City Merchants High Yield Trust Limited

Half-Yearly Financial Report for the Six Months to 30 June 2020

KEY FACTS

City Merchants High Yield Trust Limited is a Jersey incorporated investment company listed on the London Stock Exchange. The Company commenced trading on 2 April 2012 as a successor company to City Merchants High Yield Trust plc.

Investment Objective

The Company's investment objective is to seek to obtain capital growth and high income from investment, predominantly in high-yielding fixed-interest securities.

Investment Policy

The Company seeks to provide a high level of dividend income relative to prevailing interest rates mainly through investment in bonds and other fixed-interest securities. The Company also invests in equities and other equity-like instruments consistent with the overall objective.

Performance Statistics

	FOR SIX MONTHS TO 30 JUN 2020	YEAR ENDED 31 DEC 2019
Total Return[(1)(2)]		
Net asset value	–2.4%	+13.4%
Share price	–7.8%	+18.7%
Dividend for the period/year	5p	10p

Period End Information

	AT 30 JUN 2020	AT 31 DEC 2019
Net asset value per ordinary share[(2)]	182.21p	192.11p
Share price[(1)]	176.75p	197.00p
(Discount)/premium[(2)]	(3.0)%	2.5%
Gearing[(2)]		
Gross gearing	7.1%	nil
Net gearing	5.8%	nil
Net cash	nil	4.3%

(1) Source: Refinitiv.

(2) Alternative Performance Measures (APM). See page 7 for the explanation and calculation of APMs. Further details are provided in the Glossary of Terms and Alternative Performance Measures in the Company's 2019 annual financial report.

INTERIM MANAGEMENT REPORT INCORPORATING THE CHAIRMAN'S STATEMENT

Chairman's Statement

Covid-19's initial impact on high yield markets was both sudden and dramatic. As the virus took hold it quickly became apparent that the only way to control its spread and to prevent healthcare systems being overwhelmed was for governments to impose draconian restrictions on social movement. The resulting sharp drop in economic activity was a pattern seen in the UK and throughout the world.

Thankfully, the response of policymakers both in the UK and abroad was rapid and on a massive scale. Governments strove to offset the economic effects of social distancing with huge expansions in fiscal expenditure while central banks intervened aggressively in financial markets. This did much to calm market nerves, and a more stable environment, in which yields continued to decline steadily from their March peaks, subsequently emerged.

Against this backdrop it is no surprise that the Company's Net Asset Value (NAV) experienced something of a roller coaster ride during the first six months of the year. Having at one point fallen by over 18% from the start of the year, the NAV recovered from its March low to end the six months to 30 June 2020 down 2.4%. In comparison the ICE Bank of America European Currency High Yield Index returned –4.9% during this period.

Fortunately the portfolio entered the crisis on a strong footing with raised cash levels and a defensive stance, a reflection of the degree to which yields had declined in 2019. Despite the challenging market environment during the first half of the year, I am pleased to report that the Company remains on track to achieve its full year dividend target of 10 pence per share and we have declared first and second interim dividends of 2.5 pence per share in respect of the current financial year.

The Company's share price ended the period at a discount of 3.0% to NAV. However, for a significant part of the period under review the share price traded at a premium to NAV and demand for the Company's shares allowed us to issue a further 1,700,000 shares.

Since no one can say with any certainty how the Covid-19 crisis will develop, it is foolish to suppose that there is any clarity regarding the outlook for high yield markets. However, we can identify several characteristics of the current environment which will shape market developments in the months ahead.

First, given the scale of the disruption caused by social distancing, the economy's recovery will be slow and we will remain particularly vulnerable to setbacks (Brexit negotiations being one major source of 'event risk' on the immediate horizon). Secondly, default rates will rise amongst companies that have been particularly badly hit by the profound and probably permanent changes in consumption and working patterns brought on by Covid-19. Lastly much will depend on the course of the pandemic and whether the race to find a vaccine is successful.

Given the strong possibility of further macroeconomic disappointment a cautious view of the next six months is therefore appropriate, and having guided the portfolio though the initial stages of the crisis I am confident that the Manager's rigorous investment approach will allow the Company to continue to navigate the challenges that undoubtedly lie ahead.

Tim Scholefield

Chairman 21 August 2020

Manager's Investment Report

Market Background

The first six months of 2020 have been an extraordinary period for both society and financial markets. The effective closure of developed economies to combat Covid-19 and subsequent policy responses have been the dominant influence on returns.

During February and March, as economies were shuttered, credit spreads (the premium over government bonds that companies need to pay to borrow) widened significantly. The credit spread of the ICE Bank of America European Currency High Yield Index[(1)] was 324 basis points (bps) at the start of the year. After tightening in January and February, spreads then widened to reach a peak of 884bps in late March. This was its widest level since the height of the eurozone sovereign crisis in 2011 and resulted in the index delivering a Q1 sterling hedged total return of –14.6%.

The deterioration in sentiment was compounded by a collapse in the oil price that followed the start of a price war between Saudi Arabia and Russia at the beginning of March. This was more significant for the US high yield market, which has a high allocation to the energy sector.

From late March sentiment turned with European high yield delivering a sterling hedged total return of 11.35% – its best quarterly return since 2012. This occurred despite the release of some of the worst economic data ever recorded. The reason for this turn in sentiment was the extraordinary monetary and fiscal policy response of central banks and governments.

The US Federal Reserve in particular has gone well beyond the remit of its previous quantitative easing programme to directly purchase corporate bonds. These purchases include bonds downgraded to high yield after the pandemic began. In Europe the European Central Bank increased its bond purchases, but significantly there was also a proposal for a fund in which the nations of the eurozone would jointly borrow to help fight the pandemic. A €750 billion recovery fund of both grants and loans has since been agreed.

Against this backdrop corporate bond issuance levels have soared as issuers have sought to take advantage of the demand for yield to build up cash surpluses and repair their balance sheets. Indeed, Bloomberg report that June 2020 was the busiest ever month for US high yield issuance.

By 30 June 2020, European currency high yield credit spreads had recovered from the wide levels of late March to a level of 541bps. Although below the March peak, this level is still well above the average for the past decade. It was a similar story in the US market with spreads widening from 554bps at the start of the year to 1087bps in late March before falling back to 647bps by 30 June 2020.

Portfolio strategy

Thankfully, the Company entered the Covid-19 crisis on a relatively strong footing. The portfolio was cautiously positioned by the end of 2019, which was a natural response to yields having fallen so much and our sober view on valuations. At the very early stages of the virus outbreak, we raised cash in the portfolio significantly. As the crisis developed, we also put a hedge in place via a credit default swap. This defensive stance meaningfully reduced the impact of market volatility on the Company's NAV and left the Company with a solid base from which to invest.

The NAV of the Company ended June 2020 at 182.2p from 192.1p at the close of 2019. In a period in which many companies have been forced to suspend dividend payments, the Company paid a total dividend of 5p over the period. The NAV total return for the six months was –2.4%, which compares well to the ICE Bank of America European Currency High Yield Index at –4.9%.

The widening of credit spreads in March created significant investment opportunities that we sought to exploit across both financial and non-financial issuers. We were able to purchase bonds from good quality companies that had dramatically fallen in price, in some cases by over 20 or even 30 points. For example, the Company purchased bonds from Dutch cable operator, Ziggo, that had fallen 25 points below their February issue price.

As well as opportunities within the high yield market, we were able to add some higher yielding investment grade names to the portfolio as issuance re-started in that market. For example, BMW came to the market in April with a 5-year bond offering a coupon of 3.9%. This is more than some high yield issuers were paying to raise capital at the start of the year. Elsewhere, we also participated in two new issues by travel company, Expedia, which was offering coupons of 6.25% and 7%.

In the high yield market itself, bonds were added across many sectors and also included new issues such as Ford. The US car manufacturer was downgraded by the rating agencies as a result of the disruption to production and sales due to Covid-19. It subsequently came to the market to shore up its balance sheet offering bonds with coupons of 8.5% and 9.625%, which we viewed as compelling.

Some opportunistic positions, where we felt the market was mispricing risk, were also taken, such as Codere, a gaming company that was forced to shut operations around the world. With Codere's ability to refinance a 2021 bond maturity the Company was able to purchase bonds at a price of 40 and below. We believe that a consensual deal to alleviate pressure on the balance sheet can benefit both the company and bondholders and lead to Codere bonds trading significantly higher.

Following purchases made during this period of market weakness, at a sector level the portfolio's largest exposure remains financials (both subordinated bank and subordinated insurance bonds). As at 30 June 2020, 31% of the portfolio was invested in this area of the market. Elsewhere, the portfolio's largest allocations are to telecoms, autos and food companies.

The Company utilised borrowing during the period under review. Prior to the sell-off in March, borrowing was used to selectively add lower risk bonds in order to strengthen income. During the market sell-off additional borrowing was utilised on a more tactical basis, resulting in a net gearing of 5.8% at 30 June 2020.

Outlook

As we look ahead, we are cognisant that the main driver of the current rally in financial markets has been the unprecedented monetary and fiscal policy support. The message from central banks and governments is that this support is not likely to change in the near term. Therefore, while it is difficult to see markets moving much higher, it is equally difficult to see a catalyst for any significant sell-off. The approach from here is therefore cautious while continuing to take advantage of any investment opportunities that arise.

Rhys Davies
Portfolio Manager 21 August 2020

(1) Index includes both sterling and euro denominated issuers.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risk factors relating to the Company can be summarised as follows:

Strategic Risks

– *Market risk* – the Company invests primarily in fixed interest securities, the majority of which are traded on global security markets. The principal risk for investors in the Company is a significant fall and/or a prolonged period of decline in these markets. This could be triggered by unfavourable developments globally and/or in one or more regions, contemporary examples being the market uncertainty in relation to Brexit during 2019 and in 2020 the Covid-19 outbreak. The Board cannot control the effect of such external influences on the portfolio. Market risk also arises from movements in foreign currency exchange rates and interest rates.
– *Investment objectives* – the Company's investment objectives and structure no longer meet investors' demands.
– *Lack of liquidity in the Company's shares* – lack of liquidity and lack of marketability of the Company's shares leading to stagnant share price and wide discount.

Investment Management Risk

– *Performance* – the portfolio persistently underperforms relevant indices and/or peers because of the investments selected. Performance will also be affected by market risk, addressed above, and by credit risk. A significant portion of the Company's portfolio consists of non-investment grade securities which by their nature have a higher risk of default as well as the likelihood of price volatility.
– *Borrowing Risk* – borrowings for investment purposes will amplify the reduction in NAV in a falling market, which in turn is likely to adversely affect the Company's share price. The Company borrows principally using repo financing arrangements. In certain circumstances it may have to realise investments at short notice to repay amounts owing under those arrangements and may not be able to realise the expected market value of those assets.

Third Party Service Providers Risk

– *Unsatisfactory performance of third party service providers (TPPs)* – 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 operations of the Company and affect its ability to pursue successfully its investment policy and expose it to reputational risk. Disruption to the accounting, payment systems or custody records could prevent the accurate reporting and monitoring of the Company's financial position.
– *Information technology resilience and security* – the Company's operational structure means that all cyber risk (information technology and physical security) arises at its TPPs. This cyber risk includes fraud, sabotage or crime perpetrated against the Company or any of its TPPs.

Pandemic Risk

– Restrictions to the movement of people and disruption to business operations are impacting portfolio company valuations and returns that could impact operational resilience of service providers. As the uncertainty of Covid-19 remains, the Directors continue to monitor the situation closely, together with the Manager and other service providers. A range of actions has been implemented to ensure that the Company and its service providers are able to continue to operate as normal, even in the event of prolonged disruption.

Regulation and Corporate Governance Risk

– *Failure to comply with or adverse changes to law or regulation* – a serious breach of law or regulation could lead to suspension from the Official List and from trading on the London Stock Exchange, a fine or a qualified audit report. Adverse changes to law or regulation could affect the ability of the Company to operate or the practicality of its domicile.

More detailed information including mitigating procedures and controls in relation to these principal risks and uncertainties is summarised on pages 13 to 15 of the Company's 2019 annual financial report.

In the view of the Board, these principal risks and uncertainties are as applicable to the remaining six months of the financial year as they were to the period under review.

RELATED PARTIES

Note 22 of the 2019 annual financial report gives details of related party transactions. The basis of these has not changed for the six months being reported. The 2019 annual financial report is available on the Company's section of the Manager's website at: www.invesco.co.uk/citymerchants.

GOING CONCERN

The financial statements are prepared on a going concern basis. The Directors consider that going concern 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. In reaching this conclusion, the Directors have taken into account the Company's investment objective, its risk management policies, the diversified nature of its investment portfolio, the liquidity of its investments which could be used to meet short-term funding commitments, and the ability of the Company to meet all of its liabilities and ongoing expenses from its assets.

BOND RATING ANALYSIS (STANDARD AND POOR'S RATINGS)

Standard and Poor's (S&P) ratings. Where a S&P rating is not available, an equivalent average rating has been used. Investment grade is BBB– and above.

For the definitions of these ratings see the Glossary of Terms and Alternative Performance Measures on page 68 of the Company's 2019 annual financial report.

RATING	30 JUN 2020 % OF PORTFOLIO	30 JUN 2020 CUMULATIVE TOTAL %	31 DEC 2019 % OF PORTFOLIO	31 DEC 2019 CUMULATIVE TOTAL %
Investment Grade:				
A	1.2	1.2	—	—
A–	—	1.2	0.8	0.8
BBB+	3.6	4.8	4.0	4.8
BBB	7.7	12.5	3.2	8.0
BBB–	7.1	19.6	6.0	14.0
Non-investment Grade:				
BB+	13.6	33.2	15.6	29.6
BB	7.6	40.8	7.3	36.9
BB–	11.2	52.0	12.3	49.2
B+	5.9	57.9	5.4	54.6
B	14.0	71.9	17.4	72.0
B–	6.3	78.2	11.2	83.2
CCC+	4.9	83.1	1.5	84.7
CCC	2.4	85.5	2.9	87.6
CCC–	2.5	88.0	1.0	88.6
CC	1.1	89.1	0.2	88.8
D	0.8	89.9	–	88.8
NR* (including equity)	10.1	100.0	11.2	100.0
Total	100.0		100.0	
Summary of Analysis				
Investment Grade	19.6		14.0	
Non-investment Grade	70.3		74.8	
NR (including equity)	10.1		11.2	
	100.0		100.0	

* NR: not rated.

DIRECTORS' RESPONSIBILITY STATEMENT

in respect of the preparation of the half-yearly financial report.

The Directors are responsible for preparing the financial report, using accounting policies consistent with applicable law and International Financial Reporting Standards.

The Directors confirm that to the best of their knowledge:

– the condensed set of financial statements contained within the half-yearly financial report have been prepared in accordance with International Accounting Standards 34 *'Interim Financial Reporting'*;
– the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R of the FCA's *Disclosure Guidance and Transparency Rules;* and
– the interim management report includes a fair review of the information required on related party transactions.

The half-yearly financial report has not been audited or reviewed by the Company's auditor.

Signed on behalf of the Board of Directors.

Tim Scholefield
Chairman 21 August 2020

THIRTY LARGEST INVESTMENTS AT 30 JUNE 2020

ISSUER/ISSUE	RATING[1]	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Lloyds Banking Group		Financials	UK		
7.875% Perpetual	Baa3/BB–/BBB			4,561	
7.5% FRN 31 Dec 2065	Baa3/BB–/BBB			840	
3.5% FRN 01 Apr 2026 (SNR)	A3/BBB+/A			449	
7.625% FRN Perpetual	Baa3/BB–/BBB			204	
				6,054	3.1
Aviva		Financials	UK		
6.125% Perpetual	A3/BBB+/BBB			3,877	
8.875% Preference	NR/NR/NR			1,575	
				5,452	2.8
Vodafone Group		Telecommunications	UK		
6.25% 03 Oct 2078	Ba1/BB+/BB			1,730	
4.875% 03 Oct 2078	Ba1/BB+/BB			1,350	
7% FRN 04 Apr 2079	Ba1/BB+/BB			910	
1.5% Cnv 12 Mar 2022	NR/NR/NR			308	
				4,298	2.2
Teva Pharmaceutical Finance		Health Care	Netherlands		
6.75% 01 Mar 2028 (SNR)	Ba2/BB/BB			2,100	
7.125% 31 Jan 2025 (SNR)	Ba2/BB/BB			1,564	
6% 31 Jan 2025 (SNR)	Ba2/BB/BB			585	
				4,249	2.2
Altice		Telecommunications	France/ Luxembourg		
SFR 7.375% 01 May 2026	B2/B/B			3,523	
7.5% 15 May 2026	B2/B/B			534	
				4,057	2.1
Volkswagen Financial Services		Consumer Goods	Netherlands		
4.25% 09 Oct 2025 (SNR)	A3/BBB+/BBB			1,551	
3.875% FRN Perpetual	Baa2/NR/BBB			1,337	
3.5% FRN Perpetual	Baa2/NR/BBB			1,166	
				4,054	2.1
Barclays		Financials	UK		
9.25% Perpetual	Ba1/BB+/BB			1,075	
3.375% FRN 02 Apr 2025 (SNR)	Baa2/BBB/BBB			1,003	
8% FRN Perpetual	Ba2/B+/BB			843	
7.875% FRN Perpetual	Ba2/B+/BB			502	
6.375% FRN Perpetual	Ba2/B+/BB			371	
2.75% FRN Perpetual	Ba1/BB+/BB			136	
				3,930	2.0
Telecom Italia		Telecommunications	Luxembourg/ Italy		
7.721% 04 Jun 2038	Ba1/BB+/BB			2,031	
5.303% 30 May 2024	Ba1/BB+/BB			1,694	
				3,725	1.9
Royal Bank of Scotland		Financials	UK		
8.625% FRN Perpetual	Ba2u/B+/BB			1,621	
7.64% FRN Perpetual	Ba2/BB–/BB			1,472	
8% Cnv FRN Perpetual	Ba2u/B+/BB			621	
				3,714	1.9
Ziggo Bond Finance		Telecommunications	Netherlands		
6% 15 Jan 2027 (SNR)	B3/B–/B			2,450	
4.875% 15 Jan 2030 (SNR)	B1/B+/B			530	
3.375% 28 Feb 2030 (SNR)	B3/B–/B			513	
				3,493	1.8
Enel		Utilities	Italy		
7.75% 10 Sep 2075	Ba1/BBB–/BBB			2,621	
6.625% 15 Sep 2076	Ba1/BBB–/BBB			791	
				3,412	1.8
Virgin Money		Financials	UK		
8.75% FRN Perpetual	Ba2/B/BB			2,542	
2.875% FRN Perpetual	Baa3/BBB–/BBB			620	
				3,162	1.6
Arqiva Broadcast Finance		Telecommunications	UK		
6.75% 30 Sep 2023	B1/NR/B			2,896	1.5
DKT Finance		Financials	Denmark		
9.375% 17 Jun 2023 (SNR)	Caa1/CCC+ /CCC			1,713	
7% 17 Jun 2023 (SNR)	Caa1/CCC+ /CCC			1,139	
				2,852	1.5
IHO Verwaltungs		Consumer Goods	Germany		
6% 15 May 2027 (SNR)	Ba2/BB+/BB			1,287	
3.875% 15 May 2027 (SNR)	Ba2/BB+/BB			997	
3.625% 15 May 2025 (SNR)	Ba2/BB+/BB			542	
				2,826	1.5
Banco Santander		Financials	Spain		
6.25% FRN Perpetual	Ba1/NR/BB			2,603	
4.375% FRN Perpetual	Ba1/NR/BB			164	
				2,767	1.4
Codere Finance		Consumer Services	Luxembourg		
6.75% 01 Nov 2021 (SNR)	Caa3/CCC– /CCC			1,427	
7.625% 01 Nov 2021 (SNR)	Caa3/CCC– /CCC			1,319	
				2,746	1.4
Dell Technologies		Technology	USA		
6.1% 15 Jul 2027 (SNR)	Baa3/BBB–/BBB			1,864	
6.2% 15 Jul 2030 (SNR)	Baa3/BBB–/BBB			824	
				2,688	1.4
Premier Foods Finance		Consumer Goods	UK		
6.25% 15 Oct 2023	B2/B/B			2,200	
FRN 15 Jul 2022 (SNR)	B2/B/B			483	
				2,683	1.4
Aker BP		Oil & Gas	Norway		
5.875% 31 Mar 2025 (SNR)	Ba1/BBB–/BB			2,058	
6% 01 Jul 2022 (SNR)	Ba1/BBB–/BB			508	
				2,566	1.3
Panther BF Aggregator		Basic Materials	USA		
8.5% 15 May 2027 (SNR)	Caa1/CCC+ /CCC			2,550	1.3
Sainsbury's		Consumer Services	UK		
6.5% FRN Perpetual	NR/NR/NR			1,610	
6% FRN 23 Nov 2027	NR/NR/NR			807	
				2,417	1.3
Matalan Finance		Consumer Goods	UK		
6.75% 31 Jan 2023 (SNR)	B3/CCC– /CCC			1,283	
9.5% 31 Jan 2024 (SNR)	Caa3/CC /CC			766	
16.5% 25 Jul 2022 (SNR)	NR/CCC+ /CCC			353	
				2,402	1.2
Balfour Beatty		Industrials	UK		
10.75p Cnv Preference	NR/NR/NR			2,362	1.2
Commerzbank		Financials	Germany		
6.125% FRN Perpetual	Ba2/BB-/BB			1,382	
8.125% 19 Sep 2023	Baa3/BB+/BB			545	
4% FRN 05 Dec 2030	Baa3/BB+/BB			365	
				2,292	1.2
Algeco Scotsman		Consumer Services	UK		
8% 15 Feb 2023 (SNR)	B2/B–/B			1,524	
10% 15 Aug 2023 (SNR)	Caa1/CCC /CCC			685	
				2,209	1.1
Co-Operative Bank		Financials	UK		
9.5% FRN 25 Apr 2029	NR/NR/NR			1,586	
5.125% 17 May 2024 (SNR)	NR/BB/BB			486	
				2,072	1.1
Eléctricité De France		Utilities	France		
6% Perpetual	Baa3/BB–/BBB			1,369	
5.875% Perpetual	Baa3/BB–/BBB			621	
				1,990	1.0
Drax Finco		Utilities	UK		
4.25% 01 May 2022 (SNR)	NR/BB+/BB			1,987	1.0
Deutsche Bank		Financials	Germany		
5.625% FRN 19 May 2031	Ba2/BB+/BB			1,139	
7.125% Perpetual	B1/B+/B			784	
				1,923	1.0
				93,828	48.3
Other investments				100,329	51.7
Total investments				**194,157**	**100.0**

[1] Moody's/Standard & Poor's (S&P)/Equivalent average rating.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	FOR THE SIX MONTHS TO 30 JUN 2020			FOR THE SIX MONTHS TO 30 JUN 2019		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
(Loss)/profit on investments held at fair value – note 1	—	(3,272)	(3,272)	—	10,697	10,697
Loss on derivative instruments – currency hedges	—	(5,980)	(5,980)	—	(11)	(11)
Exchange differences	—	(726)	(726)	—	(470)	(470)
Income – note 2	5,952	—	5,952	5,535	—	5,535
Investment management fee – note 3	(427)	(230)	(657)	(445)	(240)	(685)
Other expenses – note 3	(327)	(2)	(329)	(231)	—	(231)
(Loss)/profit before finance costs and taxation	5,198	(10,210)	(5,012)	4,859	9,976	14,835
Finance costs – note 3	(2)	(1)	(3)	(10)	(5)	(15)
(Loss)/profit before taxation	5,196	(10,211)	(5,015)	4,849	9,971	14,820
Taxation – note 4	(9)	—	(9)	(4)	—	(4)
(Loss)/profit after taxation	5,187	(10,211)	(5,024)	4,845	9,971	14,816
Return per ordinary share	5.12p	(10.08)p	(4.96)p	4.97p	10.22p	15.19p
Weighted average number of ordinary shares in issue			101,364,693			97,509,360

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 (loss)/profit after taxation is the total comprehensive income. 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 period.

CONDENSED STATEMENT OF CHANGES IN EQUITY

	STATED CAPITAL £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
FOR THE SIX MONTHS ENDED 30 JUN 2020				
At 31 December 2019	164,013	24,290	3,883	192,186
Total comprehensive loss for the period	—	(10,211)	5,187	(5,024)
Dividends paid – note 5	(49)	—	(5,005)	(5,054)
Net proceeds from issue of new shares – note 6	3,271	—	—	3,271
At 30 June 2020	**167,235**	**14,079**	**4,065**	**185,379**
FOR THE SIX MONTHS ENDED 30 JUN 2019				
At 31 December 2018	158,428	11,222	3,839	173,489
Total comprehensive income for the period	—	9,971	4,845	14,816
Dividends paid – note 5	(10)	—	(4,858)	(4,868)
Net proceeds from issue of new shares – note 6	1,187	—	—	1,187
At 30 June 2019	**159,605**	**21,193**	**3,826**	**184,624**

CONDENSED BALANCE SHEET

Registered in Jersey No. 109714

	AT 30 JUN 2020 £'000	AT 31 DEC 2019 £'000
Non-current assets		
Investments held at fair value through profit or loss	194,157	179,728
Current assets		
Amounts due from brokers	2,974	—
Proceeds due from issue of new shares	—	195
Prepayments and accrued income	3,513	3,090
Derivative financial instruments – unrealised net profit	—	1,309
Cash and cash equivalents	2,528	8,321
	9,015	12,915
Current liabilities		
Amounts due to brokers	(3,198)	—
Accruals	(421)	(457)
Derivative financial instruments – unrealised net loss	(972)	—
Securities sold under agreements to repurchase	(13,202)	—
	(17,793)	(457)
Net current (liabilities)/assets	(8,778)	12,458
Net assets	185,379	192,186
Capital and reserves		
Stated capital	167,235	164,013
Capital reserve	14,079	24,290
Revenue reserve	4,065	3,883
Shareholders' funds	185,379	192,186
Net asset value per ordinary share	182.21p	192.11p
Number of shares in issue at the period end – note 6	101,741,204	100,041,204

CONDENSED STATEMENT OF CASH FLOWS

	SIX MONTHS TO 30 JUN 2020 £'000	SIX MONTHS TO 30 JUN 2019 £'000
Cash flow from operating activities		
(Loss)/profit before finance costs and taxation	(5,012)	14,835
Tax on overseas income	(9)	(4)
Adjustment for:		
Purchases of investments	(60,978)	(25,383)
Sales of investments	43,501	28,067
	(17,477)	2,684
Increase from securities sold under agreements to repurchase	13,202	—
Loss/(profit) on investments held at fair value	3,272	(10,697)
Net movement from derivative instruments – currency hedges	2,281	(850)
Increase in receivables	(423)	(135)
(Decrease)/increase in payables	(36)	11
Net cash (outflow)/inflow from operating activities	(4,202)	5,844
Cash flow from financing activities		
Finance cost paid	(3)	(20)
Net proceeds from issue of new shares	3,466	995
Dividends paid - note 5	(5,054)	(4,868)
Net cash outflow from financing activities	(1,591)	(3,893)
Net (decrease)/increase in cash and cash equivalents	(5,793)	1,951
Cash and cash equivalents at the start of the period	8,321	4,181
Cash and cash equivalents at the end of the period	2,528	6,132
Reconciliation of cash and cash equivalents to the Balance Sheet is as follows:		
Cash held at custodian	2,238	885
Invesco Liquidity Funds plc – Sterling (formerly Short Term Investment Companies (Global Series) plc)	290	5,247
Cash and cash equivalents	2,528	6,132
Cash flow from operating activities includes:		
Dividends received	**269**	**211**
Interest received	**5,250**	**5,142**
Reconciliation of net debt:		
Opening net debt	—	—
Increase from securities sold under agreements to repurchase	13,202	—
Closing net debt	13,202	—

1. Basis of Preparation

The condensed financial statements have been prepared using the same accounting policies as those adopted in the Company's 2019 annual financial report. They have been prepared on an historical cost basis, in accordance with the applicable International Financial Reporting Standards (IFRS), as adopted by the European Union and, where possible, in accordance with the Statement of Recommended Practice for Financial Statements of Investment Trust Companies and Venture Capital Trusts, issued by the Association of Investment Companies in October 2019.

During the period the Company utilised credit default swaps (CDSs) for protection against credit risk within the investment portfolio. Within the Condensed Statement of Comprehensive Income the loss on disposal of the CDSs of £874,000 is included within '(Loss)/profit on investments held at fair value' and the premiums paid on CDSs are included within 'Other expenses'. The fair value at period end would be included in 'Investments held at fair value through profit or loss' within the Balance Sheet however, at the period end, no CDSs were held by the Company.

2. Income

	SIX MONTHS TO 30 JUN 2020 £'000	SIX MONTHS TO 30 JUN 2019 £'000
Investment income – interest:		
– UK	2,310	2,543
– Overseas	3,363	2,728
Dividends:		
– UK	224	224
– Overseas	53	34
Deposit interest	2	6
	5,952	5,535

3. Management Fee, Finance costs and Other expenses

Investment management fees and finance costs are allocated 35% to capital and 65% to revenue.

The management fee is payable quarterly in arrears and is equal to 0.1875% of the value of the Company's total assets under management less current liabilities at the end of each quarter.

In addition, the Manager is paid a fee based on an initial fee of £22,500 plus RPI increases per annum for administrative purposes.

Finance costs relate to interest payable on borrowings from securities sold under agreements to repurchase (repo) or bank overdrafts. For repos that have a negative interest rate, the interest is receivable and has been netted against repo interest payable within finance costs, as they relate to borrowing costs.

Included within Other expenses are costs of £109,000 (30 June 2019: nil) relating to premiums paid on CDSs.

4. Taxation

The Company is subject to Jersey income tax at the rate of 0% (2019: 0%). The overseas tax charge consists of irrecoverable withholding tax.

5. Dividends Paid

	SIX MONTHS TO 30 JUN 2020 PENCE	SIX MONTHS TO 30 JUN 2020 £'000	SIX MONTHS TO 30 JUN 2019 PENCE	SIX MONTHS TO 30 JUN 2019 £'000
Interim dividends in respect of previous period	2.5	2,513	2.5	2,427
First interim dividend	2.5	2,541	2.5	2,441
	5.0	5,054	5.0	4,868

Dividends paid in the period have been charged to revenue except for £49,000 which was charged to stated capital (six months to 30 June 2019: £10,000). This amount is equivalent to the income accrued on the new shares issued in the period (see note 6).

A second interim dividend of 2.5p (2019: 2.5p) has been declared and was paid on 19 August 2020 to ordinary shareholders on the register on 17 July 2020.

6. Stated Capital, including Movements

Allotted ordinary shares of no par value.

	SIX MONTHS TO 30 JUN 2020	YEAR TO 31 DEC 2019
Stated capital:		
Brought forward	£164,013,000	£158,428,000
Net issue proceeds	£3,271,000	£5,617,000
Dividend paid from stated capital	£(49,000)	£(32,000)
Carried forward	£167,235,000	£164,013,000
Number of ordinary shares:		
Brought forward	100,041,204	97,091,204
Issued in period/year	1,700,000	2,950,000
Carried forward	101,741,204	100,041,204
Per share:		
– average issue price	194.91p	191.90p

Nil shares issued since the period end.

7. Classification Under Fair Value Hierarchy

Note 19 of the Company's 2019 annual financial report sets out the basis of classification.

There were no Level 3 holdings at any period end, and the total (not shown) is therefore the aggregate of Level 1 and Level 2.

	AT 30 JUN 2020 LEVEL 1 £'000	AT 30 JUN 2020 LEVEL 2 £'000	AT 31 DEC 2019 LEVEL 1 £'000	AT 31 DEC 2019 LEVEL 2 £'000
Financial assets designated at fair value through profit or loss:				
– Fixed interest securities[1]	—	185,471	—	170,088
– Convertibles	—	2,136	—	2,447
– Preference	3,055	—	3,264	—
– Convertible Preference	2,362	—	2,458	—
– Equities	1,133	—	1,471	—
– Derivative financial instruments: Currency hedges	—	—	—	1,309
Total for financial assets	6,550	187,607	7,193	173,844
Financial liabilities designated at fair value through profit or loss:				
– Derivative financial instruments: Currency hedges	—	(972)	—	—
Total for financial liabilities	—	(972)	—	—

(1) Fixed interest securities include both fixed and floating rate securities.

8. Status of Half-yearly Financial Report

The financial information contained in this half-yearly report, which has not been audited by the Company's auditor, does not constitute statutory accounts as defined in Article 104 of Companies (Jersey) Law 1991. The financial information for the half year ended 30 June 2020 and the half year ended 30 June 2019 has not been audited. The figures and financial information for the year ended 31 December 2019 are extracted and abridged from the latest audited accounts and do not constitute the statutory accounts for that year.

By order of the Board
JTC Fund Solutions (Jersey) Limited
Company Secretary

21 August 2020

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 six months to 30 June 2020 and the year ended 31 December 2019. The APMs listed here are widely used in reporting within the investment company sector and consequently aid comparability.

(Discount)/Premium (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 half-yearly 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.

		30 JUN 2020	31 DEC 2019
Share price	a	176.75p	197.00p
Net asset value per share	b	182.21p	192.11p
(Discount)/premium	c = (a-b)/b	(3.0)%	2.5%

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 and is holding net cash as described below.

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.

		30 JUN 2020 £'000	31 DEC 2019 £'000
Securities sold under agreements to repurchase		13,202	—
Gross borrowings	a	13,202	—
Net asset value	b	185,379	192,186
Gross gearing	c = a/b	7.1%	nil

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.

		30 JUN 2020 £'000	31 DEC 2019 £'000
Securities sold under agreements to repurchase		13,202	—
Less: cash and cash equivalents		(2,528)	(8,321)
Net borrowings/(cash)	a	10,674	(8,321)
Net asset value	b	185,379	192,186
Net gearing/(net cash)	c = a/b	5.8%	(4.3)%

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).

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.

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.

SIX MONTHS ENDED 30 JUN 2020		NET ASSET VALUE	SHARE PRICE
As at 30 Jun 2020		182.21p	176.75p
As at 31 Dec 2019		192.11p	197.00p
Change in period	a	–5.2%	–10.3%
Impact of dividend reinvestments[(1)]	b	2.8%	2.5%
Total return for the period	c = a+b	–2.4%	–7.8%

YEAR ENDED 31 DEC 2019		NET ASSET VALUE	SHARE PRICE
As at 31 Dec 2019		192.11p	197.00p
As at 31 Dec 2018		178.69p	175.00p
Change in year	a	7.5%	12.6%
Impact of dividend reinvestments[(1)]	b	5.9%	6.1%
Total return for the year	c = a+b	+13.4%	+18.7%

[(1)] Total dividends paid during the period of 5.00p (30 June 2019: 5.00p; 31 December 2019: 10.00p) 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.

DIRECTORS, ADVISERS AND EXTERNAL SERVICE PROVIDERS

Directors
Tim Scholefield (Chairman)
Heather MacCallum (Audit Committee Chair)
Philip Austin (Management Engagement Committee Chairman)
John Boothman (Nomination and Remuneration Committee Chairman)
Stuart McMaster

Alternative Investment Fund Manager (Manager)
Invesco Fund Managers Limited
Perpetual Park, Perpetual Park Drive
Henley-on-Thames, Oxfordshire RG9 1HH
☎ 01491 417 000
www.invesco.co.uk/investmenttrusts

Manager's Website
Information relating to the Company can be found on the Manager's website, at www.invesco.co.uk/citymerchants.

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

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: Number 109714

General Data Protection Regulation
The Company's privacy notice can be found at:
www.invesco.co.uk/citymerchants

Corporate Broker
Winterflood Investment Trusts
The Atrium Building, Cannon Bridge
25 Dowgate Hill, London EC4R 2GA

Independent Auditor
PricewaterhouseCoopers CI LLP
37 Esplanade, St Helier, Jersey JE1 4XA

Depositary, Custodian & Banker
The Bank of New York Mellon (International) Limited
One Canada Square
London E14 5AL

Invesco Client Services
Invesco has a Client Services Team available from 8.30am to 6pm, Monday to Friday (excluding UK bank holidays). Please note that the Team cannot give investment advice.
☎ 0800 085 8677
www.invesco.co.uk/investmenttrusts

Registrar
Link Market Services (Jersey) Limited
12 Castle Street, St. Helier, Jersey JE2 3RT

If you hold your shares directly and have any queries you should contact the registrar on: ☎ 0371 664 0300

Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate.

Lines are open 9am to 5.30pm, Monday to Friday, excluding Public Holidays in England and Wales.

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

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.

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

Invesco

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.

Linkway 17202