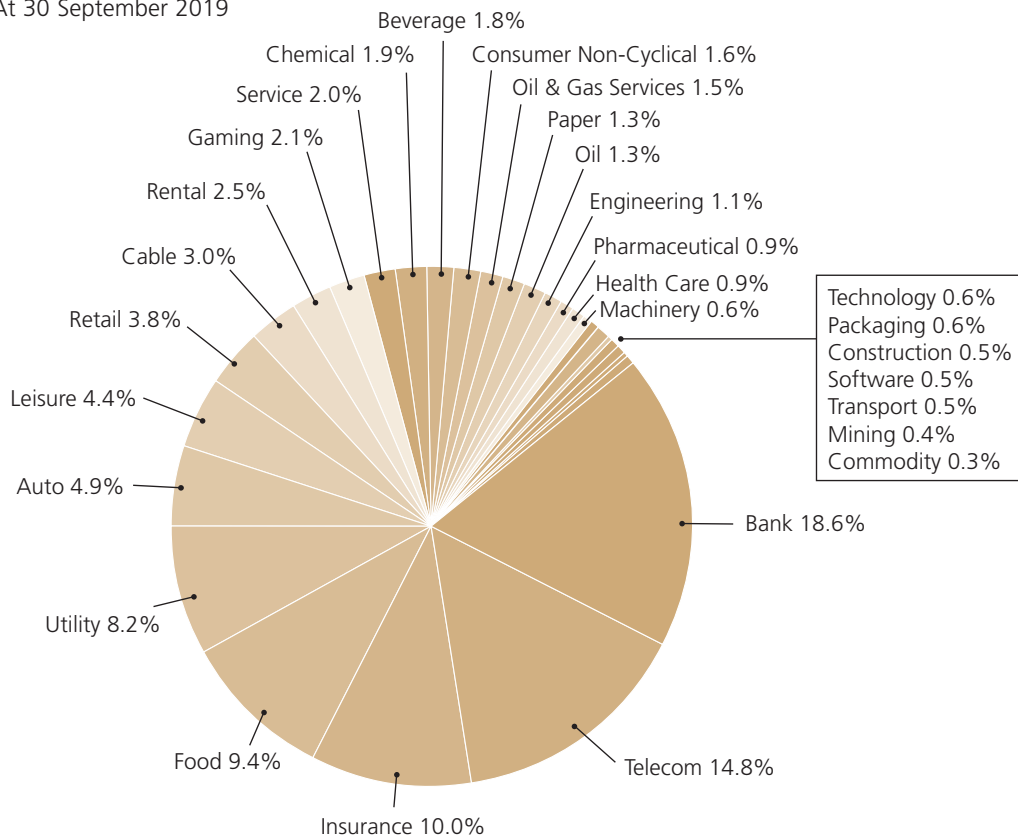


Source: Refinitiv.

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Split of Investments by Sector

At 30 September 2019

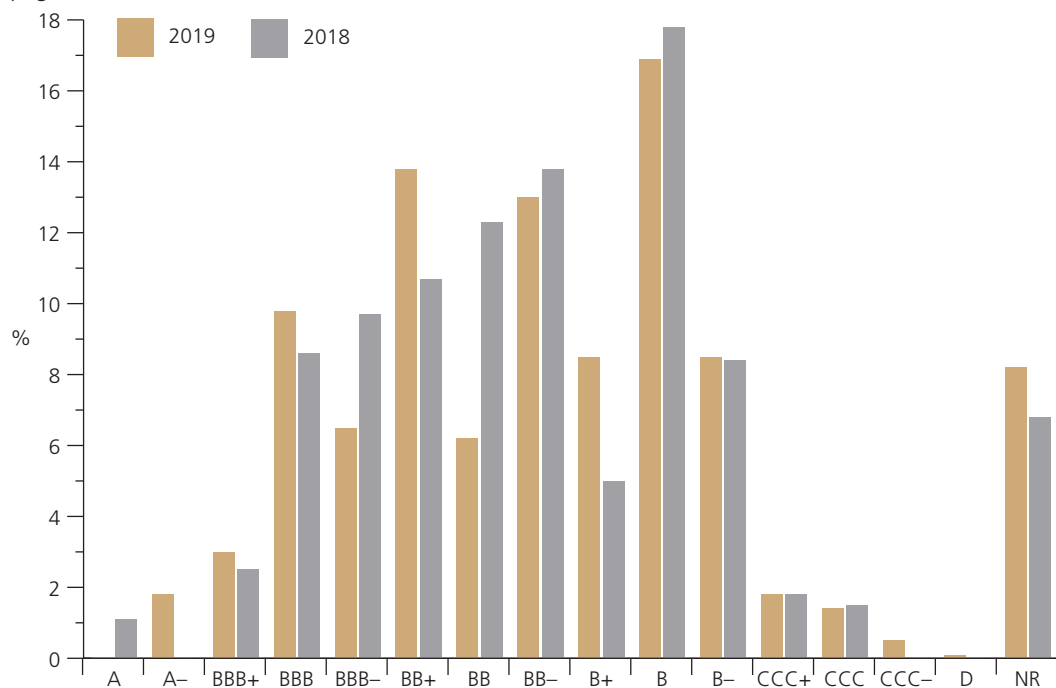


Bond Rating Analysis

At 30 September

Standard & Poor's (S&P) ratings. Where S&P ratings are not available, an equivalent average rating has been used. Investment grade is BBB– and above. The ratings for 2018 have been adjusted accordingly for comparative purposes.

For the definitions of these ratings see the Glossary of Terms and Alternative Performance Measures on page 71.



CHAIRMAN'S STATEMENT

Introduction

This is my first year reporting to you as Chairman. Having had time to work with both the manager and board, I am confident that we have the structure and governance in place to continue to serve shareholders' interests well. I am grateful to them both for the time and energy that they have devoted and continue to devote to the Company. I will now report in detail on the year to 30 September 2019 and the outlook for the Company.

Results for the Year

The Portfolio Managers' Report which follows explains the market background and portfolio strategy during the year which provides context for the Company's results.

The Company achieved a positive total return for shareholders in the year, based on the share price with dividends reinvested, of 6.7%. The dividend was maintained at 5p per share, whilst the share price fell marginally from 75.4p at the start of the year to 75.2p at the year end, a decrease of 0.3%. The NAV total return was 8.9% for the year and the NAV per share increased 1.5% to 74.2p.

In the current low interest rate environment, your Board continues to believe that shareholders place great value on the Company's consistent dividend stream and has prioritised revenue generation through investment in relatively high-yielding and considered debt positions. Market yields remain at historically low levels but, despite this, your portfolio managers have generated a net revenue return of 4.7p per share. The Board has maintained the 5p annual dividend for the year and a fourth interim dividend of 1.25p per share was declared on 24 September 2019. As reported in the Chairman's Statements in previous annual financial reports, in the absence of unforeseen circumstances, it is the Board's current intention that the Company will maintain the annual dividend of not less than 5p per annum per share, paid equally and quarterly.

The shortfall of net revenue earned versus dividend paid was 0.3p which is the equivalent of £525,000 (2018: £615,000). This has been funded from revenue reserves which the Company has accumulated over a number of years. The revenue reserve is well funded and should continue to provide support to the dividend over a number of years.

Borrowings

The portfolio manager uses borrowings to gear the portfolio during most market conditions. The Company's upper limit for net gearing is 50% of shareholders' funds and the portfolio manager, working with the Board, will vary the level from time to time according to their view of prevailing market conditions. During the year to 30 September 2019 the level of gearing has averaged 17.5%, well below the permitted level. It should be noted that preservation of the Company's NAV remains a key consideration. As a result, the portfolio managers are focussing the Company's holdings towards generally lower risk bonds as a way to mitigate capital volatility.

The Company uses repo financing, which the Board believes remains a flexible and relatively low cost method of providing additional capital when appropriate. The level of gearing is carefully monitored by the Board which is fully cognisant of the capital volatility which the strategy entails.

The Company started the year with gross borrowings of 18% and this has increased marginally so that at the year end gross borrowings were 19%. Taking the Company's cash position into account, net borrowings were 15%, and average net borrowings for the year were 17.5% (2018: 18.4%). As at 13 December 2019, the latest practical date before publication, the level of borrowing is 15% (gross) and 11% (net).

Share Discount/Premium and Share Issuance

The Board monitors the price of the Company's shares in relation to their NAV and the premium/discount at which they trade. During the year the shares traded within the range of -1.4% (discount) to +7.1% (premium). In order to satisfy market demand the Company issued 5,075,000 new shares at an average price of 75.02p during the year to 30 September 2019. This enhanced the NAV by 0.08%. Following the year end, a further 725,000 new shares have been issued at an average price of 76.08p per share.

At the Company's Annual General Meeting (AGM), in special resolution 9, your Directors are seeking to renew the authority granted by shareholders at the last AGM to authorise the issue of up to 20% of the Company's issued share capital in order to provide additional flexibility to increase the size of

CHAIRMAN'S STATEMENT

continued

the Company when the Board considers the circumstances to be appropriate. I would like to stress that when considering any issue of new shares, your Board is mindful that existing shareholders' interests are paramount and will always ensure that issues of new shares take place at an appropriate premium to the cum dividend NAV. In determining the appropriate premium, the Board will aim for a minimum premium of 3.0% before expenses.

Share Buy Backs

At the AGM, in special resolution 10, your Directors are seeking the authority to buy back up to 25,602,149 (14.99% of the Company's issued share capital) subject to the restrictions referred to in the notice of the AGM. This authority will expire at the AGM in 2021. It is the Board's current intention to buy back shares at a discount to NAV where it is in the Company's interests to do so. Your Directors are proposing that shares bought back by the Company either be cancelled or, alternatively, be held as treasury shares with a view to their resale, if appropriate, or later cancellation.

Board Composition and Corporate Governance

Christine Johnson and I were appointed to the Board with effect from 16 January 2019. I immediately succeeded Peter Yates as Chairman of the Board and Christine succeeded Michael Lombardi as Chairman of the Management Engagement Committee. These roles had been undertaken by Peter and Michael on an interim basis while the Board was in the process of recruiting. Peter resumed his role as Chairman of the Audit Committee and Michael has been appointed Chairman of the Nomination and Remuneration Committee.

Change of Name

In line with Invesco's move to a unified global brand – Invesco – the Invesco Perpetual name was retired with effect from 1 October 2018. Following shareholder approval at the last annual general meeting, the Company changed its name to Invesco Enhanced Income Limited with effect from 5 March 2019.

Change of Company Secretary and Administrator

During the year R&H Fund Services (Jersey) Limited advised the Board that they would no longer be carrying out limited company secretarial services for listed funds and served notice on 1 August 2019. Following a competitive tender process the Board has selected JTC Fund Solutions (Jersey) Limited as their new Company Secretary and Administrator with effect from 10 December 2019.

AGM

The Company's Notice of AGM is contained on page 62 in the annual financial report and will be held at 9.30a.m. on 25 February 2020. A summary of the special business is set out in the Directors' Report on page 35 in the annual financial report, and the special resolutions relating to share issuance and buy-backs are explained above. The Directors have considered all the resolutions proposed in the Notice of AGM and, in their opinion, consider them to be in the interests of shareholders as a whole. The Directors therefore recommend that shareholders vote in favour of each resolution.

Outlook

The outlook is clearer than it has been for some time following the election result. Both the UK market and Sterling have strengthened and we have clarity on the direction of travel in terms of our future relationship with the EU. Turning to the bond markets, yields remain low and the manager continues to focus on quality when assessing current and potential investments. Whilst there is much commentary in the press about the high levels of bond prices, having discussed this with the manager, the Board is comfortable that the portfolio is well positioned. Indeed, any weakness in prices could well provide a good buying opportunity.

Kate Bolsover

Chairman

16 December 2019

STRATEGIC REPORT

PORTFOLIO MANAGERS' REPORT

Market Background

Over the 12 months to 30 September 2019, the European high yield bond market has delivered a strong positive return. However, the headline numbers mask two distinct periods. A weak finish to 2018 was immediately followed by a strong rally during the rest of the period under review. An about turn by global central bankers from rate hiking to rate cutting played a key role in driving investor sentiment. The period under review ended with central banks once again supportive for high yield bond markets.

During the final three months of 2018, many market participants thought that US interest rates were rising too quickly and that this could tip the US economy into recession. Weaker economic data appeared to confirm the market's fears. Meanwhile, in Europe, the end of the European Central Bank's (ECB) asset purchase programme added to the sense that we were at the beginning of a more restrictive period of monetary policy.

After the strong support central banks had provided financial markets over the past decade, this shift contributed to a widespread repricing of risk. European high yield credit spreads (the premium over government bonds that companies need to pay to borrow) widened by 171bps (basis points) peaking at 538bps in early January. Companies with structural weaknesses, particularly those in the retail and consumer services sectors, came under significant pressure.

The narrative changed at the turn of the year as the US Federal Reserve (Fed) led other central banks in a pivot toward easier monetary policy. As central bank statements became more dovish, expectations rose that the Fed would soon begin cutting interest rates. In Europe, the ECB signalled that it too would ease policy potentially restarting its asset purchase programme. Both policy announcements were subsequently made over the summer.

The expectation and then delivery of these policy changes helped the European high yield bond market to deliver its best year-to-date returns for many years. As a result, credit spreads for European high yield are now slightly below their 5-year average ending the reporting period at 383bps compared to an average of 397bps.

Despite the positive tone at an index level, a healthy level of dispersion exists within the market, with the bonds of weaker companies trading at significantly higher yields than the rest of the market. This dispersion has become more noticeable during 2019, having been almost absent at points over the past few years. We view this as rational behaviour but also indicative of heightened concerns over the economic outlook. Furthermore, there have been several high profile bankruptcies and restructurings in the European high yield market during 2019, including Thomas Cook, New Look, House of Fraser and Debenhams.

Portfolio strategy

The portfolio holds a core of non-financial high yield corporate bonds, focused on seasoned issuers that we consider have a low likelihood of default. In addition to the corporate high yield bond allocation, the portfolio has significant exposure to the financial sector through both subordinated bank and insurance bonds. Outside of the financial sector, the largest holdings at a sector level are telecoms, food and utilities. Alongside these core income-focussed positions the portfolio has a smaller allocation to more speculative positions. The expectation with these bonds is that the return will come from both capital appreciation and income.

We currently use borrowing, through repo financing, to try and enhance the portfolio's income. Gross borrowing was 19% at the end of the twelve months and net borrowing was 15%. In the year under review, the total NAV return including dividends was 8.9%.

Outlook

The performance of the high yield bond market over this reporting period is testament to the power of central banks to shape markets and ultimately to drive demand for yield. We anticipate that the ECB's decision to resume asset purchases should offer support to markets as a whole during 2020. More broadly, the technical backdrop remains supportive of the sector. Demand for high yield bonds has been influenced by the paucity of yield elsewhere, as well as a slowdown in issuance levels that has barely met reinvestment demand.

STRATEGIC REPORT

PORTFOLIO MANAGERS' REPORT continued

Yields in the high yield market are lower today than they were at the start of the reporting period and we must ensure that credit risk is being adequately compensated by the yield on offer. The increase in default levels during 2019 is likely to continue, based on our observations of companies that may struggle during 2020. Credit analysis and bond selection will, as always, be a crucial factor in portfolio management.

Finally, factors such as uncertainty over global trade, political risks and concerns about the global economy all have the potential to raise market volatility. But as we saw in late 2018, such periods of market weakness can often provide buying opportunities. The closed ended structure of the Company means it is ideally suited for more volatile times.

Our approach remains focussed on seeking to deliver a consistent and attractive level of income for shareholders.

Rhys Davies/Paul Read/Paul Causer

Portfolio Managers

16 December 2019

BUSINESS REVIEW

Background to the Company

The Company is a Jersey based, London listed investment company which at the year end had a portfolio of investments with a market value in excess of £144 million. The Company's investment objective is shown below. The strategy the Board follows to achieve that objective is to set investment policy and risk guidelines, together with investment limits, and to monitor how they are applied. These are set out below and have been approved by shareholders.

The business model the Company has adopted to achieve its objective has been to contract the services of:

- Invesco Fund Managers Limited (the 'Manager') to manage the portfolio in accordance with the Board's strategy; and
- JTC Fund Solutions (Jersey) Limited ('JTC') to provide company secretarial and general administration services with effect from 10 December 2019. This service was, until this date, undertaken by R&H Fund Services (Jersey) Limited ('R&H').

All administrative support is provided by third parties. In addition to the management and administrative functions of the Manager and JTC, the Company has contractual arrangements with Link Market Services (Jersey) Limited to act as registrar and The Bank of New York Mellon (International) Limited (BNYMIL) as depositary and custodian.

The Board has oversight of the Company's service providers, and monitors them on a formal and regular basis. The portfolio managers responsible for the day-to-day management of the portfolio are Rhys Davies, Paul Read and Paul Causer.

For the purposes of the Alternative Investment Fund Managers Directive, the Company is an alternative investment fund. This has had no impact on the business model adopted by the Company.

At the Annual General Meeting held on 25 February 2019, shareholders approved that the Company name be changed to Invesco Enhanced Income Limited, previously Invesco Perpetual Enhanced Income Limited. This change took effect on 5 March 2019.

Investment Policy

The Company's Investment Policy comprises its investment objective, investment policy and risk and investment limits and is designed so as to provide shareholders with information on the policies that the Company will follow relating to asset allocation, risk diversification and gearing, including maximum exposures.

The Manager monitors the investment portfolio on an ongoing basis to ensure adherence to the Company's Investment Policy.

Investment Objective

The Company's principal objective is to provide shareholders with a high level of income whilst seeking to maximise total return through investing in a diversified portfolio of high yielding corporate and government bonds. The Company may also invest in equities and other instruments that the Manager considers appropriate.

The Company seeks to balance the attraction of high yield securities with the need for protection of capital and to manage volatility. The Company generally employs gearing in its Investment Policy.

Investment Policy and Risk

The investment portfolio is constructed in order to gain exposure to attractive ideas within the investment parameters of the investment portfolio and to express the Company's views on fixed interest markets. The investment process comprises three key elements which drive portfolio construction – macroeconomic analysis, credit analysis and value assessment. The Manager aims to control stock-specific risk by ensuring that the investment portfolio is appropriately diversified. In-depth, continual analysis of the fundamentals of all holdings gives the Manager an understanding of the financial risks associated with any particular stock.

The Company may enter into derivative transactions (including, but not limited to, options, futures, and contracts for difference, credit derivatives and interest rate swaps) periodically for the purposes of

STRATEGIC REPORT

BUSINESS REVIEW continued

efficient portfolio management. Derivative transactions may only be entered into if they are compatible with the Company's Investment Policy and fall within the limits determined by the Board from time to time. The Company will not enter into derivative transactions for speculative purposes.

Efficient portfolio management may include the reduction of risk, reduction of cost and the enhancement of capital or income, including transactions designed to hedge all or part of the investment portfolio, to replicate or gain synthetic exposure to a particular investment position where this can be done more effectively or efficiently through the use of derivatives than through investment in physical securities, or to transfer risk or obtain protection from a particular type of risk which might attach to portfolio investments.

The Company may enter into a derivative transaction provided the maximum exposure (including any initial outlay in respect of the transaction) to which the Company is committed by virtue of the transaction, when aggregated with all other outstanding derivative positions, is covered by the Company's net assets.

The Manager may invest in money market instruments and currencies.

The Company may borrow for investment purposes and principally does so using repo agreements. Under the repo financing, the Company sells fixed interest securities held by it to a counterparty for consideration that is less than such assets' market value and agrees to repurchase on a fixed date the same assets for a fixed price above the consideration received by it on the sale. The difference in these two amounts equates to the cost (effectively interest) of the repo financing.

Investment Limits

The Board has prescribed limits on the Investment Policy, among which are the following:

- investments in equities are restricted to no more than 20% of the Company's investment portfolio;
- no single investment (bond or equity) may exceed 10% of gross assets;
- no more than 5% of gross assets may be exposed to unquoted investments;
- no more than 15% of the Company's gross assets will be invested in other investment companies (including investment trusts); and
- repo financing and other borrowings may be used to raise the exposure to bonds and equities. Net borrowings (comprising aggregate borrowings less cash) may not, at the time of drawdown, exceed 50% of shareholders' funds (as determined under the Company's normal accounting policies).

For the purpose of the investment limits, excluding the borrowing limit, gross assets is defined as the investment portfolio plus cash and the limits are measured at the time of investment.

Gearing Policy

Under the Company's Investment Policy, borrowings may be used to raise exposure to bonds and equities and net borrowings may not exceed 50% of shareholders' funds. Gearing levels will change from time-to-time in accordance with the Board and the Manager's assessment of risk and reward.

From time-to-time, the Company arranges facilities for repo financing with counterparties. The Company manages counterparty exposure to ensure that under normal circumstances its exposure to the creditworthiness or solvency of any one counterparty does not exceed 20% of its gross assets. The Company's exposure to any one counterparty is calculated for these purposes as the difference between the aggregate amount owed by that counterparty to the Company less the aggregate amount owed by the Company to that counterparty.

The effective cost of the repo financing is allocated over the period to repurchase at a constant rate and is charged 50% to revenue and 50% to capital. Each repo financing arrangement typically has a fixed life of between one and six months. The short-term nature of the repo financing means that the effective cost of the Company's borrowings will fluctuate from time to time in accordance with the market rates of repo financing (which are closely related to interest rates).

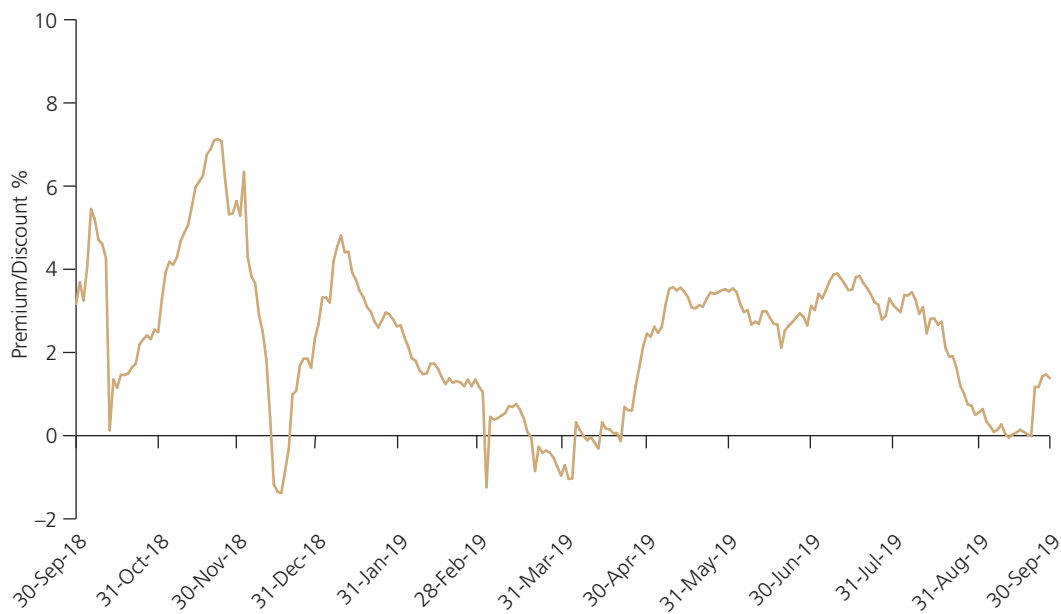
Key Performance Indicators

The Board reviews performance by reference to a number of Key Performance Indicators which include the following:

- portfolio performance;
- net asset value (NAV);
- share price;
- premium/discount;
- dividends; and
- ongoing charges.

The Company's focus has been on absolute returns. The **portfolio performance** of the Company is commented on in both the Chairman's Statement on pages 5 and 6 and, in more detail, in the Portfolio Managers' Report immediately following. These also set out the **NAV** per share and **share price** total return performance for the year, with the NAV per share increasing 8.9% (2018: 0.8%) and the share price increasing 6.7% (2018: 0.1%). For a longer term view, the graph on the bottom of page 3 shows the movements in these for the ten years ended 30 September 2019.

The Board monitors the price of the Company's shares in relation to their NAV and the share price **premium/discount** to NAV at which they trade. Over the year the shares have traded at a discount/premium within the range, discount 1.4% to premium 7.1%, and ended the year at a premium of 1.3%. The graph below shows the premium/discount throughout the year.



Source: Refinitiv.

The Board and Manager closely monitor movements in the Company's ordinary share price and dealings in the Company's ordinary shares. The Board seeks approvals from shareholders every year to allow for the issue of new ordinary shares and the buy back of ordinary shares (for cancellation or to be held as treasury shares). This may assist in the management of any premium or discount at which the Company's shares may trade, although the primary reason for buying back ordinary shares is to enhance investor value.

Any issues of new ordinary shares will be at a price above NAV per share so the interests of existing shareholders are not diluted and where the Board considers it is in shareholders' interests to do so.

Any buy back of shares will be made within guidelines established from time to time by the Board and the making and timing of any buy backs will be at the absolute discretion of the Board. Buy backs will only be made where the Directors consider it to be in the interests of shareholders as a whole, taking into consideration the working capital and cashflow requirements of the Company.

STRATEGIC REPORT

BUSINESS REVIEW continued

Dividends are a key component of the total return to shareholders, and the level of potential dividend payable and income from the portfolio is reviewed at every board meeting. The Company has paid 5p each year in respect of the ten financial years to 30 September 2019. The Company will only pay dividends in respect of a year to the extent that it has accumulated revenue reserves available for that purpose.

The expenses of managing the Company are carefully monitored by the Board at every meeting. It is the intention of the Board to minimise the **ongoing charges** which provide a guide to the effect on performance of all annual operating costs of the Company. The ongoing charges figure for the past year was 1.04% which compares with 1.06% for the previous year, excluding borrowing costs.

Financial Position

As at 30 September 2019, the Company's net assets were £126 million (2018: £121 million). These comprised a portfolio of predominantly corporate bonds. Due to the realisable nature of the majority of the Company's assets, cash flow does not have the same significance as for an industrial or commercial company. The Company's principal cash flows arise from the purchases and sales of investments, repo financing, proceeds from the issue of shares and the income from investments against which must be set the costs of borrowing and management expenses.

As explained previously, the ordinary shares are geared by borrowings, principally in the form of repo financing. As at 30 September 2019, net borrowing was 15% (2018: 16%).

Future Trends

Details of the main trends and factors likely to affect the future development, performance and position of the Company's business can be found in the Portfolio Managers' Report on pages 7 and 8. Further details as to the risks affecting the Company are set out in the next section.

Principal Risks and Uncertainties

The Audit Committee regularly undertakes a robust assessment of the principal risks facing the Company, on the Board's behalf. As part of this process, new and emerging risks are considered. These are not currently considered to be principal risks for the Company, but may have the potential to be in the future.

Investment Policy (incorporating the Investment Objective)

There is no guarantee that the Company's investment objective will be achieved or provide the returns sought by shareholders. The Board monitors the performance of the Company and has established guidelines to ensure that the investment policy that has been approved is pursued by the Manager.

Market Risk

The majority of the Company's investments are traded on the major securities markets. The principal risk for investors in the Company is of a significant fall in the markets and/or a prolonged period of decline in the markets relative to other forms of investment. The value of investments held within the investment portfolio is influenced by many factors including the general health of the world economy, interest rates, inflation, government policies, industry conditions, political and diplomatic events, tax laws, competition, environmental laws and by changing investor demand. The Portfolio Managers' Report summarises particular macro economic factors affecting performance during the year and the portfolio managers' views on those most relevant to the outlook for the portfolio. The Manager strives to maximise the total return within certain risk parameters from the investments held, but these investments are influenced by market conditions and the Board acknowledges the external influences on investment portfolio performance.

Investment Risk

The investment process employed by the Manager is set out in the first paragraph under Investment Policy and Risk on page 9.

Investment portfolio performance is dependent on the performance of high yield corporate bonds. These stocks are particularly influenced by prevailing interest rates, government monetary policy and by demand for income. The Manager strives to maximise within its mandate both capital growth and high income from the investment portfolio. The inherent risk of investment is that the stocks selected for the portfolio do not perform.

The Company is likely, from time-to-time, to maintain a more concentrated investment portfolio (both in terms of individual holdings and in terms of its exposure to particular industries) than those of many other investment funds. Accordingly, shareholders should be aware that the investment portfolio potentially carries a higher level of risk than a more diversified investment portfolio.

The Company is permitted from time to time to invest in other listed investment companies (including investment trusts) subject to a limit on such investment of 15% of its gross assets. As a consequence of these investments, the Company may itself be indirectly exposed to gearing through the borrowings of these other investment companies. The Company is not currently invested in any listed investment companies (including investment trusts).

The Portfolio Managers' Report sets out the portfolio's strategy and results for the year, as well as their outlook. The performance of the Manager is carefully monitored both during the year and post year end by the Board. The continuation of the Manager's mandate is reviewed each year and investment performance is a principal consideration in this review.

Past performance of the Company is not necessarily indicative of future performance.

Foreign Exchange Risk

The movement of exchange rates may have an unfavourable or favourable impact on returns as the Company holds non-sterling denominated investments and cash. This risk is partially mitigated by the use of non-sterling denominated repo financing and the use of forward currency contracts. The foreign currency exposure of the Company is monitored by the Manager on a daily basis and formally at Board meetings.

Shares

The market value of the ordinary shares of the Company will be affected by a number of factors, including the dividend yield from time-to-time of the ordinary shares, prevailing interest rates and supply and demand for those ordinary shares, along with wider economic factors. The market value of, and the income derived from, the Company's ordinary shares can fluctuate and may go down as well as up.

While it is the intention of Directors to pay dividends to shareholders on a quarterly basis, the ability to do so will largely depend on the amount of income the Company receives on its investments, the timing of such receipts and its costs including the repo financing. Any reduction in income receivable by the Company, or increase in the costs, will lead to a reduction in earnings per share and therefore in the Company's ability to pay dividends. Accordingly, the amount of dividends payable by the Company may fluctuate. The Board monitors the level of net revenue available for distribution at each Board meeting and prior to the declaration of each dividend.

The market value of the ordinary shares may not always reflect the NAV per ordinary share. The Directors seek powers to issue and buy back the Company's shares each year, which can be used to help manage the level of discount or premium. Both the Board and the Manager monitor the share price and level of discount/premium on a regular basis, as well as formally at Board meetings.

Gearing Returns Using Borrowings

Borrowing levels may change from time to time in accordance with the Manager's assessment of risk and reward. As a consequence, any reduction in the value of the Company's investments may lead to a correspondingly greater percentage reduction in its NAV (which is likely to adversely affect the Company's share price). Any reduction in the number of ordinary shares in issue (for example, as a result of buy backs) will, in the absence of a corresponding reduction in borrowings, result in an increase in the Company's gearing. Net borrowing may not exceed 50% of shareholders' funds and this is monitored on a daily basis by the Manager.

There is no guarantee that it will be possible to re-finance the repo financing arrangements or any other borrowings on their maturity either at all or on terms that are acceptable to the Company. If it were not possible to roll over any repo financing, the amounts then owing by the Company under the repo financing arrangement would become payable to the counterparty. Also, although the repo financing requires the counterparties to sell the assets to the Company on the repurchase date at a fixed price, if a counterparty failed to do so the Company would be left with a contractual claim against the defaulting counterparty and there is no guarantee the Company would be able to recover

BUSINESS REVIEW continued

all or any of the value of the assets from that counterparty. In adverse market conditions, the risks of counterparty default may be greater than at other times.

The Company currently has arranged facilities for repo financing with four counterparties. All borrowings, including repo financing, are actively managed by the Manager and monitored by the Board. If one or more of the counterparties with which the Company enters into repo financing decided to stop accepting non-investment grade bonds as collateral for repo financing or decided otherwise to restrict the repo financing currently provided to the Company then the Company may be unable, or it may be impracticable, to continue utilising repo financing and/or to replace its current repo financing as it expires. In certain circumstances, such as a material increase in the margins payable on repo financing, it may be uneconomical for the Company to continue utilising repo financing. The counterparties may force closure of the repo financing positions in which case the Company may be forced to repay the repo financing at short notice and the Company may be forced to sell assets at short notice to repay that debt and may not be able to realise the expected market value of those assets.

High Yield Corporate Bonds

Corporate bonds are subject to credit, liquidity, duration and interest rate risks. Adverse changes in the financial position of an issuer of corporate bonds or in general economic conditions may impair the ability of the issuer to make payments of principal and interest or may cause the liquidation or insolvency of an issuer.

The majority of the Company's investment portfolio at the year end consists of non-investment grade securities. To the extent that the Company invests in non-investment grade securities, the Company may realise a higher current yield than the yield offered by investment grade securities, but investment in such securities involves a greater volatility of price and a greater risk of default by the issuers of such securities with consequent loss of interest payment and principal. Non-investment grade securities are likely to have greater uncertainties of risk exposure to adverse conditions and will be speculative with respect to an issuer's capacity to meet interest payments and repay principal in accordance with its obligations.

A lack of liquidity in corporate bonds may make it difficult for the Company to sell those bonds at or near their purported value. This may particularly be the case if the Company is forced to sell assets quickly, for example, to repay any repo financing that becomes unexpectedly repayable or which it is not possible to rollover or in the event of a liquidation of the Company. A lack of liquidity in corporate bonds may also make it difficult or impossible to rebalance the Company's investment portfolio as and when it believes it would be advantageous to do so. To mitigate these risks, the portfolio managers monitor daily both the ratings and liquidity of the bond portfolio in relation to the Company's known repo financing requirements, and the Board receives regular reports which it reviews throughout the year.

Derivatives

The Company may enter into derivative transactions for the purposes of efficient portfolio management ('EPM'), as set out in the investment policy. The Company may also hedge against exposure to changes in currency rates to the extent that repo financing has not offset such exposure. The Manager has systems in place to monitor derivative levels on a daily basis. These also ensure exposure levels are in accordance with EPM and investment limits.

Derivative instruments can be highly volatile and expose investors to a higher risk of loss. Derivatives enable a higher degree of leverage than might be acquired in respect of a direct investment in the underlying asset. As a result, relatively small fluctuations in the value of the underlying asset or the subject of the derivative may result in a substantial fluctuation in the value of the derivative, either up or down. Daily limits on price fluctuations and position limits on exchanges may prevent prompt liquidation of positions resulting in potentially greater losses.

Where derivatives are used for hedging, there is a risk that the returns on the derivative do not exactly correlate to the returns on the underlying investment, obligation or market sector being hedged against. If there is an imperfect correlation, the Company may be exposed to greater loss than if the derivative had not been entered into.

Trading in derivatives markets may be unregulated or subject to less regulation than other markets.

Reliance on External Service Providers

The Company has no employees and the Directors have all been appointed on a non-executive basis. The Company is reliant upon the performance of third party service providers for its executive function. The Company's most significant contract is with the Manager, to whom the responsibility for the Company's portfolio is delegated. The Company has other contractual arrangements with third parties to act as company secretary, registrar, depositary and broker. Failure by any service provider to carry out its obligations to the Company in accordance with the terms of its appointment could have a materially detrimental impact on the operation of the Company and could affect the ability of the Company to pursue successfully its investment policy and expose the Company to reputational risk. The Company has limited exposure to cyber risk. However, the Company's operations or reputation could be affected if any of its service providers suffered a major cyber security breach. The Board monitors the preparedness of its service providers in this regard and is satisfied that the risk is given due priority.

The Manager may be exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not it is valid, will harm its reputation. Any damage to the reputation of the Manager could result in counterparties and third parties being unwilling to deal with the Manager and by extension the Company. This could have an adverse impact on the ability of the Company to pursue its investment policy.

The Board seeks to manage these risks, and others, in a number of ways:

- The Manager monitors the performance of all third party providers in relation to agreed service standards on a regular basis, and any issues and concerns would be dealt with promptly and reported to the Board. The Manager formally reviews the performance of all third party providers and reports to the Board on an annual basis.
- The Board monitors the performance of the Manager at every board meeting and otherwise as appropriate. The Board has the power to replace the Manager and reviews the management contract formally once a year.
- The day-to-day management of the portfolio is the responsibility of Rhys Davies, the portfolio manager, along with Paul Read and Paul Causer who are co-heads of the Invesco Fixed Interest Team. In 2002, Mr Davies joined Invesco and has 18 years' experience in fixed income markets. He has been associated with the Company's portfolio for many years and was appointed portfolio co-manager in May 2016. Messrs Read and Causer have 25 years' and 26 years' experience in fixed income markets respectively, and have been the portfolio managers of the Company since 2001. The Board has adopted guidelines within which the portfolio managers are permitted wide discretion. Any proposed variation outside these guidelines is referred to the Board and the guidelines themselves are reviewed at every board meeting.
- The risk that any one of the portfolio managers might be incapacitated or otherwise unavailable is mitigated by the fact that they work closely with each other and they also work within the wider Invesco Fixed Interest team.

Regulatory

The Company is subject to various laws and regulations by virtue of its status as a Company registered under the Companies (Jersey) Law 1991, under Alternative Investment Fund Regulations and Collective Investment Funds (Jersey) Law 1998, and as an investment company and its listing on the London Stock Exchange. A serious breach of regulatory rules may lead to suspension from the London Stock Exchange or a qualified Audit Report. Other control failures, either by the Manager or any other of the Company's service providers, may result in operational or reputational problems, erroneous disclosures or loss of assets through fraud, as well as breaches of regulations.

Any changes in the Company's tax status or in taxation legislation or accounting practice could affect the value of investments held by the Company, affect the Company's ability to provide returns to shareholders or alter the post-tax returns to shareholders.

To mitigate regulatory risk, the Manager reviews compliance with regulatory requirements on a regular basis. All transactions, income and expenditure are reported to the Board. The Board regularly considers all risks, the measures in place to control them and the possibility of any other risks that could arise. The Board ensures that satisfactory assurances are received from service

STRATEGIC REPORT

BUSINESS REVIEW continued

providers. The Manager's compliance and internal audit officers produce regular reports for review by the Company's Audit Committee.

Additionally, the depositary monitors stock, cash, borrowings and investment restrictions throughout the year. The depositary reports formally once a year and also has access to the Company Chairman and the Audit Committee Chairman if needed during the year.

Viability Statement

An investment company, such as this Company, is a collective investment vehicle rather than a commercial business venture and is designed and managed for long term investment. Long term for this purpose is considered to be at least three years and so the Directors have assessed the Company's viability over that period. However, the life of the Company is not intended to be limited to that or any other period.

The main risk to the Company's continuation is shareholder dissatisfaction through failure to meet the Company's investment objective, through poor investment performance or the investment policy not being appropriate in prevailing market conditions. The Board actively reviews the Company's performance against its investment objective and policy as well as reviewing the Company's objective to ensure that this continues to meet shareholder requirements. Accordingly, in 2013 the Company changed its name and investment policy, which was well received by both shareholders, who voted for it, and the stock market. Performance has been strong for many years and through different, and difficult, market cycles as shown by the ten year total return performance graph on page 3, and the stable level of dividend paid by the Company over the last ten years, as set out on page 3. Throughout these times there has been no change in Manager and the five-yearly continuation vote in 2019 was passed with 99.9% of shareholders voting in favour. The next continuation vote is due in 2024.

Other principal risks arise from the make-up of the portfolio, especially as it contains a high level of non-investment grade (or so-called 'junk') bonds which may have a higher risk of default, and the use of gearing to enhance returns. The portfolio managers constantly monitor the portfolio and its ratings, a bond rating analysis of which is shown on page 4. Even though a majority of the portfolio is formally ranked as non-investment grade, the portfolio remains defensively positioned. The Portfolio Managers' Report on pages 7 and 8 sets out the current portfolio strategy, with exposure positioned towards higher quality issuers where risk of default is considered low, and high levels of liquidity. The Company's investment limits permit borrowings of up to 50% of shareholders' funds. At this level, borrowings are twice covered. At the year end, net gearing as a result of borrowings was 15% and thus six times covered.

Based on the above analysis of the Company's current position and prospects, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

Board Responsibilities

The Directors have a duty to promote the success of the Company, whilst also having regard to certain broader matters, including the need to engage with employees, suppliers, customers and others, and have regards to their interests. However, the Company has no employees and no customers in the traditional sense. In accordance with the Company's nature as an investment company the Board's principal concern has been, and continues to be, the interests of the Company's shareholders taken as a whole. Notwithstanding this, the Board has a responsible governance culture and also has due regard for broader matters so far as they apply. In particular, the Board engages with the Manager at every Board meeting and reviews its relationships with other service providers at least annually.

Board Diversity

The Nomination and Remuneration Committee considers diversity, including the balance of skills, knowledge, diversity (including gender) and experience amongst other factors when reviewing the composition of the Board and appointing new directors, but does not consider it appropriate to establish targets or quotas in this regard. The Board currently comprises three male and two female non-executive directors and their summary biographical details are set out on page 22. The Company has no employees.

Environmental, Social and Governance (ESG) Matters

As an investment company with no employees, property or activities outside investment, environmental policy has limited application. The Company has delegated the management of the Company's investments to the Manager, who has an ESG Guiding Framework which sets out a number of principles that are intended to be considered in the context of its responsibility to manage investments that are in the financial interests of shareholders. The Manager is committed to being a responsible investor and applies the United Nations Principles for Responsible Investment which demonstrates its extensive efforts in terms of ESG integration, active ownership, investor collaboration and transparency.

The Manager is signatory to the FRC Stewardship Code which seeks to improve long-term returns to shareholders and the efficient exercise of governance responsibilities. While an investee company's policy towards the environment and social responsibility, including with regard for human rights, is considered as part of the overall assessment of risk and suitability for the portfolio, the Manager does not make its investment decisions on environmental and social grounds alone. A copy of the Manager's Stewardship Code can be found at www.invesco.co.uk.

Modern Slavery Act 2015

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

Approved by the Board of Directors on 16 December 2019.

JTC Fund Solutions (Jersey) Limited

Company Secretary

INVESTMENT PORTFOLIO

AT 30 SEPTEMBER 2019

All investments are fixed interest bonds unless otherwise stated; floating rates notes are depicted by FRN.

The definitions of the Moody/Standard & Poor's ratings below are set out on page 71.

Bonds and Equity Investments

ISSUER	ISSUE	RATING	MARKET VALUE AT £'000	% OF PORTFOLIO
Euro				
UniCredit International Bank	8.125% FRN Perpetual	Ba3/BB-	2,692	1.9
Achmea	6% 04 Apr 2043	NR/BBB-	2,048	1.4
Telecom Italia	5.25% 17 Mar 2055	Ba1/BB+	1,999	1.4
Intesa Sanpaolo	8.375% FRN Perpetual	Ba3/BB-	886	1.2
	7% Perpetual	Ba3/BB-	838	
Coty	4.75% 15 Apr 2026 (SNR)	Caa1/B+	1,534	1.1
Burger King France	8% 15 Dec 2022 (SNR)	NR/CCC	789	1.0
	FRN 01 May 2023	B3/B-	465	
	6% 01 May 2024 (SNR)	B3/B-	225	
Banco BPM	8.75% FRN Perpetual	B3/NR	1,376	0.9
Permanent TSB	8.625% FRN Perpetual	NR/NR	1,308	0.9
Loxam SAS	5.75% 15 Jul 2027	NR/B	763	0.9
	3.75% 15 Jul 2026 (SNR)	NR/BB-	515	
Maxeda DIY	6.125% 15 Jul 2022 (SNR)	B2/B-	1,154	0.8
Banco Comercial Portugues	9.25% 30 Apr 2067	B2/CCC+	961	0.7
Takko	FRN 15 Nov 2023 (SNR)	B2/B-	922	0.6
Platin	5.375% 15 Jun 2023 (SNR)	B3/B	917	0.6
Banco Sabadell	6.5% FRN Perpetual	B2/NR	884	0.6
Picard	FRN 30 Nov 2023	B3/B	868	0.6
DKT Finance	7% 17 Jun 2023 (SNR)	Caa1/B-	796	0.6
IHO Verwaltungs	3.875% 15 May 2027 (SNR)	Ba1/BB+	741	0.5
Quintiles IMS	3.25% 15 Mar 2025 (SNR)	Ba3/BB	727	0.5
La Financière ATALIAN	4% 15 May 2024 (SNR)	Caa1/B	646	0.4
Aegon	5.625% FRN Perpetual	Baa3/BBB-	583	0.4
Tasty Bondco	6.25 15 May 2026 (SNR)	B2/B	579	0.4
National Bank Of Greece	8.25% FRN 18 Jul 2029	Caa2/CCC	573	0.4
CNP Assurances	FRN Perpetual	NR/NR	561	0.4
PrestigeBidCo	6.25% 15 Dec 2023 (SNR)	B2/B	555	0.4
EG Global Finance	4.375% 07 Feb 2025 (SNR)	B2/B	468	0.3
EDP – Energias de Portugal	4.496% 30 Apr 2079	Ba2/BB	394	0.3
Odyssey Europe	8% 15 May 2023 (SNR)	B2/B	343	0.2
Trafigura	7.5% FRN Perpetual (SUB)	NR/NR	333	0.2
BNP Paribas	Cnv FRN Perpetual	Baa3/BB+	305	0.2
Aviva	6.125% FRN 05 Jul 2043	A3/BBB+	248	0.2
Adient	3.5% 15 Aug 2024	B3/B	225	0.2
ASR Nederland	4.625% Cnv FRN Perpetual	NR/BB+	182	0.1
CGG	Common stock	NR/NR	162	0.1
Lloyds Banking Group	6.375% FRN Perpetual	Baa3/BB-	147	0.1
Thomas Cook Group	6.25% 15 Jun 2022 (SNR)	NR/D	87	0.1
	3.875% 15 Jul 2023	NR/D	18	
			29,817	20.6
Sterling				
Koninklijke KPN	6.875% FRN 14 Mar 2073	Ba2/BB+	3,367	2.3
Stonegate	FRN 15 Mar 2022 (SNR)	B2/B-	1,357	2.3
	7% FRN 15 Mar 2022 (SNR)	B2/B-	1,078	
	4.875% 15 Mar 2022 (SNR)	B2/B-	828	
Barclays	7.875% FRN Perpetual	Ba3/B+	1,806	2.0
	6.375% FRN Perpetual	Ba3/B+	573	
	7.125% FRN Perpetual	Ba3/B+	487	
Enel	7.75% 10 Sep 2075	Ba1/BBB-	2,005	2.0
	6.625% 15 Sep 2076	Ba1/BBB-	827	
Enterprise Inns	6.375% 15 Feb 2022 (SNR)	NR/BB-	2,129	1.8
	7.5% 15 Mar 2024	NR/B	510	
NWEN Finance	5.875% 21 Jun 2021 (SNR)	NR/BB+	2,505	1.7
Sainsbury's	6.5% FRN Perpetual	NR/NR	1,675	1.7
	6% FRN 23 Nov 2027	NR/NR	809	

ISSUER	ISSUE	RATING	AT MARKET VALUE £'000	% OF PORTFOLIO
Sterling – continued				
NGG Finance	5.625% FRN 18 Jun 2073	Baa3/BBB	2,468	1.7
Premier Foods Finance	6.25% 15 Oct 2023	B2/B	1,762	1.6
	FRN 15 Jul 2022 (SNR)	B2/B	589	
Pinnacle Bidco	6.375% 15 Feb 2025 (SNR)	B2/B	2,184	1.5
Electricite De France	6% Perpetual	Baa3/BB	1,411	1.4
	5.875% Perpetual	Baa3/BB	645	
Virgin Money	8.75% Perpetual	Ba2/B	1,930	1.3
Co-Operative Bank	9.5% FRN 25 Apr 2029	NR/NR	1,430	1.3
	5.125% 17 May 2024 (SNR)	NR/BB	483	
Virgin Media Finance	5.125% 15 Jan 2025 (SNR)	Ba3/BB-	1,869	1.3
Matalan Finance	6.75% 31 Jan 2023 (SNR)	B2/B-	1,008	1.2
	9.5% 31 Jan 2024 (SNR)	Caa2/CCC	758	
Balfour Beatty	10.75p Cnv Preference	NR/NR	1,644	1.1
Aviva	6.125% Perpetual	A3/BBB+	1,606	1.1
Wagamama Finance	4.125% 01 Jul 2022 (SNR)	B2/B	1,523	1.1
Pension Insurance	7.375% FRN Perpetual	NR/NR	1,463	1.0
Vodafone Group	4.875% 03 Oct 2078	Ba1/BB+	1,059	0.9
	1.5% Cnv 12 Mar 2022	NR/NR	251	
William Hill	4.75% 01 May 2026	Ba1/BB	1,238	0.9
Orange	5.875% Perpetual	Baa3/BBB-	1,218	0.8
Time Warner Cable	5.25% 15 Jul 2042	Ba1/BBB-	1,180	0.8
Arqiva Broadcast Finance	6.75% 30 Sep 2023	B2/NR	1,109	0.8
Deutsche Bank	7.125% Perpetual	B1/B+	1,030	0.7
Partnership Assurance	9.5% 24 Mar 2025	NR/NR	1,025	0.7
Iron Mountain	3.875% 15 Nov 2025	Ba3/BB-	1,004	0.7
Drax Finco	4.25% 01 May 2022 (SNR)	NR/BB+	944	0.7
Jaguar Land Rover	2.75% 24 Jan 2021	B1/B+	470	0.6
	5% 15 Feb 2022	B1/B+	465	
Scottish Widows	5.5% 16 Jun 2023	Baa1/BBB+	894	0.6
Pizza Express	6.625% 01 Aug 2021	B3/CCC+	834	0.6
Bupa Finance	5% 08 Dec 2026	Baa1/NR	802	0.6
AMC Entertainment	6.375% 15 Nov 2024 (SUB NTS)	B3/CCC+	783	0.5
Miller Homes	FRN 15 Oct 2023 (SNR)	NR/BB-	540	0.5
	5.5% 15 Oct 2023 (SNR)	NR/BB-	194	
OneSavings Bank	9.125% FRN Perpetual	NR/NR	705	0.5
RAC Bond	4.87% FRN 06 May 2046 (SNR)	NR/BBB-	700	0.5
AXA	5.453% FRN Perpetual	Baa1/BBB+	562	0.4
Anglian Water	5% 30 April 2023 (SNR)	Ba3/NR	506	0.4
Nationwide	5.875% FRN Perpetual	Baa3/BB+	363	0.3
Rothsay Life	8% 30 Oct 2025	NR/NR	293	0.2
CYBG	9.25% Perpetual	Ba2u/B	288	0.2
CIS General Insurance	12% FRN 08 May 2025	NR/NR	106	0.1
			61,292	42.4
US Dollar				
Altice	SFR 7.375% 01 May 2026	B2/B	2,702	2.9
	6.625% 15 Feb 2023	B2/B+	1,000	
	7.5% 15 May 2026	B2/B+	543	
AT&T	4.65% 01 Jun 2044 (SNR)	Baa2/BBB	2,626	1.8
Royal Bank of Scotland	7.64% FRN Perpetual	Ba2/BB-	1,533	1.8
	8% Cnv FRN Perpetual	Ba2u/B+	448	
	8.625% FRN Perpetual	Ba2u/B+	383	
	7.5% Cnv FRN Perpetual	Ba2u/B+	174	
Stora Enso	7.25% 15 Apr 2036	Baa3/NR	1,938	1.3
Vodafone Group	6.25% 03 Oct 2078	Ba1/BB+	1,228	1.3
	7% FRN 04 Apr 2079	Ba1/BB+	681	
Celanese	4.625% 15 Nov 2022	Baa3/BBB	1,730	1.2
Fiat Chrysler Automobiles	4.5% 15 Apr 2020	Ba2/BB+	1,643	1.1
Catlin Insurance	7.249% FRN Perpetual	NR/A-	1,627	1.1
HSBC	6.375% Cnv Perpetual	Baa3/NR	1,500	1.0

INVESTMENT PORTFOLIO

continued

ISSUER	ISSUE	RATING	AT MARKET VALUE £'000	% OF PORTFOLIO
US Dollar – continued				
Panther BF Aggregator	8.5% 15 May 2027 (SNR)	B3/B	1,478	1.0
Adient	7% 15 May 2026 (SNR)	Ba2/BB–	1,357	0.9
Ziggo Bond Finance	5.875% 15 Jan 2025	B3/B–	1,336	0.9
Telecom Italia	5.303% 30 May 2024	Ba1/BB+	1,313	0.9
Hertz	7.625% 01 Jun 2022	B1/B+	1,310	0.9
Teva Pharmaceutical Finance III	6.75% 01 Mar 2028	Ba2/BB	1,306	0.9
Beazley	5.875% 04 Nov 2026	NR/NR	1,217	0.8
Algeco Scotsman	8% 15 Feb 2023 (SNR)	B2/B–	1,069	0.7
Marfrig Global Foods	7% 15 Mar 2024	NR/BB–	1,042	0.7
Société Générale	7.375% 31 Dec 2065	Ba2/BB+	1,026	0.7
SCOR	5.25% 13 Mar 2067	Baa1/A–	946	0.7
Trinseo	5.375% 01 Sep 2025 (SNR)	B2/BB–	932	0.7
Lloyds Banking Group	7.5% 31 Dec 2065	Baa3/BB–	902	0.6
Diamond 1	5.45% 15 Jun 2023	Baa3/BBB–	867	0.6
Lamb Weston	4.625% 01 Nov 2024	Ba2/BB+	853	0.6
DNO ASA	8.375% 29 May 2024	NR/NR	488	0.6
	8.75% 31 May 2023	NR/NR	332	
IHO Verwaltungs	6% 15 May 2027 (SNR)	Ba1/BB+	819	0.6
Sigma Holdco	7.875% 15 May 2026 (SNR)	B3/B–	815	0.6
VIVAT	6.25% Perpetual	NR/NR	814	0.6
Codere Finance 2 (Luxembourg)	7.625% 01 Nov 2021	B3/B	808	0.6
Owens	5.875% 15 Aug 2023	B1/BB–	796	0.6
Ithaca Energy	9.375% 15 Jul 2024 (SNR)	B3/B	771	0.5
Verizon Communications	4.272% 15 Jan 2036	Baa1/BBB+	758	0.5
FAGE International	5.625% 15 Aug 2026 (SNR)	B1/B+	728	0.5
J. C. Penney	8.625% 15 Mar 2025 (SNR)	Caa2/CCC–	539	0.5
	6.375% 15 Oct 2036 (SNR)	Caa3/CCC–	138	
Barclays	8% FRN Perpetual	Ba3/B+	555	0.5
	2.75% FRN Perpetual	Ba2/BB+	122	
XPO Logistics	6.5% 15 Jun 2022 (SNR)	Ba3/BB–	662	0.5
Walnut Bidco	9.125% 01 Aug 2024 (SNR)	B1/B+	660	0.5
Petra Diamonds	7.25% 01 May 2022 (SNR)	B3/B–	482	0.4
	7.25% 01 May 2022 (SNR)	B3/B–	161	
Aker BP	5.875% 31 Mar 2025 (SNR)	Ba1/BB+	641	0.4
Topaz Marine	9.125% 26 Jul 2022 (SNR)	B3/B	637	0.4
DKT Finance	9.375% 17 Jun 2023 (SNR)	Caa1/B–	576	0.4
Marb Bondco	6.875% 19 Jan 2025 (SNR)	NR/BB–	551	0.4
CIRSA Finance	7.875% 20 Dec 2023	B2/B	535	0.4
Brink's	4.625% 15 Oct 2027	Ba2/BB	525	0.4
Rothschilds Continuation Finance	FRN Perpetual	NR/NR	469	0.3
Puma International	5% 24 Jan 2026	Ba2/NR	445	0.3
NMC Health	1.875% Cnv 30 Apr 2025	NR/NR	414	0.3
UniCredit International Bank	8% FRN Perpetual	NR/NR	337	0.2
Petroleos Mexicanos	6.75% 21 Sep 2047 (SNR)	Baa3/BBB+	272	0.2
Millicom International Cellular	5.125% 15 Jan 2028	Ba2/NR	245	0.2
PGH Capital	5.375% 06 Jul 2027	NR/NR	234	0.2
Tesco	6.15% 15 Nov 2037 (SNR)	Baa3/BB+	217	0.2
Nyrstar	0% 31 Jul 2026 (SNR)	NR/NR	163	0.1
			53,419	37.0
Total investments			144,528	100.0

TOP TEN INVESTMENTS

AT 30 SEPTEMBER 2019

ISSUER	ISSUE	2019		2018	
		VALUE £'000	AT MARKET % OF PORTFOLIO	VALUE £'000	AT MARKET % OF PORTFOLIO
Altice	SFR 7.375% 01 May 2026	2,702	2.9	2,374	2.7
	6.625% 15 Feb 2023	1,000		925	
	7.5% 15 May 2026	543		468	
Barclays	7.875% FRN Perpetual	1,806	2.5	940	0.8
	6.375% FRN Perpetual	573		-	
	8% FRN Perpetual	555		-	
	7.125% FRN Perpetual	487		-	
	2.75% FRN Perpetual	122		-	
	7.875% Var Perpetual	-		167	
Koninklijke KPN	6.875% FRN 14 Mar 2073	3,367	2.3	837	0.6
Telecom Italia	5.25% 17 Mar 2055	1,999	2.3	1,831	1.3
	5.303% 30 May 2024	1,313		-	
Stonegate	FRN 15 Mar 2022 (SNR)	1,357	2.3	1,334	1.5
	7% FRN 15 Mar 2022 (SNR)	1,078		-	
	4.875% 15 Mar 2022 (SNR)	828		798	
Vodafone Group	6.25% 03 Oct 2078	1,228	2.2	-	-
	4.875% 03 Oct 2078	1,059		-	
	7% FRN 04 Apr 2079	681		-	
	1.5% Cnv 12 Mar 2022	251		-	
UniCredit International Bank	8.125% FRN Perpetual	2,692	2.1	2,832	2.2
	8% FRN Perpetual	337		293	
Enel	7.75% 10 Sep 2075	2,005	2.0	1,564	1.7
	6.625% 15 Sep 2076	827		822	
Enterprise Inns	6.375% 15 Feb 2022 (SNR)	2,129	1.8	2,173	2.2
	7.5% 15 Mar 2024	510		487	
	6.5% 06 Dec 2018 (SNR)	-		402	
AT&T	4.65% 01 Jun 2044 (SNR)	2,626	1.8	-	-

BOND RATING ANALYSIS

AT 30 SEPTEMBER

Standard & Poor's (S&P) ratings. Where a S&P rating is not available, an equivalent average rating has been used. The ratings for 2018 have been adjusted accordingly for comparative purposes. Investment grade is BBB- and above.

For the definitions of these ratings see the Glossary of Terms and Alternative Performance Measures on page 71.

RATING	2019		2018	
	% OF PORTFOLIO	CUMULATIVE TOTAL %	% OF PORTFOLIO	CUMULATIVE TOTAL %
Investment Grade:				
A	-	-	1.1	1.1
A-	1.8	1.8	-	1.1
BBB+	3.0	4.8	2.5	3.6
BBB	9.8	14.6	8.6	12.2
BBB-	6.5	21.1	9.7	21.9
Non-investment Grade:				
BB+	13.8	34.9	10.7	32.6
BB	6.2	41.1	12.3	44.9
BB-	13.0	54.1	13.8	58.7
B+	8.5	62.6	5.0	63.7
B	16.9	79.5	17.8	81.5
B-	8.5	88.0	8.4	89.9
CCC+	1.8	89.8	1.8	91.7
CCC	1.4	91.2	1.5	93.2
CCC-	0.5	91.7	-	93.2
D	0.1	91.8	-	93.2
NR (including equities)	8.2	100.0	6.8	100.0
	100.0		100.0	

DIRECTORS

Kate Bolsover *(Chairman)*

Ms. Bolsover was appointed a Director and Chairman of the Company on 16 January 2019. She was previously Chairman and trustee of Tomorrow's People, non-executive director of JPMorgan American Investment Trust, director of corporate communications at Cazenove Group plc and JPMorgan Cazenove, managing director at Signature Financial Group and Baring Fund Managers. She is currently a director of TR Property Investment Trust plc, Baillie Gifford & Co Limited and Chairman of Fidelity Asian Values Trust.

Peter Yates *(Jersey resident) (Chairman of the Audit Committee)*

Mr. Yates was appointed a Director of the Company on 1 August 2012. Mr. Yates, an experienced Chartered Accountant, was previously a partner of PricewaterhouseCoopers working in the United Kingdom and Jersey for over 32 years. He is currently chairman of Jersey Water and a non-executive director of Standard Bank Jersey.

Michael Lombardi *(Jersey resident) (Chairman of the Nomination and Remuneration Committee)*

Mr. Lombardi was appointed a Director of the Company on 1 August 2012. After training with Dundas & Wilson in Edinburgh, Michael qualified as a lawyer in England, Hong Kong, Bermuda and Jersey. He was a senior corporate partner of the Jersey Law firm Ogier and has specialised in investment fund and structured finance transactions for over 25 years until he retired from the firm in March 2016. He currently serves as a non-executive director of a number of private equity funds and investment companies.

Christine Johnson *(Chairman of the Management Engagement Committee)*

Ms. Johnson was appointed a Director of the Company on 16 January 2019. She was formerly Head of Fixed Income at Old Mutual Global Investors, Senior Fund Manager at HSBC Group ((HALBIS) Capital Management) and fund manager at Investec Asset Management. Ms. Johnson is currently a non-executive director of CCLA.

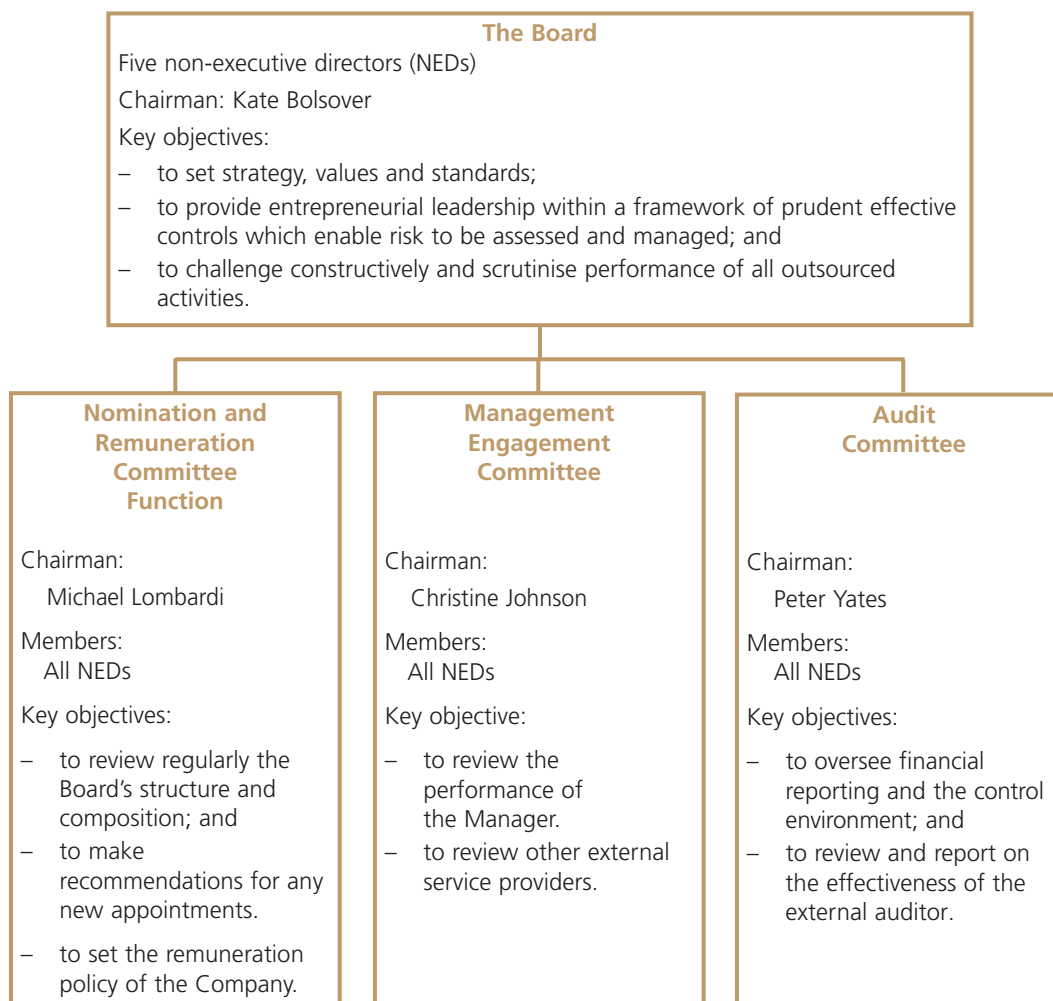
Clive Spears *(Jersey resident)*

Mr. Spears was appointed a Director of the Company on 18 May 2011. He has over 32 years' experience with the Royal Bank of Scotland Group of which the last 18 years were spent in Jersey until his retirement in 2003. His experience has spanned corporate finance, treasury products, global custody, trust and fund administration, internal audit and compliance. Since his retirement he has acted as a consultant and non-executive director both in the investment management industry and local commerce, holding a wide range of local board appointments including EPE Special Opportunities plc and GCP Infrastructure Investments Limited. He is an Associate Member of The London Institute of Banking and Finance, a member of the Institute of Directors and a member of the Chartered Institute for Securities and Investment and on the Board of Jersey Financial Services Limited. He is regulated by the Jersey Financial Services Commission as a Class G licence holder.

All Directors are independent and non-executive.

THE COMPANY’S GOVERNANCE FRAMEWORK

Responsibility for good governance lies with the Board. The governance framework of the Company reflects the fact that as an investment company it has no employees and outsources investment management to the Manager and administration to other external service providers, such as JTC Fund Solutions (Jersey) Limited.



For the purpose of this Annual Financial Report the following terms apply:

The Manager is defined as Invesco Fund Managers Limited.

Portfolio managers are defined as Rhys Davies, Paul Read and Paul Causer.

CORPORATE GOVERNANCE STATEMENT

Corporate Governance Statement

The Board is committed to maintaining the highest standards of Corporate Governance and is accountable to shareholders for the governance of the Company's affairs.

The Board has considered the principles and recommendations of the 2016 AIC Code of Corporate Governance (the 'AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies (the 'AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the 2016 UK Corporate Governance Code (the 'UK Code'), as well as setting out additional principles and recommendations on the issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Code), will provide better information to shareholders.

The AIC Code is available from the Association of Investment Companies (www.theaic.co.uk). The UK Code is available from the Financial Reporting Council website (www.frc.org.uk).

The Company intends to comply with the updated 2019 AIC Code for the year ending 30 September 2020.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code, except as detailed in the Directors' Report and as set out below.

The UK Code includes provisions relating to:

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

For the reasons set out in the AIC Guide, and in the preamble to the UK Code, the Board considers these provisions are not relevant to the position of the Company, being an externally managed investment company with no executive employees and, in relation to the last one, in view of the Manager having internal audit functions, the Company has therefore not reported further in respect of these provisions.

The terms of reference for the Board and the Audit Committee are reviewed and updated periodically to bring them in line with latest best practice and to ensure compliance with the AIC Code. The Company's corporate governance procedures are considered regularly by the Board and amended as necessary.

The composition and operation of the Board and its committees are summarised on page 23.

The Company's approach to internal control and risk management is summarised on page 30.

The contractual arrangements with and assessment of the Manager are summarised on page 34.

The Company's capital structure and voting rights are summarised on pages 32 and 33.

Details of the substantial shareholders of the Company are listed on page 33.

The rules concerning the appointment and replacement of directors are contained in the Company's Articles of Association and are discussed on pages 26 and 27. There are no agreements between the Company and its directors concerning compensation for loss of office.

The power to buy back the Company's shares is sought annually, and all amendments to the Company's Articles of Association require a special resolution to be passed by shareholders.

By order of the Board

JTC Fund Solutions (Jersey) Limited
Company Secretary

16 December 2019

DIRECTORS' REPORT

Introduction

The Directors present their Report for the year ended 30 September 2019.

Corporate Governance

The Corporate Governance Statement on page 24 is included in this Directors' Report by reference.

Business and Status

The Company was incorporated and registered with limited liability in Jersey (number 75059) on 10 September 1999 under the Companies (Jersey) Law 1991. The Company is a closed-ended investment company and its ordinary shares are listed on the London Stock Exchange.

Invesco Fund Managers Limited (IFML) is the Manager of the Company, providing investment management services. During the year, R&H Fund Services (Jersey) Limited was the corporate company secretary and provided company secretarial and general administrative services. With effect from 10 December 2019, JTC Fund Solutions (Jersey) Limited has been appointed to replace R&H Fund Services (Jersey) Limited as the corporate company secretary and administrator.

Life of the Company

The Articles of the Company require an ordinary resolution to approve the continuation of the Company as a closed-ended investment company, be proposed every five years and was passed by shareholders at the Annual General Meeting in 2019. The next continuation vote will be put to shareholders at the AGM in 2024.

The financial statements have been drawn up on a going concern basis as detailed in note 2 to the financial statements.

The Board

The Board currently consists of five non-executive Directors, all of whom are considered wholly independent of the Company's Manager and advisers.

Chairman

The Chairman of the Company is Kate Bolsover, an independent non-executive Director who has no conflicting relationships. She has been a member of the Board and Chairman since 16 January 2019 and succeeded Peter Yates who was acting as Interim Chairman.

Senior Independent Director

All Directors are equally responsible under the law for the proper conduct of the Company's affairs. The Directors are also responsible for ensuring that their policies and operations are in the interests of the Company's shareholders. In view of this, the Board does not consider it appropriate to identify a senior independent director as recommended by the AIC Code. All the Directors are available to shareholders if they have concerns which contact through the normal channels of Chairman, Manager or company secretary have failed to resolve, or for which such contact is inappropriate.

Board Balance

The Directors have a range of business, financial and investment management skills and experience relevant to the direction and control of the Company. Brief biographical details of members of the Board are shown on page 22.

Board Responsibilities

The Directors direct and supervise the Company's affairs within a framework of effective controls which enable risk to be assessed and managed. In addition, the Directors are responsible for ensuring that their policies and operations are in the interests of all of the Company's shareholders.

The Board has a zero tolerance approach towards the criminal facilitation of tax evasion and is committed to the prevention of corruption in the conduct of the Company's affairs. Taking account of the nature of the Company's business and operations, the Board has put in place procedures that it considers adequate to prevent persons associated with the Company from engaging in bribery.

DIRECTORS' REPORT

continued

A formal schedule of matters reserved for the Board detailing the responsibilities of the Board has been established. The main responsibilities include: setting the Company's objectives, policies and standards; ensuring that the Company's obligations to shareholders and others are understood and complied with; approving accounting policies and dividend policy; managing the capital structure; setting long-term objectives and strategy; assessing risk; reviewing investment performance; approving loans and borrowings; and controlling risks. The schedule of matters reserved for the Board will be available for inspection at the AGM and is otherwise available at the registered office of the Company and on the Company's section of the Manager's website.

To enable the members of the Board to fulfil their roles, the Manager and company secretary ensure that all Directors have timely access to all relevant management, financial and regulatory information to enable informed decisions to be made.

The Board meets regularly, at least four times each year, and additional meetings are arranged as necessary. Regular contact is maintained by the Manager and company secretary with the Board between formal meetings. Board meetings follow a formal agenda, which includes a review of the investment portfolio with a report from the Manager on the current investment position and outlook; strategic direction; performance against stock market indices; asset allocation; cash management; gearing policy; revenue forecasts for the financial year; marketing and investor relations; corporate governance; industry compliance and regulatory matters; and other issues.

There is an agreed procedure for Directors, in the furtherance of their duties, to take legal advice at the Company's expense up to an initial cost of £10,000, having first consulted the Chairman.

During the year, the Board took the decision that the Nomination and Remuneration Committee functions would be combined into one committee under the chairmanship of Michael Lombardi. The composition and activities of the committee is detailed on page 23.

Nominations and Remuneration Committee

All Directors are members of the Nomination and Remuneration Committee with Michael Lombardi as Chairman. The main responsibilities of the Committee are to review the size, structure and skills of the Board, to make recommendations with regard to any changes considered necessary or new appointments and to plan for the Board's succession. The Committee is also responsible for determining the Company's remuneration policy, taking into account all factors which are deemed necessary in order to ensure that members of the Board are provided with appropriate compensation and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. The Committee has written terms of reference which are reviewed regularly and clearly define its responsibilities and duties. The terms of reference will be available for inspection at the AGM and can be inspected at the registered office of the Company as well as on the Company's section of the Manager's website.

The Board has due regard for the benefits of diversity (including gender) in its members and seeks to ensure that its composition is sufficient for the effective direction and control of the Company. The Board is mindful of the Davies and Hampton-Alexander reviews of board gender diversity and is committed to giving due consideration to the Board's gender balance in connection with its refreshment programme. The Board has not set any measurable objectives in respect of this policy.

Appointment, Re-election, Tenure and the Nomination of Directors

During the year the Board reviewed succession planning taking into consideration, amongst other things, diversity and the skills and tenure of the Directors. The Board prepared a detailed description of each role and skills required and used an external independent recruitment consultancy firm, Fletcher Jones, to search for two additional directors to join the Board. Kate Bolsover and Christine Johnson were appointed to the Board on 16 January 2019 and will accordingly stand for election at the forthcoming Annual General Meeting.

The Articles of Association require that each Director shall retire and be subject to election at the first AGM after appointment and re-election at least every three years thereafter.

However, the Board has resolved that from the forthcoming AGM onwards, in compliance with the 2019 AIC Code all Directors shall stand for annual re-election. In line with the 2019 AIC Code an outline

of the reasons why their contributions and skills continue to be important to the Company's long-term sustainable success are included on page 35. A Director's tenure of office will normally be for nine years, except that the Board may determine otherwise if it is considered that the continued service on the Board of an individual Director is in the best interests of the Company and its shareholders. The Chairman's tenure of office will also normally be for up to nine years, except that the Board may determine otherwise if it is considered that the continued service on the Board of a Chairman, who has in addition served a period of time as a Director, is in the best interests of the Company and its shareholders.

On being appointed to the Board, Directors are fully briefed as to their responsibilities and are regularly provided throughout their terms in office with all necessary information on industry and regulatory matters. The Manager and Board have formulated an induction training programme for newly appointed Directors. They have also put arrangements in place to address ongoing training requirements of Directors, including briefings from key members of the Manager's staff which ensure that Directors can keep up to date with new legislation and changing risks.

No Director has a contract of employment with the Company. Directors' terms and conditions of appointment are set out in letters of appointment which are available for inspection on the Manager's website, at the registered office of the Company and will be available at the AGM.

Performance Evaluation

The Directors recognise the importance of the AIC Code in terms of evaluating the performance of the Board as a whole, its respective Committees and individual Directors. During the year, the performance of the Board, Committees of the Board and individual Directors was assessed in terms of:

- attendance at Board and Committee Meetings;
- the independence of individual Directors;
- the ability of individual Directors to make an effective contribution to the Board and Committees of the Board due to the diversity of skills and experience each Director brings to meetings; and
- the Board's ability to effectively challenge the Manager's recommendations, suggest areas of debate and fix timetables for debates on the future strategy of the Company.

The Directors concluded that the performance evaluation process had proved successful with the Board, the Committees of the Board and the individual Directors scoring well in all areas. The Board and the Committees of the Board continued to be effective and the individual Directors continued to demonstrate commitment to their respective roles and responsibilities.

Attendance at Board and Committee Meetings

The following table sets out the attendance of individual Directors. Directors are considered to have a good attendance record at Board and Committee meetings.

	BOARD MEETING	AUDIT COMMITTEE	MANAGEMENT ENGAGEMENT COMMITTEE	NOMINATION AND REMUNERATION COMMITTEE
NUMBER OF MEETINGS (YEAR ENDED 30 SEPTEMBER 2019)	4	2	2	1
Meetings Attended				
Kate Bolsover (Appointed 16 January 2019)	3	1	1	1
Michael Lombardi	4	2	2	1
Christine Johnson (Appointed 16 January 2019)	3	1	1	1
Clive Spears	4	2	2	1
Peter Yates	4	2	2	1

DIRECTORS' REPORT

continued

Apart from the Board, Audit, Management Engagement Committee and Nomination and Remuneration Committee meetings detailed above, there was a significant number of meetings held by a Committee of the Board to deal with ad hoc items.

Audit Committee

Composition and Terms of Reference

All Directors are members of the Audit Committee with Peter Yates as Chairman. The Audit Committee reviews and reports to the Board on the Company's financial reporting, risk management and internal control systems and the independence and effectiveness of the auditor. Committee members consider that collectively they are appropriately experienced to fulfil the role required. A separate risk committee has not been established.

The Audit Committee Terms of Reference are available for inspection at AGMs and can be inspected at the registered office of the Company or on the Company's page on the Manager's website at www.invesco.co.uk/enhancedincome.

The terms of reference clearly define the objectives, authority and responsibilities of the Audit Committee and are reviewed on an annual basis, the last review being in November 2018. The key objectives of the Committee are to review and challenge, where necessary, the financial reporting process, the system of internal control and management of financial risks, the external and internal audit processes and the Company's process for monitoring compliance with laws and regulations.

Audit Committee Responsibilities

The responsibilities of the Audit Committee (the 'Committee') include:

- evaluation of the effectiveness of the internal controls and risk management systems, including reports received on the operational controls of the Company's service providers and the Manager's whistleblowing arrangements;
- evaluation of reports received from the auditor with respect to the annual financial report and reports received from the Manager's internal audit and compliance departments and reviewing the Company's procedures for detecting fraud;
- reviewing the annual and half-yearly financial reports and announcements of the Company and ensuring compliance with relevant statutory and listing requirements;
- reporting to the Board on the appropriateness of the accounting policies and practices including critical accounting policies, any judgements and any significant issues arising during or at the year end;
- advising the Board on whether the Committee believes the annual financial report taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's performance, business model and strategy; and
- management of the relationship with the external auditor, including their appointment, and the scope, effectiveness, independence and objectivity of their audit.

Work Undertaken by the Audit Committee

The Committee met three times in respect of the year being reported on to review the internal financial and non-financial controls, to approve the contents of the half-yearly and annual financial reports to shareholders and to review accounting policies. Representatives of the Manager's Internal Audit and Compliance Departments attend the Committee meetings at which the annual and half-yearly financial reports were reviewed. Likewise, representatives of PricewaterhouseCoopers CI LLP, the Company's auditor, attended the Committee meeting at which the draft annual financial report was reviewed and spoke to Committee members without the presence of representatives of the Manager. The audit programme and timetable had been drawn up and agreed with the Company's auditor in advance of the financial year end. Items for audit focus were discussed, agreed and given particular attention by the Committee during the audit process. The auditor reported to the Committee on these items, among other matters, in their report which was considered by the Committee and discussed with the auditor and the Manager prior to approval and signature of the annual financial report. The Committee also reviewed the depositary's comprehensive report for the year to 30 September 2019 and the Committee's chairman

reported on his discussions with the depositary to the Committee and confirmed that there were no matters to bring to the Committee's attention.

Accounting Matters and Significant Areas of Judgement

For the year end, the accounting matters that were subject to specific consideration by the Committee and consultation with the auditor where necessary were as follows:

SIGNIFICANT AREA	HOW ADDRESSED
Existence and ownership of the investments, cash and repo financing positions	All investment and cash assets are regularly reconciled to custodian records by the Manager, as are positions held under repo financing which are reconciled to repo counterparties. The Committee reviewed the Manager's and custodian's annual internal control reports; these are both reported on by an independent external auditor. The depositary also undertakes its own independent monthly reconciliations. At the financial year end the portfolio positions are checked as part of the independent auditor's work on the financial statements.
Accuracy of the portfolio valuation.	Actively traded investments are valued using prices provided by third party pricing vendors, as set out in accounting policies note 2(c)(v). Further valuation details are also contained in note 20 <i>Classification Under Fair Value Hierarchy</i> .
The allocation of management fees and finance costs between revenue and capital.	The allocation is reviewed by the Committee annually taking into account the long-term split of returns from the portfolio, both historical and projected; the objective of the Company; and yields.

All significant areas were satisfactorily addressed through consideration of reports provided by, and discussed with, the Manager and the auditor. The allocation of management fees and finance costs was subjective and involved judgement by the Board. At each audit committee meeting the Committee received a satisfactory report on the Manager's internal operations from the Manager's Compliance and Internal Audit Officers. The Committee also received and reviewed a report from the depositary at its year end meeting. This report was satisfactory and covered both the depositary's monitoring during the year, including stock, cash, cashflow, net asset value calculations and investment restrictions, and the year end position.

As a result, and following a thorough review process, the Committee advised the Board that the 2019 annual financial report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Chairman of the Audit Committee will be present at the AGM to deal with questions relating to the financial statements.

Review of the External Auditor, including Effectiveness and Non-Audit Services

The Committee evaluated the performance and effectiveness of the external auditor for the work connected with the audit of the financial statements of the year to 30 September 2019. This included a review of the audit planning, execution and reporting, the quality of the audit work and the auditor's independence. All results were satisfactory.

It is the Company's policy not to seek substantial non-audit services from its auditor. During the year, the auditor did not provide any non-audit services to the Company. Prior to any engagement for non-audit services, the Audit Committee would consider whether the skills and experience of the auditor made them a suitable supplier of such services and ensure that there was no threat to objectivity and independence in the conduct of the audit as a result.

PricewaterhouseCoopers CI LLP (PwC) was appointed the auditor of the Company on 31 January 2017 and this year's audit is the third they have undertaken for the Company. Resolutions re-appointing PwC and for the Committee to determine its remuneration will be put to shareholders at the forthcoming AGM.

DIRECTORS' REPORT

continued

Audit Information

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Internal Controls and Risk Management

The Company's risk assessment focus and the way in which significant risks are managed is a key area of focus for the Audit Committee (the 'Committee'). The Committee undertakes a robust assessment of the risks to which the Company is exposed by reference to a risk control summary, which maps the risks, mitigating controls in place and relevant information that is reported to the Directors throughout the year. The ratings of the mitigated risks allow the Directors to focus primarily on those risks that are most significant to the Company and also form the basis of the list of principal risks and uncertainties set out in the Strategic Report.

The Committee, on behalf of the Board, is responsible for ensuring that the Company maintains a sound system of internal controls to mitigate risk and safeguard both shareholders and the Company's assets. The effectiveness of the system of internal controls, including financial, operational and compliance and risk management systems is reviewed at least annually. No significant items were identified in the year. The Committee also receives and considers, together with representatives of the Manager, reports in relation to the operational controls of the investment manager, accounting administrator, custodian and registrar. These reviews identified no issues of significance.

Internal Audit

Due to the nature of the Company, being an externally managed investment company with no executive employees, and in view of the Manager having an internal audit function, the Company does not have its own internal audit function.

Whistleblowing Arrangements

The Board has reviewed and accepted the Manager's 'Whistleblowing' policies under which staff of Invesco Fund Managers Limited can, in confidence, raise concerns about possible improprieties or irregularities in matters affecting the Company.

Going Concern

The financial statements have been prepared on a going concern basis. The Directors consider that this is the appropriate basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, this being for twelve months after the balance sheet date, for the same reasons as set out in the Viability Statement on page 16.

Directors

Directors' Disclosable Interests

The beneficial interests of the Directors in the share capital of the Company are set out below:

	30 SEPTEMBER 2019	30 SEPTEMBER 2018
Ordinary Shares		
Kate Bolsover (Chairman)	13,110	—
Peter Yates (Chairman of the Audit Committee)	100,000	100,000
Christine Johnson (Chairman of the Management Engagement Committee)	6,645	—
Michael Lombardi	165,660	165,660
Clive Spears	66,146	62,959

Following the year end, Clive Spears purchased an additional 1,094 shares via a Dividend Re-Investment Plan.

Save as aforesaid, no Director had any interest, beneficial or otherwise, in the shares of the Company during the year. No connected person interests have been notified.

Directors hold shares in the Company at their discretion. Share ownership is encouraged, but no guidelines have been set.

Directors' Remuneration

Directors' Remuneration Policy

The Board's policy is that the remuneration of Directors should be fair and reasonable – including in relation to that of other comparable investment trust companies; be sufficient to retain and motivate appointees; ensure that candidates of a high calibre are recruited to the Board; and should properly reflect time incurred and responsibility undertaken. It is intended that this policy will continue for the year ending 30 September 2020 and subsequent years.

Fees for the Directors are determined by the Board within the limits stated in the Company's Articles of Association. The maximum currently dictated by the Company's Articles of Association is £200,000 in aggregate per annum. Directors do not have service contracts. Directors are appointed under letters of appointment, copies of which are available for inspection at the registered office of the Company. Directors are entitled to be reimbursed for any reasonable expenses properly incurred by them in connection with the performance of their duties and attendance at board and general meetings and committees. Directors are not eligible for bonuses, pension benefits, share options or other incentives or benefits. There are no agreements between the Company and its Directors concerning compensation for loss of office.

The same fee rates will apply to both current and any new appointments.

The Company has no employees and consequently has no policy on the remuneration of employees. The Board will consider, where raised, shareholders' views on Directors' remuneration.

Directors' Fee Rates

The following Directors' fee rates applied from 1 January 2017: Chairman £33,000 pa; Audit Committee Chairman £27,500 pa; and other Directors £23,650 pa. During the year, the Board determined that the fee for the Chairman of the Management Engagement Committee should revert to £23,650 pa (2018: £24,650 pa). The Board considered the level of fees to be appropriate for the year ended 30 September 2019.

Annual Statement and Report on Directors' Remuneration

For the year to 30 September 2019, the Directors were paid the fee rates effective from 1 January 2017. In addition a discretionary payment of £1,000 was made to Christine Johnson for additional work on portfolio risk analysis for the Board, and her work in connection with the selection of a new administrator (none in the previous year).

Directors Remuneration for the Year

The single total figure of remuneration for each Director who served during the year is detailed below, together with prior year comparative:

	2019 £	2018 £
Kate Bolsover (Chairman) ⁽¹⁾	23,375	—
Peter Yates (Chairman of the Audit Committee) ⁽²⁾	29,104	28,875
Christine Johnson (Chairman of the Management Engagement Committee) ⁽³⁾	17,752	—
Clive Spears ⁽⁴⁾	24,773	24,613
Michael Lombardi ⁽³⁾	23,650	23,650
Richard Williams (retired on 27 June 2018)	—	18,520
Donald Adamson (retired on 27 June 2018)	—	24,750
Total	118,654	120,408

⁽¹⁾ Kate Bolsover was appointed as Chairman on 16 January 2019.

⁽²⁾ Peter Yates served as interim Chairman from 27 June 2018 to 16 January 2019, and then resumed the role of Audit Chairman with effect from 16 January 2019.

⁽³⁾ Christine Johnson was appointed Chairman of the Management Engagement Committee on 16 January 2019. Michael Lombardi fulfilled this role from 27 June 2018 to 16 January 2019.

⁽⁴⁾ Clive Spears served as interim Audit Chairman from 27 June 2018 to 16 January 2019.

DIRECTORS' REPORT

continued

Conflicts of Interest

A Director must avoid a situation where they have, or can have a direct or indirect interest that conflicts, or has the potential to conflict, with the Company's interests. The Articles of Association of the Company give the Directors authority to authorise potential conflicts of interest and there are safeguards in place which will apply when Directors decide whether to do so. First, only Directors who have no interest in the matter being considered are able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors can impose limits or conditions when giving authorisation if they think this is appropriate.

The Directors have declared any potential conflicts of interest to the Company. Any potential conflicts of interest are entered into the Company's register of potential conflicts, which is reviewed regularly by the Board. The register of potential conflicts of interest is kept at the registered office of the Company. The Directors will advise the company secretary as soon as they become aware of any potential conflict of interest.

Directors' and Officers' Liability Insurance

The Company maintains a Directors' and Officers' Liability Insurance policy at a level which is considered appropriate for the business.

Stewardship

The Board considers that the Company has a responsibility as an investor towards ensuring that high standards of Corporate Governance are maintained in the companies in which it invests. To achieve this, the Board does not seek to intervene in daily management decisions, but aims to support high standards of governance and, where necessary, will take the initiative to ensure those standards are met. The principal means of putting shareholder responsibility into practice is through the exercise of voting rights. The Company's voting rights are exercised on an informed and independent basis.

The Company's stewardship functions have been delegated to the Manager. The Manager has adopted a clear and considered policy towards its responsibility as a shareholder on behalf of the Company. As part of this policy, the Manager takes steps to satisfy itself about the extent to which the companies in which it invests look after shareholders' value and comply with local recommendations and practices, such as the UK Corporate Governance Code. The Manager's approach to corporate governance and the UK Stewardship Code can be found on the Manager's website at www.invesco.co.uk, together with a copy of the Manager's Stewardship Policy and the Manager's global proxy voting policy.

Greenhouse Gas Emissions

The Company has no employees or property, it does not combust any fuel or operate any facility. The Company does not purchase electricity, heat, steam or cooling for its own use. Accordingly, the quantifiable amount of carbon dioxide equivalent produced by the Company annually is zero tonnes. All services are outsourced on a fee basis that is independent of any energy expended on its behalf and it is not practical, or required, for the Company to attempt to quantify emissions in respect of such proxy energy use.

Share Capital

Under the Articles of Association, shares may be issued with such preferred, deferred or other special rights, or such restrictions, whether in regard to dividends, return of capital, voting or otherwise as the Company may by special resolution determine.

The Company may, by special resolution, alter its share capital in any manner permitted by the Companies (Jersey) Law 1991 (the 'Law'). Subject to the Law, the Company may also purchase, or agree to purchase in the future, any shares of any class (including redeemable shares) in its own capital in any way.

Ordinary Shares

- The Company's capital structure consisted of 170,069,855 ordinary shares at the year end (2018: 164,994,855 shares). During the year 5,075,000 ordinary shares were issued at an average share price of 75.02p per share. Since the year end, 725,000 ordinary shares have been issued at an average price of 76.08p per share.

- At a general meeting of the Company every shareholder has one vote on a show of hands and on a poll one vote for each ordinary share held. The notice of general meeting specifies deadlines for exercising voting rights either by proxy or present in person in relation to resolutions to be passed at a general meeting.
- Details of the substantial shareholders in the Company are shown below.
- The Board's current powers to buy back shares are stated above and proposals for their renewal are disclosed on page 35. No ordinary shares were bought back during the year.
- 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; and no agreements which the Company is party to that might affect its control following a successful takeover bid.

Substantial Shareholders

The Company has been notified of the following holdings of 3% and over of the Company's share capital carrying unrestricted voting rights:

FUND MANAGER/REGISTERED HOLDER	AS AT 30 NOVEMBER 2019		AS AT 30 SEPTEMBER 2019	
	SHARES	%	SHARES	%
Hargreaves Lansdown, stockbrokers	32,062,305	18.80	31,157,978	18.32
Invesco	27,823,365	16.31	27,823,365	16.36
Interactive Investor	17,441,200	10.23	10,360,030	6.09
AJ Bell, stockbrokers	9,684,048	5.68	9,363,862	5.51
HSDL, stockbrokers	7,900,228	4.63	7,717,150	4.54
Charles Stanley	7,195,401	4.22	7,144,546	4.20
Canaccord Genuity Wealth Management	6,917,206	4.06	7,546,551	4.44

Disclosure Required by Listing Rule 9.8.4

Listing Rule 9.8.4 requires the Company to include certain information in a single identifiable section of the annual financial report. For the year ended 30 September 2019 only one item of this information applies – disclosure around the issue of shares – and this is covered by note 16 on page 52 (share capital).

Shareholder Relations

Shareholder relations are given a high priority by the Board, Manager and the Company Secretary. The prime medium by which the Company communicates with its shareholders is through the annual and half-yearly financial reports, which aim to provide shareholders with a full understanding of the Company's activities and results. The information is supplemented by the daily publication of the net asset value of the Company's ordinary shares; monthly and daily factsheets and information on the Manager's website. A presentation is made by the Manager following the business of the AGM each year. Shareholders have the opportunity to address questions to the Chairman and the Chairmen of the Committees of the Board at the AGM. All shareholders are encouraged to attend the AGM.

There is regular dialogue between the Manager and individual major shareholders to discuss aspects of investment performance, governance and strategy and to listen to shareholder views in order to help to develop a balanced understanding of their issues and concerns. General presentations to both institutional shareholders and analysts follow the publication of the annual financial results. All meetings between the Manager and institutional shareholders are reported to the Board. There is an opportunity for individual shareholders to question the Chairman of the Board and the Chairman of the Audit and Management Engagement Committees, at the AGM.

It is the intention of the Board that the annual financial reports are issued to shareholders so as to provide 20 working days' notice of the AGM. Shareholders who wish to lodge questions in advance of the AGM are invited to do so, either on the reverse of the proxy card or otherwise in writing to the company secretary at the address detailed on page 67. The Company responds to letters from individual shareholders on a range of issues.

Shareholders can also visit the Company's section of the Manager's website at www.invesco.co.uk/enhancedincome in order to contact the Company's Directors or Manager and to access copies of annual and half-yearly financial reports, pre-investment information, Key Information

DIRECTORS' REPORT

continued

Documents (KIDs), proxy voting results, shareholder circulars, stock exchange announcements, factsheets and the Company's share price. Shareholders are also able to access copies of the schedule of matters reserved for the Board; terms of reference for Board Committees; and, following any shareholder meetings, proxy voting results via the website.

The Manager

Investment Management Agreement

Invesco Fund Managers Limited provides investment services to the Company under an Investment Management Agreement dated 27 June 2018. The Directors have delegated to the Manager responsibility for the day-to-day investment management activities of the Company.

A management fee basis of 0.80% on first £80 million of net asset value, 0.70% on the next £70 million and 0.60% thereafter, is payable for amounts above £150 million. Accordingly, the fee for this year is £926,000 (2018: £980,000).

The Manager's Responsibilities

The Directors have delegated to the Manager the responsibility for the day-to-day investment management activities of the Company, for seeking and evaluating investment opportunities and for analysing the accounts of the investee companies. The Manager has full discretion to manage the assets of the Company in accordance with the Company's stated objectives and policies as determined from time-to-time by the Board. Within the guidelines specified by the Board, the Manager has discretion over the investment portfolio. The Manager also advises on borrowings.

Assessment of the Manager

The Management Engagement Committee comprises all the Directors. The Committee meets at least annually, specifically to consider the ongoing investment management, secretarial and administrative requirements of the Company. The ongoing requirements of the Company and services received are assessed with reference to key performance indicators as set out on pages 11 and 12.

Performance is reviewed by reference to the 3 month LIBOR rate. The quality and timeliness of reports to the Board is also taken into account and the overall conduct of the Company's affairs by the Manager is considered. Based on its recent review of activities, and taking into account the performance of the portfolio, the other services provided by the Manager, and the risk and governance environment in which the Company operates, the Board believes that the continuing appointment of Invesco Fund Managers Limited remains in the best interests of the Company and its shareholders.

The Management Engagement Committee

The Board is considered small for the purposes of the AIC Code. All Directors are members of the Management Engagement Committee. Christine Johnson succeeded Michael Lombardi as Chairman of this Committee with effect from 16 January 2019. The Management Engagement Committee has written terms of reference, which clearly define its responsibilities and duties. They will be available for inspection at the AGM and can be inspected on the Manager's website and at the registered office of the Company. The Committee meets annually to review the investment management agreement with the Company's Manager and to review the services provided by the Manager.

A statement of Invesco Fund Managers Limited's responsibilities as Manager of the Company and the assessment of the Manager by the Management Engagement Committee can be found above.

The Company Secretary

The Board has direct access to the advice and services of the Company Secretary, JTC Fund Solutions (Jersey) Limited. The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with, as well as attending on Directors at Board and shareholder meetings. The appointment and ongoing assessment and review of the Company Secretary is a matter for the Board as a whole.

Business of the Annual General Meeting (AGM)

The following summarises the business of the forthcoming AGM of the Company, which is to be held on 25 February 2020. The Notice of AGM and related notes can be found on pages 62 to 65.

Resolution 1 is for members to receive this annual financial report, including the financial statements and Auditor's Report.

Resolution 2 is to elect Kate Bolsover as a Director of the Company. Kate brings a wealth of experience from the financial services and investment trust sector.

Resolution 3 is to re-elect Peter Yates as a Director of the Company. Peter has extensive experience as a chartered accountant both in the UK and Jersey.

Resolution 4 is to elect Christine Johnson as a Director of the Company. Christine brings to the Board her expertise in the fixed income sector and fund management experience.

Resolution 5 is to re-elect Michael Lombardi as a Director of the Company. Michael brings experience as a senior partner at a law firm, specialising in investment funds and structured finance.

Resolution 6 is to re-elect Clive Spears as a Director of the Company. Clive has experience in corporate finance, treasury products, global custody, trust and fund administration, internal audit and compliance. He is also regulated by the JFSC.

Resolution 7 is to re-appoint PricewaterhouseCoopers CI LLP as auditor of the Company.

Resolution 8 is to authorise the Audit Committee to determine the remuneration of the auditor.

Special Resolution 9 seeks shareholders' authority to issue shares on a non-pre-emptive basis up to 20% of the existing shares in issue at the time of the AGM. This authority will not be exercised at a price below NAV so the interests of existing shareholders are not diluted and will expire at the AGM in 2020 or at such earlier date as the authority is renewed by shareholders.

Special Resolution 10 is to renew the authority for the Company to purchase its own ordinary shares. Your Directors are seeking the authority to purchase up to 25,602,149 ordinary shares (14.99% of the Company's issued share capital as at 10 December 2019) subject to the restrictions referred to in the notice of the AGM. This authority will expire at the AGM in 2020. These powers, if approved, will allow the Company to buy back shares at a discount to NAV. Your Directors are proposing that shares bought back by the Company either be cancelled or, alternatively, be held as treasury shares with a view to their resale, if appropriate, or later cancellation. Any resale of treasury shares will only take place on terms that are in the best interests of shareholders.

Special Resolution 11 is to permit the Company to hold general meetings (other than annual general meetings) on 14 days' notice. The EU Shareholder Rights Directive increases the minimum notice period to 21 days unless certain conditions are met. The first condition is that the Company offers facilities for shareholders to vote by electronic means. The second condition is that there is an annual resolution of shareholders approving the reduction in the minimum notice period from 21 days to 14 days, hence this resolution being proposed. It is intended that the flexibility will be used only where the Board believed it is in the interests of shareholders as a whole.

Your Directors have carefully considered all the resolutions proposed in the Notice of the AGM and, in their opinion, consider them all to be in the best interests of shareholders as a whole. Your Directors therefore recommend that shareholders vote in favour of each resolution.

The AGM of the Company will be held at the offices of JTC Fund Solutions (Jersey) Limited on 25 February 2020 at 9.30a.m.

By order of the Board

JTC Fund Solutions (Jersey) Limited
Company Secretary

16 December 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for ensuring that the annual financial report is prepared in accordance with applicable laws 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 International Financial Reporting Standards as adopted by the European Union ('IFRSs'). The financial statements are required by law to 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.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs.

In preparing these financial statements, the Directors are required to:

- properly select and apply accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Directors of the Company, each confirm to the best of their knowledge that:

- the financial statements, which have been prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- this annual financial 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; and
- the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Michael Lombardi

Director

Signed on behalf of the Board of Directors

16 December 2019

Electronic Publication

The annual financial report is published on www.invesco.co.uk/enhancedincome. The work carried out by the auditor does not involve consideration of the maintenance and integrity of this website and accordingly, the auditor accepts no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom and Jersey governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF INVESCO ENHANCED INCOME LIMITED

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Invesco Enhanced Income Limited (the “Company”) as at 30 September 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

What we have audited

The Company’s financial statements comprise:

- the balance sheet as at 30 September 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements of the Company, as required by the Crown Dependencies’ Audit Rules and Guidance and with SEC Independence Rules. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview



Materiality

- Overall Company materiality was £1.26 million, which represents 1% of net assets.

Audit scope

- The Company is an investment company, incorporated and based in Jersey, with ordinary shares listed on the London Stock Exchange.
- We conducted our audit of the financial statements from information provided by R&H Fund Services (Jersey) Limited (the “Administrator”) and Invesco Fund Managers Limited (the “Manager”).
- Our audit work was performed in Jersey. We tailored the scope of our risk-based audit taking into account types of investments held by the Company, the accounting processes and controls, and the industry in which the Company operates.

Key audit matters

- Valuation and ownership of investments
- Income recognition

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INVESCO ENHANCED INCOME LIMITED

continued

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Company materiality	£1.26 million (2018: £1.2 million)
How we determined it	1% of net assets
Rationale for the materiality benchmark	We believe that net assets is the most appropriate benchmark because this is the key metric of interest to investors, it is also a generally accepted measure used for companies in this industry.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £63,000 (2018: £60,000), as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTER

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

Valuation and ownership of investments

Refer to page 29 (Directors' Report), page 46 (Accounting policies) and page 50 (Note 11 of the Financial statements)

We focused on the valuation and ownership of investments because investments represent the principal element of the net asset value as disclosed on the balance sheet in the financial statements.

The valuation of investments drives a number of key performance indicators, such as net asset value, which is of significant interest to investors. Bonds and equities are valued using broker prices which are based on active stock market prices.

The nature of the investment valuations is not complex as these are based primarily on quoted prices from independent pricing sources. However, the magnitude of the amounts involved means that there is potential for material misstatement.

There is a risk that the assets recorded may not represent the property of Company, this could have significant impact on the financial statements.

We tested 100% of the valuation of the bond and equity portfolio by agreeing the prices used by management to independent third party sources.

We also tested a sample of the purchases and sales transactions during the year. A recalculation of the total unrealised gain or loss was performed. No misstatements were identified by our testing which required reporting to those charged with governance.

We independently obtained a confirmation of 100% of investments held by the Company's custodian and compared this to the investments recorded by the Company.

We tested the existence of the investments held under repo financing by agreeing the holdings as recorded by the Company to the confirmation from the counterparties.

Our testing, which required reporting to those charged with governance, identified no differences.

Income recognition

Refer to page 47 (Accounting Policies) and page 48 (Note 4 to the Financial Statements)

Investment income is earned primarily through bond interest income, with an immaterial amount of dividend income recognised in the year.

This represents a material balance in the Statement of Comprehensive Income. Accordingly, we identified the accuracy, occurrence and completeness of investment income from the investment portfolio as an area of focus, because the incomplete or inaccurate recognition of income could have a material impact on the Company's net asset value.

Income is received from various bonds by way of interest receipts, and the calculation and recognition of accrued income is not considered to be complex.

We assessed the accounting policy for income recognition for compliance with accounting standards and ensured that income had been accounted for in accordance with the stated accounting policy.

For a sample of bonds, we traced the rates of interest to independent sources and recalculated the income recognised by the Company. We also traced the sample to bank statements for interest received and the accrued income listing for items accrued at the year-end.

For completeness, our sample included interest received and accrued from bonds held at the financial year-end, as well as bonds that had been purchased and sold during the year.

For a sample of investments which were purchased and sold during the year, we recalculated the split of interest income and realised gain/loss, based on the date it was purchased and sold during the year, and the corresponding independent rate of interest.

Other information

The directors are responsible for the other information. The other information comprises all the information included in the Annual Financial Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF INVESCO ENHANCED INCOME LIMITED

continued

is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, the requirements of Jersey law and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company and the wider economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

We have nothing to report in respect of the following matters which we have reviewed:

- the directors' statement set out on page 30 in relation to going concern. As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Company's ability to continue as a going concern;
- the directors' statement that they have carried out a robust assessment of the principal risks facing the Company and the directors' statement in relation to the longer-term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the ten further provisions of the UK Corporate Governance Code specified for our review.

This report, including the opinion, has been prepared for and only for the members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Michael Byrne

For and on behalf of PricewaterhouseCoopers CI LLP

Chartered Accountants and Recognized Auditor
Jersey, Channel Islands

16 December 2019

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER

	NOTES	REVENUE £'000	2019 CAPITAL £'000	TOTAL £'000	REVENUE £'000	2018 CAPITAL £'000	TOTAL £'000
Profit/(loss) on investments held at fair value	11	—	5,548	5,548	—	(4,408)	(4,408)
Loss on derivative instruments – currency hedges		—	(2,416)	(2,416)	—	(2,315)	(2,315)
Exchange differences		—	(391)	(391)	—	750	750
Income	4	8,688	—	8,688	8,917	—	8,917
Investment management fee	5	(463)	(463)	(926)	(490)	(490)	(980)
Other expenses	6	(320)	(1)	(321)	(724)	(1)	(725)
Profit/(loss) before finance costs and taxation		7,905	2,277	10,182	7,703	(6,464)	1,239
Finance costs	7	(97)	(97)	(194)	(101)	(101)	(202)
Profit/(loss) before and after taxation for the financial year		7,808	2,180	9,988	7,602	(6,565)	1,037
Return per ordinary share – basic	9	4.7p	1.3p	6.0p	4.6p	(4.0)p	0.6p

The total column of this statement represents the Company's statement of comprehensive income, prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The profit/(loss) after taxation is the total comprehensive income/(loss). The supplementary revenue and capital columns are both prepared in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies. All items in the above statement derive from continuing operations of the Company. No operations were acquired or discontinued in the year.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER

	NOTES	SHARE CAPITAL £'000	SHARE PREMIUM £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
At 30 September 2017		8,088	149,224	(43,919)	11,932	125,325
Total comprehensive income for the year		—	—	(6,565)	7,602	1,037
Dividends paid	10	—	(23)	—	(8,183)	(8,206)
Net proceeds from issue of new shares		162	2,359	—	—	2,521
At 30 September 2018		8,250	151,560	(50,484)	11,351	120,677
Total comprehensive income for the year		—	—	2,180	7,808	9,988
Dividends paid	10	—	(30)	—	(8,269)	(8,299)
Net proceeds from issue of new shares		253	3,538	—	—	3,791
At 30 September 2019		8,503	155,068	(48,304)	10,890	126,157

The accompanying accounting policies and notes are an integral part of these financial statements.

BALANCE SHEET

AS AT 30 SEPTEMBER

	NOTES	2019 £'000	2018 £'000
Non-current assets			
Investments held at fair value through profit or loss	11	144,528	139,912
Current assets			
Other receivables	12	2,718	2,390
Derivative financial instruments – unrealised net profit	13	—	293
Cash and cash equivalents		4,623	2,775
		7,341	5,458
Total assets		151,869	145,370
Current liabilities			
Other payables	14	(305)	(2,278)
Derivative financial instruments – unrealised net loss	13	(940)	—
Securities sold under agreements to repurchase		(24,161)	(22,109)
		(25,406)	(24,387)
Total assets less current liabilities		126,463	120,983
Provision	15	(306)	(306)
Net assets		126,157	120,677
Capital and reserves			
Share capital	16	8,503	8,250
Share premium	17	155,068	151,560
Capital reserve	17	(48,304)	(50,484)
Revenue reserve	17	10,890	11,351
Total shareholders' funds		126,157	120,677
Net asset value per ordinary share	18	74.2p	73.1p

These financial statements were approved and authorised for issue by the Board of Directors on 16 December 2019.

Michael Lombardi
Director

Signed on behalf of the Board of Directors

The accompanying accounting policies and notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER

	NOTES	2019 £'000	2018 £'000
Cash flow from operating activities			
Profit before finance costs and taxation		10,182	1,239
Adjustments for:			
Purchases of investments		(44,749)	(41,501)
Sales of investments		43,721	42,487
		(1,028)	986
Increase/(decrease) from securities sold under agreements to repurchase		2,052	(6,114)
(Profit)/loss on investments held at fair value		(5,548)	4,408
Net cash movement from derivative instruments – currency hedges		1,233	819
(Increase)/decrease in receivables		(328)	167
Decrease in payables		(13)	(992)
Net cash inflow from operating activities after taxation		6,550	513
Cash flows from financing activities			
Finance cost paid		(194)	(209)
Net proceeds from issue of shares		3,791	2,838
Dividends paid	10	(8,299)	(8,206)
Net cash outflow from financing activities		(4,702)	(5,577)
Net increase/(decrease) in cash and cash equivalents		1,848	(5,064)
Cash and cash equivalents at beginning of the year		2,775	7,839
Cash and cash equivalents at end of the year		4,623	2,775
Reconciliation of cash and cash equivalents to the Balance Sheet is as follows:			
Cash held at custodian		1,473	1,825
Short-Term Investment Company (Global Series) plc, money market fund		3,150	950
Cash and cash equivalents		4,623	2,775
Cash flow from operating activities includes:			
Dividends received		185	178
Interest received		8,290	8,713
Changes in liabilities arising from financing activities:			
Opening securities sold under agreements to repurchase		22,109	28,223
Increase/(decrease) from securities sold under agreements to repurchase		2,052	(6,114)
Closing securities sold under agreements to repurchase		24,161	22,109

The accompanying accounting policies and notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Activity

The Company is a closed-end investment company incorporated in Jersey and it operates under the Companies (Jersey) Law 1991. The Company was incorporated on 10 September 1999. The principal activity of the Company is investment in a diversified portfolio of high yielding corporate and government bonds and, to a lesser extent, equities and other instruments as appropriate to its Investment Policy.

2. Principal Accounting Policies

The principal accounting policies describe the Company's approach to recognising and measuring transactions during the year and the position of the Company at the year end.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied during the current year and the preceding year, unless otherwise stated. The financial statements have been prepared on a going concern basis. The disclosure on going concern on page 30 in the Directors' Report forms part of the financial statements.

(a) Basis of Preparation

(i) Accounting Standards Applied

The financial statements have been prepared on an historical cost basis, except for the measurement at fair value of investments and derivatives, and in accordance with the applicable International Financial Reporting Standards (IFRS) as adopted by the European Union and interpretations issued by the International Financial Reporting Interpretations Committee. The standards are those endorsed by the European Union and effective at the date the financial statements were approved by the Board.

Where presentational guidance set out in the Statement of Recommended Practice (SORP) 'Financial Statements of Investment Trust Companies and Venture Capital Trusts', issued by the Association of Investment Companies in October 2019, is consistent with the requirements of IFRS, the Directors have prepared the financial statements on a basis compliant with the recommendations of the SORP. The supplementary information which analyses the statement of comprehensive income between items of a revenue and a capital nature is presented in accordance with the SORP.

The revised SORP issued in October 2019 is applicable for accounting periods beginning on or after 1 January 2019 and early adoption is encouraged. The Company has chosen to early adopt the revised SORP. As a result, the presentation of gains and losses arising from disposals of investments and gains and losses on revaluation of investments have now been combined, as shown in note 11 with no impact to the net asset value or profit/(loss) reported for both the current or prior year. No other accounting policies or disclosures have changed as a result of the revised SORP.

(ii) Adoption of New and Revised Standards

New and revised standards and interpretations that became effective during the year had no significant impact on the amounts reported in these financial statements but may impact accounting for future transactions and arrangements.

At the date of authorising these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU).

The following standards became effective during the year:

- IFRS 16: Leases (effective 1 January 2019). This requires lessees to recognise new assets and liabilities under an on-balance sheet accounting model that is similar to current finance lease accounting.
- IFRIC 23: Uncertainty over Income Tax Treatments (effective 1 January 2019). This applies where there is uncertainty over the acceptable income tax treatment of an item under IAS12.

NOTES TO THE FINANCIAL STATEMENTS

continued

2. Principal Accounting Policies (continued)

(ii) *Adoption of New and Revised Standards (continued)*

The Directors do not expect the adoption of above standards and interpretations (or any other standards and interpretations which are in issue but not effective) will have a material impact on the financial statements of the Company in future periods.

(iii) *Critical Accounting Estimates and Judgements*

The preparation of the financial statements may require the Directors to make estimations where uncertainty exists. It also requires the Directors to make judgements, estimates and assumptions, in the process of applying the accounting policies. There have been no significant judgements, estimates or assumptions for the current or preceding year, except for the allocation of management fee and finance costs (see note 2(h)).

(b) Foreign Currency

(i) *Functional and Presentation Currency*

The financial statements are presented in sterling, which is the Company's functional and presentation currency and is the currency in which the Company's share capital and the predominant currency in which the Company's shares are traded.

(ii) *Transactions and Balances*

Transactions in foreign currency, whether of a revenue or capital nature, are translated to sterling at the rate of exchange ruling on the date of such transactions. Foreign currency assets and liabilities are translated to sterling at the rates of exchange ruling at the balance sheet date. Any profits or losses, whether realised or unrealised, are taken to the capital reserve or to the revenue reserve, depending on whether the gain or loss is of a capital or revenue nature. All profits and losses are recognised in the statement of comprehensive income.

(c) Financial Instruments

(i) *Recognition of Financial Assets and Financial Liabilities*

The Company recognises financial assets and financial liabilities when the Company becomes a party to the contractual provisions of the instrument. The Company will offset financial assets and financial liabilities if the Company has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis.

(ii) *Derecognition of Financial Assets*

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in the transferred financial asset that is created or retained by the Company is recognised as an asset.

(iii) *Derecognition of Financial Liabilities*

The Company derecognises financial liabilities when its obligations are discharged, cancelled or expired.

(iv) *Trade Date Accounting*

Purchases and sales of financial assets are recognised on trade date, being the date on which the Company commits to purchase or sell the assets.

(v) *Classification of financial assets and financial liabilities*

Financial assets

The Company's investments are classified as held at fair value through profit or loss.

Financial assets held at fair value through profit or loss are initially recognised at fair value, which is taken to be their cost, with transaction costs expensed in the statement of comprehensive income, and are subsequently valued at fair value.

Fair value for investments that are actively traded in organised financial markets is determined by reference to stock exchange quoted bid prices at the balance sheet date. For investments that are

not actively traded or where active stock exchange quoted bid prices are not available, fair value is determined by reference to a variety of valuation techniques including broker quotes and price modelling.

Other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using effective interest method less any impairment.

Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or expense over the relevant period.

(d) Derivatives

Derivative instruments are valued at fair value through profit and loss in the balance sheet.

Forward currency contracts are valued at the appropriate forward exchange rate ruling at the balance sheet date. Profits or losses on the closure or revaluation of positions are recognised as capital in the statement of comprehensive income.

(e) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank, short-term deposits and investment in the Short-Term Investments Company (Global Series) plc, all with an original maturity date of three months or less.

(f) Securities Sold Under Agreements to Repurchase ('repo financing')

The Company participates in repo financing arrangements in connection with its investment portfolio. Under these arrangements, the Company sells fixed interest securities but is contractually obliged to repurchase them at a fixed price on a fixed date. Securities which are the subject of repo financing arrangements are included in investments in the balance sheet at their fair value and the associated liability is recognised at amortised cost, being the capital amounts owing under the repo financing arrangements. The difference between sale and repurchase prices for such transactions is reflected in the statement of comprehensive income over the lives of the transactions, within finance costs which is allocated equally between capital and revenue. This accounting has been adopted because the repurchase price results in a lender's return for the transferee as the Company has retained substantially all the risks and rewards of ownership of the asset.

(g) Revenue Recognition

Interest income arises from cash and cash equivalents and fixed income securities and is recognised in the statement of comprehensive income using the effective interest method. Dividend income arises from equity investments held and is recognised on the date investments are marked 'ex-dividend'. Where the Company elects to receive dividends in the form of additional shares rather than cash, the equivalent to the cash dividend is recognised as income in revenue and any excess in value of the shares received over this is recognised in capital.

(h) Expenses and Finance Costs

All expenses and finance costs are accounted for on an accruals basis and are recognised in the statement of comprehensive income. The base investment management fee and finance costs are allocated equally to capital and revenue. This is in accordance with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio. All other expenses, except for custodian dealing costs, are charged through revenue in the statement of comprehensive income.

(i) Tax

Overseas interest and dividends are shown gross of withholding tax and the corresponding irrecoverable tax is shown as a charge in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

continued

3. Segmental Reporting

No segmental reporting is provided as the Directors are of the opinion that the Company is engaged in a single segment of business of investing in debt, and, to a significantly lesser extent equity securities.

4. Income

This note shows the income generated from the portfolio (investment assets) of the Company and income received from any other source.

	2019 £'000	2018 £'000
Income from listed investments:		
UK bond interest	3,540	3,550
UK dividends	170	170
Overseas bond interest	4,954	5,183
Overseas dividends	15	7
	8,679	8,910
Other income:		
Deposit interest	8	7
Other	1	—
	9	7
Total income	8,688	8,917

5. Investment Management Fee

This note shows the fees paid to the Manager. This is made up of the base management fee payable per annum.

	2019			2018		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Investment management fee	463	463	926	490	490	980
	463	463	926	490	490	980

Details of the investment management agreement are given on page 34 in the Directors' Report.

At 30 September 2019, £241,000 (2018: £230,000) was accrued in respect of the investment management fee.

6. Other Expenses

The other expenses of the Company are presented below; those paid to the Directors and the auditor are separately identified.

	2019			2018		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Directors' remuneration ⁽ⁱ⁾	119	—	119	120	—	120
Auditors' fees ⁽ⁱⁱ⁾ :						
– for audit of the Company's annual financial statements	30	—	30	29	—	29
General expenses ⁽ⁱⁱⁱ⁾	171	1	172	575	1	576
	320	1	321	724	1	725

- (i) The Directors' Remuneration Report provides further information on Directors' fees.
- (ii) Auditor's fees include out of pocket expenses.
- (iii) General expenses include:
- custodian transaction charges of £1,000 (2018: £1,000). These are charged to capital.
 - amounts due to R&H Fund Services (Jersey) Limited who acted as Administrator and Company Secretary to the Company under an agreement dated 8 October 1999. This agreement was terminable by not less than three months' written notice subject to earlier termination as provided for therein. The fee is calculated at the rate of £13,000 (2018: £13,000) per annum for company secretarial services and £27,000 (2018: £25,000) per annum for Administration Services.
 - for 2018 only, costs in relation to the search of a new manager and shareholder requisition amounted to £310,000 net of Invesco's contribution and were charged to revenue.

7. Finance Costs

Finance costs arise on any borrowing that the Company has, with the main borrowing being in the form of repo financing (see note 2(f)).

	2019			2018		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Interest due under repo financing	96	96	192	100	100	200
Overdraft interest	1	1	2	1	1	2
	97	97	194	101	101	202

8. Taxation

As a Jersey investment company no tax is payable on capital gains and, as the Company principally invests in assets which do not result in a revenue tax, the only overseas tax arises on assets domiciled in countries with which Jersey has no double-taxation treaty.

	2019 £'000	2018 £'000
Overseas taxation	—	—

The Company is subject to Jersey income tax at the rate of 0% (2018: 0%).

NOTES TO THE FINANCIAL STATEMENTS

continued

9. Return per Share

Return per share is the amount of profit (or loss) generated for the financial year divided by the weighted average number of ordinary shares in issue.

The basic revenue, capital and total return per ordinary share is based on each of the returns on ordinary activities after taxation and on 166,398,417 (2018: 164,635,825) ordinary shares, being the weighted average number of ordinary shares in issue throughout the year.

10. Dividends

Dividends represent the return of income less expenses to shareholders. Dividends are paid as an amount per ordinary share held.

	2019		2018	
	PENCE	£'000	PENCE	£'000
Dividends paid and recognised in the year:				
Fourth interim from prior year	1.25	2,062	1.25	2,028
First interim	1.25	2,062	1.25	2,054
Second interim	1.25	2,062	1.25	2,062
Third interim	1.25	2,113	1.25	2,062
	5.00	8,299	5.00	8,206

Set out below are the dividends that have been declared in respect of the financial years ended 30 September:

	2019		2018	
	PENCE	£'000	PENCE	£'000
Dividends in respect of the year:				
First interim	1.25	2,062	1.25	2,054
Second interim	1.25	2,062	1.25	2,062
Third interim	1.25	2,113	1.25	2,062
Fourth interim	1.25	2,126	1.25	2,062
	5.00	8,363	5.00	8,240

Dividends paid in respect of the year have been charged to revenue except for £30,000 (2018: £23,000) which was charged to share premium. This amount is equivalent to the income accrued on the new shares issued in the year. This income accrued represented the income element of the net asset value at the time of each individual new share issue.

The fourth interim dividend for 2019 was paid on 31 October 2019 to shareholders on the register on 4 October 2019.

11. Investments Held at Fair Value Through Profit and Loss

The portfolio is made up of investments which are traded on regulated exchanges. Gains and losses are either:

- realised, usually arising when investments are sold; or
- unrealised, being the difference from cost on the investments held at the year end.

(a) Analysis of investments:

	2019	2018
	£'000	£'000
Investments listed on a recognised investment exchange	144,528	139,912

(b) Analysis of investment profits/(losses):

	2019			2018		
	UK LISTED £'000	OVERSEAS LISTED £'000	TOTAL £'000	UK LISTED £'000	OVERSEAS LISTED £'000	TOTAL £'000
Opening valuation	63,787	76,125	139,912	68,810	80,340	149,150
Analysis of transactions during the year						
Purchases at cost	17,270	25,519	42,789	13,558	24,099	37,657
Sales proceeds	(20,409)	(23,312)	(43,721)	(16,148)	(26,339)	(42,487)
Profit/(loss) on investments	644	4,904	5,548	(2,433)	(1,975)	(4,408)*
Closing valuation	61,292	83,236	144,528	63,787	76,125	139,912
Closing book cost	59,297	74,913	134,210	61,688	70,810	132,498
Closing investment holding profits	1,995	8,323	10,318	2,099	5,315	7,414
Closing valuation	61,292	83,236	144,528	63,787	76,125	139,912

The Company received £43,721,000 (2018: £42,487,000) from investments sold in the year. The book cost of these investments when they were purchased was £41,077,000 (2018: £40,688,000) realising a profit of £2,644,000 (2018: £1,799,000). These investments have been revalued over time and until they were sold any unrealised profits/losses were included in the fair value of the investments.

* Due to early adoption of the revised SORP issued in October 2019 (see Note 2(a)(i)). The loss on investments figure of £4,408,000 for the year ended 30 September 2018 is as follows:

	2018 £'000
Net realised profit on sales	1,799
Investment holding loss in the year	(6,207)
Loss on investments	(4,408)

(c) Registration of investments

The investments of the Company are registered in the name of the Company or in the name of nominees and held to the account of the Company. Securities transferred under repo financing arrangements are registered in the name of the counterparty until these are repurchased by the Company, when these are re-registered in the name of the Company.

(d) Securities under agreements to repurchase had a market value of £29,850,000 (2018: £29,222,000).

(e) The transaction costs on investments amount to £nil for both purchases and sales (2018: £nil for both purchases and sales).

12. Other Receivables

Other receivables are amounts which are due to the Company, such as income which has been earned (accrued) but not yet received and monies due from brokers for investments sold.

	2019 £'000	2018 £'000
Margin held at brokers	189	4
Prepayments and accrued income	2,529	2,386
	2,718	2,390

NOTES TO THE FINANCIAL STATEMENTS

continued

13. Derivative Financial Instruments

Derivative financial instruments are financial instruments that derive their value from the performance of another item, such as an asset or exchange rates. They are used to manage the risk associated with fluctuations in the value of certain assets and liabilities. In accordance with Board approved policies, the Company can use derivatives to manage its exposure to fluctuations in foreign exchange rates.

Derivative financial instruments comprise forward currency contracts.

	2019 £'000	2018 £'000
Forward currency contracts – net unrealised (loss)/profit	(940)	293

14. Other Payables

Other payables are amounts which must be paid by the Company, and include any amounts due to brokers for the purchase of investments or amounts owed to suppliers, such as the Manager and auditor.

	2019 £'000	2018 £'000
Amounts due to brokers	—	1,960
Accruals	305	318
	305	2,278

15. Provision

The Company makes a provision when a potential obligation exists, relating to events in the future that will probably result in payment of the amount.

	2019 £'000	2018 £'000
Provision for performance fee brought forward	306	306
Provision for performance fee carried forward	306	306

Performance fee arrangements have been removed with effect from 1 October 2017. The deferred performance fee, earned for the year to 30 September 2017, continues to be recognised as a provision of £306,000 (2018: £306,000). This would become payable if the Company surpasses a NAV high watermark in the next year and maintains a dividend payout of at least 5p per share.

16. Share Capital

The share capital represents the total number of shares in issue, for which dividends accrue.

	2019		2018	
	NUMBER	£'000	NUMBER	£'000
Authorised:				
Ordinary shares of 5p each	200,000,000	10,000	200,000,000	10,000
Allotted, called-up and fully paid ordinary shares of 5p each:				
Brought forward	164,994,855	8,250	161,767,003	8,088
Issued in the year	5,075,000	253	3,227,852	162
Carried forward	170,069,855	8,503	164,994,855	8,250

During the year 5,075,000 (2018: 3,227,852) ordinary shares were issued at an average share price excluding costs of 75.02p per share (2018: 79.32p).

Subsequent to the year end 725,000 ordinary shares were issued at an average share price excluding costs of 76.08p per share.

17. Reserves

This note explains the different reserves that have arisen over the years. The aggregate of the reserves and share capital (see previous note) make up total shareholders' funds.

The share premium arises from the excess of consideration received on the issue of shares over the nominal 5p value. The capital reserve includes investment holding profits and losses (being the difference between cost and market value at the balance sheet date), realised profits and losses on disposals of investments, profits and losses on derivatives and expenses allocated to capital. The revenue reserve is formed from the aggregate of income received less expenses and any dividends paid from revenue. All reserves, including the share premium, are distributable.

18. Net Asset Value per Share

The Company's total net assets (total assets less total liabilities) are often termed shareholders' funds and are converted into net asset value per ordinary share by dividing by the number of shares in issue.

The net asset value per share and the net assets attributable at the year end were as follows:

	NET ASSET VALUE PER ORDINARY SHARE		NET ASSETS ATTRIBUTABLE	
	2019 PENCE	2018 PENCE	2019 £'000	2018 £'000
Ordinary shares	74.2	73.1	126,157	120,677

Net asset value per ordinary share is based on net assets at the year end and on 170,069,855 (2018: 164,994,855) ordinary shares, being the number of ordinary shares in issue (excluding treasury) at the year end.

19. Financial Instruments

Financial instruments comprise the Company's investment portfolio and derivative financial instruments (for the latter see note 13) as well as its cash, borrowings (i.e. securities sold under agreements to repurchase otherwise known as 'repo financing', and overdraft), other receivables and other payables.

The Company's financial instruments comprise its investment portfolio (as shown on pages 18 to 20), cash, securities sold under agreements to repurchase (repo financing), derivative financial instruments, other receivables and other payables that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The accounting policies in note 2 include criteria for the recognition and the basis of measurement applied for financial instruments. Note 2 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised and measured.

The principal risks that an investment company faces in its portfolio management activities are set out below:

Market risk – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk:

Currency risk – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in foreign exchange rates;

Interest rate risk – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in market interest rates; and

Other price risk – arising from fluctuations in the fair value or future cash flows of a financial instrument for reasons other than changes in foreign exchange rates or market interest rates.

Liquidity risk – arising from any difficulty in meeting obligations associated with financial liabilities.

Credit risk – arising from financial loss for a company where the other party to a financial instrument fails to discharge an obligation.

NOTES TO THE FINANCIAL STATEMENTS

continued

19. Financial Instruments (continued)

Market Risk (continued)

Risk Management Policies and Procedures

The Directors have delegated to the Manager the responsibility for the day-to-day investment activities, management of borrowings and hedging undertaken by the Company as more fully described in the Directors' Report.

Investments include, but are not restricted to, corporate bonds, government bonds, preference shares, loan stocks and equities for the long-term so as to comply with its Investment Policy (incorporating the Company's investment objective). In pursuing its investment objective, the Company is exposed to a variety of risks that could result in either a reduction in the Company's net assets or a reduction of the profits available for dividends. The risks applicable to the Company and the policies the Company uses to manage these risks for the two years under review are detailed overleaf.

Market Risk

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 portfolio on an ongoing basis. Risk management is an integral part of the investment management process. The Manager controls risk by ensuring that the Company's investment portfolio is appropriately diversified. In-depth and continual analysis of market and stock fundamentals give the Manager the best possible understanding of the risks associated with a particular stock.

As more fully described in the Business Review on page 14, high-yield corporate bonds are subject to a variety of risks. A majority of the Company's investments are in non-investment grade securities and so adverse changes in the financial position of an issuer of corporate bonds or in the general economy may affect both the principal and the interest.

(a) Currency Risk

The sterling value of the Company's assets, liabilities and income which are denominated in currencies other than sterling will be affected by movements in exchange rates.

Management of the currency risk

The Manager monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board on a regular basis. The Company uses both forward currency contracts and repo financing to mitigate currency movements that would affect the investment portfolio and cash.

Repo financing is matched to the currency of the underlying assets, which minimises currency risk on the movement of exchange rates affecting the underlying investments. Non-sterling investments that are not pledged under repo financing can be hedged using forward currency contracts.

Income denominated in foreign currencies is converted to sterling on receipt. The Company does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.

Currency exposure

The fair values of the Company's monetary items that have foreign currency exposure at 30 September are shown in the table below. Where the Company's investments (which are not monetary items) are priced in a foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

	2019		2018	
	EURO £'000	US DOLLAR £'000	EURO £'000	US DOLLAR £'000
Investments at fair value through profit or loss that are monetary items (fixed and floating interest)	29,655	53,419	28,240	47,479
Forward currency contracts	(10,159)	(46,297)	(12,330)	(39,096)
Other receivables (due from brokers and dividends)	797	885	541	743
Cash and cash equivalents	176	496	70	978
Other payables (due to brokers and accruals)	—	—	(2)	(919)
Securities sold under agreement to repurchase	(13,343)	—	(9,454)	—
Foreign currency exposure on net monetary items	7,126	8,503	7,065	9,185
Investments at fair value through profit or loss that are equities	162	—	406	—
Total net foreign currency exposure	7,288	8,503	7,471	9,185

Cash and cash equivalent figures include amounts at custodian that have a right of offset. Sterling cash at the year end was £3,951,000 (2018: £1,727,000).

Currency sensitivity

The following tables illustrate the sensitivity of the profit after taxation for the year with respect to the Company's monetary financial assets and liabilities and each of the exchange rates for £ to Euro and £ to US dollar based on the following:

	2019	2018
£/Euro	±2.0%	±0.9%
£/US dollar	±2.5%	±3.0%

The above percentages have been determined based on the market volatility in exchange rates in the year. The sensitivity analysis is based on the Company's monetary foreign currency financial instruments held at each balance sheet date and takes account of any forward foreign exchange contracts that offset the effects of changes in currency exchange rates. The effect of the strengthening or weakening of sterling against currencies to which the Company is exposed is calculated by reference to the volatility of exchange rates during the year using the standard deviation of currency fluctuations against the mean.

If sterling had strengthened by the changes in exchange rates shown in the table above, this would have had the following effect:

	2019		2018	
	EURO £'000	US DOLLAR £'000	EURO £'000	US DOLLAR £'000
Income statement – loss after taxation				
Revenue return	(34)	(80)	(16)	(82)
Capital return	(129)	(190)	(62)	(253)
Total loss after taxation for the year	(163)	(270)	(78)	(335)

If sterling had weakened against the euro or dollar to this extent, the effect would have been the converse.

In the opinion of the Directors, this sensitivity analysis is not representative of the year as a whole, since the level of exposure changes frequently as part of the currency risk management process of the Company.

NOTES TO THE FINANCIAL STATEMENTS

continued

19. Financial Instruments (continued)

Market Risk (continued)**(b) Interest Rate Risk**

Interest rate movements may affect:

- the fair value of the investments in fixed interest rate securities;
- the level of income receivable on cash deposits; and
- the interest payable on variable rate borrowings.

Management of interest rate risk

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowings. The Board reviews on a regular basis the investment portfolio and borrowings. This encompasses the valuation of fixed interest, floating rate securities and gearing levels. When the Company has custodian cash or overdraft balances, they are held on variable rate bank accounts yielding rates of interest dependent on the base rate of the custodian, The Bank of New York Mellon (International) Limited. Holdings in the Short-Term Investments Company (Global Series) plc ('STIC') are subject to interest rate changes.

Interest rate exposure

At 30 September the exposure of financial assets and financial liabilities to interest rate risk is shown by reference to:

- floating interest rates (giving cash flow interest rate risk) – when the interest rate is due to be reset; and
- fixed interest rates (giving fair value interest rate risk) – when the financial instrument is due for repayment.

	2019			2018		
	WITHIN ONE YEAR £'000	MORE THAN ONE YEAR £'000	TOTAL £'000	WITHIN ONE YEAR £'000	MORE THAN ONE YEAR £'000	TOTAL £'000
Exposure to floating interest rates:						
Investments at fair value through profit or loss	—	38,740	38,740	—	29,303	29,303
Cash and cash equivalents*	4,623	—	4,623	2,775	—	2,775
	4,623	38,740	43,363	2,775	29,303	32,078
Exposure to fixed interest rates:						
Investments held at fair value through profit or loss	1,643	102,339	103,982	402	108,077	108,479
Securities sold under agreements to repurchase	(24,161)	—	(24,161)	(22,109)	—	(22,109)
	(22,518)	102,339	79,821	(21,707)	108,077	86,370
Net exposure to interest rates	(17,895)	141,079	123,184	(18,932)	137,380	118,448

*Includes £3,150,000 (2018: £950,000) held on STIC.

The nominal interest rates on investments at fair value through profit or loss are shown in the portfolio statement on pages 18 to 20. The weighted average effective interest rate on these investments is 6.3% (2018: 6.3%).

Interest rate sensitivity

The following table illustrates the sensitivity of the profit after taxation for the year to a 1.0% increase in interest rates in regard to the Company's financial assets and financial liabilities. This level of change is considered to be reasonably possible based on the observation of current market conditions. The sensitivity analysis is based on the Company's financial instruments held at the balance sheet date, with all other variables held constant.

	2019 INCREASE IN RATE £'000	2018 INCREASE IN RATE £'000
Income statement – profit/(loss) after taxation		
Revenue return	46	28
Capital return	(5,609)	(5,966)
Total loss after taxation for the year	(5,563)	(5,938)
Effect on net asset value	(3.3)p	(3.6)p

The effect would have been the exact opposite if interest rates had decreased by the same amount.

The above exposure and sensitivity analysis are not representative of the year as a whole, since the level of exposure changes frequently as borrowings are drawn down and repaid throughout the year.

(c) Other Price Risk

Other price risk (i.e. changes in market prices other than those arising from interest rate risk or currency risk) may affect the value of the portfolio. It is the business of the Manager to manage the portfolio and borrowings to achieve the best returns.

Management of other price risk

The Directors manage the market price risks inherent in the portfolio by meeting regularly to monitor, on a formal basis, the Manager's compliance with the Company's stated Investment Policy and to review investment performance.

The Company's portfolio is the result of the Manager's investment process and the result is not correlated with the market in which the Company invests, with the value of the portfolio moving as a result of the performance of the company shares held in the portfolio. The Company can hedge part of its portfolio denominated in foreign currency by using repo financing arrangements in the same foreign currency. It can also hold derivative positions in options and futures to hedge movements in the stocks in which the Company's portfolio has an exposure.

The Company's exposure to other changes in market prices at 30 September on its quoted equity investments and fixed interest investments was as follows:

	2019 £'000	2018 £'000
Fixed asset investments at fair value through profit or loss		
– Bonds	142,722	137,783
– Equity* – convertible preference share and common stock	1,806	2,129
Investments	144,528	139,912
Cash and cash equivalents	4,623	2,775
	149,151	142,687

*Equity comprised of Balfour Beatty 10.75p Convertible Preference of £1,644,000 and CGG ordinary shares of £162,000

NOTES TO THE FINANCIAL STATEMENTS

continued

19. Financial Instruments (continued)

Market Risk (continued)**(c) Other Price Risk (continued)***Concentration of exposure to other price risks*

The Company's investment portfolio on pages 18 to 20 is not concentrated to any single country of domicile, however, it is recognised that an investment's country of domicile or listing does not necessarily equate to its exposure to the economic conditions in that country.

Other price risk sensitivity

At the year end, the Company held equity investments of £1,806,000 (2018: £2,129,000). The effect of a 10% increase or decrease in the fair values (including equity exposure through derivatives) on the profit after taxation for the year is £181,000 (2018: £213,000). This level of change is considered to be reasonably possible based on the observation of current market conditions. The sensitivity analysis is based on the Company's equities and equity exposure through derivatives at the balance sheet date with all other variables held constant.

Liquidity Risk

This is the risk that the Company may encounter in realising assets or raising/replacing repo financing to meet financial commitments. A lack of liquidity in corporate bonds may make it difficult for the Company to sell its bonds at or near their purported value compounding the liquidity pressure caused by the requirement to roll repo financing at repo maturity dates.

Management of Liquidity Risk

The Manager, as part of the ongoing management of the Company, ascertains the Company's cash requirements taking account of the asset purchases and sales, income receivable from investments, running expenses and dividend payments as well as the ongoing borrowing requirements of the Company arising from repo financing. The Manager reviews the repo financing of the Company on a daily basis, with a view to new repo agreements ending at a quarter end, and rolling of existing repo agreements on a quarterly time basis. If any shortfalls could not be met by repo financing, the Manager could potentially realise the more liquid corporate bonds in the portfolio, taking into account the effect of this on performance as well as the objectives of the Company.

Further details can be found in the 'Gearing Policy' section on page 10 in the Business Review, which also discusses the risks arising from repo financing and gearing of the investment portfolio.

Liquidity Risk Exposure

The contractual maturities of the financial liabilities at 30 September, based on the earliest date on which payment can be required, was as follows:

	2019			2018		
	LESS THAN THREE MONTHS £'000	MORE THAN ONE YEAR £'000	TOTAL £'000	LESS THAN THREE MONTHS £'000	MORE THAN ONE YEAR £'000	TOTAL £'000
Other payables (note 14)	305	—	305	2,278	—	2,278
Unrealised loss on forward currency contracts (note 13)	940	—	940	—	—	—
Performance fee provision (note 15)	—	306	306	—	306	306
Securities sold under agreements to repurchase	24,161	—	24,161	22,109	—	22,109
	25,406	306	25,712	24,387	306	24,693

Credit Risk

The Company's principal credit risk is the risk of default on the non-investment grade debt. The Company's other main credit risk arises from the repo financing arrangements whereby, if a counterparty failed to sell the required assets to the Company on the repurchase date, the Company would be left with the claim against the defaulting counterparty for the stock and, if applicable, any margin held by the counterparty and not returned.

Credit risk also encompasses the failure by counterparties to deliver securities which the Company has paid for, or to pay for securities which the Company has delivered. This risk also includes transactions involving derivatives.

The portfolio may be adversely affected if the custodian of the Company's assets suffers insolvency or other financial difficulties. The portfolio in this instance covers both investments and any cash held at the custodian.

Exposure to and Management of Credit Risk

The Company's portfolio of investments on pages 18 to 20 shows the Moody's and Standard & Poor's ratings and an analysis of this is also shown by the graph on page 4. Where the Manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account to manage the Company's exposure to risk of default. Investments in bonds are across a variety of industrial sectors and geographical markets, to avoid concentration of credit risk.

The Company manages the credit risk inherent in repo financing by only dealing with good quality counterparties whose credit-standing is reviewed periodically by the Manager. There is a maximum limit allowed with any one counterparty, and have a maturity tenor of three months or less. The Company has exposure to credit risk on securities pledged under repo financing held, with four counterparties, as follows:

COUNTERPARTY	RATING	LOCATION	2019			2018		
			AMOUNTS BORROWED UNDER REPO FINANCING	MARKET VALUE OF SECURITIES PLEDGED UNDER REPO FINANCING	NET CREDIT EXPOSURE TO COUNTER-PARTY	AMOUNTS BORROWED UNDER REPO FINANCING	MARKET VALUE OF SECURITIES PLEDGED UNDER REPO FINANCING	NET CREDIT EXPOSURE TO COUNTER-PARTY
			£'000	£'000	£'000	£'000	£'000	£'000
Barclays	A1/A+	UK	4,339	5,218	879	8,391	10,876	2,485
CitiBank	Aa3/A+	UK	3,785	4,550	765	4,522	5,930	1,408
Credit Suisse	A1/A+	UK	7,286	9,305	2,019	9,196	12,416	3,220
HSBC	Aa3/AA-	UK	8,751	10,777	2,026	—	—	—
			24,161	29,850	5,689	22,109	29,222	7,113
Net credit exposure as % of net assets					4.5%			5.9%

Transactions in derivatives, including forward currency contracts (the exposure to which is shown in this note, under currency risk) are entered into only with investment banks, the credit rating of which is taken into account to manage default risk. Failure by counterparties is mitigated by using only approved counterparties.

As part of the Board's risk management and control monitoring, the Board reviews the custodian's annual control report and the Manager's management of the relationship with the custodian.

The risk associated with failure of the custodian is mitigated by the depositary, which is ultimately responsible for safekeeping of the Company's assets and is strictly liable for the recovery of financial instruments in the event of loss. Additionally, the depositary reconciles both stock and cash held at the custodian to custodian records throughout the year and reports to the audit committee at the year end.

Cash balances are limited to a maximum of £10 million with any one deposit taker, with only approved deposit takers being used, and a maximum of £10 million for holdings in the Short-Term Investments Company (Global Series) plc, a triple A rated money market fund.

Fair Values of Financial Assets and Financial Liabilities

The financial assets are either carried at their fair value (investments and derivatives), or the balance sheet amount is a reasonable approximation of fair value (due from brokers, dividends receivable, accrued income and cash and cash equivalents). Total gains and losses on investments, represents the total carrying amount of gains and losses on financial assets designated by the Company as financial assets at fair value through profit and loss.

The financial liabilities are carried at amortised cost except for derivatives which are carried at fair value.

NOTES TO THE FINANCIAL STATEMENTS

continued

20. Classification Under Fair Value Hierarchy

Nearly all of the Company's portfolio of investments are in the Level 2 category as defined in IFRS 7 'Financial Instruments: Disclosures'. The three levels set out in IFRS 7 follow:

- Level 1 – The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3 – Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Categorisation within the hierarchy is determined on the basis of the lowest level input that is significant to the fair value measurement of each relevant asset/liability.

The valuation techniques used by the Company are explained in the accounting policies note. There were no transfers in the year between any of the levels.

Normally, investment company investments would be valued using stock market active prices with investments disclosed as Level 1, and this is the case for the quoted equity investments that the Company holds. However, a majority, if not all, of the investments are non-equity investments. These securities are priced using evaluated prices from a third party vendor, together with a price comparison made to secondary and tertiary evaluated third party sources. Evaluated prices are in turn based on a variety of sources, including broker quotes and benchmarks. As a result these investments are disclosed as Level 2 – recognising that the fair values of these investments are not as visible as quoted equity investments and their higher inherent pricing risk. However, this does not mean that the fair values shown in the portfolio valuation are not achievable at point of sale. No Level 3 investments were held in the year, or the previous year and there have been no transfers between levels during the year.

	2019 LEVEL 1 £'000	2019 LEVEL 2 £'000	TOTAL £'000
<i>Financial assets designated at fair value through profit or loss</i>			
Debt securities	—	142,722	142,722
Equities – convertible preference shares and common stock	162	1,644	1,806
Total for financial assets	162	144,366	144,528
<i>Financial liabilities designated at fair value through profit or loss</i>			
Derivative financial instruments:			
Currency hedges	—	940	940
Total for financial liabilities	—	940	940
	2018 LEVEL 1 £'000	2018 LEVEL 2 £'000	TOTAL £'000
<i>Financial assets designated at fair value through profit or loss</i>			
Debt securities	—	137,783	137,783
Equities – convertible preference shares and common stock	406	1,723	2,129
Derivative financial instruments – currency hedges	—	293	293
Total for financial assets	406	139,799	140,205

21. Maturity Analysis of Contractual Liability Cash Flows

The financial liabilities of the Company comprise securities sold under agreement to repurchase which are all repayable within three months of the balance sheet date totalling £24,161,000 (2018: £22,109,000), together with interest thereon of £9,000 (2018: £10,000). Other liabilities may include forward currency contracts, amounts due to brokers and accruals. All are paid under contractual terms. Forward currency contracts in place at the balance sheet date were all due within three months. Any amounts due to brokers, are usually payable on the purchase date of the investment plus three business days.

22. Capital Management

The Company's total capital employed at 30 September 2019 was £150,318,000 (2018: £142,786,000) comprising repo financing of £24,161,000 (2018: £22,109,000) and equity share capital and other reserves of £126,157,000 (2018: £120,677,000).

The Company's total capital employed is managed to achieve the Company's objective and investment policy as set out on pages 9 and 10.

The main risks to the Company's investments are shown in the Business Review under the 'Principal Risks and Uncertainties' section on pages 12 to 16. These also explain that the Company is able to gear its portfolio by borrowing in the form of repo financing and that gearing will amplify the effect on equity of changes in the value of the portfolio. At the balance sheet date, net borrowing was 15% (2018: 16%). Net borrowings cannot exceed 50% of shareholders' funds. The Company's policies and processes for managing capital were unchanged throughout the year and the preceding year.

The Board can also manage the capital structure directly since it has taken the powers, which it is seeking to renew, to issue and buy back shares and it also determines dividend payments.

The Company is subject to counterparty imposed requirements with respect to the repo financing and the terms imposed by the lenders with respect to the short term overdraft facility. The Board regularly monitors, and has complied with, these requirements and are unchanged from the prior year.

23. Contingent Liabilities

Contingent liabilities that the Company will or has given would be disclosed in this note if any existed.

There were no material outstanding contingent liabilities as at 30 September 2019 (2018: nil).

24. Related Party Transactions and Transactions with the Manager

A related party is a company or individual who has direct or indirect control or who has significant influence over the Company. The Manager is not considered a related party.

Under International Financial Reporting Standards, the Company has identified the Directors as related parties. The Directors' interests and remuneration have been disclosed on pages 30 and 31 with additional disclosure in note 6. No other related parties have been identified.

Details of the Manager's services and fees are disclosed in the Directors' Report on page 34, and in note 5.

25. Post Balance Sheet Events

Any significant events that occurred after the end of the reporting period but before the signing of the statement of financial position will be shown here.

Since the year end and as disclosed in the Chairman's Statement on page 6, JTC Fund Solutions (Jersey) Limited were appointed as corporate company secretary and administrator on 10 December 2019.

There are no other significant events after the end of the reporting period requiring disclosure.

THIS NOTICE OF ANNUAL GENERAL MEETING IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action to take, you should consult your stockbroker, solicitor, accountant or other appropriate independent professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all your shares in Invesco Enhanced Income Limited, please forward this document and the accompanying Form of Proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS GIVEN that the Annual General Meeting (AGM) of Invesco Enhanced Income Limited (the 'Company') will be held at 9.30am on 25 February 2020 at JTC Fund Solutions (Jersey) Limited, 28 Esplanade, St Helier, Jersey JE2 3QA, for the following purposes:

Ordinary Business

1. To receive and consider the Annual Financial Report for the year ended 30 September 2019.
2. To elect Kate Bolsover as a Director of the Company
3. To re-elect Peter Yates as a Director of the Company.
4. To elect Christine Johnson as a Director of the Company.
5. To re-elect Michael Lombardi as a Director of the Company.
6. To re-elect Clive Spears as a Director of the Company.
7. To re-appoint PricewaterhouseCoopers CI LLP as auditor of the Company.
8. To authorise the Audit Committee to determine the remuneration of the auditor.

Special Business

To consider and if thought fit, to pass the following resolutions as special resolutions:

9. THAT, in substitution for all existing powers, the Company may disapply pre-emption rights and issue equity securities up to a maximum of 34,158,971 shares representing 20% of the total number of shares in issue as at the date of this resolution, provided that such disapplication shall expire (unless and to the extent previously revoked, varied or renewed by the Company in general meeting by special resolution passed by two thirds of shareholders voting thereon) at the earlier of the conclusion of the annual general meeting of the Company to be held in 2020 or 15 months from the date of this resolution but so that this power shall enable the Company to make offers or agreements before such expiry which would or might require equity securities to be issued after such expiry and the directors of the Company may issue equity securities in pursuance of any such offer or agreement as if such expiry had not occurred.
10. THAT, pursuant to Article 12.4 of the Company's Articles of Association and Article 57 of the Companies (Jersey) Law 1991 as amended (the 'Law'), the Company be generally and unconditionally authorised:
 - (a) to make one or more market purchases of ordinary shares of 5p in the capital of the Company ('ordinary shares') provided that:
 - (i) the maximum aggregate number of ordinary shares authorised to be purchased shall be 14.99% of the Company's listed ordinary shares, this being 25,602,149 on the date of this notice;
 - (ii) the minimum price which may be paid for an ordinary share is 5p;
 - (iii) the maximum price which may be paid for a share must not be more than the higher of: (i) 5 per cent. above the average of the mid-market values of the Shares for the five business days before the purchase is made; and (ii) the higher of the price of the last independent trade in the shares and the highest then current independent bid for the Shares on the London Stock Exchange;
 - (iv) any purchase of shares will be made in the market for cash prices below the prevailing net asset value per share (as determined by the Directors);
 - (v) the authority hereby conferred shall expire on the earlier of the conclusion of the next AGM of the Company held after the passing of this resolution or 15 months from the date of the passing of this resolution whichever is the earlier.
 - (b) pursuant to Article 58A of the Law, to hold, if the Directors so resolve, as treasury shares any ordinary shares purchased pursuant to the authority conferred in paragraph (a) above.

11. THAT the period of notice required for general meetings of the Company (other than AGMs) shall not be less than 14 days.

Dated 16th December 2019
By order of the Board

JTC Fund Solutions (Jersey) Limited
Company Secretary

NOTICE OF ANNUAL GENERAL MEETING

continued

Notes:

1. A form of appointment of proxy accompanies this annual financial report.

A member entitled to attend and vote at the AGM is entitled to appoint one or more proxies to attend, speak and vote in his stead. Where more than one proxy is appointed, each proxy must be appointed to exercise the rights attached to a different share or shares. A proxy need not be a member of the Company. In order to be valid an appointment of proxy must be returned, duly executed and completed, by one of the following methods:

- via Link Asset Services website www.signalshares.com; or
- in hard copy form by post, by courier or by hand to Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU; or
- in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below

and in each case to be received by 9.30a.m. on 25 February 2020.

The appointment of a proxy (whether by completion of a form of appointment of proxy or other instrument appointing a proxy or any CREST Proxy Instruction) does not prevent a member from attending and voting at the AGM.

2. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time for receipt of proxy appointments specified in this document. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies through CREST should be communicated to the appointee through other means. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take or, if the CREST member is a CREST Personal Member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s), such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning the practical limitations of the CREST system and timings.
3. A person entered on the Register of Members at close of business 48 hours before the time of the AGM ('a member') is entitled to attend and vote at the AGM pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001. Any changes to the Register of Members after such time and date shall be disregarded in determining the rights of any person to attend and/or vote at the AGM. If the AGM is adjourned, entitlement to attend and vote at the adjourned meeting, and the number of votes which may be cast thereat, will be determined by reference to the Company's Register of Members 48 hours before the time fixed for the adjourned meeting.
4. The schedule of matters for the Board and the terms of Reference of the Audit and Management Engagement Committees will be available at the AGM for at least 15 minutes prior to and during the AGM.
5. A copy of the Articles of Association is available for inspection at the Registered Office of the Company during normal business hours on any business day (excluding public holidays) until the close of the AGM and will also be available at the AGM for at least 15 minutes prior to and during the AGM.
6. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
7. Any member attending the AGM has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the AGM but no such answer need be given if:

(a) to do so would interfere unduly with the preparation of the AGM or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the AGM that the question be answered.

8. You may not use any electronic address (any address or number used for the purposes of sending or receiving documents or information by electronic means) provided in this Notice (or in any related documents including the proxy form) to communicate with the Company for any purposes other than those expressly stated.
9. As at 10 December 2019 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consisted of 170,794,855 ordinary shares of 5p each carrying one vote each.
10. A copy of the Notice as well as various other documents relating to the Company can be found at www.invesco.co.uk/enhancedincome

SHAREHOLDER INFORMATION

History of Invesco Enhanced Income Limited (the 'Company')

The Company was launched on 15 October 1999, originally as Invesco Leveraged High Yield Fund Limited; its name and investment policy were changed on 11 November 2013. The Company is Jersey-domiciled and is regulated by the Jersey Financial Services Commission.

Net Asset Value (NAV) Publication

The NAV is published daily in the Financial Times and Daily Telegraph and is calculated as at the close of business each day and notified to the London Stock Exchange the next business day. It can also be found on the Company's section of the Manager's website.

Website

Information relating to the Company can be found on the Company's section of the Manager's website, which can be located at www.invesco.co.uk/enhancedincome

The contents of websites referred to in this document, or accessible from links within those websites, are not incorporated in to, nor do they form part of this annual financial report.

How to invest in the Company

The Company's shares are listed and traded on the London Stock Exchange. There are a variety of ways by which investors can buy the shares including through the following: independent financial advisers, brokers and platforms. The Manager's website contains a list of some of the larger dealing platforms as well as a link to unbiased.co.uk, for those seeking financial advice, and to the AIC's website for detailed information on investment companies.

Share Price Listings

The price of your shares can be found in the Financial Times, Daily Telegraph and The Times.

In addition, share price information can be found under the ticker IPE and on the Company's section of the Managers' website under Resources:

www.invesco.co.uk/uk/resources/prices

Financial Calendar

In addition, the Company publishes information according to the following calendar:

Announcements

Half-yearly financial report May
Annual financial report November/December

Year End 30 September

Dividends Payable 1st Interim – January
2nd Interim – April
3rd Interim – July
4th Interim – October

Annual General Meeting January/February

Annual General Meeting

The AGM will be held at 9.30am on 25 February 2020 at:

JTC Fund Solutions (Jersey) Limited
28 Esplanade
St. Helier
Jersey
JE2 3QA

General Data Protection Regulation (GDPR)

The Company has a privacy notice which sets out what personal data is collected and how and why it is used. The privacy notice can be found at www.invesco.co.uk/enhancedincome under the 'Literature' section, or a copy can be obtained from the company secretary whose correspondence address is found on the next page.

Be ScamSmart

Investment scams are designed to look like genuine investments

Spot the warning signs

Have you been:

- contacted out of the blue
- promised tempting returns and told the investment is safe
- called repeatedly, or
- told the offer is only available for a limited time?

If so, you might have been contacted by fraudsters.

Avoid investment fraud

1 Reject cold calls

If you've received unsolicited contact about an investment opportunity, chances are it's a high risk investment or a scam. You should treat the call with extreme caution. The safest thing to do is to hang up.

2 Check the FCA Warning List

The FCA Warning List is a list of firms and individuals we know are operating without our authorisation.

3 Get impartial advice

Think about getting impartial financial advice before you hand over any money. Seek advice from someone unconnected to the firm that has approached you.

Remember: if it sounds too good to be true, it probably is!

Report a Scam

If you suspect that you have been approached by fraudsters please tell the FCA using the reporting form at www.fca.org.uk/consumers/report-scam-unauthorised-firm. You can also call the FCA Consumer Helpline on **0800 111 6768**

If you have lost money to investment fraud, you should report it to Action Fraud on 0300 123 2040 or online at www.actionfraud.police.uk

Find out more at
www.fca.org.uk/scamsmart



ADVISERS AND PRINCIPAL EXTERNAL SERVICE PROVIDERS

Alternative Investment Fund Manager

Invesco Fund Managers Limited
 Perpetual Park
 Perpetual Park Drive
 Henley-on-Thames
 Oxfordshire RG9 1HH
 ☎ 01491 417000

Company Secretary, Administrator and Registered Office

JTC Fund Solutions (Jersey) Limited
 28 Esplanade
 St. Helier
 Jersey JE2 3QA
 Company Secretarial Contact: Hilary Jones
 ☎ 01534 700000
 Registered in Jersey No. 32203

Registrar

Link Market Services (Jersey) Limited
 12 Castle Street
 St Helier
 Jersey JE2 3RT
 ☎ 0371 664 0300

Shareholders holding shares directly and not through a savings scheme or ISA and have queries relating to their shareholding, should contact the registrar on the above number.

Calls are charged at the standard geographic rate and will vary by provider. From outside the UK: +44 (0)371 664 0300. Calls from outside the UK will be charged at the applicable international rate. Lines are open Monday to Friday from 9am to 5.30pm (excluding UK Bank Holidays).

Shareholders can also access their details via Link's website: www.signalshares.com

Link Asset Services provides an on-line and telephone share dealing service to existing shareholders who are not seeking advice on buying or selling. This service is available at www.linksharedeal.com or by ringing
 ☎ 0371 664 0445

Calls are charged at the standard geographic rate and will vary by provider.
 ☎ +44 (0)20 3367 2699 (from outside the UK).
 Lines are open 8am to 4.30pm Monday to Friday (excluding UK bank holidays).

Link Asset Services is the business name of Link Market Services (Jersey) Limited.

Dividend Re-investment Plan

Link also manage a Dividend Re-investment Plan for the Company.

Shareholders wishing to re-invest their dividends should contact the registrar.

Depository, Custodian & Banker

The Bank of New York Mellon (International) Limited
 1 Canada Square
 London E14 5AL

Independent Auditor

PricewaterhouseCoopers CI LLP
 37 Esplanade
 St Helier
 Jersey JE1 4XA

Corporate Broker

JPMorgan Cazenove
 25 Bank Street
 London E14 5JP

Invesco Client Services

Invesco has a Client Services Team available from 8.30am to 6pm every working day. Please feel free to take advantage of their expertise by ringing

☎ 0800 085 8677.

Website: www.invesco.co.uk/investmenttrusts

The Association of Investment Companies

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

Contact details are as follows:

☎ 020 7282 5555

Email: enquiries@theaic.co.uk

Website: www.theaic.co.uk

GLOSSARY OF TERMS AND ALTERNATIVE PERFORMANCE MEASURES

Alternative Performance Measure (APM)

An APM is a measure of performance or financial position that is not defined in applicable accounting standards and cannot be directly derived from the financial statements. The calculations shown in the corresponding tables are for the years ended 30 September 2019 and 2018. The APMs listed here are widely used in reporting within the investment company sector and consequently aid comparability.

Premium/(Discount) (APM)

Discount is a measure of the amount by which the mid-market price of an investment company share is lower than the underlying net asset value (NAV) of that share. Conversely, premium is a measure of the amount by which the mid-market price of an investment company share is higher than the underlying net asset value of that share. In this annual financial report the discount is expressed as a percentage of the net asset value per share and is calculated according to the formula set out below. If the shares are trading at a premium the result of the below calculation will be positive and if they are trading at a discount it will be negative.

	PAGE		2019	2018
Share price	2	a	75.2p	75.4p
Net asset value per share (note 18)	53	b	74.2p	73.1p
Premium		$c = (a-b)/b$	1.3%	3.1%

Gearing

The gearing percentage reflects the amount of borrowings that a company has invested. This figure indicates the extra amount by which net assets, or shareholders' funds, would move if the value of a company's investments were to rise or fall. A positive percentage indicates the extent to which net assets are geared; a nil gearing percentage, or 'nil', shows a company is ungeared. A negative percentage indicates that a company is not fully invested.

There are several methods of calculating gearing and the following has been used in this report:

Gross Gearing (APM)

This reflects the amount of gross borrowings in use by a company and takes no account of any cash balances. It is based on gross borrowings as a percentage of net assets.

	PAGE		2019 £'000	2018 £'000
Securities sold under agreements to repurchase	43		24,161	22,109
Gross borrowings		a	24,161	22,109
Net assets	43	b	126,157	120,677
Gross gearing		$c = a/b$	19%	18%

Net Gearing or Net Cash (APM)

Net gearing reflects the amount of net borrowings invested, i.e. borrowings less cash and cash equivalents (incl. investments in money market funds). It is based on net borrowings as a percentage of net assets. Net cash reflects the net exposure to cash and cash equivalents, as a percentage of net assets, after any offset against total borrowings.

	PAGE		2019 £'000	2018 £'000
Securities sold under agreements to repurchase	43		24,161	22,109
Less cash and cash equivalents	43		(4,623)	(2,775)
Net borrowings		a	19,538	19,334
Net assets	43	b	126,157	120,677
Net gearing		$c = a/b$	15%	16%

Leverage

Leverage, for the purposes of the Alternative Investment Fund Managers Directive (AIFMD), is not synonymous with gearing as defined above. In addition to borrowings, it encompasses anything that increases the Company's exposure, including foreign currency and exposure gained through derivatives. Leverage expresses the Company's exposure as a ratio of the Company's net asset value. Two methods of calculating such exposure are set out in the AIFMD, gross and commitment. Under the gross method, exposure represents the aggregate of all the Company's exposures other than cash balances held in base currency and without any offsetting. The commitment method takes into account hedging and other netting arrangements designed to limit risk, offsetting them against the underlying exposure.

Net Asset Value (NAV)

Also described as shareholder's funds the NAV is the value of total assets less liabilities. Liabilities for this purpose include current and long-term liabilities. The NAV per ordinary share is calculated by dividing the net assets by the number of ordinary shares in issue. For accounting purposes assets are valued at fair (usually market) value and liabilities are valued at par (their repayment – often nominal – value).

Ongoing Charges Ratio (APM)

The ongoing administrative costs of operating the Company are encapsulated in the ongoing charges ratio, which is calculated in accordance with guidance issued by the AIC. The calculation incorporates charges allocated to capital in the financial statements as well as those allocated to revenue, but excludes non-recurring costs, transaction costs of investments, finance costs, taxation, and the costs of buying back or issuing shares. The ongoing charges ratio is the aggregate of these costs expressed as a percentage of the daily average net asset value reported in the year.

	PAGE	2019 £'000	2018 £'000
Investment management fee	42	926	980
Other expenses	42	321	725
Less: costs in relation to custody dealing charges and one off legal costs		(11)	(398)
Total recurring expenses	a	1,236	1,307
Average daily net assets	b	119,138	123,414
Ongoing charges ratio %	c = a/b	1.04%	1.06%

Return

The return generated in a period from the investments, including the increase and decrease in the value of investments over time and the income received.

Capital Return

Reflects the return on NAV, from the increase and decrease in the value of investments, but excluding any dividends reinvested.

GLOSSARY OF TERMS AND ALTERNATIVE PERFORMANCE MEASURES

Total Return

Total return is the theoretical return to shareholders that measures the combined effect of any dividends paid, together with the rise or fall in the share price or NAV. In this annual financial report these return figures have been sourced from Refinitiv who calculate returns on an industry comparative basis.

Net Asset Value Total Return (APM)

Total return on net asset value per share, assuming dividends paid 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.

Share Price Total Return (APM)

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

2019	PAGE		NET ASSET VALUE	SHARE PRICE
As at 30 September 2019	2 and 53 (note 18)		74.2p	75.2p
As at 30 September 2018	2 and 53 (note 18)		73.1p	75.4p
Change in year		a	1.5%	-0.3%
Impact of dividend reinvestments	see (1) below	b	7.4%	7.0%
Total return for the year		c = a+b	8.9%	6.7%

2018	PAGE		NET ASSET VALUE	SHARE PRICE
As at 30 September 2018	2 and 53 (note 18)		73.1p	75.4p
As at 30 September 2017	3		77.5p	80.3p
Change in year		a	-5.7%	-6.1%
Impact of dividend reinvestments	see (1) below	b	6.5%	6.2%
Total return for the year		c = a+b	0.8%	0.1%

(1) Total dividends paid during the year of 5.00p (2018: 5.00p) reinvested at the NAV or share price on the ex-dividend date. NAV or share price falls subsequent to the reinvestment date consequently further reduce the returns, vice versa if the NAV or share price rises.

Credit ratings

The definitions for the credit ratings shown in the financial statements are as follows:

Moody's Ratings

Investment grade

Aaa: judged to be of the highest quality, with minimal credit risk.

Aa1, Aa2, Aa3: judged to be of high quality and are subject to very low credit risk.

A1, A2, A3: considered upper-medium grade and are subject to low credit risk.

Baa1, Baa2, Baa3: subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.

Speculative grade (Non-investment grade)

Ba1, Ba2, Ba3: judged to have speculative elements and are subject to substantial credit risk.

B1, B2, B3: considered speculative and are subject to high credit risk.

Caa1, Caa2, Caa3: judged to be of poor standing and are subject to very high credit risk.

Ca: highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C: lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

WR: withdrawn rating.

P: provisional.

NA: not available.

Standard & Poor's Ratings

Investment Grade

AAA: the best quality borrowers, reliable and stable (many of them governments).

AA: quality borrowers, a bit higher risk than AAA.

A: economic situation can affect finance.

BBB: medium class borrowers, which are satisfactory at the moment.

Non-Investment Grade

BB: more prone to changes in the economy.

B: financial situation varies noticeably.

CCC: currently vulnerable and dependent on favourable economic conditions to meet commitments.

CC: highly vulnerable, very speculative.

C: highly vulnerable, perhaps in bankruptcy or in arrears but still continuing to pay out on obligations.

CI: past due on interest.

R: under regulatory supervision due to the company's financial situation.

SD: has selectively defaulted on some obligations.

D: has defaulted on obligations and S&P believes that the company will generally default on most or all obligations.

NR: not rated.

Equivalent average rating is based on the following methodology of rating (using Moody's, Fitch and Standard & Poor's Ratings where available for each holding):

- if one rating available, use that rating;
- if two ratings, use the lower rating;
- if three ratings, use the middle rating.

ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE DISCLOSURE

Alternative Investment Fund Manager (AIFM) and the Alternative Investment Fund Managers Directive (the 'AIFMD', the Directive)

Invesco Fund Managers Limited (IFML) was authorised as an AIFM, and was first appointed by the Company as such, with effect from 22 July 2014. IFML is an associated company of Invesco Asset Management Limited (IAML), the previous Manager, and IAML continues to manage the Company's investments under delegated authority from IFML. In accordance with the Directive, the Company qualifies as an Alternative Investment Fund (AIF).

Amongst other things, the AIFMD requires certain information to be provided to prospective investors. This information can be found in the Company's section of the Manager's website (www.invesco.co.uk/enhancedincome) in a downloadable document entitled 'AIFMD Investor Information'. There has been one change to this information since 30 September 2018: As announced on 10 December 2019 and on page 9 of this report the corporate company secretary, R&H Fund Services (Jersey) Limited was replaced by JTC Fund Solutions (Jersey) Limited with effect from 10 December 2019. Any information requiring immediate disclosure pursuant to the Directive will be disclosed through a primary information provider.

In addition, the Directive requires information in relation to the remuneration of the Company's AIFM, IFML, and the Company's leverage (both 'gross' and 'commitment' – see Glossary on page 69) and to be made available to investors.

Accordingly:

- the leverage calculated for the Company at its year end was 181% for gross and 138% commitment (2018: gross 204% and commitment 140%). The limits the AIFM has set for the Company remain unchanged at 350% and 300%, respectively;
- the AIFM remuneration policy is available from the Company's company secretary, on request (see contact details on page 67); and
- the AIFM remuneration paid for the year to 31 December 2018 is set out below.

AIFM Remuneration

The AIFM remuneration paid is based on the latest financial year of the AIFM, which was to 31 December 2018.

The aggregate total remuneration of Invesco staff involved in AIF related activities of the Manager in respect of the performance year (1 January 2018 to 31 December 2018) is £6.54 million, of which £3.84 million is fixed remuneration and £2.70 million is variable remuneration. The number of beneficiaries is 33.

The Manager has identified individuals considered to have a material impact on the risk profile of the Manager or the AIFs it manages ('Identified Staff'), who include board members of the Manager, senior management, heads of control functions, other risk takers and any employees receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers. Identified Staff of the Manager are employed by Invesco.

The aggregate total remuneration paid to the Identified Staff of the Manager for AIF related activities for the performance year (1 January 2018 to 31 December 2018) is £1.34 million, of which £0.31 million is paid to Senior Management and £1.03 million is paid to other Identified Staff. Please note that remuneration for AIFMD Identified Staff includes remuneration for staff employed by delegates (all delegates are employed by various entities of Invesco Ltd. Group).

Invesco's summary remuneration policy is available from the corporate policies section of its website (www.invesco.co.uk). Paper copies of the full remuneration policy can be obtained for free from the registered office of the Manager, Invesco Fund Managers Limited, Perpetual Park, Perpetual Park Drive, Hanley-on-Thames, Oxfordshire RG9 1HH, UK upon request.



The Manager of Invesco Enhanced Income Limited is Invesco Fund Managers Limited.

Invesco Fund Managers Limited is a wholly owned subsidiary of Invesco Limited and is authorised and regulated by the Financial Conduct Authority.

Invesco is a business name of Invesco Fund Managers Limited.

Invesco is one of the largest independent global investment management firms, with funds under management of \$1,184 billion.*

Invesco aims to provide the highest returns available from markets, through active management, but in a controlled manner, conscious of the risks involved and within our clients' objectives.

* Funds under management as at 31 October 2019.

INVESTMENT COMPANIES MANAGED BY INVESCO

Investing for Income, Income Growth and Capital Growth (from equities and fixed interest securities)

City Merchants High Yield Trust Limited

A Jersey-incorporated closed-ended Company that aims to generate a high level of income from a variety of fixed income instruments. The Company may use repo financing to enhance returns.

Invesco Income Growth Trust plc

Aims to produce income and capital growth superior to that of the UK stock market and dividends paid quarterly that, over time, grow at above the rate of inflation. The Company may use bank borrowings.

Invesco Enhanced Income Limited

A Jersey-incorporated closed-ended Company that aims to provide a high level of income, paid gross to UK investors, whilst seeking to maximise total return through investing, primarily in a diversified portfolio of high-yielding corporate and government bonds. The Company seeks to balance the attraction of high-yield securities with the need for protection of capital and to manage volatility. The Company uses repo financing to enhance returns.

Invesco Perpetual Select Trust plc – Managed Liquidity Portfolio

Aims to produce an appropriate level of income return combined with a high degree of security. The portfolio invests in a range of sterling based or related high quality debt securities and similar assets either directly or indirectly through authorised funds.

Invesco Perpetual Select Trust plc – UK Equity Portfolio

Aims to provide shareholders with an attractive real long term total return by investing primarily in UK quoted equities. The portfolio may use bank borrowings.

Keystone Investment Trust plc

Aims to provide shareholders with long-term growth of capital mainly from UK investments. The Company has debenture stocks in issue and, in addition, may use bank borrowings.

Perpetual Income and Growth Investment Trust plc

Aims to provide shareholders with capital growth and real growth in dividends over the medium to longer term from a portfolio of securities listed mainly in the UK equity market. The Company has secured loan notes in issue and, in addition, may use bank borrowings.

The Edinburgh Investment Trust plc

Invests primarily in UK securities with the long-term objective of achieving:

1. an increase of the Net Asset Value per share by more than the growth in the FTSE All-Share Index; and
2. growth in dividends per share in excess of the rate of UK inflation.

The Company has a debenture stock in issue and, in addition, may use bank borrowings.

Investing in Smaller Companies

Invesco Perpetual UK Smaller Companies Investment Trust plc

Aims to achieve long-term total returns for the Company's shareholders primarily by investment in a broad cross-section

of small to medium size UK-quoted companies, including AIM stocks. The Company may use bank borrowings.

Investing Internationally

Invesco Asia Trust plc

Aims to provide long-term capital growth by investing in a diversified portfolio of Asian and Australasian securities. The Company aims to achieve growth in its net asset value in excess of the MSCI AC Asia Ex Japan Index, total return, in sterling terms. The Company may use bank borrowings.

Invesco Perpetual Select Trust plc – Global Equity Income Portfolio

Aims to provide an attractive and growing level of income return and capital appreciation over the long term, predominantly through investment in a diversified portfolio of equities worldwide. The portfolio may use bank borrowings.

Investing for Total Returns

Invesco Perpetual Select Trust plc – Balanced Risk Allocation Portfolio

Aims to provide shareholders with an attractive total return in differing economic and inflationary environments and with low correlation to equity and bond market indices by gaining exposure to three asset classes: debt securities, equities and commodities.

The portfolio is constructed so as to balance risk, is long-only, using mainly transparently-priced exchange-traded futures contracts and other derivative instruments to gain such exposure and to provide leverage.

Investing in Multiple Asset Classes

Invesco Perpetual Select Trust plc

- UK Equity Portfolio
- Global Equity Income Portfolio
- Managed Liquidity Portfolio
- Balanced Risk Allocation Portfolio

A choice of four investment policies and objectives, each intended to generate attractive risk-adjusted returns from segregated portfolios, with the ability to switch between them, four times a year, free from capital gains tax liability. Dividends are paid quarterly, apart from Balanced Risk Allocation which will not normally pay dividends.

Please contact Invesco Client Services Team on 0800 085 8677 if you would like more information about the investment trusts or other specialist funds listed above. Further details are also available on the following website: www.invesco.co.uk/investmenttrusts.