# Invesco Perpetual Select Trust plc

**ANNUAL FINANCIAL REPORT**
**YEAR ENDED 31 MAY 2013**

If you have any queries about Invesco Perpetual Select Trust plc
or any of the other specialist funds managed by Invesco Perpetual,
please contact Investor Services on

☎ 0800 085 8677
www.invescoperpetual.co.uk/investmenttrusts

*Front Cover: Close up of Mica Crystals*

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The Company is a member of

aic
The Association of Investment Companies

Invesco Perpetual Select Trust plc (the 'Company') is an investment trust which is intended as a long-term investment vehicle for investors and has an indefinite life.

The Company provides shareholders with a choice of investment policies and objectives, each intended to generate attractive risk-adjusted returns from segregated portfolios.

The Company's share capital currently comprises the following four classes of Shares each of which has its own separate Portfolio of assets and liabilities:

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

## Investment Policy

The Company's Investment Policy, which includes the investment objectives, policies and risks and investment limits for the Company and the separate Portfolios is disclosed in full on pages 30 to 33. Within this report, the investment objective for each Portfolio is shown at the start of the applicable Portfolio Manager's Report.

## Share Class Conversion

The Company enables shareholders to alter their asset allocation to reflect their views of prevailing markets through the opportunity to convert between share classes every three months.

Shares are convertible at the option of holders into any other class of Share on or around 1 February, 1 May, 1 August and 1 November each year.

Notice from a shareholder to convert any class of Share on any conversion date will be accepted up to ten days prior to the relevant conversion date.

Forms for conversion are available on the web pages of all the share classes on the Manager's website: www.invescoperpetual.co.uk/investmenttrusts and from the Company Secretary.

Conversion from one class of Shares into another will be on the basis of a ratio derived from the prevailing underlying net asset value of each class of relevant Share, calculated shortly before the date of conversion.

The Directors have been advised that conversion of one class of Share into another will not be treated as a disposal for the purposes of UK Capital Gains Tax.

# FINANCIAL PERFORMANCE

CUMULATIVE TOTAL RETURNS TO 31 MAY 2013

## UK EQUITY PORTFOLIO

| | ONE YEAR | THREE YEARS | FIVE YEARS |
|---|---|---|---|
| Net Asset Value | 42.8% | 81.2% | 73.9% |
| Share Price | 63.5% | 101.3% | 92.7% |
| FTSE All-Share Index | 30.1% | 44.1% | 35.2% |

## GLOBAL EQUITY INCOME PORTFOLIO

The name and objective of this Portfolio were changed with effect from 30 November 2011.

| | SINCE 30 NOVEMBER 2011 | ONE YEAR | THREE YEARS | FIVE YEARS |
|---|---|---|---|---|
| Net Asset Value | 38.3% | 33.9% | 34.6% | 41.4% |
| Share Price | 50.9% | 40.4% | 39.5% | 46.0% |
| MSCI World Index (£) | 33.5% | 29.7% | 39.5% | 40.5% |

## BALANCED RISK PORTFOLIO

The name and objective of this Portfolio were changed with effect from 8 February 2012. The three and five year figures below are presented for consistency. However, the strategy followed prior to 8 February 2012 was substantially different to the strategy now in place.

| | SINCE 8 FEBRUARY 2012 | ONE YEAR | THREE YEARS | FIVE YEARS |
|---|---|---|---|---|
| Net Asset Value | 8.3% | 8.3% | –0.6% | –14.2% |
| Share Price | 22.0% | 20.7% | 3.7% | –10.8% |
| 3 month LIBOR +5% pa | 7.6% | 5.7% | 17.4% | 33.6% |

## MANAGED LIQUIDITY PORTFOLIO

| | ONE YEAR | THREE YEARS | FIVE YEARS |
|---|---|---|---|
| Net Asset Value | 0.5% | 2.2% | 7.7% |
| Share Price | 1.3% | 2.6% | 7.9% |

Source: Thomson Reuters Datastream.

# CHAIRMAN'S STATEMENT

## The Company

The Company's investment objective is to provide shareholders with a choice of investment strategies and policies, each intended to generate attractive risk-adjusted returns.

The Company's share capital comprises four share classes: UK Equity Shares, Global Equity Income Shares, Balanced Risk Shares and Managed Liquidity Shares, each of which has its own separate portfolio of assets and attributable liabilities.

The investment objectives and policies of all of the Portfolios are set out on pages 30 to 33.

The Company enables shareholders to alter their asset allocation to reflect their view of prevailing market conditions. As set out on page 1, shareholders have the opportunity every three months to convert between share classes free of capital gains tax.

## Performance

The year to 31 May 2013 saw a continuation of the equity bull market that started in March 2009 and has been sustained ever since, though with minor if occasionally dramatic pauses. As a result the performance of the Company's two equity-market based share classes was very satisfactory. The NAV total return of the UK Equity Portfolio over the year was +42.8%, which compares with a total return of +30.1% by the FTSE All-Share Index, and the NAV total return of the Global Equity Income Portfolio over the year was +33.9%, compared with an MSCI World Index (£) total return of +29.7%. Both represent a pleasing level of outperformance.

Over the second half of the Company's year the movement of equities was very strong but there was a major change in the market environment. As foreshadowed in the interim report, bond yields rose against a background of improved economic performance, especially in the US. The support that falling bond yields had provided for equities was therefore undermined leaving equities vulnerable to a setback at the Company's year end.

The more diversified Balanced Risk Portfolio returned +8.3% compared with a total return of +5.7% for its benchmark of 3 months LIBOR plus 5% per annum, which was a satisfactory performance given the weakness in the later part of the year in bonds and difficult commodity markets. The Managed Liquidity Portfolio continued to perform as expected in the continuing low interest environment, with a NAV total return of +0.5%.

The world economy improved over the year. The US in particular saw the development of a stronger picture, supported by an improved housing market, greater self sufficiency in energy and a stronger banking system. Elsewhere, the more apocalyptic forecasts for the Eurozone economy were pushed into the background, though emerging market growth was below expectations with particular concern about China's path toward consumption-led growth.

## Outlook

Since the year end market sentiment has become more volatile. Immediately after the year end there was a conjunction of overbought markets as measured by sentiment indicators, rising bond yields accompanied by statements from the Federal Reserve about the end of Quantitative Easing and unexpected political unrest especially in Brazil and Turkey, both key emerging markets. This all proved too much for markets to handle and the MSCI World Index (in sterling terms) retreated by 9.5% from its peak on 22 May to its low point on 24 June. At the same time other asset classes offered no safety. Commodities continued to be generally weak as Chinese investment demand slows down and bond yields rose spurred on by the Federal Reserve's statements.

It is difficult to strike a balance around these developments. The most straightforward is the overbought position in which markets found themselves. This unwound quite quickly and began to provide support for unnerved markets. Equity markets, particularly in developed economies, have subsequently recovered and indeed reached new highs in the US. Bond markets have stabilised and recovered some lost ground. The end of Quantitative Easing is much more problematic. The Federal Reserve has set out its conditions for this and clearly expects that they will be satisfied next year. However, the market reaction that has ensued may itself make this more difficult. What is clear, though, is that the significantly negative real yields seen at the peak of bond markets were extremely unusual in economic history and unlikely to be sustained for any long period. Equities are more comfortably placed provided that profitability is sustained at the unusually high levels of national income seen in the last few years. This doesn't appear to be under threat generally but has to be regarded as anomalous.

From our parochial point of view we can derive comfort from equity portfolios composed of strong companies with good dividend yields and significant free cash flows. The Balanced Risk Share class has just experienced very difficult markets with no help from its diversification. As the dust settles it is probable that the high correlation recently experienced will fade, leaving the inherent benefits of the investment approach more visible again.

It has been encouraging to see that the discounts on our Share classes have largely disappeared and that the Board's commitment to narrow discounts on all classes has been achieved without significant need for share buy backs. In addition, we have seen more use of the switching facility, which is now available on a quarterly basis, so shareholders are clearly finding this a useful feature of the Company's structure.

## Share Class Conversions

The Company enables shareholders to alter their asset allocation to reflect their views of prevailing market conditions. Shareholders have the opportunity to convert their holdings of Shares into any other class of Share, without incurring any tax charge (under current legislation). The remaining conversion dates for the forthcoming year are as follows: 1 November 2013; 3 February 2014; and 1 May 2014. Should you wish to convert shares at any of these dates, conversion forms, which are available on the web pages of all of the Share classes on the Manager's website at www.invescoperpetual.co.uk/investmenttrusts, or CREST instructions, must be received at least 10 days before the relevant conversion date.

## Dividend Policy

It is the Directors' policy to distribute substantially all net revenues earned for each Share class during the period between conversion dates. Accordingly, dividends on the UK Equity, Global Equity Income and Managed Liquidity Shares, which will vary from year to year depending on net portfolio income, are declared quarterly. In order to maximise the capital return on the Balanced Risk Shares, the Directors only intend to declare dividends on the Balanced Risk Shares to the extent required, having taken into account the dividends paid on the other Share classes, to maintain the Company's status as an investment trust.

## Discount Policy

On 31 January 2013 the Company announced that a strategic review by the Board had led it to believe that it would be best for shareholders if the Company were to adopt a zero tolerance discount control policy for all four Share classes whereby the Company will offer to issue or buy back shares of all classes with a view to maintaining the middle market price of the Shares at close to their respective net asset values. Although the level of share buy backs subsequent to adoption has been modest, the ongoing implementation of this policy is dependent upon the Company's authority to buy back Shares, and the Directors' authority to issue Shares on a non pre-emptive basis, being renewed at general meetings of the Company.

## Share Capital Movements

During the year to 31 May 2013, the Company purchased and placed in treasury 468,000 Balanced Risk Shares and 1,490,000 Managed Liquidity Shares. No Shares were cancelled from treasury in the financial year. Since the year end a further 200,000 Managed Liquidity Shares have been purchased and placed in treasury. No UK Equity Shares or Global Equity Income Shares were bought back in the year. The Board intends to use the Company's buy back authorities when this will benefit existing shareholders as a whole and to operate the zero tolerance discount control policy mentioned above, and will ask shareholders to renew the authorities as and when appropriate.

## Corporate Governance

The Board remains committed to maintaining high standards of Corporate Governance and is accountable to you as shareholders for the governance of the Company's affairs. The Directors believe that, during the year to 31 May 2013, they have complied with the provisions of the 2010 AIC Code of Corporate Governance, save in respect of matters discussed in the Corporate Governance section of the Report of the Directors, commencing on page 40. In the view of the Directors your Board has an appropriate balance of skills, experience, length of service and knowledge of the Company and they consider its size and composition to be effective in the Company's governance.

## Annual General Meeting (AGM)

The business of the AGM is summarised in the Report of the Directors on pages 48 and 49. The meeting will be held at 30 Finsbury Square, London, EC2A 1AG at 11.30am on 26 September 2013 and shareholders are cordially invited to attend. Refreshments will be provided. The Board recommends that shareholders vote in favour of all resolutions, as each of the Directors intend to do in respect of their own Shares.

**Patrick Gifford**
Chairman

31 July 2013

# UK EQUITY SHARE PORTFOLIO PERFORMANCE RECORD

## Total Return

For the year ended 31 May

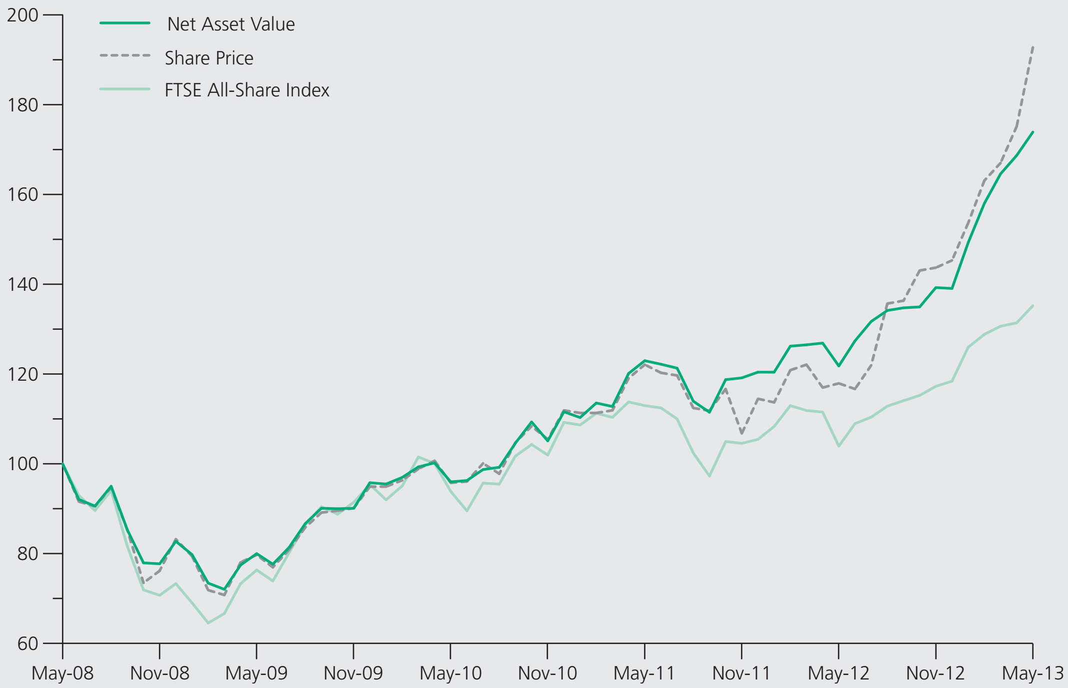
| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Net Asset Value | 42.8% | –1.0% | 28.1% | 20.0% | –20.0% |
| Share Price | 63.5% | –3.4% | 27.5% | 20.1% | –20.3% |
| FTSE All-Share Index | 30.1% | –8.0% | 20.4% | 22.9% | –23.7% |

| | | | | | |
|---|---|---|---|---|---|
| Revenue return per share | 5.50p | 4.20p | 4.10p | 3.70p | 3.30p |
| Dividend | 5.55p | 4.25p | 4.20p | 3.80p | 3.45p |

Source: Thomson Reuters Datastream.

## Five Year Total Return

Rebased to 100 at 31 May 2008



# UK EQUITY SHARE PORTFOLIO MANAGER'S REPORT

## Investment Objective

The investment objective of the UK Equity Portfolio is to provide shareholders with an attractive real long-term total return by investing primarily in UK quoted equities.

## Market and Economic Review

UK equities made almost uninterrupted progress over the year. The statement last July by Mario Draghi, President of the European Central Bank, that he would do 'whatever it takes' to save the euro marked a significant turning point for the market, as ever increasing amounts of monetary stimulus propelled both the FTSE 100 and FTSE All-Share indices to deliver positive returns for 12 straight months.

However, with further bail outs of Eurozone banking systems, continuing profit downgrades from companies and mixed news on the UK economy, the macroeconomic backdrop remained subdued overall. A modest recovery in the US economy was the main bright spot for the global economy, but led to growing questions as to when the monetary stimulus, at least in the US, might start to be wound down, although the absence of significant inflation pressures means that tapering may be a lengthy process.

## Portfolio Performance

On a total return basis, the Net Asset Value of the UK Equity share class rose by 42.8% during the 12 months to the end of May 2013, compared to a return of 30.1% by the FTSE All-Share Index.

## Portfolio Strategy and Review

Significant contributions to performance came from a broad spread of the portfolio's holdings. The largest individual positive impact came from the holding in Thomas Cook. The stock market has become persuaded of the scope for new management to turn around this previously ailing business, which retains a strong brand and market position, customer loyalty and pan European distribution. Towards the end of the period the company announced a capital restructuring and fund raising, which will afford it greater flexibility, and also confirmed that its cost reduction plan is ahead of schedule.

The portfolio remains heavily invested in the pharmaceutical sector. The holding in Roche again delivered exceptional returns, as the company confirmed its ability to lead the industry in terms of drug discovery and innovation. The holding in AstraZeneca, which had delivered a relatively disappointing performance the previous year, also contributed positively. The company appointed a new chief executive, Pascal Soriot, who outlined a strategy to return the company to growth which has been well received.

The holding in BT also performed strongly over the year. The business has continued to build on its strong market position in the UK broadband market through new content offerings and the continued roll-out of its super-fast fibre broadband infrastructure. The scope for further cost-savings has already been identified and should allow earnings and dividends to continue to grow in a consistent and sustainable manner for several years to come.

Shares in BAE Systems performed well over the period. Negotiations last year over a possible merger with EADS were terminated. The company confirmed the strength of its position as an independent entity with an improved level of operating cash flow and strengthened balance sheet, along with an increase in its dividend. Concerns also waned over the possible impact of US defence spending cuts.

The portfolio's performance also benefited, relative to the FTSE All-Share Index, by avoiding holding any shares in the mining sector. This is a sector which has performed well in previous market rallies, but has underperformed during this one as a combination of falling metal prices and rising production costs has led to sharp downgrades to profit forecasts across the sector.

There were relatively few detractors from performance. BG Group's shares fell sharply on the news last October that it had reduced production growth forecasts. Subsequently the holding in the company was sold. Vodafone reduced its forecasts for revenue growth on the back of on-going weakness in its core European markets. The company's ability to generate pricing power from data services is not assured, while the cash flow cover of the dividend has fallen to uncomfortably low levels. The holding in these shares has also been sold.

# UK EQUITY SHARE PORTFOLIO MANAGER'S REPORT

CONTINUED

Shares in Imperial Tobacco fell on confirmation of tough trading conditions in southern Europe and on concerns that the UK would follow Australia in introducing plain packaging for cigarettes. However, the company remains well positioned and plans to introduce plain packaging have since been postponed by the British government. Taking advantage of the earlier share price weakness, additional investment was made in the company.

In terms of portfolio activity, as outlined above the holdings in BG Group and Vodafone were disposed of, along with the investments in Filtrona, Pennon Group, Wm.Morrison, Regus and Tate & Lyle. New investments were made in Bunzl, Legal & General, London Stock Exchange and Sherborne Investors Guernsey.

## Outlook

The continued strong performance of the UK stock market has created a sense of optimism towards economic recovery and a growing belief in a multi-year equity bull market. However, this market rise has been notable for several important characteristics; namely, significant increases in monetary stimulus and liquidity, along with steadily declining profit expectations. The market's rise is not underpinned by fundamental corporate profit growth, the corollary being that the multiple of earnings which buyers have been prepared to pay has risen over the past year. Notwithstanding the recent sell off in the market, the current price to earnings multiple for the UK market is in line with the average of the past 40 years, signifying that the market is fairly valued.

The recent announcement regarding a scale back of the level of quantitative easing from the US central bank and increased strain becoming apparent in the Chinese financial system has increased the volatility in the stock market for the near future. Despite these new factors the portfolio manager remains positive on the attractions of equities over other asset classes. However, concerns remain about the strength and durability of the economic outlook and ability of companies to grow revenues consistently. The investment strategy therefore remains largely unchanged from the recent past. The strong preference is for companies that have proven ability to grow revenues, profits and free cash flow in this low growth world, coupled with management teams that are fully cognisant of the need to deliver sustainable long term dividend growth. It is this type of investment opportunity that forms the majority of the portfolio and will continue to offer the best combination to deliver good risk adjusted returns over the long term.

**Mark Barnett**
Portfolio Manager
Invesco Asset Management Limited

31 July 2013

# UK EQUITY SHARE PORTFOLIO LIST OF INVESTMENTS

AT 31 MAY 2013

*Ordinary shares listed in the UK unless stated otherwise*

| COMPANY | SECTOR† | MARKET VALUE £'000 | % OF PORTFOLIO |
|---|---|---|---|
| BT | Fixed Line Telecommunications | 3,665 | 6.0 |
| Reynolds American – *US common stock* | Tobacco | 3,141 | 5.2 |
| Imperial Tobacco | Tobacco | 2,946 | 4.9 |
| British American Tobacco | Tobacco | 2,937 | 4.8 |
| AstraZeneca | Pharmaceuticals & Biotechnology | 2,805 | 4.6 |
| Novartis – *Swiss common stock* | Pharmaceuticals & Biotechnology | 2,627 | 4.3 |
| Roche – *Swiss common stock* | Pharmaceuticals & Biotechnology | 2,507 | 4.1 |
| Thomas Cook | Travel & Leisure | 2,469 | 4.1 |
| GlaxoSmithKline | Pharmaceuticals & Biotechnology | 2,459 | 4.0 |
| BAE Systems | Aerospace & Defence | 2,440 | 4.0 |
| Reckitt Benckiser | Household Goods & Home Construction | 1,825 | 3.0 |
| Hiscox | Non-life Insurance | 1,549 | 2.6 |
| Babcock International | Support Services | 1,410 | 2.4 |
| Beazley | Non-life Insurance | 1,376 | 2.3 |
| TalkTalk Telecom | Fixed Line Telecommunications | 1,358 | 2.2 |
| Drax | Electricity | 1,336 | 2.2 |
| Capita | Support Services | 1,335 | 2.2 |
| Provident Financial | Financial Services | 1,305 | 2.1 |
| Carnival | Travel & Leisure | 1,256 | 2.1 |
| Ladbrokes | Travel & Leisure | 1,233 | 2.0 |
| Amlin | Non-life Insurance | 1,197 | 2.0 |
| Rentokil Initial | Support Services | 1,164 | 1.9 |
| Compass | Travel & Leisure | 1,147 | 1.9 |
| KCOM | Fixed Line Telecommunications | 1,137 | 1.9 |
| Legal & General | Life Insurance | 1,130 | 1.9 |
| Centrica | Gas, Water & Multiutilities | 1,064 | 1.8 |
| Reed Elsevier | Media | 1,004 | 1.7 |
| SSE | Electricity | 978 | 1.6 |
| BTG | Pharmaceuticals & Biotechnology | 939 | 1.5 |
| Serco | Support Services | 930 | 1.5 |
| Rolls-Royce | Aerospace & Defence | 865 | 1.4 |
| Brown (N) | General Retailers | 864 | 1.4 |
| Bunzl | Support Services | 845 | 1.4 |
| Lancashire | Non-life Insurance | 805 | 1.3 |
| Workspace | Real Estate Investment Trusts | 803 | 1.3 |
| A J Bell – *Unquoted* | Financial Services | 750 | 1.2 |
| HomeServe | Support Services | 629 | 1.0 |
| London Stock Exchange | Financial Services | 624 | 1.0 |
| Chemring | Aerospace & Defence | 367 | 0.6 |
| Vectura | Pharmaceuticals & Biotechnology | 366 | 0.6 |
| Doric Nimrod Air Two – *Preference Shares* | Investment Instruments | 356 | 0.6 |
| Sherborne Investors Guernsey B – *A Shares* | Financial Services | 306 | 0.5 |
| PuriCore | Health Care Equipment & Services | 233 | 0.4 |
| Barclays Bank – *Nuclear Power Notes 28 Feb 2019*(1) | Electricity | 119 | 0.3 |
| XCounter – *Unquoted Swedish common stock* | Health Care Equipment & Services | 72 | 0.1 |
| HaloSource I – AiM listed | Chemicals | 37 | 0.1 |
| Coalfield Resources | Mining | 19 | – |
| Rolls Royce – *C Shares* | Aerospace & Defence | 9 | – |
| Hibu | Media | 3 | – |
| | | 60,741 | 100.0 |

(1) Contingent Value Rights (CVRs) referred to as Nuclear Power Notes (NPNs) were offered by EDF as a partial alternative to cash in its bid for British Energy. The NPN's were issued by Barclays Bank.

† FTSE Industry Classification Benchmark.

# UK EQUITY SHARE PORTFOLIO TOP TEN INVESTMENTS

AT 31 MAY

*Ordinary shares listed in the UK unless stated otherwise*

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | MARKET VALUE £'000 | % OF PORTFOLIO | MARKET VALUE £'000 | % OF PORTFOLIO |
| BT | 3,665 | 6.0 | 2,585 | 5.6 |
| Reynolds American – *US common stock* | 3,141 | 5.2 | 2,660 | 5.7 |
| Imperial Tobacco | 2,946 | 4.9 | 2,498 | 5.4 |
| British American Tobacco | 2,937 | 4.8 | 2,479 | 5.3 |
| AstraZeneca | 2,805 | 4.6 | 1,764 | 3.8 |
| Novartis – *Swiss common stock* | 2,627 | 4.3 | 859 | 1.8 |
| Roche – *Swiss common stock* | 2,507 | 4.1 | 1,466 | 3.1 |
| Thomas Cook | 2,469 | 4.1 | 279 | 0.6 |
| GlaxoSmithKline | 2,459 | 4.0 | 2,031 | 4.4 |
| BAE Systems | 2,440 | 4.0 | 1,629 | 3.5 |
| | 27,996 | 46.0 | 18,250 | 39.2 |
| Total of other investments | 32,745 | 54.0 | 28,270 | 60.8 |
| **Total value of investments** | 60,741 | 100.0 | 46,520 | 100.0 |

The value as at 31 May 2012 of the top ten investments at the same date amounted to £21,286,000, representing 45.8% of the total value of investments.

# UK EQUITY SHARE PORTFOLIO INCOME STATEMENT

FOR THE YEAR ENDED 31 MAY

| | 2013 REVENUE £'000 | 2013 CAPITAL £'000 | 2013 TOTAL £'000 | 2012 REVENUE £'000 | 2012 CAPITAL £'000 | 2012 TOTAL £'000 |
|---|---|---|---|---|---|---|
| Gains/(losses) on investments | – | 14,542 | 14,542 | – | (1,471) | (1,471) |
| Foreign exchange gains | – | 4 | 4 | – | 4 | 4 |
| Income | 2,420 | – | 2,420 | 2,016 | 8 | 2,024 |
| Management fee | (104) | (242) | (346) | (90) | (210) | (300) |
| Performance fee | – | (431) | (431) | – | (388) | (388) |
| Other expenses | (152) | – | (152) | (184) | (2) | (186) |
| **Net return before finance costs and taxation** | 2,164 | 13,873 | 16,037 | 1,742 | (2,059) | (317) |
| Finance costs | (37) | (86) | (123) | (37) | (86) | (123) |
| **Return on ordinary activities before tax** | 2,127 | 13,787 | 15,914 | 1,705 | (2,145) | (440) |
| Tax on ordinary activities | (47) | – | (47) | (36) | – | (36) |
| **Return on ordinary activities after tax for the financial year** | 2,080 | 13,787 | 15,867 | 1,669 | (2,145) | (476) |
| **Basic return per ordinary share** – note 7 | 5.5p | 36.3p | 41.8p | 4.2p | (5.4p) | (1.2p) |

# SUMMARY OF NET ASSETS

AT 31 MAY

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Fixed assets | 60,741 | 46,520 |
| Current assets | 718 | 582 |
| Creditors falling due within one year, excluding borrowings | (1,630) | (1,077) |
| Bank loan | (7,700) | (7,100) |
| **Net assets** | 52,129 | 38,925 |
| **Net asset value per share** | 136.3p | 100.0p |
| Gearing: | | |
| – gross | 14.8% | 18.2% |
| – net | 14.6% | 17.8% |

# GLOBAL EQUITY INCOME SHARE PORTFOLIO PERFORMANCE RECORD

The name, objective and benchmark of this Portfolio were changed with effect from 30 November 2011.

## Total Return

For the year ended 31 May

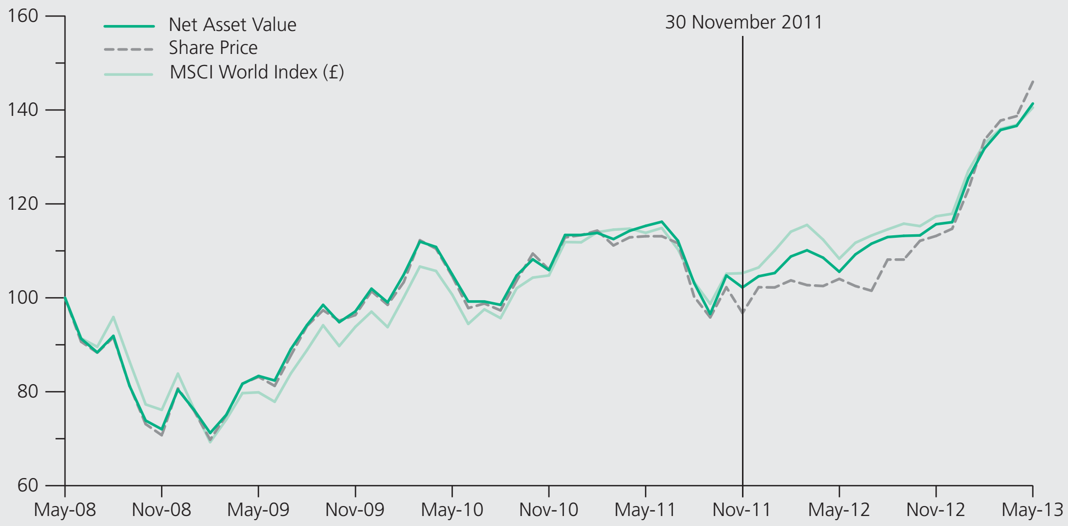
| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Net Asset Value | 33.9% | –8.6% | 9.8% | 26.0% | –16.6% |
| Share Price | 40.4% | –8.0% | 8.1% | 25.8% | –16.8% |
| MSCI World Index (£) | 29.7% | –4.8% | 13.0% | 26.1% | –20.1% |

| | | | | | |
|---|---|---|---|---|---|
| Revenue return per share | 3.30p | 2.70p | 2.00p | 1.50p | 2.10p |
| Dividend | 3.40p | 2.50p | 1.70p | 1.35p | 2.25p |

Source: Thomson Reuters Datastream.

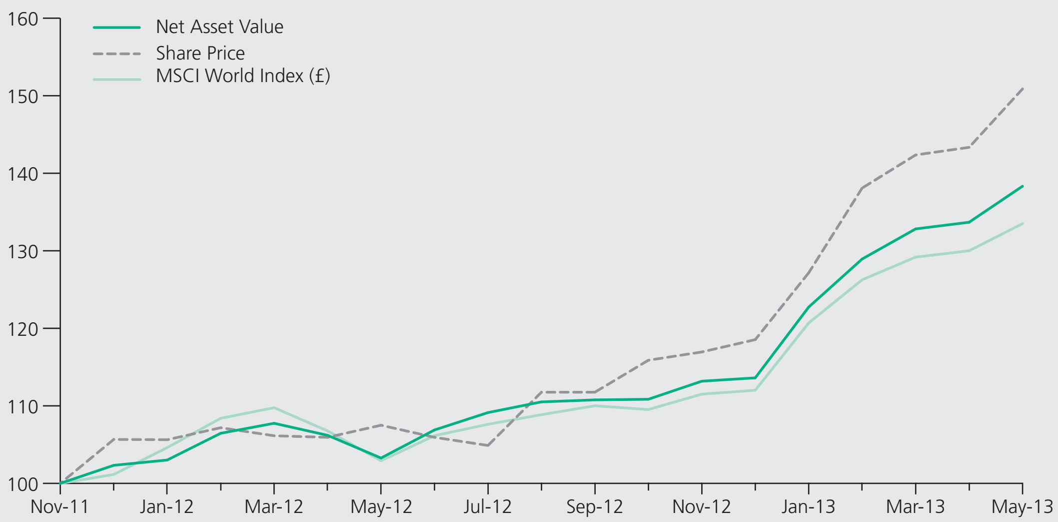
## Five Year Total Return

Rebased to 100 at 31 May 2008




## Total Return – since change of objective (30 November 2011)

Rebased to 100 at 30 November 2011



# GLOBAL EQUITY INCOME SHARE PORTFOLIO MANAGER'S REPORT

## Investment Objective

The investment objective of the Global Equity Income Portfolio is 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.

## Market and Economic Review

Global equity markets rallied over the Company's financial year as concerns about the Eurozone lifted and signs of recovery built in the US. However, volatility made a return in April and May 2013 amid concerns that global central banks were looking to scale back their support for financial markets. At a time when many investors were positioned too defensively, being heavily exposed to bonds, leading equity indices reached multi-year highs. The unprecedented level of liquidity pumped into the financial system by central banks has had unintended consequences for financial markets, the full extent of which is only beginning to be felt.

The market rally has been fuelled by central bank stimulus measures, such as quantitative easing (QE), along with low interest rates, that have been used to stimulate national economies. A significant recent example is Japan where 'Abenomics', the policy creed of new prime minister Shinzo Abe, centres on the implementation of QE on a scale approaching that of the Bank of England and the US Federal Reserve alongside structural reform. However Ben Bernanke, the Federal Reserve chairman, has indicated that the Fed will reduce or taper its current $85 billion of monthly asset purchases later this year and will stop QE altogether by the middle of next year, which has led to fluctuations in financial markets in recent weeks.

## Portfolio Performance

On a total return basis the net asset value of the Global Equity Income Share class increased by 33.9% over the 12 months to the end of May 2013, compared to a return of 29.7% by the MSCI World Index (£, net of withholding tax).

## Portfolio Strategy and Review

Global equity markets continued to rise over the course of the 12 months, building on the recovery which had started in the summer of 2012. Sector leadership, however, has continued to alter. In the early stages of the rally (the second half of 2012) cyclical sectors had led but in the first quarter of 2013 it was typically more defensive, stable growth sectors like pharmaceuticals and staples which propelled market performance. Markets had moved from a willingness to take on risk exposure to a more grudging wish to raise exposure to equities without taking on more perceived risk than necessary. The hunt for yield also pushed up asset prices. More recently, though, this trend has reversed. In April and May 2013 investor sentiment favoured a move towards cyclicals at the expense of defensives, some of which had started to look expensive.

Against this mixed backdrop, stock selection drove the portfolio's outperformance over the 12 months across most markets. For example, while the US market outperformed the broader index and our underweight exposure detracted from portfolio performance, this was more than offset by strong stock selection within the US (Time Warner Cable, Microsoft, JPMorgan, Kraft Foods).

The portfolio's overweight exposure to Europe also benefited from a perceived change in sentiment. The shift away from an 'austerity-first' approach to a greater focus on economic growth helped to underpin European equity markets further. French satellite firm SES and Swiss pharmaceuticals Roche and Novartis were among the strongest individual performers.

The portfolio's exposure to Japan was another positive for performance. Japan had struggled in the early part of the review period but towards the end of 2012 and into 2013, Japanese market strength had increased driven by new prime minister Shinzo Abe, who has been vocal in his desire to aggressively pursue policies aimed at kick-starting the economy.

In May 2013, the Bank of Japan announced that it would maintain its ambitious QE programme aimed at helping to achieve their 2015 target for 2% inflation, which drove markets further.

# GLOBAL EQUITY INCOME SHARE PORTFOLIO MANAGER'S REPORT

CONTINUED

In terms of sector exposure, performance was mixed across defensives and cyclicals given the shift in sector leadership. Over the 12 months consumer discretionary, financials and healthcare outperformed the broader index. The portfolio's overweight exposure to consumer discretionary and healthcare contributed to positive performance, while stock selection within financials (Mitsubishi Estate, Aon, HSBC) and healthcare (Johnson & Johnson, Baxter International) were also positive for performance.

The information technology sector was weak with names like Canon trading sideways. US tech firm Microsoft contributed positively, but perversely the biggest single contribution came from not owning Apple.

## Outlook

Our outlook remains one of slow and prolonged economic recovery against a backdrop of European sovereign debt concerns and fiscal austerity in the developed world. Our strategy remains constant, to invest in high quality companies at attractive valuations. We view high quality companies as those that can sustain profit margins and deliver positive returns through the economic cycle. We view growing and sustainable dividends as clear evidence of these sorts of companies. In aggregate therefore, we target companies that offer attractive yields, sustainable income and capital upside.

**Nick Mustoe**
Portfolio Manager
Invesco Asset Management Limited

31 July 2013

# GLOBAL EQUITY INCOME SHARE PORTFOLIO LIST OF INVESTMENTS

## AT 31 MAY 2013

*Ordinary shares unless stated otherwise*

| COMPANY | INDUSTRY GROUP† | COUNTRY† | MARKET VALUE £'000 | % OF PORTFOLIO |
|---|---|---|---|---|
| Novartis | Pharmaceuticals, Biotechnology and Life Sciences | Switzerland | 2,189 | 5.1 |
| Roche | Pharmaceuticals, Biotechnology and Life Sciences | Switzerland | 1,863 | 4.3 |
| Johnson & Johnson | Pharmaceuticals, Biotechnology and Life Sciences | US | 1,692 | 3.9 |
| Microsoft | Software and Services | US | 1,660 | 3.9 |
| BT | Telecommunication Services | UK | 1,459 | 3.4 |
| Reed Elsevier | Media | Netherlands | 1,392 | 3.2 |
| Amcor | Materials | Australia | 1,371 | 3.2 |
| British American Tobacco | Food Beverage and Tobacco | UK | 1,319 | 3.1 |
| United Technologies | Capital Goods | US | 1,288 | 3.0 |
| Philip Morris International | Food Beverage and Tobacco | US | 1,252 | 2.9 |
| Canon | Technology Hardware and Equipment | Japan | 1,225 | 2.9 |
| Pearson | Media | UK | 1,177 | 2.7 |
| HSBC | Banks | UK | 1,095 | 2.7 |
| PNC Financial Services | Banks | US | 989 | 2.3 |
| Chevron | Energy | US | 961 | 2.2 |
| Amgen | Pharmaceuticals, Biotechnology and Life Sciences | US | 940 | 2.2 |
| RTL | Media | Luxembourg | 918 | 2.1 |
| Nordea | Banks | Sweden | 906 | 2.1 |
| Robert Half International | Commercial and Professional Services | US | 873 | 2.0 |
| Exxon Mobil | Energy | US | 862 | 2.0 |
| UBS | Diversified Financials | Switzerland | 861 | 2.0 |
| Pfizer | Pharmaceuticals, Biotechnology and Life Sciences | US | 800 | 1.9 |
| Macy's | Retailing | US | 799 | 1.9 |
| Koninklijke Ahold | Food and Staples Retailing | Netherlands | 792 | 1.8 |
| Automatic Data Processing | Software and Services | US | 780 | 1.8 |
| Time Warner Cable | Media | US | 755 | 1.8 |
| Deutsche Boerse | Diversified Financials | Germany | 744 | 1.7 |
| United Parcel Service – *B Shares* | Transportation | US | 739 | 1.7 |
| Hutchison Whampoa | Capital Goods | Hong Kong | 707 | 1.7 |
| Kellogg | Food Beverage and Tobacco | US | 681 | 1.6 |
| Aon – *A Shares* | Insurance | US | 651 | 1.5 |
| Orkla | Food Beverage and Tobacco | Norway | 645 | 1.5 |
| Covidien | Health Care Equipment and Services | US | 645 | 1.5 |
| Safran | Capital Goods | France | 600 | 1.4 |
| GlaxoSmithKline | Pharmaceuticals, Biotechnology and Life Sciences | UK | 592 | 1.4 |
| Target | Retailing | US | 583 | 1.4 |
| ComfortDelGro | Transportation | Singapore | 559 | 1.3 |
| Honda Motor | Automobiles and Components | Japan | 551 | 1.3 |
| Lawson | Food and Staples Retailing | Japan | 540 | 1.3 |
| Kraft Foods | Food Beverage and Tobacco | US | 539 | 1.3 |
| Baxter International | Health Care Equipment and Services | US | 537 | 1.3 |
| Viacom – *B Shares Non-Voting* | Media | US | 534 | 1.2 |
| Indra Sistemas – *Series A* | Software and Services | Spain | 498 | 1.2 |
| Hoya | Technology Hardware and Equipment | Japan | 490 | 1.1 |
| Procter & Gamble | Household and Personal Products | US | 489 | 1.1 |
| Accenture – *A Shares* | Software and Services | US | 473 | 1.1 |
| Catlin | Insurance | UK | 431 | 1.0 |
| Yue Yuen Industrial | Consumer Durables and Apparel | Hong Kong | 410 | 1.0 |
| | | | 42,856 | 100.0 |

† MSCI and Standard & Poor's Global Industry Classification Standard.

# GLOBAL EQUITY INCOME SHARE PORTFOLIO TOP TEN INVESTMENTS

AT 31 MAY

| COMPANY | 2013 MARKET VALUE £'000 | 2013 % OF PORTFOLIO | 2012 MARKET VALUE £'000 | 2012 % OF PORTFOLIO |
|---|---|---|---|---|
| Novartis | 2,189 | 5.1 | 1,376 | 4.1 |
| Roche | 1,863 | 4.3 | 1,174 | 3.5 |
| Johnson & Johnson | 1,692 | 3.9 | 1,048 | 3.1 |
| Microsoft | 1,660 | 3.9 | 514 | 1.5 |
| BT | 1,459 | 3.4 | – | – |
| Reed Elsevier | 1,392 | 3.2 | – | – |
| Amcor | 1,371 | 3.2 | 1,064 | 3.2 |
| British American Tobacco | 1,319 | 3.1 | 322 | 1.0 |
| United Technologies | 1,288 | 3.0 | 749 | 2.2 |
| Philip Morris International | 1,252 | 2.9 | 1,039 | 3.1 |
| | 15,485 | 36.0 | 7,286 | 21.7 |
| Total of other investments | 27,371 | 64.0 | 26,447 | 78.3 |
| **Total value of investments** | 42,856 | 100.0 | 33,733 | 100.0 |

The value as at 31 May 2012 of the top ten investments at the same date amounted to £10,629,000, representing 31.5% of the total value of investments.

# GLOBAL EQUITY INCOME SHARE PORTFOLIO INCOME STATEMENT

FOR THE YEAR ENDED 31 MAY

| | 2013 REVENUE £'000 | 2013 CAPITAL £'000 | 2013 TOTAL £'000 | 2012 REVENUE £'000 | 2012 CAPITAL £'000 | 2012 TOTAL £'000 |
|---|---|---|---|---|---|---|
| Gains/(losses) on investments | – | 10,339 | 10,339 | – | (3,898) | (3,898) |
| Foreign exchange losses | – | (67) | (67) | – | (64) | (64) |
| Income | 1,331 | – | 1,331 | 1,190 | 3 | 1,193 |
| Management fee | (87) | (203) | (290) | (77) | (180) | (257) |
| Other expenses | (123) | (4) | (127) | (156) | (2) | (158) |
| **Return on ordinary activities before finance costs** | 1,121 | 10,065 | 11,186 | 957 | (4,141) | (3,184) |
| Finance costs | (1) | (1) | (2) | (1) | (3) | (4) |
| **Return on ordinary activities before taxation** | 1,120 | 10,064 | 11,184 | 956 | (4,144) | (3,188) |
| Tax on ordinary activities | (118) | – | (118) | (106) | – | (106) |
| **Return on ordinary activities after tax for the financial year** | 1,002 | 10,064 | 11,066 | 850 | (4,144) | (3,294) |
| **Basic return per ordinary share** – note 7 | 3.3p | 32.9p | 36.2p | 2.7p | (13.1p) | (10.4p) |

# SUMMARY OF NET ASSETS

AT 31 MAY

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Fixed assets | 42,856 | 33,733 |
| Current assets | 896 | 692 |
| Overdraft | – | (538) |
| Creditors falling due within one year, excluding borrowings | (121) | (107) |
| **Net assets** | 43,631 | 33,780 |
| **Net asset value per share** | 141.0p | 108.1p |
| Gearing: | | |
| – gross | – | 1.6% |
| – net | – | 0.1% |
| Net cash | 1.6% | nil |

# BALANCED RISK SHARE PORTFOLIO PERFORMANCE RECORD

The name and objective of this Portfolio were changed with effect from on 8 February 2012.

## Total Return

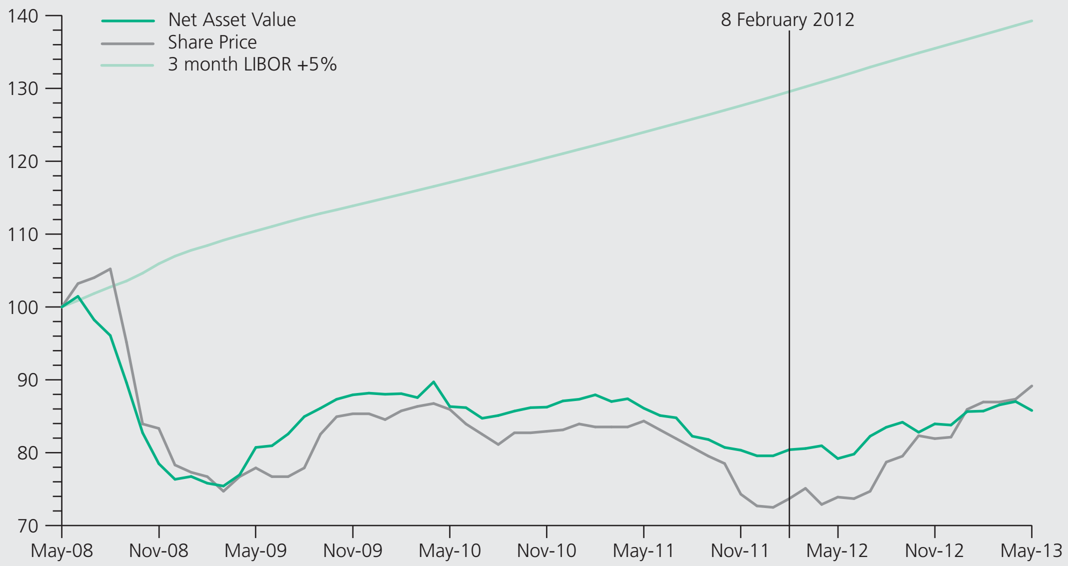
For the year ended 31 May

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Net Asset Value | 8.3% | –8.0% | –0.3% | 6.9% | –19.3% |
| Share Price | 20.7% | –12.4% | –1.9% | 10.3% | –22.1% |
| 3 month LIBOR +5% | 5.7% | 5.9% | 5.7% | 5.9% | 10.1% |

Source: Thomson Reuters Datastream.

## Five Year Total Return

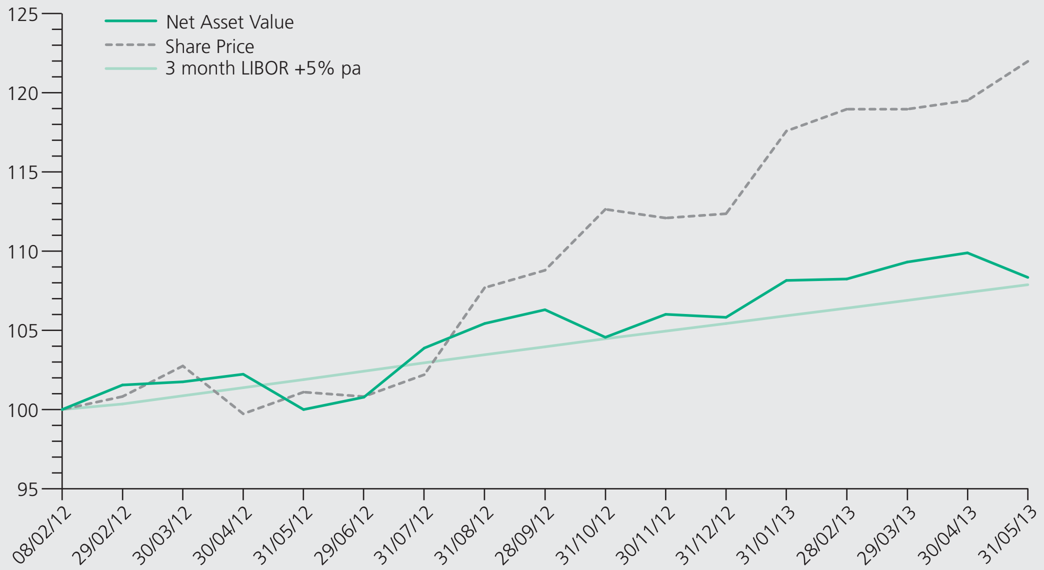
Rebased to 100 at 31 May 2008




## Total Return – 8 February 2012 to 31 May 2013

| | |
|---|---|
| Net Asset Value | 8.3% |
| Share Price | 22.0% |
| 3 month LIBOR +5% pa | 7.6% |

## Total Return – since change of objective (8 February 2012)



# BALANCED RISK SHARE PORTFOLIO MANAGER'S REPORT

## Investment Objective

The investment objective of the Balanced Risk Portfolio is 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.

## Market and Economic Review

Throughout the year global equity markets moved higher although not all markets benefited to the same degree. The increased appetite for risk moved bonds out of favour and volatility among the various commodity complexes produced mixed results.

Equity markets began the period rallying from lows at the start of June 2012 brought about by the on-going European crisis. This rally continued into the third quarter of 2012 as commodities, equities and government bonds all posted impressive returns. Risky assets, especially commodities, were able to stage a bounce back from depressed levels on expectations for additional monetary easing and hope that Europe would be able to make headway on its lingering economic issues. Bond yields spiked twice during the third quarter, but managed to settle down as markets fluctuated between concerns over inflation and continued weaknesses in Europe.

Markets rallied again towards the end of 2012, despite a host of political issues including elections in the US, China and Japan and continued concerns over European and Chinese economic growth. Commodity markets were weighed down by concerns over falling demand and an improvement in crop yields. Bond yields ultimately made their way higher as the market experienced both rallies and sell-offs that were fairly range bound.

The equity charge continued for the first five months of 2013, reinforced by improved sentiment coupled with central bank encouragement. However, 2013 was not absent volatility which provided opportunity for government bonds to post gains as investors coped with news regarding lower than expected US GDP figures and geopolitical risks. Commodities bucked the trend of past years by diverging from equities and posting losses, especially in the metals and energy complexes.

## Portfolio Performance

The Balanced Risk Portfolio posted a positive return for the year of +8.3%.

## Portfolio Strategy and Update

The Balanced Risk strategy seeks to achieve returns through balancing risk exposure between three asset classes, being equities, bonds and commodities. The asset class weightings are determined using a proprietary investment process, with assets being selected according to three key criteria: a correlation matrix to ensure diversification; the ability to generate excess returns; and specific liquidity and transparency criteria. Exposure to the asset classes is principally obtained through highly liquid and transparently priced exchange-traded futures contracts, with cash and cash equivalents being held as collateral.

For the year to 31 May 2013 exposure to global equities was by far the largest positive contributor to performance (+8.7%), with several of the key equity markets reaching highs. Bonds were down across the board (–1.0% contribution) with those from Australia and the UK showing the largest weakness. Commodities also detracted (–0.4%) though performance was mixed between complexes. Worries of slack demand resulting from manufacturing data hurt industrial metals prices, while various weather patterns over the period caused supply pinches ultimately resulting in higher energy prices. Concerns over drought and supply shocks strengthened agricultural prices while fears of inflation and a strengthening dollar tarnished precious metals. Tactical strategy in the portfolio contributed to results (+2.2%), as positive returns from an overweight to equities overcame the drag from positioning in commodities. Returns from tactical positioning within bonds were flat for the period and cash holdings contributed +0.6%.

# BALANCED RISK SHARE PORTFOLIO MANAGER'S REPORT

CONTINUED

## Outlook

While equities have continued to power ahead, certain economic indicators such as regional Fed indices and PMI manufacturing data may be signalling a slowdown in the US economy. Additionally, corporate profits as a percentage of GDP sit at record levels which indicate that further equity gains may have to come through an expansion of the P/E ratio as opposed to additional earnings growth. Disappointment on either of these fronts may serve to dampen the appeal of equities. Europe and China continue to post weak economic data as well which may have investors expecting additional measures, especially from Europe, in order to revitalise their economies. If Europe does not embark on additional stimulus programmes or rate cuts, and data continues to weaken in China, risk appetite would almost certainly be affected. With these seeds sown for possible disappointment, we believe maintaining exposure across assets that can diversify outcomes becomes vitally important. Tactical positioning since the year end continues to be overweight in all six equity markets, although those overweights have been reduced. Within bonds, we are underweight Australian government bonds, overweight German bunds and neutral across US Treasuries, UK Gilts, Japanese government bonds and Canadian government bonds. We have moved to an overweight to soybeans and soymeal while increasing the underweight to sugar within the agriculture & livestock complex. In energy we remain slightly overweight both WTI and Brent crude. Within metals, we have moved from underweight to overweight in copper and continue to maintain slight overweights to gold and silver (all references to overweights and underweights represent tactical active overlays relative to their respective strategic allocations as determined by our proprietary analysis process).

**Scott Wolle**
Chief Investment Officer
Invesco Global Strategies

31 July 2013

# BALANCED RISK SHARE PORTFOLIO LIST OF INVESTMENTS

AT 31 MAY 2013

| | YIELD % | MARKET VALUE £'000 | % OF NET ASSETS |
|---|---|---|---|
| Short-Term Investments | | | |
| Short-Term Investments Company (Global Series) | 0.393 | 3,300 | 32.9 |
| UK Treasury Bill 12 Aug 2013 | 0.296 | 2,997 | 29.9 |
| UK Treasury Bill 2 Sep 2013 | 0.231 | 2,598 | 25.9 |
| UK Treasury Bill 9 Sep 2013 | 0.036 | 364 | 3.6 |
| Total Short Term Investments | | 9,259 | 92.3 |
| Hedge Funds[1] | | | |
| Harbinger Class PE Holdings | | 32 | 0.3 |
| Plainfield 2009 Liquidating | | 5 | – |
| Harbinger Class L Holdings | | 4 | – |
| Total Hedge Funds | | 41 | 0.3 |
| **Total Fixed Asset Investments** | | 9,300 | 92.6 |

(1) The hedge fund investments are residual holdings of the previous investment strategy, which are in process of disposal and/or liquidation.

Derivative instruments held in the Balanced Risk Share Portfolio are shown on the following page. At the year end all the derivative instruments held in the Balanced Risk Share Portfolio were exchange traded futures contracts. Holdings in futures contracts that are not exchange traded are permitted as explained in the investment policy on page 32.

# BALANCED RISK SHARE PORTFOLIO
# LIST OF DERIVATIVE INSTRUMENTS

AT 31 MAY 2013

| | NOTIONAL EXPOSURE £'000 | NOTIONAL EXPOSURE AS % OF NET ASSETS |
|---|---|---|
| Government Bonds | | |
| UK | 1,853 | 18.5 |
| Germany | 1,475 | 14.7 |
| Australia | 1,470 | 14.7 |
| Canada | 1,465 | 14.6 |
| Japan | 1,024 | 10.2 |
| US | 830 | 8.3 |
| Total Bond Futures | 8,117 | 81.0 |
| Equities | | |
| Europe | 830 | 8.3 |
| US large cap | 817 | 8.2 |
| Japan | 814 | 8.1 |
| UK | 789 | 7.9 |
| US small cap | 654 | 6.5 |
| Hong Kong | 470 | 4.7 |
| Total Equity Futures | 4,374 | 43.7 |
| Commodities | | |
| Agriculture | | |
| Soy bean | 300 | 3.0 |
| Soy meal | 295 | 2.9 |
| Sugar | 250 | 2.5 |
| Live cattle | 32 | 0.4 |
| Precious Metals | | |
| Gold | 551 | 5.5 |
| Silver | 293 | 2.9 |
| Energy | | |
| WTI crude | 243 | 2.4 |
| Gasoline | 231 | 2.3 |
| Brent crude | 199 | 2.0 |
| Gas oil | 111 | 1.1 |
| Industrial Metals | | |
| Copper | 481 | 4.8 |
| Aluminium | 126 | 1.3 |
| Total Commodities Futures | 3,112 | 31.1 |
| **Total Derivative Instruments** | 15,603 | 155.8 |

The targeted annualised risk (volatility of monthly returns) for the portfolio as listed above is analysed as follows:

| ASSET CLASS | RISK | CONTRIBUTION |
|---|---|---|
| Bonds | 2.0% | 21.2% |
| Equities | 4.4% | 47.1% |
| Commodities | 3.0% | 31.7% |
| | 9.4% | 100.0% |

# BALANCED RISK SHARE PORTFOLIO INCOME STATEMENT

FOR THE YEAR ENDED 31 MAY

| | 2013 REVENUE £'000 | 2013 CAPITAL £'000 | 2013 TOTAL £'000 | 2012 REVENUE £'000 | 2012 CAPITAL £'000 | 2012 TOTAL £'000 |
|---|---|---|---|---|---|---|
| Losses on investments | – | (15) | (15) | – | (906) | (906) |
| Gains/(losses) on derivative instruments | 83 | 946 | 1,029 | 55 | (66) | (11) |
| Foreign exchange (losses)/gains | – | (5) | (5) | – | 14 | 14 |
| Income | 33 | – | 33 | 13 | – | 13 |
| Management fee | (24) | (54) | (78) | (7) | (36) | (43) |
| Other expenses | (50) | – | (50) | (55) | – | (55) |
| **Return on ordinary activities before finance costs** | 42 | 872 | 914 | 6 | (994) | (988) |
| Finance costs | – | – | – | – | (11) | (11) |
| **Return on ordinary activities before taxation** | 42 | 872 | 914 | 6 | (1,005) | (999) |
| Tax on ordinary activities | – | – | – | – | – | – |
| **Return on ordinary activities after tax for the financial year** | 42 | 872 | 914 | 6 | (1,005) | (999) |
| **Basic return per ordinary share** – note 7 | 0.4p | 8.8p | 9.2p | 0.1p | (9.5p) | (9.4p) |

# SUMMARY OF NET ASSETS

AT 31 MAY

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Fixed assets | 9,300 | 9,617 |
| Derivative assets held at fair value through profit or loss | 366 | 374 |
| Current assets | 571 | 1,351 |
| Derivative liabilities held at fair value through profit or loss | (191) | (658) |
| Creditors – amounts falling due within one year, excluding borrowings | (29) | (45) |
| **Net assets** | 10,017 | 10,639 |
| **Net asset value per share** | 112.2p | 103.1p |
| **Exposure** | 155.8% | 169.8% |

# MANAGED LIQUIDITY SHARE PORTFOLIO PERFORMANCE RECORD

## Total Return

For the year ended 31 May

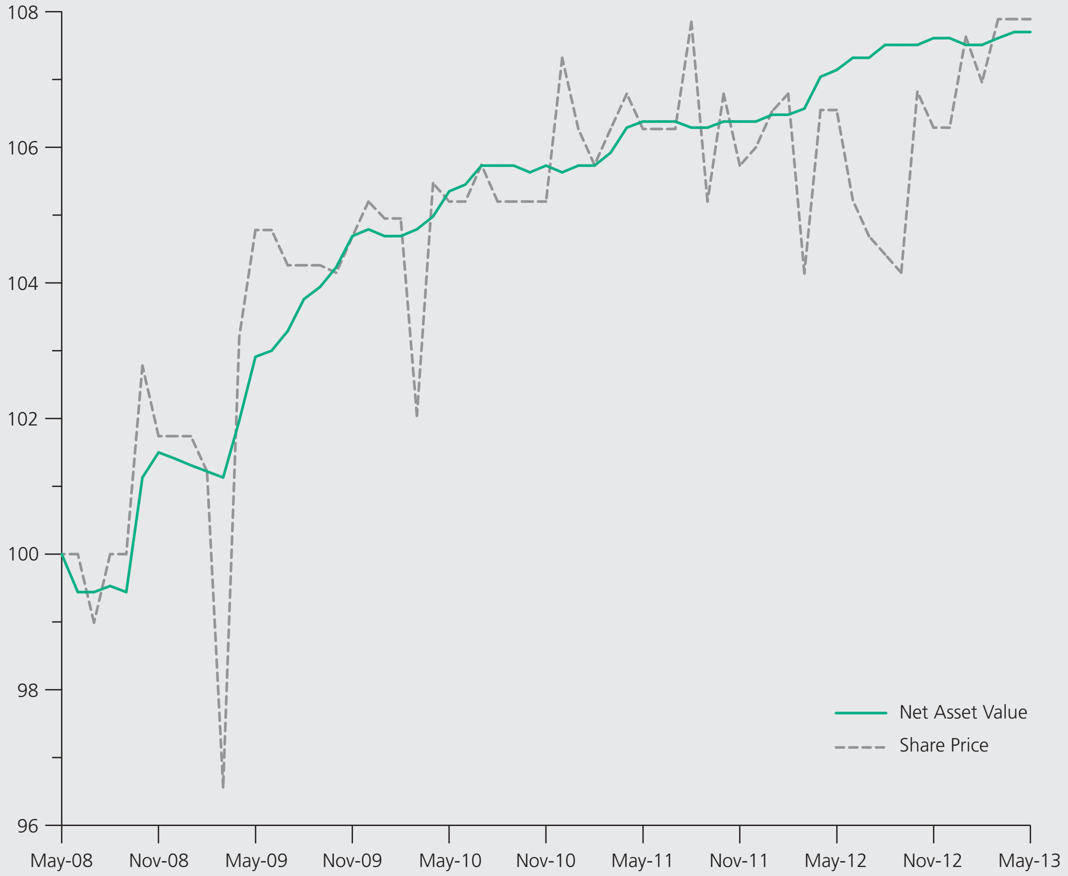
| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Net Asset Value | 0.5% | 0.8% | 1.0% | 2.4% | 2.9% |
| Share Price | 1.3% | 0.3% | 1.0% | 0.4% | 4.8% |

| | | | | | |
|---|---|---|---|---|---|
| Revenue return per share | 0.1p | 0.3p | 0.5p | 0.3p | 3.6p |
| Dividend | nil | 0.5p | 0.5p | 0.4p | 4.1p |

Source: Thomson Reuters Datastream.

## Five Year Total Return

Rebased to 100 at 31 May 2008



# MANAGED LIQUIDITY SHARE PORTFOLIO MANAGER'S REPORT

## Investment Objective

The investment objective of the Managed Liquidity Share Portfolio is to produce an appropriate level of income return combined with a high degree of security.

## Market and Economic Review

The UK economic recovery remains weak by historical standards. Domestic demand increased slightly over the 12 months but this was largely offset by a pronounced fall in exports. GDP increased by 0.3% in the first quarter of 2013 (+0.6% year on year) and is expected to strengthen a little over the course of 2013. Demand is being depressed by weak labour market conditions. Unemployment remained high, at 7.8% in May 2013, and earnings growth weak, at just 1.0% in May, well below the rate of inflation.

UK inflation (annual change in the Consumer Price Index) fell from 2.8% in May 2012 to 2.4% in May 2013, still above the 2% target of the Bank of England. The bank's Monetary Policy Committee (MPC) maintained the bank's interest rate at a record low of 0.5% throughout the period, judging that this balanced the need to meet the inflation target in the medium term with providing continuing near-term support to the economy. The committee agreed in July 2012 to extend the bank's asset purchasing programme by £50 billion to a total of £375 billion.

Gilt yields rose over the 12 months under review, from low levels reached in May 2012, with investor sentiment on lower credit quality assets including corporate bonds improving. However, they remained low by historical standards. The yield on the ten year Gilt closed May at 2.00%, up 43 basis points (bps) from its level at the end of May 2012. The two year Gilt yield rose slightly over the year, up 14 bps at 0.37%. This equated to a price fall of approximately 2.4%.

In interbank lending markets, over the last 12 months to the end of May, sterling three-month LIBOR, the interest rate at which the largest banks lend money to one another, fell by 49bps to close on 0.51%.

## Portfolio Strategy and Review

Our investment strategy is achieved by investing in the Invesco Perpetual Money Fund and Short-Term Investments Company (Global Series), each of which invests in a diversified portfolio of high quality sterling denominated short-term money market instruments. As last year, the Invesco Perpetual Money Fund has maintained holdings in floating-rate notes (FRNs) where yields are reset every three months to reflect changes in LIBOR. As we continue to believe that UK interest rates will remain near their current low levels for a considerable time – because we think any policy adjustments will be gradual and drawn out – the fund also has positions in a number of government, quasi-government and corporate bonds. These have higher interest coupons than those currently available on FRNs. In order to limit risk exposure, these bonds are both short dated and of high quality.

## Outlook

The MPC continues to look through any shorter term inflation to the underlying weakness of the economy. We expect that ongoing deleveraging and negative real earnings growth will exert downward pressure on prices and so we do not expect domestically generated inflation to rise significantly from here. Nor do we expect interest rates to rise quickly from the current record low levels.

**Stuart Edwards**
Portfolio Manager
Invesco Asset Management Limited

31 July 2013

# MANAGED LIQUIDITY SHARE PORTFOLIO LIST OF INVESTMENTS

AS AT 31 MAY

| | 2013 MARKET VALUE £'000 | 2013 % OF PORTFOLIO | 2012 MARKET VALUE £'000 | 2012 % OF PORTFOLIO |
|---|---|---|---|---|
| Invesco Perpetual Money Fund† | 7,600 | 84.5 | 7,566 | 86.6 |
| Short-Term Investments Company (Global Series) | 1,396 | 15.5 | 1,166 | 13.4 |
| | 8,996 | 100.0 | 8,732 | 100.0 |

† At the year end the Managed Liquidity Share Portfolio held 12.8% (2012: 11.9%) of the outstanding shares in the Invesco Perpetual Money Fund.

# MANAGED LIQUIDITY SHARE PORTFOLIO INCOME STATEMENT

FOR THE YEAR ENDED 31 MAY

| | 2013 REVENUE £'000 | 2013 CAPITAL £'000 | 2013 TOTAL £'000 | 2012 REVENUE £'000 | 2012 CAPITAL £'000 | 2012 TOTAL £'000 |
|---|---|---|---|---|---|---|
| Gains/(losses) on investments | – | 3 | 3 | – | (8) | (8) |
| Income | 44 | – | 44 | 60 | – | 60 |
| Management fee | (4) | – | (4) | (1) | – | (1) |
| Other expenses | (31) | – | (31) | (32) | – | (32) |
| **Return on ordinary activities before taxation** | 9 | 3 | 12 | 27 | (8) | 19 |
| Tax on ordinary activities | – | – | – | – | – | – |
| **Return on ordinary activities after tax for the financial year** | 9 | 3 | 12 | 27 | (8) | 19 |
| **Basic return per ordinary share** – note 7 | 0.1p | – | 0.1p | 0.3p | (0.1p) | 0.2p |

# SUMMARY OF NET ASSETS

AT 31 MAY

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Fixed assets | 8,996 | 8,732 |
| Current assets | 81 | 81 |
| Creditors – amounts falling due within one year, excluding borrowings | (165) | (161) |
| **Net assets** | 8,912 | 8,652 |
| **Net asset value per share** | 103.1p | 102.5p |

# DIRECTORS



## Patrick Gifford

*Chairman of the Board and Nomination Committee*
Mr Gifford has served as a Director since the Company's incorporation in August 2006. He is chairman of Martin Currie Pacific Trust plc and Murray Income Trust plc. He is also chairman of the supervisory committee of Scottish Life's with-profits fund and an adviser to a pension fund. He was previously the chief executive of Fleming Investment Trust Management and a director of Robert Fleming Holdings.

## Sir Michael Bunbury

*Chairman of the Audit and Management Engagement Committees*
Sir Michael was appointed as a Director on 10 January 2008. A former chairman of Smith & Williamson, he is now a consultant to the firm. He is chairman of JPMorgan Claverhouse Investment Trust plc, BH Global Ltd and HarbourVest Global Private Equity Ltd and a former director of Foreign & Colonial Investment Trust plc. He has other directorships of various property investment and development companies.

## Alan Clifton

Mr Clifton was appointed as a Director on 10 January 2008. He is a former managing partner of the stockbrokers, Kitcat & Aitken, and from 1990 until 2001 was the managing director of Morley Fund Management (now Aviva Investors), the asset management arm of Aviva plc, the UK's largest insurance group. He is now chairman of Schroder UK Growth Fund plc, JPMorgan Japanese Smaller Companies Trust plc and International Biotechnology Trust plc and is an independent director of a number of other investment companies both in the UK and abroad.

## David Rosier

Mr Rosier was appointed as a Director on 28 November 2007. Following his retirement from Merrill Lynch Investment Managers (previously Mercury Asset Management) in 2002, he was a founder partner of Thurleigh Investment Managers LLP of which he is chairman. He is also chairman of the Armed Forces Common Investment Fund, a commissioner and chairman of the investment committee of The Royal Hospital Chelsea and a trustee of the Nuffield Trust for the Forces of the Crown, The Battle of Britain Memorial Trust and 1st The Queen's Dragoon Guards Heritage Trust. He is a Fellow of the Chartered Institute of Securities & Investment.

All Directors are, in the opinion of the Board, independent of the management company and all Directors are members of the Audit, Management Engagement and Nomination Committees.

All Directors are non-executive.

## Manager, Company Secretary and Registered Office

Invesco Asset Management Limited
30 Finsbury Square
London EC2A 1AG
☎ 020 7065 4000
Company Secretarial Contact:
Paul Griggs

## Company Registration

Registered in England and Wales No. 5916642

## Invesco Perpetual Investor Services

Invesco Perpetual has an Investor Services Team, available to assist you from 8.30am to 6pm Monday to Friday (excluding Bank Holidays). Please feel free to take advantage of their expertise.
☎ 0800 085 8677
www.invescoperpetual.co.uk/investmenttrusts

## Custodian

The Bank of New York Mellon
160 Queen Victoria Street
London EC4V 4LA

## Auditor

Ernst & Young LLP
1 More London Place
London SE1 2AF

## Corporate Broker

Canaccord Genuity Limited
88 Wood Street
London EC2V 7QR

## Registrar

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

If you hold your Shares directly on the register of members and not through a savings scheme or ISA and have queries relating to your shareholding you should contact the Registrars
☎ 0871 664 0300.
Calls cost 10p per minute plus network charges.
(From outside the UK: +44 208 639 3399)
Lines are open from 9.00am to 5.30pm every working day.

Shareholders can also access their holding details via Capita's website: www.capitaregistrars.com or www.capitashareportal.com.

Capita Registrars provide 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.capitadeal.com or
☎ 0871 664 0364.
Calls cost 10p per minute plus network charges.
(From outside the UK: +44 203 367 2691)
Lines are open from 8am to 4.30pm every working day.

# SHAREHOLDER INFORMATION

The different Share classes of Invesco Perpetual Select Trust plc (the 'Company') are quoted on the London Stock Exchange.

## NAV Publication

Net asset values (NAVs) for all of the Share classes are calculated by the Manager on a daily basis and notified to the Stock Exchange on the next business day. NAVs are published daily in the newspapers detailed below.

## 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 following ticker codes:

| | |
|---|---|
| UK Equity Shares | IVPU |
| Global Equity Income Shares | IVPG |
| Balanced Risk Shares | IVPB |
| Managed Liquidity Shares | IVPM |

## Manager's Website

Information relating to the Company can be found on the Manager's website, www.invescoperpetual.co.uk/investmenttrusts.

The content 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 annual financial report.

## 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: enquires@theaic.co.uk
Website: www.theaic.co.uk

## Financial Calendar

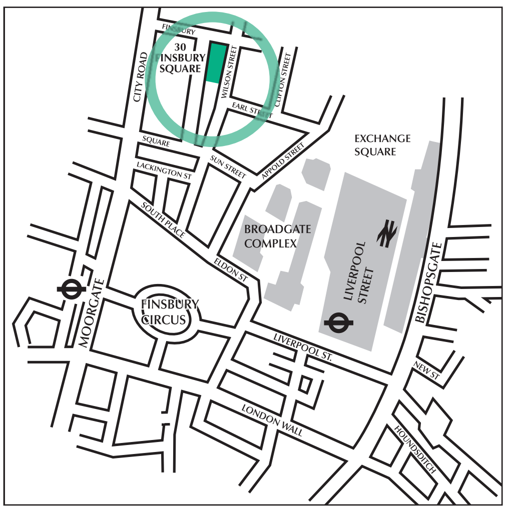
| | |
|---|---|
| Annual Financial Results | 31 July 2013 |
| Interim Dividends Announced* | July 2013 |
| Share Conversion† | 1 August 2013 |
| AGM | 26 September 2013 |
| Interim Management Statement | October 2013 |
| Interim Dividends Announced* | October 2013 |
| Share Conversion† | 1 November 2013 |
| Interim Dividends Announced* | January 2014 |
| Half-Yearly Financial Results | January 2014 |
| Share Conversion† | 3 February 2014 |
| Interim Management Statement | April 2014 |
| Interim Dividends Announced* | April 2014 |
| Share Conversion† | 1 May 2014 |
| Year End | 31 May 2014 |

* It remains the Directors' policy generally to distribute substantially all net revenues earned between each conversion date for each Share class. Due to the continuing low interest environment dividends have not been, and are not expected to be, paid in every quarter on Managed Liquidity Shares. No dividends are expected to be paid on Balanced Risk Shares in the next year.

† Share conversion requests must be received not less than 10 days before the relevant conversion date. Forms and instructions are available online on the web pages for all the share classes at www.invescoperpetual.co.uk/investmenttrusts and from the Company Secretary.

## Location of Annual General Meeting

The Annual General Meeting will be held at 11.30am on 26 September 2013 at 30 Finsbury Square, London EC2A 1AG.



## Introduction and Content

The Directors have pleasure in presenting their Report for the year ended 31 May 2013, incorporating the Business Review and Corporate Governance Statement.

# BUSINESS REVIEW

## Business and Status

The Company was incorporated and registered in England and Wales on 25 August 2006 under the Companies Act 2006 (2006 Act), registered number 5916642.

The Company is an investment company as defined by section 833 of the 2006 Act and operates as an investment trust within the meaning of the Corporation Tax Act 2010 and the Investment Trusts (Approved Company) (Tax) Regulations 2011. HM Revenue & Customs have approved the Company's status as an investment trust, subject to there being no subsequent enquiry under Corporation Tax Self Assessment, in respect of the year ended 31 May 2012. Approval under the new investment trust tax regulations, which applied to the Company from 1 June 2012, was granted on 11 September 2012. In the opinion of the Directors, the Company has continued to conduct its affairs so as to enable it to maintain such approval.

## Investment Policy

The Company's and respective Share classes' investment objectives, investment policies and risk and investment limits combine to form the 'Investment Policy' of the Company.

**The Company**

*Investment Objective and Policy*

The Company's investment objective is to provide shareholders with a choice of investment strategies and policies, each intended to generate attractive risk-adjusted returns.

The Company's share capital comprises four classes of Share: UK Equity Shares, Global Equity Income Shares, Balanced Risk Shares and Managed Liquidity Shares, each of which has its own separate portfolio of assets and attributable liabilities. The investment objectives, policies and risks and limits of the Portfolios for these classes are explained below. The limits for the Company and the four classes of Shares are measured at the point of acquisition of investments, unless otherwise stated.

*Investment Limits of the Company*

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

– no more than 15% of the gross assets of the Company may be invested in a single investment; and
– no more than 10% of the gross assets of the Company may be invested in other listed investment companies.

**UK Equity Share Portfolio ('UK Equity Portfolio')**

*Investment Objective*

The investment objective of the UK Equity Portfolio is to provide shareholders with an attractive real long-term total return by investing primarily in UK quoted equities.

*Investment Policy and Risk*

The UK Equity Portfolio is invested primarily in UK equities and equity-related securities of UK companies across all market sectors.

The Manager invests the UK Equity Portfolio so as to maximise exposure to the most attractive sectors and securities, within a portfolio structure that reflects the Manager's view of the macroeconomic environment. The Manager does not set out to manage the risk characteristics of the UK Equity Portfolio relative to the FTSE All-Share Index (the 'benchmark index') and the investment process may result in potentially very significant over or underweight positions in individual sectors versus the benchmark. The size of weightings will reflect the Manager's view of the attractiveness of a security and the degree of conviction held. If a security is not considered to be a good investment, it will not be held in the UK Equity Portfolio, irrespective of its weight in the benchmark index.

The Manager controls the stock-specific risk of individual securities by ensuring that the UK Equity Portfolio is always diversified across market sectors. In-depth and continual analysis of the fundamentals of investee companies allows the Manager to assess the financial risks associated with any particular security.

It is expected that, typically, the Portfolio will hold between 45 and 80 securities.

The Directors believe that the use of borrowings (gearing) can enhance returns to shareholders and the UK Equity Portfolio will generally use borrowings in pursuing its investment objective.

*Investment Limits*

The Board has prescribed limits on the investment policy of the UK Equity Portfolio, among which are the following:

– no more than 12% of the gross assets of the UK Equity Portfolio may be held in a single investment;
– no more than 10% of the gross assets of the UK Equity Portfolio may be held in other listed investment companies;
– no more than 20% of the gross assets of the UK Equity Portfolio may be held in overseas assets; and
– borrowings may be used to raise equity exposure up to a maximum of 25% of the net assets of the UK Equity Portfolio where it is considered appropriate.

**Global Equity Income Share Portfolio ('Global Equity Income Portfolio')**

*Investment Objective*

The investment objective of the Global Equity Income Portfolio is 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.

*Investment Policy*

The Portfolio will be invested predominantly in a portfolio of listed, quoted or traded equities worldwide, but may also hold other securities from time to time including, *inter alia*, fixed interest securities, preference shares, convertible securities and depositary receipts. Investment may also be made in regulated or authorised collective investment schemes. The Portfolio will not invest in companies which are not listed, quoted or traded at the time of investment, although it may have exposure to such companies where, following investment, the relevant securities cease to be listed, quoted or traded. The Manager will at all times invest and manage the Portfolio's assets in a manner that is consistent with spreading investment risk, but there will be no rigid industry, sector, region or country restrictions.

The Portfolio may utilise derivative instruments including index-linked notes, contracts for differences, covered options and other equity-related derivative instruments for efficient portfolio management and investment purposes. Any use of derivatives for investment purposes will be made on the basis of the same principles of risk spreading and diversification that apply to the Portfolio's direct investments, as described above.

It is expected that, typically, the Portfolio will hold between 45 and 80 securities (this was reduced in the year from the previous range of 55 to 100 securities).

The Directors believe that the use of borrowings (gearing) can enhance returns to Global Equity Income shareholders, and the Global Equity Income Portfolio may use borrowings in pursuing its investment objective.

The Company's foreign currency investments will not be hedged to sterling as a matter of general policy. However, the Manager may employ currency hedging, either back to sterling or between currencies (i.e. cross hedging of portfolio investments).

The Board has prescribed the following limits (measured at the time of investment) on the investment policy of the Global Equity Income Portfolio:

– no more than 20% of the gross assets of the Global Equity Income Portfolio may be invested in fixed interest securities;
– no more than 10% of the gross assets of the Global Equity Income Portfolio may be held in a single investment;

- no more than 10% of the gross assets of the Global Equity Income Portfolio may be held in other listed investment companies; and
- borrowings may be used to raise equity exposure up to a maximum of 20% of the net assets of the Global Equity Income Portfolio, when it is considered appropriate to do so.

**Balanced Risk Share Portfolio ('Balanced Risk Portfolio')**

*Investment Objective*

The investment objective of the Balanced Risk Portfolio is 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.

*Investment Policy*

The Portfolio utilises two main strategies: the first seeks to balance the risk contribution from each of three asset classes (equities, bonds and commodities), with the aim of reducing the probability, magnitude and duration of capital losses, and the second seeks to shift tactically the allocation among the assets with the aim of improving expected returns.

The Portfolio is constructed so as to balance risk: by asset class (bonds, equities and commodities) and by asset within each asset class. Neutral weighting is achieved when each asset class contributes an equal proportion of the total Portfolio risk and each asset contributes an equal proportion of the total risk for its respective asset class. The Manager is permitted to actively vary asset class weightings, subject to a maximum of 150% and a minimum of 50% of each asset class' neutral weight. The Manager is also permitted to actively vary individual asset weightings, subject to a maximum of 200% and a minimum of 0% of each asset's neutral weight, provided the asset class guidelines are not violated.

The Portfolio will be mainly invested directly in highly liquid and transparently priced exchange-traded futures contracts, with cash and cash equivalents being held as collateral. However, the Portfolio may also be invested in equities, equity-related securities and debt securities (including floating rate notes). Financial derivative instruments (including but not limited to futures and total return swaps) are used only to achieve additional long exposure to the three asset classes. The Portfolio may also use financial derivative instruments, including currency futures and forwards, for efficient portfolio management, hedging and investment purposes. Financial derivative instruments will not be used to create net short positions in any asset class. The derivatives portfolio will comprise between 20 and 30 investment positions, typically around 25 (this was increased in the year from the previous range of 12 to 20 positions, with typically around 16 positions).

It is expected that the Portfolio's investments will mainly be denominated in sterling. Any non-sterling derivative investments may be hedged back into sterling at the discretion of the Manager when it is economic to do so.

The Board has prescribed the following limits (measured at the time of investment) on the investment policy of the Balanced Risk Portfolio:

- the aggregate notional amount of financial derivative instruments positions may not exceed 250% of the net assets of the Balanced Risk Portfolio;
- no more than 10% of the gross assets of the Balanced Risk Portfolio may be held in other listed investment companies; and
- borrowings may be used for short-term purposes up to a maximum of 5% of the net assets of the Balanced Risk Portfolio, where it is considered appropriate.

**Managed Liquidity Share Portfolio ('Managed Liquidity Portfolio')**

*Investment Objective*

The investment objective of the Managed Liquidity Portfolio is to produce an appropriate level of income return combined with a high degree of security.

*Investment Policy and Risk*

The Managed Liquidity Portfolio invests in a range of sterling-based or related money market fund assets (which may include transferable securities, money market instruments, warrants, collective investment schemes and deposits), either directly or indirectly through money market funds, including funds managed by Invesco Perpetual or its associated companies.

The Managed Liquidity Portfolio generally invests in money market funds authorised as UCITS schemes, which are required under governing regulations to provide a prudent spread of risk. In the event that the Managed Liquidity Portfolio is invested directly in securities and instruments, the Manager will observe investment restrictions and risk diversification policies that are consistent with UCITS regulations.

*Investment Limits*

The Board has prescribed limits on the investment policy of the Managed Liquidity Portfolio, among which are the following:

– no more than 10% of the gross assets of the Managed Liquidity Portfolio may be held in a single investment, other than authorised money market funds or high quality sovereign debt securities; and
– no more than 5% of the gross assets of the Managed Liquidity Portfolio may be held in unquoted investments, other than authorised money market funds.

## Performance

The Board reviews the performance of the Company by reference to a number of Key Performance Indicators, at either a Company or Portfolio level, which include the following:

- Investment Performance
- Dividends
- Discount/Premium
- Ongoing Charges Ratio

### Investment Performance

To assess investment performance the Board monitors the net asset value (NAV) performance of the individual Share classes relative to that of benchmark indices it considers to be appropriate. However, given the requirements and constraints of the investment objectives and policies followed, no index can be expected to fully represent the performance that might reasonably be expected from any one or all of the Company's Share classes.

The NAV total return performance of each of the Portfolios over the year to 31 May 2013 and of relevant benchmark indices were as follows:

| | |
|---|---|
| UK Equity Portfolio | +42.8% |
| FTSE All-Share Index | +30.1% |
| Global Equity Income Portfolio | +33.9% |
| MSCI World Index (£) | +29.7% |
| Balanced Risk Portfolio | +8.3% |
| 3 month LIBOR plus 5% | +5.7% |
| Managed Liquidity Portfolio | +0.5% |

Source: Thomson Reuters Datastream.

Other performance periods, together with share price total returns, are shown on page 2.

### Dividends

**UK Equity Portfolio**

The Board aims to distribute by way of dividend substantially all of the net income of the UK Equity Portfolio after attributable expenses and taxation. The Manager aims to maximise total returns from the UK Equity Portfolio, which typically commands a yield premium to the market. However, the pursuit of income is not a prime objective and dividend yields do not constrain investment decisions. The Board intends to declare dividends on the UK Equity Portfolio prior to each conversion.

Revenue for the year for the UK Equity Portfolio was £2,080,000 (2012: £1,669,000).

The Directors have declared and paid four interim dividends for the year ended 31 May 2013 totalling 5.55p per UK Equity Share (2012: three dividends totalling 4.25p).

**Global Equity Income Portfolio**

The investment objective of the Global Equity Income Portfolio is to provide an attractive and growing level of income return and capital appreciation and the Board aims to distribute by way of dividend substantially all of the net income of the Global Equity Income Portfolio after attributable expenses and taxation. The Board intends to declare dividends on the Global Equity Income Portfolio prior to each conversion.

Revenue for the year for the Global Equity Income Portfolio was £1,002,000 (2012: £850,000).

The Directors have declared and paid four interim dividends for the year ended 31 May 2013 totalling 3.4p per Global Equity Income Share (2012: three dividends totalling 2.5p).

**Balanced Risk Portfolio**

In order to maximise the capital return on the Balanced Risk Shares, the Directors only intend to declare dividends on the Balanced Risk Shares to the extent required, having taken into account the dividends paid on the other Share classes, to maintain the Company's status as an investment trust under section 1158 of the Corporation Tax Act 2010. No dividends have been declared or paid in respect of the Balanced Risk Shares.

**Managed Liquidity Portfolio**

The Board intends to declare dividends on the Managed Liquidity Portfolio prior to each conversion, subject to the level of income available. Revenue for the year for the Managed Liquidity Portfolio was £9,000 (2012: £27,000).

As a consequence of continued very low interest rates and in veiw of the administrative costs involved, no interim dividend was declared on the Managed Liquidity Shares for the year ended 31 May 2013 (2012: one dividend of 0.5p).

## Discount/(Premium)

On 31 January 2013 the Company announced that a strategic review by the Board had led it to believe that it would be best for shareholders if the Company were to adopt a zero tolerance discount control policy for all four share classes whereby the Company will offer to issue or buy back shares of all classes with a view to maintaining the middle market price of the Shares at close to their respective net asset values.

The ongoing implementation of this policy is dependent upon the Company's authority to buy back shares, and the Directors' authority to issue shares on a non pre-emptive basis, being renewed at general meetings of the Company. Notwithstanding the intended effect of this policy, there can be no guarantee that the Company's shares will trade at close to their respective net asset values. Shareholders should also be aware that the implementation of this discount policy may lead to a reduction in the size of the Company over time.

At 31 May 2013, the mid-market prices, net asset values (NAV) and the discount or premium of the four Share classes were as follows:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| SHARE CLASS | MID-MARKET PRICE (PENCE) | NET ASSET VALUE (PENCE) | DISCOUNT/ (PREMIUM) | MID-MARKET PRICE (PENCE) | NET ASSET VALUE (PENCE) | DISCOUNT |
| UK Equity | 145.25 | 136.3 | (6.6)% | 93.25 | 100.0 | 6.8% |
| Global Equity Income | 140.00 | 141.0 | 0.7% | 102.75 | 108.1 | 4.9% |
| Balanced Risk | 111.00 | 112.2 | 1.1% | 92.00 | 103.1 | 10.8% |
| Managed Liquidity | 101.00 | 103.1 | 2.0% | 99.75 | 102.5 | 2.7% |

During the year the Shares traded at the following discounts:

| SHARES | 2013 RANGE DURING YEAR MAXIMUM DISCOUNT % | MINIMUM DISCOUNT/ (PREMIUM) % | 2012 RANGE DURING YEAR MAXIMUM DISCOUNT % | MINIMUM DISCOUNT % |
|---|---|---|---|---|
| UK Equity | 14.0 | (6.6) | 13.5 | 1.0 |
| Global Equity Income | 14.4 | 0.6 | 10.7 | 1.3 |
| Balanced Risk | 13.9 | 1.1 | 14.2 | 5.9 |
| Managed Liquidity | 5.3 | 1.5 | 7.4 | 0.7 |

Invesco Asset Management Limited (IAML) and the Board closely monitor movements in the Company's Share prices and dealings in the Company's Shares. In order to avoid significant overhang or shortage of Shares in the market and in order to operate the zero tolerance discount policy outlined above, the Board asks shareholders to approve resolutions every year that allow for the buy back of Shares (for cancellation or to be held as treasury shares) and also their issuance. Share buy backs in the year are summarised on page 36. It is the Board's policy to sell treasury shares on terms that are in the best interests of shareholders.

### Ongoing Charges Ratio

The expenses of managing the Company are reviewed by the Board at every meeting. The Board aims to minimise the ongoing charges ratio, which provides a guide to the effect on performance of all annual operating costs of the Company. The ongoing charges ratio is calculated by dividing the annualised ongoing charges, including those charged to capital, by the average undiluted net asset value during the year.

At the year end the ongoing charges ratios of the Company and the different Share classes, excluding any performance fees, were as follows:

| | COMPANY | UK EQUITY | GLOBAL EQUITY INCOME | BALANCED RISK | MANAGED LIQUIDITY |
|---|---|---|---|---|---|
| 2013 | 1.05% | 1.12% | 1.10% | 1.18% | 0.36% |
| 2012 | 1.17% | 1.20% | 1.18% | 1.55% | 0.40% |

The additional impact of performance fees of £431,000 (2012: £388,000) for the UK Equity Portfolio was:

| | COMPANY | UK EQUITY |
|---|---|---|
| 2013 | 0.42% | 0.97% |
| 2012 | 0.41% | 0.97% |

No performance fees arose in the year for the Global Equity Income Portfolio (2012: none).

## Financial Position

### Assets and Liabilities

At 31 May 2013 the Company's total net assets were £114.7 million (2012: £92.0 million). These comprised portfolios of equity investments, debt securities, derivative instruments, cash and other debtors and liabilities. The Company has a £15 million multi currency revolving credit facility of which £7.7 million (2012: £7.1 million) was drawn at the year end.

Due to the readily realisable nature 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 purchase and sales of investments and the income from investments against which must be set the costs of borrowing and management expenses.

### Gearing Policy

Gearing policy is under the control of the Board, which has established effective gearing parameters for the Portfolios. Gearing levels are regularly reviewed. As part of the Company's Investment Policy, the approved borrowing limits are 25% of the net assets of the UK Equity Portfolio, 20% of net assets of the Global Equity Income Portfolio and 5% of net assets of the Balanced Risk Portfolio.

## Issued Share Capital

All Share classes have a nominal value of 1p per Share.

*UK Equity Shares*

At the year end and at the date of this report the UK Equity Share capital consisted of 38,250,472 UK Equity Shares, excluding 6,163,000 UK Equity Shares held in treasury.

Conversions to and from other Share classes during the course of the year reduced the number of UK Equity Shares in issue by 691,411. No UK Equity Shares were bought back during the year, or since the year end.

*Global Equity Income Shares*

At the year end and at the date of this report the Global Equity Income Share capital consisted of 30,952,286 Global Equity Income Shares, excluding 4,488,000 Global Equity Income Shares held in treasury.

Conversions to and from other Share classes during the course of the year reduced the number of Global Equity Income Shares in issue by 284,417. No Global Equity Shares were bought back during the year, or since the year end.

*Balanced Risk Shares*

At the year end and at the date of this report the Balanced Risk Share capital consisted of 8,929,098 Balanced Risk Shares, excluding 3,593,000 Balanced Risk Shares held in treasury.

Conversions to and from other Share classes during the course of the year reduced the number of Balanced Risk Shares in issue by 924,817. The number was further reduced by 468,000 being bought back into treasury, at an average price of 108.5p per share. These represented 4.5% of the Balanced Risk issued share capital (excluding treasury shares) at the beginning of the year. No Balanced Risk Shares have been bought back since the year end.

*Managed Liquidity Shares*

At the year end the Managed Liquidity Share capital consisted of 8,641,769 Managed Liquidity Shares, excluding 5,942,216 Managed Liquidity Shares held in treasury.

Conversions to and from other Share classes during the course of the year increased the number of Managed Liquidity Shares in issue by 1,693,453. However, this was offset by 1,490,000 being bought back into treasury, at an average price of 99.6p per Share. These represented 17.7% of the Managed Liquidity issued share capital (excluding treasury shares) at the beginning of the year.

Further details on net changes in issued share capital are set out in note 13 to the financial statements on pages 69 and 70.

Since the year end, 200,000 Managed Liquidity Shares have been bought back into treasury, at an average price of 100.5p per Share, leaving 8,441,769 Managed Liquidity Shares in issue, excluding 6,142,216 Managed Liquidity Shares held in treasury.

## Current and Future Developments

As part of the Company's overall strategy, the Company seeks to manage its affairs so as to maximise returns for shareholders. The Board also has a longer-term objective to increase the size of the Company in the belief that increasing the assets of the Company in this way will make the Company's Shares more attractive to investors and improve the liquidity of the Shares.

Details of trends and factors likely to affect the future development, performance and position of the Company's business can be found in the Portfolio Managers' Reports and further details as to the risks affecting the Company are set out under 'Principal Risks and Uncertainties' below.

## Principal Risks and Uncertainties

The Board has an ongoing process for identifying, evaluating and managing significant risks. This process is regularly reviewed by the Board and was in place throughout the year under review. The principal risk factors relating to the Company can be divided into various areas:

**Investment Policy**

There is no guarantee that the Investment Policy of the Company will provide the returns sought by the Company. There can be no guarantee, therefore, that the Company will achieve its investment objective.

The Board has established guidelines to ensure that the Investment Policy of the Company is pursued by the Manager.

**Risks Applicable to the Company**

Shares in the Company are designed to be held over the long-term and may not be suitable as short-term investments. There can be no guarantee that any appreciation in the value of the Company's investments will occur and investors may not get back the full value of their investments. Due to the potential difference between the mid-market price of the Shares and the prices at which they are sold, there is no guarantee that their realisable value will reflect their market price.

The market value of a Share, as well as being affected by its NAV, is also influenced by its dividend yield, where applicable, and prevailing interest rates, amongst other things. As such, the market value of a Share can fluctuate and may not always reflect its underlying NAV. The market price of a Share may therefore trade at a discount to its NAV. However, the Board has adopted a zero tolerance discount control policy that applies to all share classes and the Board and the Manager monitor the market rating of each Share class.

While it is the intention of the Directors to pay dividends to holders of the UK Equity, Global Equity Income and Managed Liquidity Shares, the ability to do so will depend upon the level of income received from securities and the timing of receipt of such income by the Company. Accordingly, the amount of dividends paid to shareholders may fluctuate. Any change in the tax or accounting treatment of dividends or other investment income received by the Company may also affect the level of dividend paid on the Shares in future years.

**Compulsory Conversion of a Class of Shares**

The continued listing on the Official List of each class of Share is dependent on at least 25% of the Shares in that class being held in public hands. This means that if more than 75% of the Shares of any class were held by, *inter alia*, the Directors, persons connected with Directors or persons interested in 5% or more of the relevant Shares, the listing of that class of Shares might be suspended or cancelled. The Listing Rules state that the FCA may allow a reasonable period of time for the Company to restore the appropriate percentage if this rule is breached, but in the event that the listing of any class of Shares were cancelled the Company would lose its investment trust status.

Accordingly, if at any time the Board considers that the listing of any class of Shares on the Official list is likely to be cancelled and the loss of such listing would mean that the Company would no longer be able to qualify for approval as an investment trust under section 1158 of the Corporation Tax Act 2010 (CTA), the Board may serve written notice on the holders of the relevant Shares requiring them to convert their Shares into another class of Shares.

**Liability of a Portfolio for the Liabilities of Another Portfolio**

The Directors intend that, in the absence of unforeseen circumstances, each Portfolio will effectively operate as if it were a stand-alone company. However, investors should be aware of the following factors:

- As a matter of law, the Company is a single entity. Therefore, in the event that any of the Portfolios has insufficient funds or assets to meet all of its liabilities, on a winding-up or otherwise, such a shortfall would become a liability of the other Portfolios and would be payable out of the assets of the other Portfolios in such proportions as the Board may determine; and
- The Companies Act 2006 prohibits the Directors from declaring any dividends in circumstances where the Company's assets represent less than one and a half times the aggregate of its liabilities. If the Company were to incur material liabilities in the future, a significant fall in the value of the Company's assets as a whole may affect the Company's ability to pay dividends on a particular class of Shares, even though there are distributable profits attributable to the relevant Portfolio.

**Market Movements and Portfolio Performance**

Individual Portfolio performance is substantially dependent on the performance of the securities (including derivative instruments) held within the Portfolio. The prices of these securities are influenced by many factors including the general health of worldwide economies; interest rates; inflation; government policies; industry conditions; political and diplomatic events; tax laws; environmental laws; and by the demand from investors for income. The Manager strives to maximise the total return from Portfolios, but the investments held are influenced by market conditions and the Board acknowledges the external influences on the performance of each Portfolio. Further risks specifically applicable to the Balanced Risk Shares are set out on page 39.

The performance of the Manager is carefully monitored by the Board, and the continuation of the Manager's mandates is reviewed each year. The Board has established guidelines to ensure that the investment policies of each class of Share are pursued by the Manager.

The Company is able to invest in emerging market securities. Securities of this nature involve certain risks and special considerations not typically associated with investing in other more established economies or securities markets.

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

For a fuller discussion of the economic and market conditions facing the Company and the current and future performance of the different Portfolios of the Company, please see both the Chairman's Statement on pages 3 to 5 and the Portfolio Managers' reports starting on page 7.

**Gearing**

Performance may be geared by use of a £15 million 364 day multicurrency revolving credit facility. In current market conditions, there is no guarantee that this facility will be renewed at maturity or on terms acceptable to the Company. If it were not possible to renew this facility or replace it with one from another lender, the amounts owing by the Company would need to be funded by the sale of securities. The Company also has an uncommitted overdraft facility of up to 10% of net assets.

Gearing levels of the different Portfolios will change from time to time in accordance with the respective Portfolio Managers' assessments of risk and reward. As a consequence, any reduction in the value of a Portfolio's investments may lead to a correspondingly greater percentage reduction in its NAV (which is likely to affect Share prices adversely). Any reduction in the number of 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 a Portfolio's gearing.

Whilst the use of borrowings by the Company should enhance the total return on a particular class of Shares where the return on the underlying securities is rising and exceeds the cost of borrowing, it will have the opposite effect where the underlying return is falling, further reducing the total return on the Shares. Similarly, the use of gearing by investment companies or funds in which the Company invests increases the volatility of the NAV of the Company's Shares.

**Hedging**

The Company may use hedging derivatives for the purpose of efficient portfolio management. There may be a correlation between price movements in the underlying securities, currency or index, on the one hand, and price movements in the investments, which are the subject of the hedge, on the other hand. In addition, an active market may not exist for a particular hedging derivative instrument at any particular time.

**Regulatory and Tax Related**

The Company is subject to various laws and regulations by virtue of its status as a public limited investment Company registered under the Companies Act 2006, its status as an investment trust and its listing on the London Stock Exchange. Loss of investment trust status could lead to the Company being subject to Capital Gains Tax on the sale of its investments. A serious breach of other regulatory rules could lead to suspension from the London Stock Exchange, a fine or a qualified Audit Report. Other control failures, either by the Manager or any other of the Company's service providers, could result in operational or reputational problems, erroneous disclosures or loss of assets through fraud, as well as breaches of regulations.

The Manager reviews the level of compliance with the Corporation Tax Act 2010 and other financial regulatory requirements on a daily 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 providers. The Manager's Compliance and Internal Audit Officers produce regular reports for review by the Company's Audit Committee.

The Alternative Investment Fund Managers Directive (AIFMD) imposes obligations on the Company and the Manager which may have significant consequences for the Company and may increase its compliance and regulatory costs. Failure to meet these obligations may impair the Manager's ability to manage the investments of the Company, which may materially adversely affect the Company's ability to implement its investment strategy and achieve its investment objective. The Board is taking independent legal advice in relation to the AIFMD. The Manager expects to be able to offer its services as an approved alternative investment fund manager.

The risks and risk management policies and procedures as they relate to the financial assets and liabilities of the Company are also detailed in note 17 to the financial statements.

**Additional Risks Applicable to Balanced Risk Shares**

The use of financial derivative instruments forms part of the investment policy and strategy of the Balanced Risk Portfolio. The Portfolio's ability to use these instruments may be limited by market conditions, regulatory limits and tax considerations. Such strategies might be unsuccessful and incur losses for the Portfolio, due to market conditions. Since the financial derivative instruments may be geared instruments, their use may result in greater fluctuations in the net asset value of the Portfolio. However, the range of exposures held is designed to mitigate this effect. The absence of a liquid market for any particular instrument at any particular time may inhibit the ability of the Manager to liquidate a financial derivative instrument at an advantageous price. However, the Manager actively seeks the most liquid means of obtaining the required exposures. The degree of leverage inherent in futures trading potentially means that a relatively small price movement in a futures contract may result in an immediate and substantial loss to the Portfolio and possible impediments to efficient portfolio management or the ability to meet repurchase requests or other short term obligations because of the margin required to be deposited to cover such loss. Financial derivative instruments will not be used to create net short positions in any asset class.

**Additional Risks Applicable to Managed Liquidity Shares**

Investors should note that the Managed Liquidity Shares are not designed to replicate the returns or other characteristics of a bank or building society deposit or money market fund.

**Reliance on Third Party Service Providers**

The Company has no employees and the Directors have all been appointed on a non-executive basis. The Company is therefore reliant upon the performance of third party service providers for its executive function. In particular, the Manager performs services that are integral to the operation of the Company and the Custodian holds assets on its behalf. 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 successfully pursue its Investment Policy.

The Manager may be exposed to reputational risks. In particular, 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 potential 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 successfully pursue its Investment Policy.

# CORPORATE GOVERNANCE STATEMENT

## Principles and Compliance

The Board is committed to maintaining high 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 AIC Code of Corporate Governance 2010 ('AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts.

The Company has complied with the recommendations of the AIC Code and the provisions of the UK Corporate Governance Code 2010, except the provisions relating to:

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

The Board considers these provisions are not relevant to the position of the Company, being an externally managed investment company, since it has no executive employees and, given the extent of the Manager's role, in view of the Manager having an internal audit function.

This statement describes how the principles of the AIC Code have been complied with in the affairs of the Company for the year ended 31 May 2013. Any reference to the AIC Code in this statement includes references to the AIC Guide.

## Directors

### Independence

The Board comprises four Directors, all of whom are non-executive and all of whom are considered wholly independent. The Directors have a range of business, financial and asset management skills and experience relevant to the direction and control of the Company. Brief biographical details of the members of the Board are shown on page 27.

### Chairman

The Chairman is Patrick Gifford, a non-executive Director, who has no conflicting relationships. Since all Directors are non-executive and day-to-day management responsibilities are subcontracted to the Manager, the Company does not have a Chief Executive Officer.

### Senior Independent Director

The Board has appointed Alan Clifton as the Senior Independent Director. He is available to shareholders if they have concerns which contact through the normal channels of Chairman, Managers or Company Secretary have failed to resolve or for which such contact is inappropriate.

## Board Responsibilities

The Directors have a duty to promote the success of the Company taking into consideration the likely consequences of any decision in the long-term; the need to foster the Company's business relationships with its Manager; the impact of the Company's operations on the community and the environment; the desirability of the Company to maintain a reputation for high standards of business conduct; and the need to act fairly between shareholders of the Company.

The Board is committed to the prevention of corruption in the conduct of the Company's affairs and, taking account of the nature of the Company's business and operations, has put in place procedures that the Board considers adequate to prevent persons associated with it from engaging in bribery for and on behalf of the Company.

In order to promote the success of the Company, the Board directs and supervises its affairs within a framework of effective controls which enable risk to be assessed and managed. A formal schedule of matters reserved for the Board has been established. The schedule of matters is reviewed annually to ensure compliance with latest best practice and the AIC Code. The schedule of matters reserved for the Board will be available at the AGM and can be inspected at the Registered Office of the Company. It can also be found on the Manager's website at *www.invescoperpetual.co.uk/investmenttrusts*.

The main responsibilities of the Board include: setting policies and standards; ensuring that the Company's obligations to shareholders and others are understood and complied with; approving accounting and dividend policies; managing the capital structure; setting long-term objectives and strategy; assessing risk; reviewing investment performance; approving loans and borrowing; approving recommendations presented by the Company's respective Board Committees; controlling risks; and the ongoing assessment of the Managers. The Board also seeks to ensure that shareholders are provided with sufficient information in order to understand the risk/reward balance to which they are exposed by holding their Shares, through the Portfolio details given in the annual and half-yearly financial reports, interim management statements, fact sheets and NAV disclosures.

The Board as a whole periodically undertakes the responsibilities which would otherwise be assumed by a remuneration committee, having agreed that a separate remuneration committee is not appropriate for a company of this size and nature.

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 per Director, having first consulted with the Chairman.

## Supply of Information

To enable the members of the Board to fulfil their roles, the Manager and Company Secretary ensure that Directors have timely access to all relevant management, financial and regulatory information. The Board meets on a regular basis at least four times each year and additional meetings are arranged as necessary. Regular contact is maintained between the Manager, Company Secretary and the Board outside formal meetings.

Board meetings follow a formal agenda, which includes a review of each Portfolio with a report from the respective Portfolio Managers on the current investment position and outlook; strategic direction; performance against relevant indices and the Portfolio's peer group (where appropriate); asset allocation; gearing policy; cash management; revenue forecasts for the financial year; marketing and shareholder relations; corporate governance; and industry and other issues.

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

## Appointment, Re-election, Tenure and the Nomination Committee

As the Board is considered small for the purposes of the AIC Code, all Directors are members of the Nomination Committee under the chairmanship of Patrick Gifford. The main responsibilities of the Nomination Committee are to review the size, structure, skills and diversity of the Board and to make recommendations to the Board with regard to any changes considered necessary or new appointments. The Nomination Committee has written terms of reference, which clearly define its responsibilities and duties. The terms of reference are in line with best practice and the AIC Code. No Director has a contract of employment with the Company. The Directors' letters of appointment are available on the Manager's web site at *www.invescoperpetual.co.uk/investmenttrusts*.

The Board has formulated a formal, rigorous and transparent procedure for the selection and appointment of new Directors to the Board. The Nomination Committee carries out the procedure with a view to making recommendations to the Board. The Nomination Committee may consider using an executive search consultancy or open advertising when seeking new candidates for appointment or they may consider that candidates found from sources within the Company and through its advisers are of a sufficiently high quality.

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. A Director's normal tenure of office will be for three terms of three years, except that the Board may determine otherwise if it is considered that the continued participation on the Board of an individual Director is in the best interests of the Company and its shareholders. If this is the case, then a long-serving Director will stand for annual re-election at the Company's AGM.

Alan Clifton is standing for re-election at this year's AGM. The Board confirms that his performance continues to be effective and that he continues to demonstrate commitment to his role. The Board therefore recommends that shareholders support AGM resolution 3 relating to the re-election of Mr Clifton.

Terms of reference of the Nomination Committee, the Articles of Association of the Company and Directors' letters of appointment will be available at the AGM; can be inspected at the registered office of the Company; and are available on the Manager's website: *www.invescoperpetual.co.uk/investmenttrusts*.

## Board, Committee and Directors' Performance Appraisals

The Directors recognise the importance of the AIC Code, particularly in terms of evaluating the performance of the Board as a whole, the respective Committees and individual Directors. Performance of the Board, Committees and Directors has been assessed during the year in terms of:

- attendance at Board and Committee meetings;
- the independence of individual Directors;
- the ability of Directors to make an effective contribution to the Board and Committees due to the diversity of skills and experience each Director brings to the meetings; and
- the Board's ability to challenge the Manager's recommendations, select topics for discussion and fix timetables for consideration of the future strategy of the Company.

Alan Clifton was responsible for the performance evaluation of the Chairman, taking into account the views of the other Directors.

The Board conducted its performance evaluation through questionnaires and discussion between the Directors and the Chairman. The review concluded that the Board and its Committees collectively, and the Directors individually, continue to be effective and that the Directors demonstrate commitment to the role.

## Attendance at Board and Committee Meetings

The number of meetings held during the year to 31 May 2013 and the attendance of individual Directors are shown in the table below:

| | SCHEDULED BOARD MEETINGS | AUDIT COMMITTEE MEETINGS |
|---|---|---|
| *Number of Meetings:* | 5 | 3 |
| *Attendance:* | | |
| Patrick Gifford | 5 | 3 |
| Sir Michael Bunbury | 5 | 3 |
| Alan Clifton | 5 | 3 |
| David Rosier | 5 | 3 |

Board members also attended a number of additional ad-hoc Board and Committee meetings during the year to deal with various items, including share conversions, dividend declarations and discount policy.

## Conflicts of Interest

A Director must avoid a situation where he has, 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 that apply when Directors decide whether to do so. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and second, in taking the decision the Directors must act in a way they consider, in good faith, is most likely to promote the Company's success. The Directors are able to 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 are obliged to advise the Company Secretary and/or Chairman as soon as they become aware of any potential conflicts of interest. Directors will not participate in Board decisions on issues where they may be conflicted.

## Directors' Interests

The beneficial interests of Directors in the issued share capital of the Company as at 1 June 2012 and 31 May 2013 are shown below:

| | UK EQUITY | GLOBAL EQUITY INCOME | BALANCED RISK | MANAGED LIQUIDITY |
|---|---|---|---|---|
| **31 May 2013** | | | | |
| Patrick Gifford | 9,050 | 63,576 | 128,173 | – |
| Sir Michael Bunbury* | 11,500 | 11,000 | 22,000 | – |
| Alan Clifton | 25,000 | 25,000 | 25,000 | – |
| David Rosier | 25,000 | 25,000 | – | – |
| **1 June 2012** | | | | |
| Patrick Gifford | 9,050 | 63,576 | 98,173 | – |
| Sir Michael Bunbury* | 11,500 | 11,000 | 22,000 | – |
| Alan Clifton | 25,000 | 25,000 | 25,000 | – |
| David Rosier | – | 25,000 | – | – |

*Sir Michael Bunbury also has a non-beneficial interest in 66,000 Balanced Risk Shares.

Save as aforesaid, no Director had any interest, beneficial or otherwise, in the securities of the Company during the year.

There have been no changes in the above interests between 31 May 2013 and the date of this report.

No Director was a party to, or had any interests in any contract or arrangement with the Company at any time during the year or at the year end.

## Directors' Indemnification and Insurance

A Deed of Indemnity has been executed on behalf of the Company under the terms of which a Director may be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he may sustain or incur in or about the discharge of his duties or the exercise of his powers or discretions as a Director of the Company. This includes any liability incurred by the Director in disputing, defending, investigating or providing evidence in connection with any actual or threatened or alleged claims, demands, investigations or proceedings whether civil or criminal, and any settlement thereof. A Director may also receive reimbursement of any expenditure incurred in connection with any such liability. Directors will continue to be indemnified under the terms of the indemnity notwithstanding that they may have ceased to be Directors of the Company.

However, Directors will not be entitled to be indemnified for any liability to the Company, for fines payable to regulatory authorities, for defending any criminal proceedings in which they are convicted or in defending any civil proceedings bought by the Company in which judgment is given against them. The indemnity does not apply to the extent that a liability is recoverable from any insurers, if it is prohibited by the Companies Act 2006 or otherwise prohibited by law, if it relates to tax payable on remuneration or other benefits received, or if a liability arises from an act or omission of the Director which is shown to have been in bad faith.

The Company maintains a Directors' and Officers' liability insurance policy.

## Internal Controls and Risk Management

The Directors acknowledge that they are responsible for the Company maintaining a sound system of internal control to safeguard shareholders' investments and the Company's assets.

The Board reviews, at least annually, the effectiveness of the Company's system of internal controls, including financial, operational and compliance and risk management systems. The Company's system of internal control is designed to manage rather than eliminate risk of failure to adhere to the Company's Investment Policy. This system can therefore only provide reasonable and not absolute assurance against material misstatement or loss. The Board confirms that the necessary actions are taken to remedy any significant failings or weaknesses identified from their review. No significant failings or weaknesses were identified in the year ended 31 May 2013 or since up to the date of this annual financial report.

The Manager and Custodian maintain their own systems of internal controls and the Board and Audit Committee receive regular reports from the Manager's internal audit and compliance departments. Formal reports are also produced on the internal controls and procedures in place for custodial, investment management, company secretarial and accounting activities, and these are reviewed annually by the Board.

## Audit Committee

As the Board is considered small for the purposes of the AIC Code, all the Directors are members of the Audit Committee under the chairmanship of Sir Michael Bunbury. Audit Committee members consider that collectively they are appropriately experienced to fulfil the role required. The Audit Committee has written terms of reference which are reviewed annually and clearly define its responsibilities and duties. A separate risk committee has not been established. Review of the Company's internal control and risk management fall within the terms of reference of the Audit Committee. The terms of reference of the Audit Committee, including its role and authority, will be available for inspection at the AGM, at the registered office of the Company and on the Company's website.

The Audit Committee is responsible to the Board for reviewing each aspect of the financial reporting process, the systems of internal control and the management of financial risks, the audit process, relationships with external auditor, the Company's processes for monitoring compliance with laws and regulations and for making recommendations to the Board. It is also responsible for making recommendations to the Board in respect of the appointment, re-appointment and removal of the auditor.

The Audit Committee meets at least three times each year to review the internal financial and non-financial controls, to approve the contents of the draft annual and half-yearly financial reports to shareholders, to review the Company's accounting policies and to approve the audit plan. In addition, the Audit Committee reviews the Auditor's independence, objectivity and effectiveness; the service organisation controls of the service providers to the Company; the effectiveness of the audit process; and, together with the Manager, reviews the Company's compliance with financial reporting and regulatory requirements. The Manager's internal audit and compliance teams report to the Committee at least twice each year. Representatives of Ernst & Young LLP, the Company's Auditor, attend the Audit Committee meeting at which the draft annual financial report is reviewed.

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

## Auditor

The Audit Committee has considered the independence of the Auditor and the objectivity of the audit process and is satisfied that Ernst & Young LLP has fulfilled its obligations to shareholders as Independent Auditor to the Company. Non-audit fees payable to Ernst & Young LLP for the year to 31 May 2013 of £7,000 (2012: £9,000) in relation to tax services are not considered to impair this independence.

The Committee has reviewed the recent changes to the UK Corporate Governance and AIC Codes including the provision for FTSE 350 companies to put the external audit contract out to tender at least every ten years. As a non-FTSE 350 company, and following the satisfactory outcome to the Committee's regular review of auditor effectiveness, performance and independence, the Committee has concluded that it does not need to initiate a re-tendering process at this time, but will continue to keep the situation under review.

Ernst & Young LLP are willing to continue in office and a resolution, in accordance with section 489 of the Companies Act 2006, to reappoint them and to authorise the Directors to set the Auditor's remuneration will be proposed at the forthcoming AGM.

## Going Concern

The financial statements have been prepared on a going concern basis. The Directors consider this to be appropriate as the Company has adequate resources to continue in operational existence for the foreseeable future. In reaching this conclusion, the Directors took into account the value of net assets; the Company's Investment Policy; its risk management policies; the diversified portfolio of readily realisable securities which can be used to meet funding commitments; the credit facility and the overdraft which can be used for short-term funding requirements; the liquidity of the investments which could be used to repay the credit facility in the event that the facility could not be renewed or replaced; its revenue; and the ability of the Company in the light of these factors to meet all of its liabilities and ongoing expenses.

## Stewardship

The Board considers that the Company has a responsibility as a shareholder towards ensuring that high standards of corporate governance are maintained by 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 these standards are met. The principal means of putting shareholder responsibility into practice is through the exercise of voting rights. Your 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. A copy of the Manager's Policy on Corporate Governance and stewardship can be found at *www.invescoperpetual.co.uk*.

## Manager Details and Assessment

**Statement of Manager's Responsibilities**

Invesco Asset Management Limited (IAML) is the Manager responsible for the investment management of the Company's Portfolios.

As such, IAML is responsible for the day-to-day investment management activities of the Company, seeking and evaluating investment opportunities and analysing the results of investee companies and funds. The individual Portfolio Managers have full discretion to manage the assets of the individual Portfolios in accordance with the Company's stated Investment Policy as determined from time to time by the Board and approved by shareholders. The Portfolio Managers have discretion to make purchases and sales, make and withdraw cash deposits and exercise all rights over the investment portfolio. The Portfolio Managers also advise on borrowings.

IAML also provides full company secretarial and administration services to the Company, ensuring that the Company complies with all legal, regulatory and corporate governance requirements and attending on the Directors at Board meetings and shareholders' meetings. IAML additionally maintains records of the Company's investment transactions, Portfolio and all monetary transactions, from which the annual and half-yearly financial reports and interim management statements and various statistical reports and information are prepared on behalf of the Company.

**Assessment of the Manager**

The performance of IAML in the roles of Manager and Company Secretary and Administrator is subject both to continual review by the Board and regular annual reviews of the management contract by the Management Engagement Committee.

The individual Portfolio Managers determine stock and fund selection and asset allocation with a view to achieving the Company's Investment Policy and meeting shareholder expectations. The Board has reviewed the Manager's performance and, taking into account the performance of the individual Portfolios, the other services provided by IAML and the risk and governance environment in which the Company operates, the Board considers that the continuation of the appointment of the Manager on the current terms is in the best interests of shareholders.

**Investment Management Agreement (IMA)**

IAML is entitled to a basic fee (payable quarterly) in respect of each Portfolio (0.75% per annum of net assets in the case of the UK Equity, Global Equity Income and Balanced Risk Portfolios and 0.25% per annum of net assets in the case of the Managed Liquidity Portfolio). The IMA provides for a basic fee to be reduced by any fee payable separately to the Manager on any investments in other funds managed by the Manager.

IAML is also entitled to receive performance fees in respect of the UK Equity and Global Equity Income Portfolios of 12.5% of the increase in net assets per relevant Share in excess of a hurdle of the relevant benchmark plus 1% per annum. The amount of the performance fee that can be earned in any one year is limited to 0.75% of the net assets of the relevant Portfolio and payment is subject to a high water mark. Any underperformance of the benchmark, or performance above the cap, is carried forward to subsequent periods.

The IMA can be terminated by either party giving 12 months' notice and, in certain circumstances, the IMA may be terminated without notice.

## Management Engagement Committee

As the Board is considered small for the purposes of the AIC Code, all Directors are members of the Management Engagement Committee under the chairmanship of Sir Michael Bunbury. The Management Engagement Committee has written terms of reference, which clearly define its responsibilities and duties. The terms of reference are reviewed annually to ensure compliance with latest best practice and the AIC Code. They will be available for inspection at the AGM, can be inspected at the Registered Office of the Company and can be viewed on the Manager's website. The Management Engagement Committee meets at least once a year to review the Management Agreement and the performance and quality of service provided by the Manager and other service providers.

## Company Secretary

The Board has direct access to the advice and services of the Company Secretary, Invesco Asset Management Limited, which is responsible for ensuring that the Board and Committee procedures are followed and that applicable rules and regulations are complied with. The Company Secretary is also responsible for advising the Board through the Chairman on all governance matters. The appointment and ongoing assessment and review of the Company Secretary are matters for the Board as a whole.

## Environmental Matters, Employees and Social and Community Issues

As an investment trust company with no employees, property or activities outside investment, no disclosure of information about environmental matters, employees or social and community issues is given.

The Manager considers various factors when evaluating potential investments. Some are financial ratios and measures, such as free cash flow, earnings per share and price to book value. Others are more subjective indicators which rely on first hand research; for example, quality of management, innovation and product strength. While a company's policy towards the environment and social responsibility is considered as part of the overall assessment of risk and the suitability of a company for the Portfolio, the individual Portfolio Managers do not necessarily preclude an investment being made on these grounds alone.

The Company may send or supply documents or information to shareholders in electronic form (e.g. by e-mail) or by means of a website. This delivers environmental benefits through reduced use of paper and the energy required for its production and distribution.

## Individual Savings Account (ISA)

The Ordinary Shares of each class in the Company are qualifying investments under the applicable ISA regulations.

## Creditor Payment Policy

It is the Company's policy to obtain the best terms for all business, including purchases of investments, and to abide by those agreed terms. The Company had no trade creditors at the year end (2012: nil).

## Rights Attaching to Shares

The rights attached to the Shares, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association (Articles). The Articles may only be changed by the shareholders by special resolution.

The holders of each class of Shares have the right to receive the revenue profits of the Company (including accumulated revenue reserves) attributable to the Portfolio established for that class and available for distribution.

On a return of assets, on a liquidation or otherwise, the surplus assets of the Company in each Portfolio, after satisfaction of all liabilities, shall be paid to the holders of the class of Shares for which the relevant Portfolio was established (and distributed amongst such holders rateably according to the amounts paid up on the Shares of the relevant class).

The holders of each class of Shares have the right to receive notice of and to attend, speak and vote at any general meeting of the Company, except that the holders of any class of Shares do not have the right to vote on any resolution relating to the payment of a dividend on any other class of Shares. Details of the voting rights attaching to the different classes of Shares are given in note 11 to the Notice of Meeting on page 86.

Shares are convertible at the option of holders into any other class of Shares on or around 1 February, 1 May, 1 August and 1 November each year.

## Restrictions on Shares

Subject to statute, market rules and the requirements of the UK Listing Authority the Directors may, in certain circumstances including where it is in favour of more than four persons jointly, refuse to register a transfer of Shares.

The Directors may also restrict voting powers, dividends and transfers where shareholders fail to provide information with respect to interests in voting rights when so requested.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights.

## Substantial Shareholdings

The Company was aware of the following holdings of 3% and over of each class of the Company's issued share capital:

| | AT 30 JUNE 2013 | | AT 31 MAY 2013 | |
|---|---|---|---|---|
| UK EQUITY SHARES | HOLDINGS | % | HOLDINGS | % |
| Merrill Lynch Portfolio Managers | 5,920,335 | 15.5 | 5,930,335 | 15.5 |
| Rathbones Investment Management | 2,869,633 | 7.5 | 2,879,633 | 7.5 |
| D Price | 2,391,604 | 6.3 | 2,391,604 | 6.3 |
| JM Finn & Co | 2,221,906 | 5.8 | 2,221,906 | 5.8 |
| P Radburn | 2,001,285 | 5.2 | 2,001,285 | 5.2 |
| S Price | 1,773,927 | 4.6 | 1,773,927 | 4.6 |
| Investec Wealth & Investment | 1,467,819 | 3.8 | 1,488,535 | 3.9 |
| Hargreave Hale Ltd | 1,217,233 | 3.2 | 1,217,233 | 3.2 |

| | AT 30 JUNE 2013 | | AT 31 MAY 2013 | |
|---|---|---|---|---|
| GLOBAL EQUITY INCOME SHARES | HOLDINGS | % | HOLDINGS | % |
| Brewin Dolphin Ltd | 1,787,793 | 5.8 | 1,787,793 | 5.8 |
| Merrill Lynch Portfolio Managers | 1,658,448 | 5.4 | 1,658,448 | 5.4 |
| P Stormonth Darling | 1,560,988 | 5.0 | 1,560,988 | 5.0 |
| Rathbones Investment Management | 1,484,134 | 4.8 | 1,489,134 | 4.8 |
| P Davidson | 1,367,965 | 4.4 | 1,367,965 | 4.4 |
| Investec Wealth & Investment | 1,326,550 | 4.3 | 1,326,550 | 4.3 |
| J Salkeld | 1,260,931 | 4.1 | 1,260,931 | 4.1 |
| Charles Stanley & Co | 1,070,499 | 3.5 | 1,070,499 | 3.5 |
| R Bernays | 1,066,086 | 3.4 | 1,066,086 | 3.4 |
| P Radburn | 1,005,289 | 3.3 | 1,005,289 | 3.3 |
| C Pfeil | 970,686 | 3.1 | 970,686 | 3.1 |

| | AT 30 JUNE 2013 | | AT 31 MAY 2013 | |
|---|---|---|---|---|
| BALANCED RISK SHARES | HOLDINGS | % | HOLDINGS | % |
| Schroder & Co | 1,263,469 | 14.1 | 1,263,469 | 14.1 |
| P Davidson | 774,594 | 8.7 | 774,594 | 8.7 |
| J Salkeld | 752,922 | 8.4 | 752,922 | 8.4 |
| Investec Wealth & Investment | 693,835 | 7.8 | 693,835 | 7.8 |
| J Pfeil | 537,741 | 6.0 | 537,741 | 6.0 |
| Rathbones Investment Management | 457,298 | 5.1 | 467,298 | 5.2 |
| Smith & Williamson | 297,393 | 3.3 | 297,393 | 3.3 |
| Merrill Lynch Portfolio Managers | 296,715 | 3.3 | 296,715 | 3.3 |
| C Jackson | 270,000 | 3.0 | 270,000 | 3.0 |

# REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 MAY 2013
continued

| | AT 30 JUNE 2013 | | AT 31 MAY 2013 | |
|---|---|---|---|---|
| MANAGED LIQUIDITY SHARES | HOLDINGS | % | HOLDINGS | % |
| P Stormonth Darling | 1,394,880 | 16.5 | 1,394,880 | 16.1 |
| Perkins Echo Trust | 806,258 | 9.6 | 806,258 | 9.3 |
| Smith & Williamson | 741,079 | 8.8 | 741,079 | 8.6 |
| AXA Framlington Investment Managers | 550,000 | 6.5 | 750,000 | 8.7 |
| Speirs & Jeffrey | 402,658 | 4.8 | 402,658 | 4.7 |
| C Pfeil | 266,701 | 3.2 | 266,701 | 3.1 |

## Shareholder Relations

Shareholder relations are given high priority by the Board and the Manager. The prime means by which the Company communicates with shareholders are the annual and half-yearly financial reports, which aim to provide shareholders with a full understanding of the Company's activities and its results. This information is supplemented by the publication of interim management statements, the daily calculation of the NAVs, which are published via the Stock Exchange, and monthly and daily factsheets. Shareholders have the opportunity to communicate directly with the Board, Chairman and the Chairmen of the Committees of the Board at the AGM. All shareholders are encouraged to attend the AGM.

There is a 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 develop a balanced understanding of their issues and concerns. General presentations to institutional shareholders and analysts take place throughout the year. All meetings between the Manager and institutional shareholders are reported to the Board.

It is the intention of the Board that the annual financial report and the notice of the AGM be issued to shareholders so as to provide at least twenty working days' notice of the AGM. Shareholders wishing to lodge questions in advance of the AGM are invited to do so, either on the reverse of the proxy card or in writing to the Company Secretary at the address given on page 28.

Shareholders can also visit the Manager's website at *www.invescoperpetual.co.uk/investmenttrusts* in order to access copies of annual and half-yearly financial reports; interim management statements, shareholder circulars; Company factsheets; Stock Exchange announcements; Portfolio disclosures; schedule of matters reserved for the Board; terms of reference of Board Committees; Directors' letters of appointment; the Company's Share price; and proxy voting results.

## Annual General Meeting (AGM)

The following summarises the business of the forthcoming AGM of the Company, which is to be held at 30 Finsbury Square, London, EC2A 1AG at 11.30am on 26 September 2013. Refreshments will be provided. The Notice of the AGM and related notes can be found on pages 83 to 86.

**Resolution 1** is for members to receive this Annual Financial Report, including the financial statements and Auditor's Report.

**Resolution 2** is to approve the Directors' Remuneration Report. It is mandatory for listed companies to put their report on Directors' remuneration to an advisory shareholder vote. The Report on Directors' Remuneration is set out on pages 50 and 51 of this Annual Financial Report.

**Resolution 3** is to re-elect Alan Clifton as a Director. The Board has confirmed that Mr Clifton continues to perform effectively and demonstrate independence and commitment to his role. Brief biographical details are set out on page 27.

**Resolution 4** is to reappoint the Auditor and to authorise the Directors to determine the Auditor's remuneration. Ernst & Young LLP have expressed their willingness to continue to hold office until the conclusion of the next annual general meeting of the Company.

**Resolution 5** is to renew the Directors' authority to allot shares. Your Directors are asking for authority to allot new ordinary shares up to an aggregate nominal value of £1,000,000 for each of the four Share classes in issue. This will allow Directors to issue shares within the prescribed limits should any favourable opportunities arise to the advantage of shareholders. The powers authorised will not be exercised at a price below NAV of the relevant Share class so that the interests of existing shareholders are not diluted. This authority will expire at the AGM in 2013.

**Resolution 6** is to renew the authority to disapply pre-emption rights. Your Directors are asking for the usual authority to issue new Shares in each share class, either pursuant to a rights issue or otherwise, up to an aggregate nominal amount of £38,250 in UK Equity Shares, £30,952 in Global Equity Income Shares, £8,929 in Balanced Risk Shares and £8,441 in Managed Liquidity Shares (10% of the issued share capital of each Share class) disapplying pre-emption rights. This will allow Shares to be issued to new shareholders without them having to be offered to existing shareholders first, thus broadening the shareholder base of the Company. This authority will expire at the AGM in 2014.

**Resolution 7** is to renew the authority for the Company to purchase its own shares. Your Directors are seeking to renew the authority to buy back up to 14.99% of each Share class, being approximately 5,733,745 UK Equity Shares, 4,639,747 Global Equity Income Shares, 1,338,471 Balanced Risk Shares and 1,265,421 Managed Liquidity Shares, subject to the restrictions referred to in the notice of the AGM. This authority will expire at the AGM in 2014. 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 as a whole.

**Resolution 8** is to permit the Company to hold general meetings (other than annual general meetings) on 14 days notice, which is the minimum notice period permitted by the Companies Act 2006. The EU Shareholder Rights Directive increases the minimum notice period to 21 days unless two 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 this flexibility will be used only where the Board believes it is in the interests of shareholders as a whole.

By order of the Board

Invesco Asset Management Limited
*Company Secretary*
30 Finsbury Square
London EC2A 1AG

31 July 2013

# DIRECTORS' REMUNERATION REPORT

FOR THE YEAR ENDED 31 MAY 2013

This Remuneration Report has been prepared under the requirements of schedule 8 of the Large and Medium-sized Companies and Group Regulations 2008. An Ordinary Resolution for the approval of this Report will be put to shareholders at the Annual General Meeting (AGM). The Company's Auditor is required to audit certain of the disclosures provided in this Report. Where disclosures have been audited, they are indicated in this Report. The auditor's opinion is included in their report on pages 53 and 54.

## Remuneration Responsibilities

The Board has resolved that a remuneration committee is not appropriate for a company of this size and nature. Remuneration responsibilities are therefore regarded as part of the Board's responsibilities to be addressed regularly as a whole.

All Directors are non-executive and all participate in meetings of the Board at which Directors' remuneration is considered. The Board seeks advice, *inter alia*, from the Company Secretary, Invesco Asset Management Limited, when considering the level of Directors' fees.

## Policy on Directors' Remuneration

The Board's policy is that the remuneration of non-executive Directors should be fair and reasonable in relation to the time commitment and responsibilities of the Directors. It is intended that this policy will continue for the year ending 31 May 2014 and subsequent years.

The Directors' remuneration throughout the year was as follows:

| | |
|---|---|
| Chairman | £30,000 pa; |
| Chairman of the Audit Committee | £24,000 pa; and |
| Directors | £20,000 pa. |

Subsequent to the year end the Board resolved to increase the Directors' remuneration with effect from 1 June 2013 to: Chairman £33,000; Audit Committee Chairman £27,000; other Directors £22,000.

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. The Directors are not eligible for bonuses, pension benefits, share options or other incentives or benefits.

## Service Contracts

All Directors have letters of appointment which are available for inspection at the AGM, on the Company's website and at the Registered Office of the Company. The Company has no employees other than the non-executive Directors.

Under the Articles of Association of the Company, the terms of the Directors' appointment provide that a Director shall retire and be subject to election at the first AGM after appointment and re-election at least every three years thereafter.

## The Company's Performance

The Directors' Remuneration Report Regulations 2002 require that a performance graph be included with the Directors' Remuneration Report which compares the total return to each class of shareholder to a notional total return of a broad market index. The Directors do not consider that a single graph for the Company's Portfolios would be meaningful. However, graphs for each of the Portfolios are shown on pages 6, 12, 18 and 24.

## Directors’ Emoluments for the Year (Audited)

The Directors who served during the year to 31 May 2013 received the following emoluments in the form of fees:

| | 2013<br>£ | 2012<br>£ |
|---|---|---|
| Patrick Gifford (Chairman) | 30,000 | 30,000 |
| Sir Michael Bunbury (Audit Committee Chairman) | 24,000 | 24,000 |
| Alan Clifton | 20,000 | 20,000 |
| David Rosier | 20,000 | 20,000 |
| Total | 94,000 | 94,000 |

## Approval

The Directors’ Remuneration Report was approved by the Board of Directors on 31 July 2013.

*Signed on behalf of the Board of Directors*

**Patrick Gifford**
Chairman

# DIRECTORS' RESPONSIBILITY STATEMENT
in respect of the preparation of the annual financial report

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

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

The Directors who held office at the date of approval of the Report of the Directors confirm that:

- in 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 all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

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

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position, net return and cash flows of the Company; and
- 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.

Signed on behalf of the Board of Directors

**Patrick Gifford**
Chairman

31 July 2013

# INDEPENDENT AUDITOR'S REPORT

to the members of Invesco Perpetual Select Trust plc

We have audited the financial statements of Invesco Perpetual Select Trust plc for the year ended 31 May 2013 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

## Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibility Statement set out on page 52, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the Audit of the Financial Statements

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

## Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 May 2013 and of its net return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

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

## Matters on which we are Required to Report by Exception

We have nothing to report in respect of the following.

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

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on pages 44 and 45, in relation to going concern;
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on director's remuneration.

**Ratan Engineer** (Senior Statutory Auditor)

for and on behalf of
**Ernst & Young LLP**
*Statutory Auditor*
London

31 July 2013

# INCOME STATEMENT

## FOR THE YEAR ENDED 31 MAY

| | NOTES | 2013 REVENUE £'000 | 2013 CAPITAL £'000 | 2013 TOTAL £'000 | 2012 REVENUE £'000 | 2012 CAPITAL £'000 | 2012 TOTAL £'000 |
|---|---|---|---|---|---|---|---|
| Gains/(losses) on investments | 9 | – | 24,869 | 24,869 | – | (6,283) | (6,283) |
| Gains/(losses) on derivative instruments | 10 | 83 | 946 | 1,029 | 55 | (66) | (11) |
| Foreign exchange losses | | – | (68) | (68) | – | (46) | (46) |
| Income | 2 | 3,828 | – | 3,828 | 3,279 | 11 | 3,290 |
| Management fees | 3 | (219) | (499) | (718) | (175) | (426) | (601) |
| Performance fees | 3 | – | (431) | (431) | – | (388) | (388) |
| Other expenses | 4 | (356) | (4) | (360) | (427) | (4) | (431) |
| **Net return before finance costs and taxation** | | 3,336 | 24,813 | 28,149 | 2,732 | (7,202) | (4,470) |
| Finance costs | 5 | (38) | (87) | (125) | (38) | (100) | (138) |
| **Return on ordinary activities before tax** | | 3,298 | 24,726 | 28,024 | 2,694 | (7,302) | (4,608) |
| Tax on ordinary activities | 6 | (165) | – | (165) | (142) | – | (142) |
| **Return on ordinary activities after tax for the financial year** | | 3,133 | 24,726 | 27,859 | 2,552 | (7,302) | (4,750) |
| **Basic return per ordinary share:** | 7 | | | | | | |
| – UK Equity Share Portfolio | | 5.5p | 36.3p | 41.8p | 4.2p | (5.4p) | (1.2p) |
| – Global Equity Income Share Portfolio | | 3.3p | 32.9p | 36.2p | 2.7p | (13.1p) | (10.4p) |
| – Balanced Risk Share Portfolio | | 0.4p | 8.8p | 9.2p | 0.1p | (9.5p) | (9.4p) |
| – Managed Liquidity Share Portfolio | | 0.1p | – | 0.1p | 0.3p | (0.1p) | 0.2p |

The total column of this statement represents the Company's profit and loss account, prepared in accordance with UK Accounting Standards. The supplementary revenue and capital columns are 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 and the Company has no other gains or losses. Therefore no statement of recognised gains or losses is presented. No operations were acquired or discontinued in the period. Income statements for the different Share classes are shown on pages 11, 17, 23 and 26 for the UK Equity, Global Equity Income, Balanced Risk and Managed Liquidity Share Portfolios respectively.

*The accompanying notes are an integral part of this statement.*

# RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

## FOR THE YEAR ENDED 31 MAY

| | SHARE CAPITAL £'000 | SHARE PREMIUM ACCOUNT £'000 | SPECIAL RESERVE £'000 | CAPITAL REDEMPTION RESERVE £'000 | CAPITAL RESERVES £'000 | REVENUE RESERVE £'000 | TOTAL £'000 |
|---|---|---|---|---|---|---|---|
| At 31 May 2011 | 1,071 | 1,290 | 89,617 | 324 | 9,403 | 7 | 101,712 |
| Shares bought back and held in treasury | – | – | (2,457) | – | – | – | (2,457) |
| Realised losses on disposal of investments | – | – | – | – | (124) | – | (124) |
| Movement in investment holding losses | – | – | – | – | (6,159) | – | (6,159) |
| Losses on derivative instruments | – | – | – | – | (66) | – | (66) |
| Foreign exchange losses | – | – | – | – | (46) | – | (46) |
| Special dividend taken to capital | – | – | – | – | 11 | – | 11 |
| Charged to capital: | | | | | | | |
| – management fees | – | – | – | – | (426) | – | (426) |
| – performance fees | – | – | – | – | (388) | – | (388) |
| – other expenses | – | – | – | – | (4) | – | (4) |
| – finance costs | – | – | – | – | (100) | – | (100) |
| Revenue return on ordinary activities per the income statement | – | – | – | – | – | 2,552 | 2,552 |
| Dividends – note 8 | – | – | – | – | – | (2,509) | (2,509) |
| At 31 May 2012 | 1,071 | 1,290 | 87,160 | 324 | 2,101 | 50 | 91,996 |
| Cancellation of deferred shares | (1) | – | (7) | 8 | – | – | – |
| Shares bought back and held in treasury | – | – | (2,006) | – | – | – | (2,006) |
| Realised gains on disposal of investments | – | – | – | – | 5,374 | – | 5,374 |
| Movement in investment holding gains | – | – | – | – | 19,495 | – | 19,495 |
| Gains on derivative instruments | – | – | – | – | 946 | – | 946 |
| Foreign exchange losses | – | – | – | – | (68) | – | (68) |
| Charged to capital: | | | | | | | |
| – management fees | – | – | – | – | (499) | – | (499) |
| – performance fees | – | – | – | – | (431) | – | (431) |
| – other expenses | – | – | – | – | (4) | – | (4) |
| – finance costs | – | – | – | – | (87) | – | (87) |
| Revenue return on ordinary activities per the income statement | – | – | – | – | – | 3,133 | 3,133 |
| Dividends – note 8 | – | – | – | – | – | (3,160) | (3,160) |
| As at 31 May 2013 | 1,070 | 1,290 | 85,147 | 332 | 26,827 | 23 | 114,689 |

*The accompanying notes are an integral part of this statement.*

# BALANCE SHEET

## AS AT 31 MAY 2013

| | NOTES | UK EQUITY £'000 | GLOBAL EQUITY INCOME £'000 | BALANCED RISK £'000 | MANAGED LIQUIDITY £'000 | TOTAL £'000 |
|---|---|---|---|---|---|---|
| **Fixed assets** | | | | | | |
| Investments held at fair value through profit or loss | 9 | 60,741 | 42,856 | 9,300 | 8,996 | 121,893 |
| **Current assets** | | | | | | |
| Derivative assets held at fair value through profit or loss | 10 | – | – | 366 | – | 366 |
| Debtors | 11 | 611 | 207 | 8 | 69 | 895 |
| Cash, short-term deposits and cash held at brokers | | 107 | 689 | 563 | 12 | 1,371 |
| | | 718 | 896 | 937 | 81 | 2,632 |
| **Creditors: amounts falling due within one year** | | | | | | |
| Derivative liabilities held at fair value through profit or loss | 10 | – | – | (191) | – | (191) |
| Other creditors | 12 | (9,330) | (121) | (29) | (165) | (9,645) |
| **Net current (liabilities)/assets** | | (8,612) | 775 | 717 | (84) | (7,204) |
| **Net assets** | | 52,129 | 43,631 | 10,017 | 8,912 | 114,689 |
| **Shareholders' funds** | | | | | | |
| Share capital | 13(a) | 444 | 354 | 126 | 146 | 1,070 |
| Share premium | 14 | – | – | 1,290 | – | 1,290 |
| Special reserve | 14 | 39,074 | 30,463 | 7,259 | 8,351 | 85,147 |
| Capital redemption reserve | 14 | 73 | 78 | 20 | 161 | 332 |
| Capital reserves | 14 | 12,415 | 12,540 | 1,630 | 242 | 26,827 |
| Revenue reserve | 14 | 123 | 196 | (308) | 12 | 23 |
| **Shareholders' funds** | | 52,129 | 43,631 | 10,017 | 8,912 | 114,689 |
| Net asset value per ordinary share | 15 | 136.3p | 141.0p | 112.2p | 103.1p | |

These financial statements were approved and authorised for issue by the Board of Directors on 31 July 2013.

*Signed on behalf of the Board of Directors*

**Patrick Gifford**
Chairman

*The accompanying notes are an integral part of this statement.*

# BALANCE SHEET

## AS AT 31 MAY 2012

| | NOTES | UK EQUITY £'000 | GLOBAL EQUITY INCOME £'000 | BALANCED RISK £'000 | MANAGED LIQUIDITY £'000 | TOTAL £'000 |
|---|---|---|---|---|---|---|
| **Fixed assets** | | | | | | |
| Investments held at fair value through profit or loss | 9 | 46,520 | 33,733 | 9,617 | 8,732 | 98,602 |
| **Current assets** | | | | | | |
| Derivative assets held at fair value through profit or loss | 10 | – | – | 374 | – | 374 |
| Debtors | 11 | 393 | 180 | 8 | 76 | 657 |
| Cash, short-term deposits and cash held at brokers | | 189 | 512 | 1,343 | 5 | 2,049 |
| | | 582 | 692 | 1,725 | 81 | 3,080 |
| **Creditors: amounts falling due within one year** | | | | | | |
| Derivative liabilities held at fair value through profit or loss | 10 | – | – | (658) | – | (658) |
| Other creditors | 12 | (8,177) | (645) | (45) | (161) | (9,028) |
| **Net current (liabilities)/assets** | | (7,595) | 47 | 1,022 | (80) | (6,606) |
| **Net assets** | | 38,925 | 33,780 | 10,639 | 8,652 | 91,996 |
| **Shareholders' funds** | | | | | | |
| Share capital | 13(a) | 451 | 357 | 135 | 128 | 1,071 |
| Share premium | 14 | – | – | 1,290 | – | 1,290 |
| Special reserve | 14 | 39,621 | 30,624 | 8,787 | 8,128 | 87,160 |
| Capital redemption reserve | 14 | 73 | 78 | 19 | 154 | 324 |
| Capital reserves | 14 | (1,372) | 2,476 | 758 | 239 | 2,101 |
| Revenue reserve | 14 | 152 | 245 | (350) | 3 | 50 |
| **Shareholders' funds** | | 38,925 | 33,780 | 10,639 | 8,652 | 91,996 |
| Net asset value per ordinary share | 15 | 100.0p | 108.1p | 103.1p | 102.5p | |

*The accompanying notes are an integral part of this statement.*

# CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MAY

| | NOTES | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| Net cash inflow from operating activities | 16(a) | 2,629 | 2,301 |
| Servicing of finance | 16(b) | (125) | (140) |
| Taxation | | (31) | (44) |
| Capital expenditure and financial investment | 16(b) | 1,957 | 5,534 |
| Equity dividends paid | 8 | (3,160) | (2,509) |
| Net cash inflow before management of liquid resources and financing | | 1,270 | 5,142 |
| Financing | 16(b) | (1,942) | (3,858) |
| (Decrease)/increase in cash | | (672) | 1,284 |

# RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

FOR THE YEAR ENDED 31 MAY

| | NOTES | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| (Decrease)/increase in cash | | (672) | 1,284 |
| Exchange movements | | (6) | (46) |
| Cash movements from changes in debt | | (62) | 1,400 |
| Movement in year | | (740) | 2,638 |
| Net debt at beginning of year | | (5,589) | (8,227) |
| Net debt at end of year | 16(c) | (6,329) | (5,589) |

*The accompanying notes are an integral part of this statement.*

## 1. Accounting policies

The principal accounting policies, all of which have been consistently applied throughout this year and the preceding year, are set out below.

### (a) Basis of preparation

(i) *Accounting Standards applied*

The financial statements have been prepared in accordance with applicable United Kingdom law and Accounting Standards and with the Statement of Recommended Practice (the 'SORP') 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies in January 2009.

(ii) *Definitions used in the financial statements*

'Portfolio' the UK Equity Share Portfolio, the Global Equity Income Share Portfolio, the Balanced Risk Share Portfolio and/or the Managed Liquidity Share Portfolio (as the case may be). Comprising investment portfolio, derivative instruments, cash, loans, debtors and other creditors, which together make up the net assets as shown in the balance sheet.

'Shares' UK Equity Shares, Global Equity Income Shares, Balanced Risk Shares, Managed Liquidity Shares and/or Deferred Shares (as the case may be).

The financial statements for the Company comprise the income statement, reconciliation of movements in shareholders' funds, the total column of the balance sheet, the cash flow statement and the company totals shown in the notes to the financial statements.

The UK Equity, Global Equity Income, Balanced Risk and Managed Liquidity Share Portfolios' income statements and summaries of net assets do not represent statutory accounts, are not required under UK Generally Accepted Accounting Practice or the SORP, and are not audited. These have been disclosed to assist shareholders' understanding of the assets and liabilities, and income and expenses of the different Share classes.

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement.

(iii) *Functional and presentational currency*

The Company's functional currency is sterling as its operating activities are based in the UK and a majority of its assets, liabilities, income and expenses are in sterling, which is also the currency in which these accounts are prepared.

(iv) *Transactions and balances*

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

### (b) 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 and measurement of financial assets and financial liabilities*

*Financial assets*

The Company's investments, including financial derivative instruments, 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 income statement, and are subsequently valued at fair value.

Fair value for investments, including financial derivative instruments, 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. Where there is no active market, unlisted/illiquid investments are valued by the Directors at fair value with regard to the International Private Equity and Venture Capital Valuation Guidelines and on recommendations from Invesco's Pricing Committee, both of which use valuation techniques such as earnings multiples, recent arm's length transactions and net assets.

*Financial liabilities*

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

## (c) Hedging and derivatives

Forward currency contracts entered into for hedging purposes 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 included in capital reserves.

Futures contracts may be entered into for hedging purposes and any profits and losses on the closure or revaluation of positions are included in capital reserves. Where futures contracts are used for investment exposure any net income/expense is included within revenue in the income statement.

Derivative instruments are valued at fair value in the balance sheet. Derivative instruments may be capital or revenue in nature and, accordingly, changes in their fair value are recognised in revenue or capital in the income statement as appropriate.

## (d) Income

Dividend income from investments is recognised when the shareholders' right to receive payment has been established, normally the ex-dividend date. UK dividends are stated net of related tax credits. Interest income arising from cash is recognised on an accruals basis and underwriting commission is recognised as earned. Income from fixed income securities is recognised in the income statement using the effective interest method.

## 1. Accounting policies (continued)

### (e) Expenses and finance costs

All expenses are accounted for on an accruals basis. Expenses are charged to the income statement and shown in revenue except where expenses are presented as capital items when a connection with the maintenance or enhancement of the value of the investments held can be demonstrated and thus management fees and finance costs are charged to revenue and capital to reflect the Directors' expected long-term view of the nature of the investment returns of each Portfolio.

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

The management fees and finance costs are charged in accordance with the Board's expected split of long-term returns, in the form of capital gains and income, to the applicable Portfolio as follows:

| PORTFOLIO | REVENUE RESERVE | CAPITAL RESERVE |
|---|---|---|
| UK Equity | 30% | 70% |
| Global Equity Income | 30% | 70% |
| Balanced Risk | 30% | 70% |
| Managed Liquidity | 100% | – |

Any entitlement to any investment performance fee which is attributable to the UK Equity and, or, the Global Equity Income Portfolio is allocated 100% to capital as it is directly attributable to the capital performance of the investments in that Portfolio.

### (f) Dividends

Dividends are accrued in the financial statements when there is an obligation to pay the dividends at the balance sheet date.

### (g) Taxation

Tax expense represents the sum of tax currently payable and deferred tax. Any tax payable is based on taxable profit for the period. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

For the Company, any allocation of tax relief to capital is based on the marginal basis, such that tax allowable capital expenses are offset against taxable income. Where individual Portfolios have extra tax capacity arising from unused tax allowable expenses which can be used by a different Portfolio, this extra tax capacity is transferred between the Portfolios at a valuation of 1% of the amount transferred.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Investment trusts which have approval under the appropriate tax regulations are not liable for taxation on capital gains.

### (h) Cash and cash funds

Cash and cash funds in the balance sheet comprise cash at bank, short-term deposits, cash held at brokers and, for the UK Equity and Global Equity Income Portfolios, investments in Short-Term Investments Company (Global Series), all with a maturity of three months or less.

## 2. Income

| 2013 | UK EQUITY £'000 | GLOBAL EQUITY INCOME £'000 | BALANCED RISK £'000 | MANAGED LIQUIDITY £'000 | COMPANY TOTAL £'000 |
|---|---|---|---|---|---|
| **Income from investments** | | | | | |
| UK dividends: | | | | | |
| – ordinary dividends | 1,765 | 239 | – | – | 2,004 |
| – special dividends | 314 | 3 | – | – | 317 |
| | 2,079 | 242 | – | – | 2,321 |
| UK scrip dividends | 9 | – | – | – | 9 |
| Overseas dividends | 332 | 1,088 | 10 | 8 | 1,438 |
| Unfranked investment income – interest | – | 1 | – | 36 | 37 |
| Interest from Treasury bills | – | – | 22 | – | 22 |
| | 2,420 | 1,331 | 32 | 44 | 3,827 |
| **Other income** | | | | | |
| Deposit interest | – | – | 1 | – | 1 |
| Total income | 2,420 | 1,331 | 33 | 44 | 3,828 |
| **2012** | | | | | |
| **Income from investments** | | | | | |
| UK dividends: | | | | | |
| – ordinary dividends | 1,713 | 155 | – | – | 1,868 |
| – special dividends | 52 | 22 | – | – | 74 |
| | 1,765 | 177 | – | – | 1,942 |
| UK scrip dividends | 6 | 12 | – | – | 18 |
| Overseas dividends | 242 | 1,000 | 3 | 2 | 1,247 |
| Unfranked investment income – interest | 3 | 1 | – | 58 | 62 |
| Interest from Treasury bills | – | – | 9 | – | 9 |
| | 2,016 | 1,190 | 12 | 60 | 3,278 |
| **Other income** | | | | | |
| Deposit interest | – | – | 1 | – | 1 |
| Total income | 2,016 | 1,190 | 13 | 60 | 3,279 |

No special dividends have been recognised in capital (2012: £8,000 in UK Equity; £3,000 in Global Equity Income).

## 3. Management and performance fees

| 2013 | UK EQUITY £'000 | GLOBAL EQUITY INCOME £'000 | BALANCED RISK £'000 | MANAGED LIQUIDITY £'000 | COMPANY TOTAL £'000 |
|---|---|---|---|---|---|
| Management fee: | | | | | |
| – charged to revenue | 104 | 87 | 24 | 4 | 219 |
| – charged to capital | 242 | 203 | 54 | – | 499 |
| Total management fee | 346 | 290 | 78 | 4 | 718 |
| Performance fee charged to capital | 431 | – | – | – | 431 |
| **2012** | | | | | |
| Management fee: | | | | | |
| – charged to revenue | 90 | 77 | 7 | 1 | 175 |
| – charged to capital | 210 | 180 | 36 | – | 426 |
| Total management fee | 300 | 257 | 43 | 1 | 601 |
| Performance fee charged to capital | 388 | – | – | – | 388 |

Details of the investment management agreement, are given on pages 45 and 46 in the Report of the Directors.

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 4. Other expenses

| 2013 | UK EQUITY £'000 | GLOBAL EQUITY INCOME £'000 | BALANCED RISK £'000 | MANAGED LIQUIDITY £'000 | COMPANY TOTAL £'000 |
|---|---|---|---|---|---|
| Charged to revenue: | | | | | |
| Directors' fees (i) | 40 | 34 | 10 | 10 | 94 |
| Auditor's fees (ii): | | | | | |
| – for the audit of the financial statements | 11 | 11 | 2 | 2 | 26 |
| – for other services relating to taxation | 3 | 2 | 1 | 1 | 7 |
| Other expenses | 98 | 76 | 37 | 18 | 229 |
| | 152 | 123 | 50 | 31 | 356 |
| Charged to capital: | | | | | |
| Transaction costs | – | 4 | – | – | 4 |
| Total | 152 | 127 | 50 | 31 | 360 |
| **2012** | | | | | |
| Charged to revenue: | | | | | |
| Directors' fees (i) | 39 | 35 | 12 | 8 | 94 |
| Auditor's fees (ii): | | | | | |
| – for audit of the financial statements | 11 | 9 | 3 | 3 | 26 |
| – for other services relating to taxation | 4 | 3 | 1 | 1 | 9 |
| Other expenses | 130 | 109 | 39 | 20 | 298 |
| | 184 | 156 | 55 | 32 | 427 |
| Charged to capital: | | | | | |
| Transaction costs | 2 | 2 | – | – | 4 |
| Total | 186 | 158 | 55 | 32 | 431 |

(i) The maximum aggregate Directors' emoluments authorised by the Articles of Association are £200,000 (2012: £200,000) per annum. The Directors' Remuneration Report provides further information on Directors' fees. Included within other expenses is £9,000 (2012: £9,000) of employer's national insurance payable on Directors' fees. As at 31 May 2013, the amounts outstanding on Directors' fees and employer's national insurance was £17,000 (2012: £17,000).

(ii) Auditor's fees are shown excluding VAT, which is included in other expenses.

## 5. Finance costs

| | UK EQUITY £'000 | GLOBAL EQUITY INCOME £'000 | BALANCED RISK £'000 | MANAGED LIQUIDITY £'000 | COMPANY TOTAL £'000 |
|---|---|---|---|---|---|
| **2013** | | | | | |
| Interest payable on borrowings repayable within one year as follows: | | | | | |
| Charged to revenue | 37 | 1 | – | – | 38 |
| Charged to capital | 86 | 1 | – | – | 87 |
| Total | 123 | 2 | – | – | 125 |
| **2012** | | | | | |
| Interest payable on borrowings repayable within one year as follows: | | | | | |
| Charged to revenue | 37 | 1 | – | – | 38 |
| Charged to capital | 86 | 3 | 11 | – | 100 |
| Total | 123 | 4 | 11 | – | 138 |

## 6. Taxation

### (a) Current tax charge

| | UK EQUITY £'000 | GLOBAL EQUITY INCOME £'000 | BALANCED RISK £'000 | MANAGED LIQUIDITY £'000 | COMPANY TOTAL £'000 |
|---|---|---|---|---|---|
| **2013** | | | | | |
| Overseas tax | 47 | 118 | – | – | 165 |
| **2012** | | | | | |
| Overseas tax | 36 | 106 | – | – | 142 |

The accounting policy for taxation is disclosed in note 1(g).

### (b) Reconciliation of current tax charge

| | UK EQUITY £'000 | GLOBAL EQUITY INCOME £'000 | BALANCED RISK £'000 | MANAGED LIQUIDITY £'000 | COMPANY TOTAL £'000 |
|---|---|---|---|---|---|
| **2013** | | | | | |
| Return on ordinary activities before taxation | 15,914 | 11,184 | 914 | 12 | 28,024 |
| UK Corporation Tax rate of 23.84% | 3,794 | 2,666 | 218 | 3 | 6,681 |
| Effect of: | | | | | |
| – Non taxable gains on investments and derivatives | (3,466) | (2,465) | (222) | (1) | (6,154) |
| – Non taxable losses/(gains) on foreign exchange | (1) | 16 | 1 | – | 16 |
| – Non taxable scrip dividends | (2) | – | – | – | (2) |
| – UK dividends which are not taxable | (496) | (58) | – | – | (554) |
| – Overseas dividends which are not taxable | (79) | (259) | – | – | (338) |
| – Overseas tax | 47 | 118 | – | – | 165 |
| – Disallowable expenses | – | 1 | – | – | 1 |
| – Excess of allowable expenses over taxable income | 248 | 99 | 3 | – | 350 |
| – Transfer of expenses between Portfolios: | | | | | |
| – revenue expenses at 22.84% | 2 | – | – | (2) | – |
| Tax charge for the year | 47 | 118 | – | – | 165 |

## 6. Taxation (continued)

### (b) Reconciliation of current tax charge (continued)

| 2012 | UK EQUITY £'000 | GLOBAL EQUITY INCOME £'000 | BALANCED RISK £'000 | MANAGED LIQUIDITY £'000 | COMPANY TOTAL £'000 |
|---|---|---|---|---|---|
| Return on ordinary activities before taxation | (440) | (3,188) | (999) | 19 | (4,608) |
| UK Corporation Tax rate of 25.67% | (113) | (819) | (256) | 5 | (1,183) |
| Effect of: | | | | | |
| – Non taxable losses on investments and derivatives | 377 | 1,001 | 250 | 2 | 1,630 |
| – Non taxable losses/(gains) on foreign exchange | (1) | 16 | (4) | – | 11 |
| – Non taxable scrip dividends | (4) | (3) | – | – | (7) |
| – UK dividends which are not taxable | (453) | (46) | – | – | (499) |
| – Overseas dividends which are not taxable | (62) | (257) | (1) | – | (320) |
| – Overseas tax | 36 | 106 | – | – | 142 |
| – Disallowable expenses | 1 | 1 | – | – | 2 |
| – Accrued income taxable on receipt | – | 5 | (4) | – | 1 |
| – Excess of allowable expenses over taxable income | 248 | 102 | 10 | – | 360 |
| – Excess of allowable expenses over taxable offshore fund gains | – | – | 5 | – | 5 |
| – Transfer of expenses between Portfolios: | | | | | |
| – revenue expenses at 24.67% | 7 | – | – | (7) | – |
| Tax charge for the year | 36 | 106 | – | – | 142 |

Given the Company's status as an investment trust, and the intention to continue meeting the conditions required to obtain the necessary approval in the foreseeable future, the Company has not provided any UK corporation tax on any realised or unrealised capital gains or losses arising on investments.

### (c) Factors that may affect future tax charges

The Company has excess management expenses and loan relationship deficits of £4,933,000 (2012: £3,451,000) that are available to offset future taxable revenue. A deferred tax asset of £1,135,000 (2012: £828,000), measured at the substantively enacted standard corporation tax rate of 23% (2012: 24%) has not been recognised in respect of these expenses since they are recoverable only to the extent that the Company has sufficient future taxable revenue to which they may be set against.

## 7. Basic return per Ordinary Share

Basic revenue, capital and total return per ordinary share is based on the returns on ordinary activities after taxation as shown by the income statement for the applicable Share class and on the following number of Shares being the weighted average number of Shares in issue throughout the year for each applicable Share class:

| SHARE | AVERAGE NUMBER OF SHARES 2013 | 2012 |
|---|---|---|
| UK Equity | 37,988,843 | 39,602,185 |
| Global Equity Income | 30,606,208 | 31,590,128 |
| Balanced Risk | 9,910,525 | 10,633,343 |
| Managed Liquidity | 9,527,002 | 8,148,347 |

## 8. Dividends

Dividends paid for each applicable Share class, which represent distributions for the purpose of s1159 of the Corporation Tax Act 2010, are as follows:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | NUMBER OF SHARES | DIVIDEND RATE (PENCE) | TOTAL £'000 | NUMBER OF SHARES | DIVIDEND RATE (PENCE) | TOTAL £'000 |
| UK Equity | | | | | | |
| First interim | 38,941,883 | 1.15 | 448 | 39,510,181 | 2.00 | 790 |
| Second interim | 38,716,784 | 1.00 | 387 | 39,601,295 | 0.85 | 337 |
| Third interim | 36,805,777 | 0.95 | 350 | 39,586,944 | 1.40 | 554 |
| Fourth interim | 37,719,977 | 2.45 | 924 | – | – | – |
| | | 5.55 | 2,109 | | 4.25 | 1,681 |
| Global Equity Income | | | | | | |
| First interim | 31,236,703 | 1.00 | 312 | 31,699,638 | 1.00 | 317 |
| Second interim | 31,166,298 | 0.65 | 203 | 31,454,464 | 0.45 | 142 |
| Third interim | 29,163,994 | 0.35 | 102 | 31,423,044 | 1.05 | 330 |
| Fourth interim | 31,000,257 | 1.40 | 434 | – | – | – |
| | | 3.40 | 1,051 | | 2.50 | 789 |
| Managed Liquidity | | | | | | |
| First interim | | – | – | 7,820,365 | 0.50 | 39 |
| | | – | – | | 0.50 | 39 |
| Total paid in respect of the year | | | 3,160 | | | 2,509 |

## 9. Investments held at fair value

### (a) Analysis of investments by listing status

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| UK listed investments | 71,119 | 61,986 |
| UK unlisted investments | 750 | 625 |
| Overseas listed investments(i) | 49,911 | 35,911 |
| Overseas unlisted investments | 72 | – |
| Unquoted hedge fund investments | 41 | 80 |
| | 121,893 | 98,602 |

(i) Includes the Short-Term Investments Company (Global Series) investment held by the Managed Liquidity Portfolio of £1,396,000 (2012: £1,166,000) and Balanced Risk Portfolio of £3,300,000 (2012: £550,000).

# NOTES TO THE FINANCIAL STATEMENTS
continued

## 9. Investments held at fair value (continued)

### (b) Analysis of investments gains/(losses)

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Opening valuation | 98,602 | 109,933 |
| Movements in year: | | |
| Purchases at cost | 63,490 | 66,697 |
| Sales – proceeds | (65,068) | (71,745) |
| – net realised gains/(losses) on sales | 5,374 | (124) |
| Movement in investment holding gains/(losses) in year | 19,495 | (6,159) |
| Closing valuation | 121,893 | 98,062 |
| Closing book cost | 98,346 | 94,551 |
| Closing investment holding gains | 23,547 | 4,051 |
| Closing valuation | 121,893 | 98,062 |
| Realised gains/(losses) based on historical cost | 5,374 | (124) |
| Movement in investment holding gains/(losses) in year | 19,495 | (6,159) |
| Gains/(losses) on investments | 24,869 | (6,283) |

### (c) Transaction costs

Transaction costs were £99,000 (2012: £144,000) on purchases and £51,000 (2012: £70,000) on sales.

## 10. Derivative instruments

Excluding forward currency contracts used for currency hedging purposes.

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Opening derivative assets held at fair value through profit and loss | 374 | – |
| Opening derivative liabilities held at fair value through profit and loss | (658) | – |
| Net derivative liabilities held at fair value shown in balance sheet | (284) | – |
| Closing derivative assets held at fair value through profit and loss | 366 | 374 |
| Closing derivative liabilities held at fair value through profit and loss | (191) | (658) |
| Net derivative assets/(liabilities) held at fair value shown in balance sheet | 175 | (284) |
| Movement in derivative holding gains/(losses) | 459 | (284) |
| Net realised gains on derivative instruments | 487 | 218 |
| Net capital gain/(loss) on derivative instruments as shown in the income statement | 946 | (66) |
| Net income arising on derivatives | 83 | 55 |
| Total gain/(loss) on derivatives instruments | 1,029 | (11) |

The derivative assets/liabilities shown in the balance sheet are the unrealised gains/losses arising from the revaluation to fair value of futures contracts held in the Balanced Risk Share Portfolio, as shown on page 22.

## 11. Debtors

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Amounts due from brokers | 331 | 117 |
| Taxation recoverable | 203 | 174 |
| Prepayments and accrued income | 361 | 366 |
| | 895 | 657 |

## 12. Other creditors

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Overdraft | – | 538 |
| Bank loan | 7,700 | 7,100 |
| Shares bought back | 1 | – |
| Taxation payable | 149 | 149 |
| Amounts due to brokers | 376 | 279 |
| Performance fee accrued | 1,110 | 680 |
| Accruals | 309 | 282 |
| | 9,645 | 9,028 |

At the year end the Company had a maximum uncommitted overdraft facility of 10% of net assets and a £15 million committed 364 day multicurrency revolving credit facility, which is due for renewal on 23 April 2014, both with The Bank of New York Mellon.

The performance fee accrued is solely in respect of the UK Equity Portfolio. This includes an amount of £391,000 that is now payable as the UK Equity Portfolio's year end net asset value was above that Portfolio's high water mark.

## 13. Share capital and reserves

All shares have a nominal value of 1 penny.

### (a) Movements in Share Capital During the Year

**Issued and fully paid:**

| | UK EQUITY | GLOBAL EQUITY INCOME | BALANCED RISK | MANAGED LIQUIDITY | TOTAL SHARE CAPITAL |
|---|---|---|---|---|---|
| **ORDINARY SHARES (NUMBER)** | | | | | |
| At 31 May 2012 | 38,941,883 | 31,236,703 | 10,321,915 | 8,438,316 | 88,938,817 |
| Shares bought back into treasury | – | – | (468,000) | (1,490,000) | (1,958,000) |
| Arising on share conversion: | | | | | |
| – August 2012 | (225,099) | (70,405) | (376,842) | 693,616 | 21,270 |
| – November 2012 | (1,911,007) | (2,002,304) | 267,972 | 3,993,197 | 347,858 |
| – February 2013 | 914,200 | 1,836,263 | (547,710) | (2,669,494) | (466,741) |
| – May 2013 | 530,495 | (47,971) | (268,237) | (323,866) | (109,579) |
| At 31 May 2013 | 38,250,472 | 30,952,286 | 8,929,098 | 8,641,769 | 86,773,625 |
| **TREASURY SHARES (NUMBER)** | | | | | |
| At 31 May 2012 | 6,163,000 | 4,488,000 | 3,125,000 | 4,452,216 | 18,228,216 |
| Shares bought back into treasury | – | – | 468,000 | 1,490,000 | 1,958,000 |
| At 31 May 2013 | 6,163,000 | 4,488,000 | 3,593,000 | 5,942,216 | 20,186,216 |

## 13. Share capital and reserves (continued)

### (a) Movements in Share Capital During the Year (continued)

ORDINARY SHARES OF 1 PENCE EACH (£'000)

| | | | | | |
|---|---|---|---|---|---|
| At 31 May 2012 | 389 | 312 | 104 | 84 | 889 |
| Shares bought back into treasury | – | – | (5) | (15) | (20) |
| Arising on share conversion: | | | | | |
| – August 2012 | (2) | (1) | (4) | 7 | – |
| – November 2012 | (19) | (20) | 3 | 40 | 4 |
| – February 2013 | 9 | 18 | (5) | (26) | (4) |
| – May 2013 | 5 | – | (3) | (3) | (1) |
| At 31 May 2013 | 382 | 309 | 90 | 87 | 868 |

TREASURY SHARES OF 1 PENCE EACH (£'000)

| | | | | | |
|---|---|---|---|---|---|
| At 31 May 2012 | 62 | 45 | 31 | 44 | 182 |
| Shares bought back into treasury | – | – | 5 | 15 | 20 |
| At 31 May 2013 | 62 | 45 | 36 | 59 | 202 |

TOTAL SHARE CAPITAL (£'000)

| | | | | | |
|---|---|---|---|---|---|
| Ordinary share capital | 382 | 309 | 90 | 87 | 868 |
| Treasury share capital | 62 | 45 | 36 | 59 | 202 |
| Total share capital | 444 | 354 | 126 | 146 | 1,070 |
| Average buy back price | – | – | 108.5p | 99.6p | |

The total cost of share buy backs was £2,006,000 (2012: £2,457,000). As part of the conversion process 701,435 (2012: 9,447) deferred shares of 1p each were created and subsequently cancelled during the year. No deferred shares were in issue at the start or end of the year.

### (b) Movements in Share Capital after the Year End to 30 July 2013

| | UK EQUITY | GLOBAL EQUITY INCOME | BALANCED RISK | MANAGED LIQUIDITY |
|---|---|---|---|---|
| ORDINARY SHARES | | | | |
| Shares bought back into treasury | – | – | – | 200,000 |
| Average buy back price | n/a | n/a | n/a | 100.5p |

### (c) Dividend and Voting Rights

Each of the classes of Shares have the right to receive the revenue profits of the Company attributable to the Portfolio relating to that class of Shares as determined to be distributed by way of interim and/or final dividend at such times as the Board determines.

Shares do not carry a fixed number of votes. At general meetings of the Company the voting rights of each Share are determined by reference to the NAV of the Shares of the relevant class. The relative voting power of each class of Share at the general meeting depends on the number of Shares of that class in issue and the NAV of the Portfolio attributable to that class of Shares. In relation to dividends, each class of Shares is only able to vote on dividends for that class.

As the Portfolios are not legal entities in their own right, if the assets of one of the Portfolios were insufficient to meet its liabilities, any shortfall would have to be met from assets of the other Portfolio(s).

### (d) Deferred Shares

The Deferred shares do not carry any rights to participate in the Company's profits, do not entitle the holder to any repayment of capital on a return of assets (except for the sum of 1p) and do not carry any right to receive notice of or attend or vote at any general meeting of the Company. Any Deferred shares that arise as a result of conversions of Shares are cancelled in the same reporting period.

### (e) Future Convertibility of the Shares

Shares are convertible at the option of the holder into any other class of Share. Further conversion details are given on page 1 and in the Shareholder Information on page 29.

## 14. Reserves

The special reserve is available as distributable profits to be used for all purposes under the Companies Act 2006, including buy back of shares and payment of dividends. The capital redemption reserve arises from the nominal value of shares bought back and cancelled; this and the share premium are non-distributable. The revenue reserve is distributable by way of dividend.

The capital reserve includes unrealised investment holding gains, being the difference between cost and fair value, of £23,547,000 (2012: £4,051,000). It also includes realised net gains of £3,280,000 (2012: nil) which are distributable.

## 15. Net asset values per Share

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

| ORDINARY SHARES | 2013 | | 2012 | |
|---|---|---|---|---|
| | NET ASSET VALUE PER SHARE PENCE | NET ASSETS ATTRIBUTABLE £'000 | NET ASSET VALUE PER SHARE PENCE | NET ASSETS ATTRIBUTABLE £'000 |
| UK Equity | 136.3 | 52,129 | 100.0 | 38,925 |
| Global Equity Income | 141.0 | 43,631 | 108.1 | 33,780 |
| Balanced Risk | 112.2 | 10,017 | 103.1 | 10,639 |
| Managed Liquidity | 103.1 | 8,912 | 102.5 | 8,652 |

Net asset value per Share is based on net assets at the year end and on the number of relevant Shares in issue at the year end.

## 16. Notes to the cash flow statement

### (a) Reconciliation of operating (loss)/profit to operating cash flows

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Total return before finance costs and taxation | 28,149 | (4,470) |
| Adjustment for (gains)/losses on investments | (24,869) | 6,283 |
| Adjustment for (gains)/losses on derivatives | (946) | 66 |
| Adjustment for exchange losses | 6 | 46 |
| Scrip dividends received as income | (9) | (18) |
| Decrease in debtors | 5 | 145 |
| Increase in creditors | 458 | 391 |
| Overseas tax | (165) | (142) |
| Net cash inflow from operating activities | 2,629 | 2,301 |

## 16. Notes to the cash flow statement (continued)

### (b) Analysis of cash flow for headings netted in the cash flow statement

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Servicing of finance** | | |
| Interest paid | (125) | (140) |
| Net cash outflow from servicing of finance | (125) | (140) |
| **Capital expenditure and financial investment** | | |
| Purchase of investments | (63,393) | (66,579) |
| Sale of investments | 64,854 | 71,877 |
| Sale of futures | 487 | 218 |
| Scrip dividends received as income | 9 | 18 |
| Net cash inflow from capital expenditure and financial investments | 1,957 | 5,534 |
| **Financing** | | |
| Share buy back costs | (2,004) | (2,458) |
| Decrease/(increase) in bank borrowings | 62 | (1,400) |
| Net cash outflow from servicing of finance | (1,942) | (3,858) |

### (c) Analysis of changes in net debt

| | 31 MAY 2012 £'000 | CASH FLOW £'000 | EXCHANGE MOVEMENTS £'000 | 31 MAY 2013 £'000 |
|---|---|---|---|---|
| Cash, short-term deposits and cash held at brokers | 2,049 | (672) | (6) | 1,371 |
| Bank loan | (7,100) | (600) | – | (7,700) |
| Overdraft | (538) | 538 | – | – |
| Net debt | (5,589) | (734) | (6) | (6,329) |

## 17. Risk management

The Company's financial instruments comprise the following:

- investments in equities, fixed interest securities and liquidity funds which are held in accordance with the Company's investment objectives and the investment objectives of the four Portfolios;
- short-term debtors, creditors and cash arising directly from operations;
- short-term forward foreign currency and futures contracts; and
- bank loans and short-term overdrafts, used to finance operations.

The financial instruments held in each of the four investment portfolios are shown on pages 9, 15, 21, 22 and 26.

The accounting policies in note 1 include criteria for the recognition and the basis of measurement applied for these financial instruments. This note 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, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

***Liquidity risk*** – arising from any difficulty in meeting obligations associated with financial liabilities that are settled by delivering each or another financial asset.

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

**Risk Management Policies and Procedures**

As an investment trust the Company invests in equities and other investments for the long-term so as to meet its investment objectives and policies. In pursuing its objectives, the Company is exposed to a variety of risks that could result in 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 Directors' policies for managing these risks follow. These have not changed from those applying in the previous year.

The Directors have delegated to the Managers the responsibility for the day-to-day investment activities of the Company as more fully described in the Report of the Directors.

The main risk that the Company faces arising from its financial instruments is market risk – this risk is reviewed in detail below. Since the Company mainly invests in quoted investments and derivative instruments traded on recognised stock exchanges, liquidity risk and credit risk are significantly mitigated.

**Market Risk**

The Company's portfolio managers assess the individual investment portfolio exposures when making each investment decision for their Portfolios, and monitor the overall level of market risk on the whole of their investment portfolio on an ongoing basis. The Board meets at least quarterly to assess risk and review investment performance for the four Portfolios and the Company, as disclosed in the Board Responsibility section on pages 40 and 41. Borrowings can be used by the UK Equity, Global Equity Income and Balanced Risk Portfolios, however, this will also increase the Company's exposure to market risk and volatility. The borrowing limits for these Portfolios are 25%, 20% and 5% of attributable net assets, respectively.

*Currency Risk*

A majority of the Global Equity Income Portfolio, derivative instruments in the Balanced Risk Portfolio and a small proportion of the UK Equity Portfolio consist of assets, liabilities and income denominated in currencies other than sterling. As a result, movements in exchange rates will affect the sterling value of those items.

*Management of Currency Risk*

The portfolio managers monitor the separate Portfolios' exposure to foreign currencies on a daily basis and report to the Board on a regular basis. Forward foreign currency contracts can be used to limit the Company's exposure to anticipated future changes in exchange rates which are also used to achieve the portfolio characteristics that assist the Company in meeting its investment objective and policies. All contracts are limited to currencies and amounts commensurate with the asset exposure to those currencies. No such contracts were in place at the current or preceding year end. Income denominated in foreign currencies is converted to sterling on receipt.

## 17. Risk management (continued)

**Market Risk** (continued)

*Foreign Currency Exposure*

The fair value or amortised cost of the Company's monetary items that have foreign currency exposure at 31 May are shown below. Where the Company's equity investments (which are not monetary items) are priced in a foreign currency they have been included separately in the analysis in order to show the overall level of exposure.

### UK EQUITY PORTFOLIO:

### YEAR ENDED 31 MAY 2013

| CURRENCY | DEBTORS (DUE FROM BROKERS AND DIVIDENDS) £'000 | CASH AT BANK £'000 | CREDITORS (DUE FROM BROKERS AND ACCRUALS) £'000 | CURRENCY EXPOSURE ON NET MONETARY ITEMS £'000 | INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS THAT ARE EQUITIES £'000 | TOTAL NET CURRENCY £'000 |
|---|---|---|---|---|---|---|
| Swedish Krona | – | – | – | – | 72 | 72 |
| Swiss Franc | 250 | – | – | 250 | 5,134 | 5,384 |
| US Dollar | 9 | – | – | 9 | 3,141 | 3,150 |
| | 259 | – | – | 259 | 8,347 | 8,606 |

### YEAR ENDED 31 MAY 2012

| CURRENCY | DEBTORS (DUE FROM BROKERS AND DIVIDENDS) £'000 | CASH AT BANK £'000 | CREDITORS (DUE FROM BROKERS AND ACCRUALS) £'000 | CURRENCY EXPOSURE ON NET MONETARY ITEMS £'000 | INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS THAT ARE EQUITIES £'000 | TOTAL NET CURRENCY £'000 |
|---|---|---|---|---|---|---|
| Swedish Krona | – | – | – | – | 176 | 176 |
| Swiss Franc | – | – | – | – | 2,325 | 2,325 |
| US Dollar | – | – | – | – | 2,660 | 2,660 |
| | – | – | – | – | 5,161 | 5,161 |

### GLOBAL EQUITY INCOME PORTFOLIO:

### YEAR ENDED 31 MAY 2013

| CURRENCY | DEBTORS (DUE FROM BROKERS AND DIVIDENDS) £'000 | CASH/ (OVERDRAFT) AT BANK £'000 | CREDITORS (DUE TO BROKERS AND ACCRUALS) £'000 | TOTAL FOREIGN CURRENCY EXPOSURE ON NET MONETARY ITEMS £'000 | INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS THAT ARE EQUITIES £'000 | TOTAL NET CURRENCY £'000 |
|---|---|---|---|---|---|---|
| Australian Dollar | – | – | – | – | 1,371 | 1,371 |
| Euro | 20 | – | – | 20 | 4,944 | 4,964 |
| Hong Kong Dollar | 13 | – | – | 13 | 1,117 | 1,130 |
| Japanese Yen | 5 | – | – | 5 | 2,806 | 2,811 |
| Norwegian Krone | 10 | – | – | 10 | 645 | 655 |
| Swedish Krona | – | – | – | – | 906 | 906 |
| Singapore Dollar | – | – | – | – | 559 | 559 |
| Swiss Franc | 58 | – | – | 58 | 4,913 | 4,971 |
| Taiwan Dollar | – | – | – | – | – | – |
| US Dollar | 75 | – | – | 75 | 19,522 | 19,597 |
| | 181 | – | – | 181 | 36,783 | 36,964 |

## YEAR ENDED 31 MAY 2012

| CURRENCY | DEBTORS (DUE FROM BROKERS AND DIVIDENDS) £'000 | CASH/ (OVERDRAFT) AT BANK £'000 | CREDITORS (DUE TO BROKERS AND ACCRUALS) £'000 | TOTAL FOREIGN CURRENCY EXPOSURE ON NET MONETARY ITEMS £'000 | INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS THAT ARE EQUITIES £'000 | TOTAL NET CURRENCY £'000 |
|---|---|---|---|---|---|---|
| Australian Dollar | – | – | – | – | 1,064 | 1,064 |
| Euro | 24 | (3) | – | 21 | 3,200 | 3,221 |
| Hong Kong Dollar | 12 | – | – | 12 | 485 | 497 |
| Japanese Yen | 7 | – | – | 7 | 2,907 | 2,914 |
| Norwegian Krone | 5 | – | – | 5 | 497 | 502 |
| Singapore Dollar | – | – | – | – | 1,067 | 1,067 |
| Swiss Franc | 52 | – | – | 52 | 2,551 | 2,603 |
| Taiwan Dollar | – | 505 | – | 505 | – | 505 |
| US Dollar | 56 | 10 | – | 66 | 16,607 | 16,673 |
| | 156 | 512 | – | 668 | 28,378 | 29,046 |

## BALANCED RISK PORTFOLIO:

## YEAR ENDED 31 MAY 2013

| CURRENCY | DERIVATIVE ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS £'000 | CASH/ (OVERDRAFT) AT BANK* £'000 | DERIVATIVE LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS £'000 | TOTAL FOREIGN CURRENCY EXPOSURE ON NET MONETARY ITEMS £'000 | INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS THAT ARE EQUITIES £'000 | TOTAL NET CURRENCY £'000 |
|---|---|---|---|---|---|---|
| Australian Dollar | 22 | 31 | – | 53 | – | 53 |
| Canadian Dollar | – | 37 | (16) | 21 | – | 21 |
| Euro | 42 | 68 | – | 110 | – | 110 |
| Hong Kong Dollar | – | 43 | (8) | 35 | – | 35 |
| Japanese Yen | 105 | 37 | (18) | 124 | – | 124 |
| US Dollar | 176 | 221 | (133) | 264 | 41 | 305 |
| | 345 | 437 | (175) | 607 | 41 | 648 |

## YEAR ENDED 31 MAY 2012

| CURRENCY | DERIVATIVE ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS £'000 | CASH/ (OVERDRAFT) AT BANK* £'000 | DERIVATIVE LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS £'000 | TOTAL FOREIGN CURRENCY EXPOSURE ON NET MONETARY ITEMS £'000 | INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS THAT ARE EQUITIES £'000 | TOTAL NET CURRENCY £'000 |
|---|---|---|---|---|---|---|
| Australian Dollar | 186 | 98 | – | 284 | – | 284 |
| Canadian Dollar | 21 | 103 | – | 124 | – | 124 |
| Euro | 84 | 118 | (92) | 110 | – | 110 |
| Hong Kong Dollar | – | 48 | (1) | 47 | – | 47 |
| Japanese Yen | 20 | 129 | (113) | 36 | – | 36 |
| US Dollar | 25 | 660 | (380) | 305 | 80 | 385 |
| | 336 | 1,156 | (586) | 906 | 80 | 986 |

*Cash includes amounts held at brokers.

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 17. Risk management (continued)

**Market Risk** (continued)

*Foreign Currency Sensitivity*

The sensitivity analysis is based on the Company's monetary foreign currency financial instruments held at each balance sheet date and takes account of forward foreign exchange contracts that offset the effects of changes in currency exchange rates. The effect of strengthening or weakening of sterling against other 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, giving the following exchange rate fluctuations:

| | 2013 | 2012 |
|---|---|---|
| £/Australian Dollar | +/– 2.2% | +/– 2.5% |
| £/Brazillian Real | +/– 3.4% | +/– 6.2% |
| £/Canadian Dollar | +/– 1.2% | +/– 1.5% |
| £/Euro | +/– 3.3% | +/– 3.1% |
| £/Hong Kong Dollar | +/– 2.3% | +/– 1.9% |
| £/Indian Rupee | +/– 2.5% | +/– 5.5% |
| £/Japanese Yen | +/– 8.1% | +/– 3.4% |
| £/Korean Won | +/– 2.9% | +/– 2.2% |
| £/Norwegian Krone | +/– 2.9% | +/– 2.3% |
| £/Singapore Dollar | +/– 1.9% | +/– 1.2% |
| £/Swedish Krona | +/– 3.9% | +/– 2.4% |
| £/Swiss Franc | +/– 2.4% | +/– 4.6% |
| £/Taiwan Dollar | +/– 1.8% | +/– 1.2% |
| £/US Dollar | +/– 2.3% | +/– 1.8% |

The tables that follow illustrate the sensitivity of returns after taxation for the year and equity with regard to the Company's monetary financial assets and liabilities and exchange rates for the UK Equity, Global Equity Income and Balanced Risk Portfolios.

If sterling had strengthened against the currencies shown by the table above, this would have had the following after tax effect:

### UK EQUITY PORTFOLIO:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | REVENUE RETURN | CAPITAL RETURN | TOTAL RETURN | REVENUE RETURN | CAPITAL RETURN | TOTAL RETURN |
| Swedish Krona | – | (3) | (3) | – | (4) | (4) |
| Swiss Franc | (5) | (128) | (133) | (4) | (106) | (110) |
| US Dollar | (9) | (72) | (81) | (2) | (49) | (51) |
| | (14) | (203) | (217) | (6) | (159) | (165) |

### GLOBAL EQUITY INCOME PORTFOLIO:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | REVENUE RETURN | CAPITAL RETURN | TOTAL RETURN | REVENUE RETURN | CAPITAL RETURN | TOTAL RETURN |
| Australian Dollar | (1) | (30) | (31) | (1) | (27) | (28) |
| Brazilian Real | – | – | – | (1) | – | (1) |
| Euro | (6) | (163) | (169) | (6) | (100) | (106) |
| Hong Kong Dollar | (1) | (26) | (27) | (1) | (9) | (10) |
| Indian Rupee | – | – | – | (1) | – | (1) |
| Japanese Yen | (7) | (227) | (234) | (3) | (99) | (102) |
| Norwegian Krone | (1) | (19) | (20) | (1) | (12) | (13) |
| Swedish Krona | – | (35) | (35) | – | – | – |
| Singapore Dollar | – | (11) | (11) | (1) | (13) | (14) |
| Swiss Franc | (4) | (118) | (122) | (4) | (119) | (123) |
| Taiwan Dollar | – | – | – | – | (6) | (6) |
| US Dollar | (13) | (449) | (462) | (6) | (305) | (311) |
| | (33) | (1,078) | (1,111) | (25) | (690) | (715) |

BALANCED RISK PORTFOLIO:

| | 2013 REVENUE RETURN | 2013 CAPITAL RETURN | 2013 TOTAL RETURN | 2012 REVENUE RETURN | 2012 CAPITAL RETURN | 2012 TOTAL RETURN |
|---|---|---|---|---|---|---|
| Australian Dollar | – | (1) | (1) | – | (7) | (7) |
| Canadian Dollar | – | – | – | – | (2) | (2) |
| Euro | – | (4) | (4) | – | (3) | (3) |
| Hong Kong Dollar | – | (1) | (1) | – | (1) | (1) |
| Japanese Yen | – | (10) | (10) | – | (1) | (1) |
| US Dollar | – | (6) | (6) | – | (7) | (7) |
| | – | (22) | (22) | – | (21) | (21) |

If sterling had weakened against the currencies shown, the effect would have been the converse.

*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 as part of the portfolio management and borrowings processes of the portfolio managers. The Board reviews on a regular basis the investment portfolio and borrowings. This encompasses the valuation of fixed-interest and floating rate securities and gearing levels.

When the Company has cash balances, they are held in variable rate bank accounts yielding rates of interest dependant on the base rate of the custodian. The Company has a £15 million, 364 day multicurrency revolving credit facility which is due for renewal on 23 April 2014. The Company uses the facility when required at levels approved and monitored by the Board.

*Interest rate exposure*

At 31 May 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 re-set; and
– fixed interest rates (giving fair value interest rate risk) – when the financial instrument is due for repayment.

The following table sets out the cash and borrowings exposure at the year end:

| | UK EQUITY £'000 | GLOBAL EQUITY INCOME £'000 | BALANCED RISK £'000 | MANAGED LIQUIDITY £'000 | TOTAL £'000 |
|---|---|---|---|---|---|
| **2013** | | | | | |
| *Exposure to floating interest rates:* | | | | | |
| Investments held at fair value through profit and loss* | – | – | 3,300 | 8,996 | 12,296 |
| Cash, short-term deposits and cash held at brokers | 107 | 689 | 563 | 12 | 1,371 |
| Bank loans | (7,700) | – | – | – | (7,700) |
| Overdraft | – | – | – | – | – |
| | (7,593) | 689 | 3,863 | 9,008 | 5,967 |
| *Exposure to fixed interest rates:* | | | | | |
| Investments held at fair value through profit and loss – including UK Treasury Bills | – | – | 5,959 | – | 5,959 |
| Net exposure to interest rates | (7,593) | 689 | 9,822 | 9,008 | 11,926 |

# NOTES TO THE FINANCIAL STATEMENTS

continued

## 17. Risk management (continued)

**Market Risk** (continued)

*Interest rate exposure* (continued)

| | UK EQUITY £'000 | GLOBAL EQUITY INCOME £'000 | BALANCED RISK £'000 | MANAGED LIQUIDITY £'000 | TOTAL £'000 |
|---|---|---|---|---|---|
| **2012** | | | | | |
| *Exposure to floating interest rates:* | | | | | |
| Investments held at fair value through profit and loss* | – | – | 550 | 8,732 | 9,282 |
| Cash, short-term deposits and cash held at brokers | 189 | 512 | 1,343 | 5 | 2,049 |
| Bank loans | (7,100) | – | – | – | (7,100) |
| Overdraft | – | (538) | – | – | (538) |
| | (6,911) | (26) | 1,893 | 8,737 | 3,693 |
| *Exposure to fixed interest rates:* | | | | | |
| Investments held at fair value through profit and loss – including UK Treasury Bills | 36 | – | 8,987 | – | 9,023 |
| Net exposure to interest rates | (6,875) | (26) | 10,880 | 8,737 | 12,716 |

* Comprises holdings in the Short-Term Investments Company (Global Series) and Invesco Perpetual Money Fund.

The income on the Invesco Perpetual Money Fund and Short Term Investments Company (Global Series) is dependent on interbank lending rates as described in detail in the Managed Liquidity Investment Manager's Report; the principal amount should normally remain stable regardless of interest rate movements.

*Interest rate sensitivity*

At the maximum possible gearing of £15 million, the effect over one year of a 0.5% movement in interest rates would result in a £75,000 maximum movement in the Company's income statement and net assets.

The effect over one year of a 1% movement in the interest rates on investments held at fair value through profit and loss would result in a £14,000 (2012: £12,000) maximum movement in the Company's income statement and net assets.

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

### *Other Price Risk*

Other price risks (i.e. changes in market prices other than those arising from interest rate risk or currency risk) may affect the value of the equity investments, but it is the business of the Managers to manage the Portfolios to achieve the best returns they can.

*Management of Other Price Risk*

The Directors monitor the market price risks inherent in the investment portfolios by meeting regularly to review the Managers and the investment performances.

The Company's investment portfolios are the result of the Manager's investment processes and as a result are not wholly correlated with the individual Portfolios' benchmarks or the markets in which the Portfolios invest. The value of the investment portfolios will not move in line with the markets but will move as a result of the performance of the company shares within the investment portfolios.

If the value of an investment portfolio moved by 10% at the balance sheet date, the profit after tax and net assets for the year would increase/decrease by the following amounts:

| | UK EQUITY £'000 | GLOBAL EQUITY INCOME £'000 | BALANCED RISK £'000 | MANAGED LIQUIDITY £'000 |
|---|---|---|---|---|
| **2013** | | | | |
| Profit after tax increase/decrease due to rise/fall of 10% | 6,074 | 4,286 | 930 | 900 |
| **2012** | | | | |
| Profit after tax increase/decrease due to rise/fall of 10% | 4,652 | 3,373 | 962 | 873 |

### Liquidity Risk

*Management of liquidity risk*

Liquidity risk is minimised as the majority of the Company's investments comprise diversified portfolios of readily realiseable securities which can be sold to meet funding commitments. If required, the Company's borrowing facilities provide additional long-term and short-term flexibility.

The Directors' policy is for the Company to remain fully invested in normal market conditions and that short-term borrowings be used to manage short term liabilities and working capital requirements.

*Liquidity risk*

The contractual maturities of financial liabilities at the year end, based on the earliest date on which payment can be required, are as follows:

| | UK EQUITY | | GLOBAL EQUITY INCOME | BALANCED RISK | | MANAGED LIQUIDITY | |
|---|---|---|---|---|---|---|---|
| | 3 MONTHS OR LESS £'000 | MORE THAN 3 MONTHS £'000 | 3 MONTHS OR LESS £'000 | 3 MONTHS OR LESS £'000 | MORE THAN 3 MONTHS £'000 | 3 MONTHS OR LESS £'000 | COMPANY TOTAL £'000 |
| **2013** | | | | | | | |
| Overdraft | – | – | – | – | – | – | – |
| Bank loan | 7,700 | – | – | – | – | – | 7,700 |
| Amount due to brokers | 374 | – | – | – | – | 2 | 376 |
| Other creditors and accruals | 146 | – | 121 | 29 | – | 163 | 459 |
| Performance fee accrued | 391 | 719 | – | – | – | – | 1,110 |
| Derivative financial instruments | – | – | – | 104 | 87 | – | 191 |
| | 8,611 | 719 | 121 | 133 | 87 | 165 | 9,836 |
| **2012** | | | | | | | |
| Overdraft | – | – | 538 | – | – | – | 538 |
| Bank loan | 7,100 | – | – | – | – | – | 7,100 |
| Amount due to brokers | 279 | – | – | – | – | – | 279 |
| Other creditors and accruals | 118 | – | 107 | 45 | – | 161 | 431 |
| Performance fee accrued | – | 680 | – | – | – | – | 680 |
| Derivative financial instruments | – | – | – | 544 | 114 | – | 658 |
| | 7,497 | 680 | 645 | 589 | 114 | 161 | 9,686 |

## 17. Risk management (continued)

**Credit Risk**

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

This risk is managed as follows:

– investment transactions are carried out with a selection of brokers, whose credit ratings are regularly reviewed so as to minimise the risk of default to the Company;

– the risk of counterparty exposure due to failed trades causing a loss to the Company is mitigated by the daily review of failed trade reports and the use of daily stock and cash reconciliations. Only approved counterparties are used;

– the Company's ability to operate in the short-term may be adversely affected if the Company's custodian, The Bank of New York Mellon, or its Manager, Invesco Asset Management Limited, suffers insolvency or other financial difficulties. The Board reviews the custodian's and the Manager's annual controls reports and the Manager's management of the relationship with the custodian;

– where an investment is made in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to minimise the risk to the Company of default; and

– cash balances are limited to a maximum of £2.5 million for each Portfolio with any one depositary (other than margins on derivative instruments), with only depositaries approved by the Manager being used. Cash held at brokers includes that arising from margin on the futures contracts and during the year only one futures broker, Merrill Lynch, was used.

The following table sets out the maximum credit risk exposure at the year end:

| | UK EQUITY £'000 | GLOBAL EQUITY INCOME £'000 | BALANCED RISK £'000 | MANAGED LIQUIDITY £'000 | TOTAL £'000 |
|---|---|---|---|---|---|
| **2013** | | | | | |
| Bonds | – | – | 5,959 | – | 5,959 |
| Cash held as short term investment | – | – | 3,300 | 8,996 | 12,296 |
| Unquoted securities | 822 | – | 41 | – | 863 |
| Derivative financial instruments | – | – | 15,603 | – | 15,603 |
| Debtors | 611 | 207 | 8 | 69 | 895 |
| Cash, short-term deposits and cash held at brokers | 107 | 689 | 563 | 12 | 1,371 |
| | 1,540 | 896 | 25,474 | 9,077 | 36,987 |
| **2012** | | | | | |
| Bonds | 36 | – | 8,987 | – | 9,023 |
| Cash held as short term investment | – | – | 550 | 8,732 | 9,282 |
| Unquoted securities | 625 | – | 80 | – | 705 |
| Derivative financial instruments | – | – | 18,065 | – | 18,065 |
| Debtors | 393 | 180 | 8 | 76 | 657 |
| Cash, short-term deposits and cash held at brokers | 189 | 512 | 1,343 | 5 | 2,049 |
| | 1,243 | 692 | 29,033 | 8,813 | 39,781 |

**Fair Value Hierarchy Disclosures**

The majority of the Company's investments are in the Level 1 category. The three levels set out in Financial Reporting Standard 29 (FRS 29) 'Financial Instruments: Disclosures' follow.

Level 1 – fair value based on quoted prices in active markets for identical assets;

Level 2 – fair values based on valuation techniques using observable inputs other than quoted prices within Level 1; and

Level 3 – fair values based on valuation techniques using inputs that are not based on observable market data.

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. All quoted equity investments and Treasury bills are deemed to be Level 1. Level 2 comprises all other quoted fixed income investments, the UK Equity Portfolio's holdings of Barclays Bank Nuclear Power Notes and XCounter shares, derivative instruments and liquidity funds held in the Managed Liquidity and Balanced Risk Portfolios. Level 3 investments comprise any unquoted securities and the remaining hedge fund investments of the Balanced Risk Portfolio. The UK Equity Portfolio holding of XCounter shares transferred from Level 1 to Level 2 during the year.

| | UK EQUITY £'000 | GLOBAL EQUITY INCOME £'000 | BALANCED RISK £'000 | MANAGED LIQUIDITY £'000 | TOTAL £'000 |
|---|---|---|---|---|---|
| **2013** | | | | | |
| Financial assets designated at fair value through profit or loss: | | | | | |
| Level 1 | 59,800 | 42,856 | 5,959 | – | 108,615 |
| Level 2 | 191 | – | 3,666 | 8,996 | 12,853 |
| Level 3 | 750 | – | 41 | – | 791 |
| Total for financial assets | 60,741 | 42,856 | 9,666 | 8,996 | 122,259 |
| Financial liabilities: | | | | | |
| Level 2 – Derivative instruments | – | – | 191 | – | 191 |
| **2012** | | | | | |
| Financial assets designated at fair value through profit or loss: | | | | | |
| Level 1 | 45,740 | 33,733 | 8,987 | – | 88,460 |
| Level 2 | 155 | – | 924 | 8,732 | 9,811 |
| Level 3 | 625 | – | 80 | – | 705 |
| Total for financial assets | 46,520 | 33,733 | 9,991 | 8,732 | 98,976 |
| Financial liabilities: | | | | | |
| Level 2 – Derivative instruments | – | – | 658 | – | 658 |

A reconciliation of the fair value movement in Level 3 is set out below.

| | UK EQUITY £'000 | BALANCED RISK £'000 | TOTAL £'000 |
|---|---|---|---|
| **2013** | | | |
| Opening fair value | 625 | 80 | 705 |
| Sales – proceeds | – | (21) | (21) |
| – net realised losses | – | (30) | (30) |
| Movement in investment holding gains | 125 | 12 | 137 |
| Closing fair value of Level 3 | 750 | 41 | 791 |
| **2012** | | | |
| Opening fair value | 500 | 13,412 | 13,912 |
| Sales – proceeds | – | (12,429) | (12,429) |
| – net realised losses | – | (903) | (903) |
| Movement in investment holding gains | 125 | – | 125 |
| Closing fair value of Level 3 | 625 | 80 | 705 |

## 17. Risk management (continued)

**Fair Values of Financial Assets and Financial Liabilities**

The fair values of the financial assets and financial liabilities are either carried in the balance sheet at their fair value (investments and derivative instruments), or the balance sheet amount as a reasonable approximation of fair value (due from brokers, dividends receivable, accrued income, due to brokers, accruals, cash at bank/overdraft and loan).

**Capital Management**

The Company's total capital employed at 31 May 2013 was £122,389,000 (2012: £99,634,000) comprising borrowings of £7,700,000 (2012: £7,638,000) and equity share capital and other reserves of £114,689,000 (2012: £91,996,000).

The Company's total capital employed is managed to achieve each of the Company's and the Portfolios' investment objectives as set out on pages 30 to 33, including that borrowings may be used to provide gearing. Borrowings were drawn down by the UK Equity Portfolio only, the net gearing of which was 14.6% (2012: 17.8%). The Company's policies and processes for managing capital were unchanged throughout the year and the preceding year.

The main risks to the Company's investments are shown in the Report of the Directors under the 'Principal Risks and Uncertainties' section on pages 36 to 39. These also explain that the Company is able to gear and that gearing will amplify the effect on equity of changes in the value of the portfolio.

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 externally imposed capital requirements with respect to the obligation and ability to pay dividends by Corporation Tax Act 2010 and by the Companies Act 2006, respectively, and with respect to the availability of the borrowing facility, by the terms imposed by the custodian. The Board regularly monitors, and the Company has complied with, the externally imposed capital requirements. This is unchanged from the prior year.

Borrowings comprise any bank overdraft and any bank loan, details of which are given in note 12.

## 18. Contingencies, guarantees and financial commitments

There were no contingencies, guarantees or financial commitments of the Company at the year end (2012: £nil).

## 19. Related party transactions and transactions with the Manager

Invesco Asset Management Limited (IAML), a wholly owned subsidiary of Invesco Limited, acts as Manager, Company Secretary and Administrator to the Company, Details of IAML's services and fees are disclosed in the Report of the Directors.

Fees paid to Directors are disclosed in the Directors' Remuneration Report on page 50, with additional disclosure in note 4. Full details of Directors' interests are set out in the Report of the Directors on page 43.

**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 Perpetual Select Trust plc, 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 Perpetual Select Trust plc will be held at 30 Finsbury Square, London EC2A 1AG at 11.30am on 26 September 2013 for the following purposes:

## Ordinary Business

1. To receive the Report of the Directors, Financial Statements and the Auditor's Report for the year ended 31 May 2013.
2. To approve the Directors' Remuneration Report.
3. To re-elect Alan Clifton a Director of the Company.
4. To reappoint Ernst & Young LLP as Auditor to the Company and authorise the Directors to determine the Auditor's remuneration.

## Special Business

To consider and, if thought fit, to pass the following resolution which will be proposed as an Ordinary Resolution:

5. THAT:

   the Directors be and they are hereby generally and unconditionally authorised, for the purpose of section 551 of the Companies Act 2006 as amended from time to time prior to the date of passing this resolution ('2006 Act') to exercise all the powers of the Company to allot relevant securities (as defined in sections 551(3) and (6) of the 2006 Act) up to an aggregate nominal amount equal to £1,000,000 of UK Equity Shares, £1,000,000 of Global Equity Income Shares, £1,000,000 of Balanced Risk Shares and £1,000,000 of Managed Liquidity Shares, provided that this authority shall expire at the conclusion of the next AGM of the Company or the date falling fifteen months after the passing of this resolution, whichever is the earlier, but so that such authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.

To consider and, if thought fit, to pass the following resolutions which will be proposed as Special Resolutions:

6. THAT:

   the Directors be and they are hereby empowered, in accordance with sections 570 and 573 of the Companies Act 2006 as amended from time to time prior to the date of the passing of this resolution ('2006 Act') to allot Shares in each class (UK Equity, Global Equity Income, Balanced Risk and Managed Liquidity) for cash, either pursuant to the authority given by resolution 5 set out above or (if such allotment constitutes the sale of relevant Shares which, immediately before the sale, were held by the Company as treasury shares) otherwise, as if section 561 of the 2006 Act did not apply to any such allotment, provided that this power shall be limited:

   (a) to the allotment of Shares in connection with a rights issue in favour of all holders of a class of Share where the Shares attributable respectively to the interests of all holders of Shares of such class are either proportionate (as nearly as may be) to the respective numbers of relevant Shares held by them or are otherwise allotted in accordance with the rights attaching to such Shares (subject in either case to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise);

(b) to the allotment (otherwise than pursuant to a rights issue) of equity securities up to an aggregate nominal amount of £38,250 of UK Equity Shares, £30,952 of Global Equity Income Shares, £8,929 of Balanced Risk Shares and £8,441 of Managed Liquidity Shares; and

(c) to the allotment of equity securities at a price of not less than the net asset value per Share as close as practicable to the allotment or sale.

and this power shall expire at the conclusion of the next AGM of the Company or the date fifteen months after the passing of this resolution, whichever is the earlier, but so that this power shall allow the Company to make offers or agreements before the expiry of this power which would or might require equity securities to be allotted after such expiry as if the power conferred by this resolution had not expired; and so that words and expressions defined in or for the purposes of Part 17 of the 2006 Act shall bear the same meanings in this resolution.

7. THAT:

the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with section 701 of the Companies Act 2006 as amended from time to time prior to the date of passing this resolution ('2006 Act') to make market purchases (within the meaning of section 693(4) of the 2006 Act) of its issued Shares in each Share class (UK Equity, Global Equity Income, Balanced Risk and Managed Liquidity).

PROVIDED ALWAYS THAT

(i) the maximum number of Shares hereby authorised to be purchased shall be 14.99% of each class of the Company's share capital at 26 September 2013, the date of the Annual General Meeting (equivalent, at 30 July 2013, to 5,733,745 UK Equity Shares, 4,639,747 Global Equity Income Shares, 1,338,471 Balanced Risk Shares and 1,265,421 Managed Liquidity Shares);

(ii) the minimum price which may be paid for a Share shall be 1p;

(iii) the maximum price which may be paid for a Share in each Share class shall be an amount equal to 105% of the average of the middle market quotations for a Share taken from and calculated by reference to the London Stock Exchange Daily Official List for five business days immediately preceding the day on which the Share is purchased;

(iv) any purchase of Shares will be made in the market for cash at prices below the prevailing net asset value per Share (as determined by the Directors);

(v) the authority hereby conferred shall expire at the conclusion of the next AGM of the Company or, if earlier, on the expiry of 15 months from the passing of this resolution unless the authority is renewed at any other general meeting prior to such time; and

(vi) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority which will be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract.

8. THAT:

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

All Resolutions are explained further in the Report of the Directors on pages 48 and 49.

Dated 31st July 2013

By order of the Board

**Invesco Asset Management Limited**
Company Secretary

## 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 by one of the following methods:

   - via Capita Registrar's website *www.capitashareportal.com*; or
   - in hard copy form by post, by courier or by hand to the Company's registrars, Capita Registrars, PXS, 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 the Company not less than 48 hours before the time of the AGM.

   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 CRESTCo'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. 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 provider(s) should note that CRESTCo 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 practical limitations of the CREST system and timings.

3. A person entered on the Register of Members at close of business on 24 September 2013 (a 'member') is entitled to attend and vote at the Meeting 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 Meeting. If the Meeting 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 Register of Directors' interests; the schedule of matters reserved for the Board; the terms of reference of the Audit, Management Engagement and Nomination Committees; and the letters of appointment for Directors will be available for inspection for at least 15 minutes prior to and during the Company's AGM.

5. The current Articles of Association are available for inspection at the Registered Office of the Company during normal business hours on any business day (excluding public holidays) and will also be available at the AGM for at least 15 minutes prior to and during the Meeting.

6. Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that they do not do so in relation to the same shares.
7. Any person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may have a right, under an agreement between him/her and the shareholder by whom he/she was nominated, to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right, under such an agreement, to give instructions to the shareholder as to the exercise of voting rights. The statement of the above rights of the shareholders in relation to the appointment of proxies in paragraph 1 above does not apply to Nominated Persons. Those rights can only be exercised by shareholders of the Company.
8. 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 for 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.
9. You may not use any electronic address (within the meaning of section 333(4) of the Companies Act 2006) 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.
10. As at 30 July 2013 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consists of 38,250,472 UK Equity Shares, 30,952,286 Global Equity Income Shares, 8,441,769 Managed Liquidity Shares and 8,929,098 Balanced Risk Shares (all excluding shares held in treasury).
11. Subject to the Articles, voting takes place on a show of hands with every member who is present in person or by proxy having a right to one vote (except that if a proxy's instructions include votes for and against (in respect of different shares) the proxy has one vote for and one vote against on a show of hands). On a poll the number of votes per Share of each class will vary with the Net Asset Value ('NAV') of the respective underlying Portfolio and is determined in accordance with the following formula: $V = A \div B$

    WHERE:

    V is the number of votes for each Share of a particular class;

    A is the Portfolio NAV for the relevant Share class; and

    B is the number of Shares of the relevant class in issue (excluding treasury shares).

    The value of $A \div B$ (the net asset value per Share) for each class is calculated and announced (expressed in pence) daily.

    For the purposes of the AGM, the number of votes which may be cast and the total voting rights will be determined by the number of Shares in issue and the NAV as at a date no more than ten business days prior to the date of the AGM.
12. A copy of this notice (contained within the 2013 annual financial report), and other information required by section 311A of the Companies Act 2006, can be found at *www.invescoperpetual.co.uk/investmenttrusts*.
13. Shareholders should note that it is possible that, pursuant to requests made by members of the Company under section 527 of the Companies Act 2006 ('2006 Act'), the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which the annual financial report was laid in accordance with section 437 of the 2006 Act (in each case) that the members propose to raise at the relevant Annual General Meeting. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the 2006 Act. Where the Company is required to place a statement on a website under section 527 of the 2006 Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 of the 2006 Act to publish on a website.

# GLOSSARY OF TERMS

## Discount

A description of the situation when the cum income share price is lower than the cum income NAV per share, with debt taken at amortised cost. The size of the discount is calculated by subtracting the share price from the NAV per share and is expressed as a percentage (%) of the NAV per share. If the share price is higher than the NAV per share, this situation is called a premium.

## Gearing

The gearing percentage reflects the amount of borrowings that a company has invested and is indicative of the extra amount by which shareholders' funds would move if a company's investments were to rise or fall. A positive percentage indicates the extent to which shareholders' funds 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**

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 shareholders' funds.

**Net Gearing**

This reflects the amount of net borrowings invested, ie borrowings less cash. It is based on net borrowings as a percentage of shareholders' funds.

## Net Asset Value (NAV)

The value of the Company's assets, principally investments made in other companies and cash being held, minus any liabilities for which the Company is responsible (for example, money owed). The NAV is also described as 'shareholders' funds'. The NAV is often expressed in pence per share after being divided by the number of shares which have been issued. The NAV per share is unlikely to be the same as the share price which is the price at which the Company's shares can be bought or sold by an investor. The share price is determined by the relationship between the demand and supply for the shares.

## Net Cash

This reflects the Company's net exposure to cash and cash equivalents expressed as a percentage of shareholders' funds after any offset against its gearing.

## Ongoing Charges Ratio

The annualised ongoing charges, including those charged to capital but excluding interest, incurred by the Company, expressed as a percentage of the average undiluted net asset value (with debt at fair value) in the period reported.

## Total Return

The combined effect of any dividends paid, together with the rise or fall in the share price or NAV. Performance comparisons can then be made between investment companies with different dividend policies. Any dividends (after tax) received by a shareholder are assumed to have been reinvested in either additional shares (to give share price total return) or the Company's assets (to give NAV total return).

## Volatility

Volatility refers to the amount of uncertainty or risk about the size of changes in a security's value. It is a statistical measure of the dispersion of returns for a given security or market index measured by using the standard deviation or variance of returns from that same security or market index. Commonly, the higher the volatility, the riskier the security.

The Manager of Invesco Perpetual Select Trust plc is Invesco Asset Management Limited.

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

Invesco Perpetual is a business name of Invesco Asset Management Limited.

Invesco is one of the largest independent global investment management firms, with funds under management in excess of $705.6 billion.*

We aim 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 30 June 2013.*

# SPECIALIST FUNDS MANAGED BY INVESCO PERPETUAL



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

### 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 combined with a degree of security. The Company may gear by bank debt.

### 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 is geared by bank debt.

### Invesco Leveraged High Yield Fund 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 is highly geared.

### Invesco Perpetual Select Trust plc – Managed Liquidity Share Portfolio
Aims to generate a high level of income from a variety of fixed income instruments combined with a high degree of security.

### Invesco Perpetual Select Trust plc – UK Equity Share Portfolio
Aims to generate long-term capital and income growth with real growth in dividends from investment, primarily in the UK equity market. The portfolio is geared by bank debt.

### Invesco Property Income Trust Limited
The investment objective of the Company is to repay its bank borrowings and other liabilities on or before 28 September 2014 and, having met these obligations, to provide a return for shareholders. The Company holds a diversified portfolio of European commercial properties.

### Keystone Investment Trust plc
Aims to provide shareholders with long-term growth of capital mainly from UK investments. The Company is geared by way of debenture stocks.

### Perpetual Income and Growth Investment Trust plc
Aims to generate capital growth and real growth in dividends over the medium to longer term from a portfolio of securities listed mainly in the UK equity and fixed interest markets. The Company is geared by a debenture stock and bank debt.

### The Edinburgh Investment Trust plc
Invests in UK securities with long term objective of achieving:

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

The Company is geared by way of two debenture stocks.

## Investing in Smaller Companies

### Invesco Perpetual UK Smaller Companies Investment Trust plc
Aims to achieve long-term total returns for the Company's shareholders from investment in a broad cross-section of small to medium size UK-quoted companies. The Company may gear by bank debt.

## 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 All Country Asia Pacific ex Japan Index, measured in sterling. The Company is geared by bank debt.

### 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, predominately through investment in a diversified portfolio of equities worldwide. The portfolio may gear by bank debt.

## Investing for Total Returns

### Invesco Perpetual Select Trust plc – Balanced Risk 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 transparently-priced exchange-traded futures contracts and other derivative instruments to gain such exposure and to provide gearing.

## Investing in Multiple Asset Classes

### Invesco Perpetual Select Trust plc
- UK Equity Share Portfolio
- Global Equity Income Share Portfolio
- Managed Liquidity Share Portfolio
- Balanced Risk Portfolio

A choice of asset classes within one investment trust with the freedom to switch between them, twice a year, free from capital gains tax liability.

Please contact our Investor 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.invescoperpetual.co.uk/investmenttrusts.

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