City Merchants High Yield Trust Limited

Annual Financial Report

Year Ended 31 December 2013

City Merchants High Yield Trust Limited is a Jersey incorporated investment company listed on the London Stock Exchange.

Investment Objective

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

The Company seeks to provide a high level of dividend income relative to prevailing interest rates through investment in fixed-interest securities, various equity-like securities within fixed-income markets and equity-linked securities such as convertible bonds and in direct equities that have a high income yield. It also seeks to enhance total returns through capital appreciation generated by investments which have equity-related characteristics.

It should be noted that, although investment in higher-yielding securities may provide greater returns than investment in higher-rated interest-bearing securities, it entails greater risks.

Nature of the Company

The Company is a public listed investment company incorporated in Jersey, Channel Islands, whose shares are traded on the London Stock Exchange. The business of the Company consists of investing the pooled funds of its shareholders, according to a specified investment objective and policy (set out on page 7), with the aim of spreading investment risk and generating a return for shareholders. The Company may use bank borrowings, the proceeds from which can also be invested with the aim of enhancing returns to shareholders. Such additional investment would increase the potential risk to shareholders should the value of the investments fall.

The Company has contracted with an external investment manager, Invesco Asset Management Limited (the 'Manager'), to manage its investments and for some of the Company's general administration. Other administrative functions are contracted to external service providers. The Company has a Board of non-executive directors who oversee and monitor the activities of the Manager and other service providers on behalf of shareholders and ensure that the investment policy is adhered to. The Company has no employees.

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

If you have any queries about City Merchants High Yield Trust Limited, or any of the other specialist funds managed by Invesco Perpetual, please contact the Investor Services Team on

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

Contents

Overview 2-4
2 Financial Information and Performance Statistics
4 Chairman's Statement

Strategic Report 5-13
5 Manager's Investment Report
7 Business Review

Investments 14-20
14 Geographic and Industry Analyses
15 Currency Exposure and Bond Rating Analyses
16 Investments in Order of Valuation

Governance 21-27
21 Directors
21 The Company's Governance Framework
22 Corporate Governance Statement
23 Audit Committee Report
25 Directors' Remuneration and Interests
27 Statement of Directors' Responsibilities

Financial Statements 28-49
28 Independent Auditor's Report
30 Statement of Comprehensive Income
30 Statement of Changes in Equity
31 Balance Sheet
32 Statement of Cash Flows
33 Notes to the Financial Statements

Other 50-62
50 Directors' Report
57 Notice of Annual General Meeting
60 Shareholder Information
61 Advisers and Principal External Service Providers
62 Glossary of Terms

The Company is a member of

aic

The Association of Investment Companies

FINANCIAL INFORMATION AND PERFORMANCE STATISTICS

City Merchants High Yield Trust Limited (new CMHYT, the Company) was incorporated on 19 December 2011 and commenced trading on 2 April 2012, following the scheme of reconstruction and voluntary winding up of City Merchants High Yield Trust plc (CMHYT plc) on 30 March 2012.

The terms of the reconstruction allow direct comparison of the Company's financial information with CMHYT plc's financial information prior to 2012 extracted from that company's audited Annual Financial Reports.

The combined performance figures for the year to 31 December 2012 are shown for information purposes. This combined performance is made up of the performance of CMHYT plc from 1 January to 30 March 2012, which is unaudited, and the performance of its successor, new CMHYT, from then until 31 December 2012.

	CMHYT 1 JANUARY TO 31 DECEMBER 2013	COMBINED 1 JANUARY TO 31 DECEMBER 2012
Net Asset Value†		
Total return†	+13.3%	+24.5%
Capital return†	+7.5%	+17.7%
Movement in mid-market price per share	+11.9%	+11.9%
Ongoing Charges†	1.02%	1.07%
Dividend for the year	10p	10p

Year End Information

	31 DECEMBER 2013	31 DECEMBER 2012	% CHANGE
Net asset value per share†	184.12p	171.29p	+7.5
Mid-market price per share	184.00p	164.50p	+11.9
Discount per share†	0.1%	4.0%	
Gearing†			
Gross gearing	nil	nil	
Net cash	5.5%	4.1%	

Terms marked † are defined in the Glossary of Terms on pages 62 and 63.

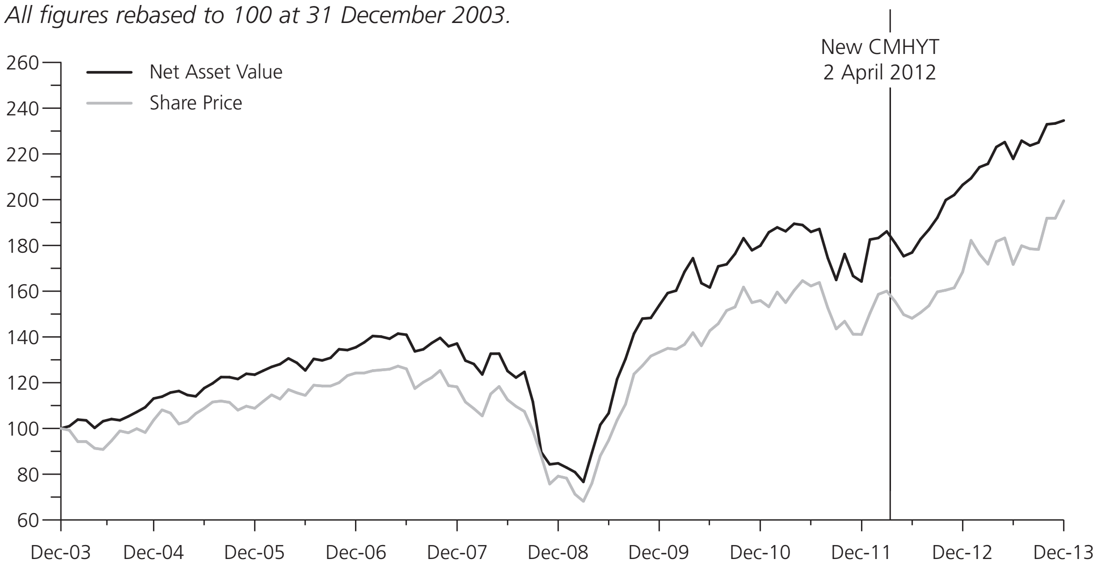
Ten Year Record – combined CMHYT plc and new CMHYT

TO 31 DECEMBER	DIVIDENDS ON ORDINARY SHARES[1] COST £'000	RATE P	ONGOING CHARGES[2] %	NET ASSET VALUE PER ORDINARY SHARE P	MID-MARKET PRICE PER ORDINARY SHARE P
2004	4,510	12.0	1.62	174.8	185.50
2005	7,203	17.4	1.59	175.6	181.75
2006	5,664	12.0	1.41	179.7	190.25
2007	6,176	12.0	1.37	170.1	169.50
2008	6,718	12.0	1.39	97.5	104.50
2009	8,223	13.0	1.18	156.7	158.00
2010	8,008	11.0	1.11	169.0	173.00
2011	7,280	10.0	1.08	145.6	147.00
2012	7,278	10.0	1.07	171.3	164.50
2013	**7,287**	**10.0**	**1.02**	**184.1**	**184.00**

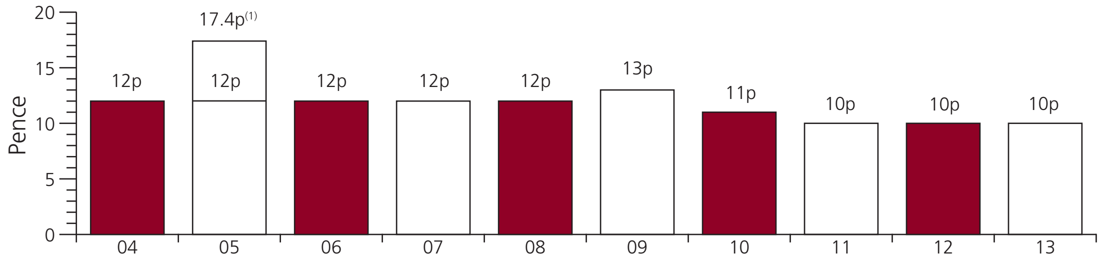
(1) The dividends shown are those that were proposed in respect of each financial year.
(2) Ongoing charges exclude liquidation expenses and any refund of VAT on management fees.

Ten Year Total Return Graph

All figures rebased to 100 at 31 December 2003.



Ten Year Dividend History – combined CMHYT plc and new CMHYT



(1) Includes a 5.4p special dividend.

CHAIRMAN'S STATEMENT

I am pleased to report that the Company performed well in 2013 despite considerable volatility in bond markets and the increasing difficulty of sourcing quality high yield paper at good yields.

In the 12 months to 31 December 2013, the total NAV return was +13.3%. This compares very favourably with the Investment Management Association Sterling Strategic Bond sector, which returned +2.7%. The Company outperformed all the funds in this sector over one, two and five years.

The Manager's Investment Report, which follows, provides some background on how this performance was achieved and how the portfolio is positioned.

I commented in the last annual report on the level of discount between the Company's share price and the NAV. The volatility in the market continued and this caused the discount to reach disappointing levels at times. By the year end, however, the discount had narrowed to practically nothing. Since then the shares have traded at a premium, allowing the Company to issue 3.2 million new shares to meet demand. This is a positive turn. The Board and Manager maintain an active relationship with the Company's broker with the aim of maintaining this position.

The Company continues to produce an attractive level of income for shareholders. We were able to meet our dividend target of 10p in respect of the financial year, matching last year's combined total, and are hopeful of being able to do so again in the coming year.

The Board believes the portfolio remains well-positioned to continue to provide an attractive level of income for shareholders with some limited potential for further capital appreciation.

Annual General Meeting (AGM)

The AGM will be held at the offices of R&H Fund Services (Jersey) Limited, Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW, at 10.30 am on 3 July 2014. All of the resolutions are summarised on pages 55 and 56. As all the Directors were elected at last year's AGM, no director is subject to re-election this year. In addition to the usual ordinary resolutions to receive this annual report and re-elect the auditor, there are, as last year, four items of special business as follows:

1. Continuation of the Company (ordinary resolution 3)

The Articles of Association require that an ordinary resolution to continue the Company be put to shareholders each year.

2. Issuance of New Shares

Although Jersey law does not require shareholder approval for issues of shares, the Directors expressed an intention in the new Company's prospectus to request that the authority to allot shares for cash on a non-pre-emptive basis is renewed at each AGM. Special Resolution 4 accordingly seeks to renew the Directors' authority to issue up to 10% of the Company's issued ordinary shares without pre-emption.

The Directors will not issue shares at a price which is less than the NAV attributable to the shares, so as not to dilute the interests of existing shareholders.

3. Share Buy backs

Special Resolution 5 is to renew the authority to buy back up to 14.99% of the Company's issued ordinary shares, subject to restrictions referred to in the Notice of AGM, where the Board believes it is in shareholders' interests to do so.

4. Calling General Meetings at 14 days' Notice

Special resolution 6 is an annual resolution that enables the Company to call general meetings (other than AGMs) on 14 days' notice if the Board believes it to be in the interests of shareholders.

Mainland Shareholder Meeting

Shareholders should note that, as last year, in addition to the AGM in Jersey an opportunity is being provided to hear from the portfolio managers and pose questions to them and on the annual report at a meeting to be held in London at 11 am on 17 June 2014. This additional shareholder meeting will be held in Invesco Perpetual's offices on the first floor of 43-45 Portman Square, London W1H 6LY.

Clive Nicholson
Chairman
15 April 2014

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

MANAGER'S INVESTMENT REPORT

Market Background

High yield bonds were one of the strongest areas of the fixed interest universe in 2013, their returns boosted by continued demand for income-producing assets and by rising economic growth. They outperformed investment grade corporate bonds and core government bonds. As well as carrying lower yields into this period, more interest rate-sensitive assets were more negatively affected by expectations of less accommodative US monetary policy.

The headline event for bond markets in 2013 was the testimony of Federal Reserve (Fed) Governor Ben Bernanke to Congress in May, in which he indicated that the Fed would begin to reduce the level of its programme of asset purchases if the US economy continued to recover in line with expectations. These comments halted the broad-based bond market rally which had extended into the new year and which had pushed core government bond yields to historic lows in April. From May on, expectations of when and how quickly the Fed would begin to 'taper' was a key driver of markets, with stronger economic data or more hawkish Fed rhetoric putting upward pressure on yields. The Fed announced in December that it would begin to reduce purchases from January 2014. Data on the macroeconomic performance of the major developed economies improved over the course of the year, with employment, retail sales, housing markets and GDP rising in the US and the UK. Improvement has been less strong in the Eurozone, but here too the labour market shows signs of improvement. Pricing pressure has remained relatively low. Energy was a smaller contributor to inflation and headline rates finished the year lower in each of these economies, allowing not just the Fed, but also the Bank of England and the European Central Bank, to commit to maintaining current low interest rates.

According to data from Merrill Lynch, European high yield bonds had a total return for the year of 12.8% (all returns in sterling terms). The aggregate income yield for the asset class fell 70bps, from 5.78% to 5.08%. This return of 12.8% compares to 1.8% for sterling investment grade corporate bonds, –4.3% for UK gilts and 0.3% for German bunds. Within investment grade, financials outperformed. Sterling financials returned 4.3% compared to 0.0% for non-financials. Subordinated bank capital, boosted by its higher yield and the ongoing efforts of the banks to strengthen their balance sheets, was amongst the strongest sectors of the market.

2013 was a record year for European high yield issuance. Barclays estimate there was a total £69.2 billion in new supply, up 47% on 2012. Moody's reported that the trailing 12 month European high yield default rate was 3.4% in the final quarter of 2013, up from 2.5% in the same quarter in 2012. European default events during the year included a number of Cypriot financials and, in the UK, Co-op Bank. As the high yield rally has continued, lower quality issuers have been able to come to the market. 2013 saw the highest proportion of B rated issuance since 2006. The proportion of bonds issued for corporate actions such as leveraged buy-outs and the payment of dividends rose to just under 15% of total high yield issuance, the highest since 2007. Strong demand has been a feature of the credit markets throughout the year. Giant deals from Verizon and Apple were heavily oversubscribed. In just one example from the high yield market, Jaguar Land Rover, which issued a seven year bond in 2011 with an 8.125% coupon, were able to issue a ten year bond in 2013 with a coupon of just 5.625%.

Portfolio Strategy

Over the 12 months to 31 December 2013 the NAV total return for the ordinary shares of the Company was 13.3%. The NAV rose by 12.83 pence to 184.12 pence. A total dividend of 10 pence has been paid for the year to 31 December 2013.

Following the very strong market conditions of 2012, we came into 2013 with a more cautious outlook, conscious that there was limited potential for further capital appreciation in the corporate bond market, including high yield. Our strategy has been relatively defensive throughout the year. We have not employed gearing in the portfolio. Our loan facility remains inexpensive and we will use it if we see an opportunity to add value in a market correction.

We hold a core of high yield corporate bonds, focused on seasoned issuers that we consider to be remote from the risk of default. In addition we hold significant exposure to areas of the market which we believe offer relatively attractive levels of income and the best reward relative to their risks.

Approximately one fifth of the portfolio is invested in bank capital, predominantly in the subordinated debt of large European banks. The valuations of these instruments have risen strongly but we think that this reflects the increased creditworthiness of a sector whose fundamentals have continued to improve.

We also have holdings in hybrid capital instruments and convertible bonds. Our hybrids are across sectors including insurance, telecoms and utilities. We believe the subordination risk of these more junior debt instruments is attractive in the context of these companies' relatively strong balance sheets. Many of the securities we hold are in investment grade names. We are holding convertible bonds which we think offer attractive levels of income as well as giving the portfolio some sensitivity to the equity market. We will continue to seek opportunities to add yield to the portfolio where we consider that the balance of reward to risk is attractive.

Outlook

Our outlook remains cautious. We think that the high yield bond market is relatively highly valued and has limited potential for further advancement. The strong demand for income that we continue to see in the marketplace has encouraged corporates to issue debt and they have been able to raise capital, in many cases, on terms very attractive to them. We have seen some very low coupons on new high yield bonds. Lower credit quality issuers have been able to come to market in greater numbers and the quality of issuance has fallen somewhat.

We think that, as in 2013, income will be the dominant factor in total returns across the bond market. While interest rates in the major developed markets continue to be anchored by the commitment of the central banks to hold down rates, signs of stronger economic growth and the tapering of US quantitative easing will put upward pressure on government bond yields, creating a headwind for the wider market.

Invesco Asset Management Limited
Manager

Paul Read   Paul Causer
Portfolio Managers

15 April 2014

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

BUSINESS REVIEW

City Merchants High Yield Trust Limited is a Jersey domiciled investment company and its investment objective is set out below. The strategy the Board follows to achieve that objective is to set investment policy and risk guidelines, together with investment limits, and to monitor how they are applied. These are also set out below and have been approved by shareholders.

The business model the Company has adopted to achieve its objective has been to contract investment management and administration to appropriate external service providers, who are subject to oversight by the Board. The principal service providers are:

– Invesco Asset Management Limited (the 'Manager') to manage the portfolio in accordance with the Board's strategy; and

– R&H Fund Services (Jersey) Limited to provide company secretarial and general administration services.

The portfolio managers responsible for the day-to-day management of the portfolio are Paul Read and Paul Causer.

Investment Objective and Policy

Investment Objective

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

The Company seeks to provide a high level of dividend income relative to prevailing interest rates through investment in fixed-interest securities, various equity-like securities within fixed-income markets, equity-linked securities such as convertible bonds and in direct equities that have a high income yield. It also seeks to enhance total returns through capital appreciation generated by investments which have equity-related characteristics.

Investment Style

The Company's investment manager, Invesco Asset Management Limited, seeks to ensure that the portfolio is diversified, having regard to the nature and type of securities (including duration, credit rating, performance and risk measures and liquidity) and the geographic and industry sector composition of the portfolio. The Company may hold both illiquid securities (for example, securities where trading volumes are relatively low and unlisted securities) and concentrated positions (for example, where a high proportion of the Company's total assets is comprised of a relatively small number of investments).

Investment Limits

– the Company may invest in fixed-interest securities, including but not restricted to preference shares, loan stocks (convertible and redeemable), corporate bonds and government stocks, up to 100% of total assets;

– investments in equities may be made up to an aggregate limit of 20% of total assets;

– the aggregate value of holdings of shares and securities in a single issuer or company, including a listed investment company or trust, will not exceed 15% of the value of the Company's investments; and

– investments in unlisted investments will not exceed 10% of the Company's total assets for individual holdings and 25% in aggregate of total assets.

All the above limits are measured at the time a new investment is made.

Derivatives and Currency Hedging

The Company may enter into derivative transactions (including options, futures, contracts for difference, credit derivatives and interest rate swaps) for the purposes of efficient portfolio management. The Company will not enter into derivative transactions for speculative purposes.

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

The Company may hedge against exposure to changes in currency rates to the full extent of any such exposure.

Borrowings

The Company's borrowing policy is determined by the Board. The level of borrowing may be varied from time to time in the light of prevailing circumstances subject to a maximum of 30% of the Company's total assets at any time. Any borrowings are covered by investments in matching currencies to manage exposure to exchange rate fluctuations.

Key Performance Indicators

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

- Portfolio Performance
- Dividends
- Premium/Discount
- Ongoing Charges

Portfolio Performance

As the Company's objective is to achieve both high income and capital growth, the performance is best measured in terms of total return. There is no stock market index against which the Company's performance may be measured with any degree of relevance. Therefore, the Board refers to a variety of relevant data and this is reflected in both the Chairman's Statement on page 4 and the Manager's Investment Report on pages 5 and 6. The Board is satisfied with the portfolio performance in the year.

When considering historical returns, the terms of the reconstruction in 2012 allow direct comparison of the Company's financial information with that of its predecessor, City Merchants High Yield Trust plc. It is therefore appropriate to combine the information from both over the 12 months to 31 December 2012 in order to provide comparative performance over a full year.

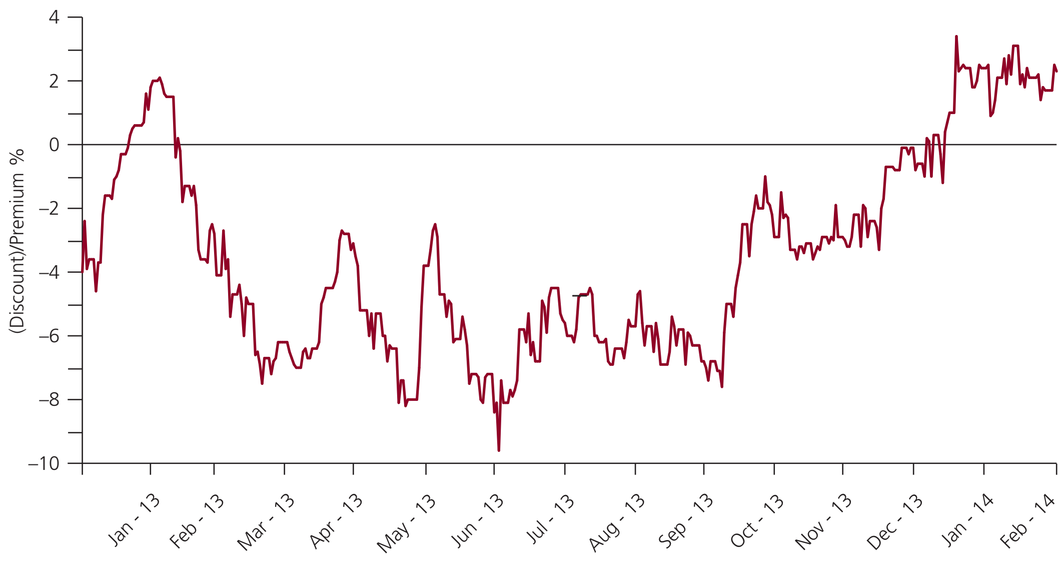
Dividends

Dividends form a key component of the total return to shareholders and the Board is currently targeting dividends of 10p per year. This target has been met in the year under review. The following interim dividends have been paid to shareholders in respect of the year to 31 December 2013:

DIVIDEND PER SHARE	DATE PAID	TO SHAREHOLDERS REGISTERED ON
2.5p	24 May 2013	26 April 2013
2.5p	23 August 2013	26 July 2013
2.5p	25 October 2013	22 November 2013
2.5p	28 February 2014	24 January 2014

Premium/Discount

The Board monitors the price of the Company's shares in relation to their net asset value and the discount/premium at which the shares trade. The Board has limited influence on the price at which the Company's shares trade, which is mostly a function of investor sentiment and demand for the shares. The ideal would be for the shares to trade close to their net asset value. The following graph shows the discount/premium, which varied between a disappointing low of 9.6% and a premium of 2.1% and finished the year at a discount of 0.1%. The average discount over the course of the year was 4.4%. Subsequent to the year end, demand for the shares increased and they have traded at a premium of around 1.5%. The Company has issued 3.2 million shares since the year end to help meet this demand.



Ongoing Charges

The expenses of managing the Company are carefully monitored by the Board. The standard measure of these ongoing charges is calculated by dividing the sum of such expenses over the course of the year, including those charged to capital, by the average net asset value. This ongoing charges figure provides a guide to the effect on performance of annual operating costs. The Company's ongoing charges figure decreased from 1.07% to 1.02% for the year. The Board is satisfied with the level of ongoing charges.

Financial Position

Assets

At 31 December 2013, the Company's net assets were valued at £134,017,000.

Liabilities

The Company has a £20 million multi-currency revolving credit facility with The Bank of New York Mellon, which is renewable annually in May. The Directors have no reason to expect that the facility will not be renewed at the next renewal date. Available currencies are sterling, euros and US dollars. No drawings were outstanding under the facility at the balance sheet date. Financial covenants under the terms of the facility require that the Company's total assets should not fall below £50 million and that total borrowings should not exceed 30% of total assets. The Company complied with these covenants throughout the year.

Future Trends

Details of the main trends and factors likely to affect the future development, performance and position of the Company's business can be found in the preceding Manager's Investment Report section of this Strategic Report on pages 5 and 6. Further details as to the risks affecting the Company are set out below under 'Principal Risks and Uncertainties'.

Life of the Company

The Articles of Association of the Company require that unless an ordinary resolution is passed at or before the Annual General Meeting (AGM) each year releasing the Directors from the obligation to do so, the Directors shall convene a general meeting within six months of the AGM at which a special resolution would be proposed to wind up the Company. Having made enquiries, the Directors have no reason to believe that the resolution to release them from that obligation, that is being put to shareholders at the forthcoming AGM, will not be passed.

STRATEGIC REPORT
BUSINESS REVIEW
continued

Principal Risks and Uncertainties

Investment Objective

There can be no guarantee that the Company will meet its investment objective.

As part of the Company's overall strategy, the Board seeks to manage the Company's affairs so as to maximise returns for shareholders.

Investment Risk

The majority of the Company's investments are traded on a number of the world's major securities markets. The principal risk for investors in the Company is of a significant fall, and/or a prolonged period of decline in those markets. These markets and the value of individual investments are influenced by many factors including the general health of the world and local economies, interest rates, inflation, government policies, industry conditions, political and diplomatic events, tax laws and environmental laws and by changing investor demand.

Further, high-yield fixed-interest securities are subject to credit, interest rate, liquidity and duration risks. Adverse changes in the financial position of an issuer or in general economic conditions may impair the ability of the issuer to make payments of principal and interest or may cause the liquidation or insolvency of an issuer.

The majority of the Company's portfolio consists of non-investment grade securities. To the extent that the Company invests in non-investment-grade securities, the Company may realise a higher current yield than the yield offered by investment-grade securities. On the other hand, investments in such securities involve a greater volatility of price and a greater risk of default by the issuers of such securities, with consequent loss of interest payments and principal. Non-investment grade securities are likely to have greater uncertainties of risk exposure to adverse conditions and will be speculative with respect to an issuer's capacity to meet interest payments and repay principal in accordance with its obligations. A lack of liquidity in non-investment grade securities may make it difficult to rebalance the Company's investment portfolio as and when the portfolio managers believe it would be advantageous to do so.

For a discussion of the economic and market conditions facing the Company and the current and future performance of the portfolio of the Company, see the Chairman's Statement and the Manager's Investment Report section of this Strategic Report.

The Manager strives to maximise the return from the investments held but these investments are influenced by market conditions and the Board acknowledges the effects of external influences on portfolio performance. The investment style employed by the Manager is set out under Investment Objective and Policy on page 7.

Risk management is an integral part of the investment management process. The Manager controls risk within parameters set by the Board by ensuring that the Company's portfolio is appropriately diversified and the portfolio managers actively monitor both the ratings and liquidity of the fixed-interest securities taking into account the Company's financing requirements. Further details of the risk management policies and procedures as they relate to the financial assets and liabilities of the Company are explained in note 18 to the financial statements.

Foreign Exchange Risk

The movement of exchange rates may have unfavourable or favourable impact on returns as the majority of the assets are non-sterling denominated. This risk can be and is often mitigated by the use of hedging and by the use of non-sterling denominated borrowing. The foreign currency exposure of the Company is monitored by the Manager on a daily basis and reviewed at Board meetings.

Dividends

The ability of the Company to pay dividends quarterly is dependent on the level and timing of receipt of income on its investments and this is monitored by the Board on a regular basis. There can be no guarantee that any dividend target set by the Board will be met.

Ordinary Shares

The stated capital of the Company consists solely of ordinary shares of no par value. The market price of, and the income derived from, the Company's shares can fluctuate and may go down as well as up.

The market value may not always reflect the NAV per share. The market price of a share may therefore trade at a discount to its NAV. Past performance of the Company is not necessarily indicative of future performance.

The market value of the shares will be affected by a number of factors, including their dividend yield from time to time, the NAV, prevailing interest rates and supply and demand for those shares, along with wider economic factors and changes in law, including tax law, and political factors. The market value of a share may therefore vary considerably from its underlying NAV. There can be no guarantee that any appreciation in the value of the Company's shares will occur and investors may not get back the full value of their investment.

The Board and the Manager maintain an active dialogue with the aim of ensuring that the market rating of the Company's shares reflects the underlying NAV. Buy back and issuance facilities help the management of this process.

Although the shares are listed on the Official List and admitted to trading on the London Stock Exchange's main market for listed securities, it is possible that there may not be a liquid market in the shares and shareholders may have difficulty selling them.

Gearing of Returns through Borrowings

Performance may be geared by means of the Company's credit facility. There is no guarantee that this facility will be renewable at maturity on terms acceptable to the Company. If it were not possible to renew this facility or replace it with another, any amounts owing by the Company would need to be funded by the sale of investments.

Borrowing levels may change from time to time in accordance with the Manager's and the Board's assessment of risk and reward. A consequence of borrowing for investment is that any reduction in the value of the Company's investments may lead to a correspondingly greater percentage reduction in its net asset value (which is likely to affect the Company's share price 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 the Company's gearing. The credit facility was not used in the year under review.

Resources: Reliance on Third Party Providers

The Company is an investment company which outsources its management, company secretarial and administrative functions. It has no employees and the Directors are all non-executive. The Company is therefore reliant on other parties for the performance of its functions and the quality of its operations. Through the contractual arrangements in place the full range of services required are available to the Company. The most significant contracts are with the Manager, for the management of the Company's portfolio and certain administrative functions, and with R&H Fund Services (Jersey) Limited for the provision of company secretarial and administrative services. The Company also has contractual arrangements with third parties to act as registrars and custodian.

Failure by any service provider to carry out its obligations in accordance with the terms of its appointment could have a materially detrimental impact on the effective operation of the Company and on the ability of the Company to pursue its investment policy successfully. Such failure could also expose the Company to reputational risk. In addition, the Manager may be exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether valid or not, 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.

The Board seeks to manage these risks in a number of ways. In particular the Board formally reviews the performance of the Manager annually and informally at every board meeting. The day-to-day management of the portfolio is the responsibility of the portfolio managers to whom the Board has given wide discretion to operate within set guidelines. Any proposed variation outside those guidelines is referred to the Board and the guidelines themselves are reviewed at every board meeting. The risk that one of the portfolio managers might be incapacitated or otherwise unavailable is mitigated by the fact that they work within and are supported by the wider Invesco Fixed Interest team. The Board also has power to replace the Manager and reviews the management contract formally once a year.

STRATEGIC REPORT
BUSINESS REVIEW
continued

The Manager regularly reviews, against agreed service standards, the performance of all third party providers through formal and informal meetings, and by reference to third party independently audited control reports. The results of the Manager's reviews are reported to and reviewed by the Board. The contractual arrangements which govern relationships with third party providers, including the registrars, the custodian and the corporate broker, are also reviewed by the Board on an annual basis.

Regulatory and Tax Related

The Company is subject to various laws and regulations including from it being registered under the Companies (Jersey) Law 1991, its status as a collective investment fund registered under the Collective Investment Funds (Jersey) Law 1988, its listing on the Official List of the UK Listing Authority and its admission to trading on the London Stock Exchange. A serious breach of regulatory rules may lead to suspension from the Official List and from trading on the London Stock Exchange, a fine or a qualified Audit Report.

Any change in the Company's tax status, or in taxation legislation or practice in either Jersey or the United Kingdom or any jurisdiction in which the Company owns assets, or in the Company's tax treatment, may affect the value of the investments held by the Company or the Company's ability successfully to pursue and achieve its investment objectives, or alter the after-tax returns to shareholders. Failure by the Company to maintain its non-UK tax resident status may subject the Company to additional taxes which may materially adversely affect the Company's business, the results of its operations and the value of the shares.

The Manager reviews the level of compliance with all relevant regulatory requirements and reports to the Board on a regular basis. The Board is alert to the potential effect of any changes in the regulatory and taxation status of the Company and considers the actions open to it to protect the interests of shareholders.

Derivatives

The Company may enter into derivative transactions for efficient portfolio management. Derivative instruments can be highly volatile and expose investors to a high risk of loss. Where used to hedge risk there is a risk that the return on a derivative does not exactly correlate to the returns on the underlying investment, obligation or market sector being hedged against. If there is an imperfect correlation, the Company may be exposed to greater loss than if the derivative had not been entered into.

Substantial Holdings in the Company

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

	AT 31 MARCH 2014		AT 31 DECEMBER 2013		AT 31 DECEMBER 2012	
	HOLDING	%	HOLDING	%	HOLDING	%
Charles Stanley, stockbrokers	7,113,780	9.4	6,880,948	9.5	4,463,258	6.1
Invesco Perpetual	7,101,392	9.4	7,101,392	9.8	7,101,392	9.8
Brewin Dolphin, stockbrokers	4,864,758	6.4	4,451,918	6.1	3,789,403	5.2
Alliance Trust Savings	3,702,286	4.9	3,673,040	5.1	3,738,211	5.1
Court Funds Office (NI)	3,345,378	4.4	1,705,653	2.3	1,126,237	1.5
Smith & Williamson	3,113,633	4.1	2,961,280	4.1	2,119,840	2.9
Hargreaves Lansdown, stockbrokers	3,011,997	4.0	2,675,352	3.7	2,369,605	3.3
Rathbones	2,598,216	3.4	2,676,996	3.7	2,516,425	3.5
Redmayne Bentley, stockbrokers	2,334,655	3.1	2,334,277	3.2	1,781,989	2.4
Barclays Stockbrokers	2,238,170	3.0	2,209,330	3.0	1,991,085	2.7
Legal & General Investment Management	2,182,459	2.9	2,202,807	3.0	2,363,257	3.3

Board Diversity

The Company's policy on diversity is set out on page 51. The Board considers diversity, including the balance of skills, knowledge, diversity (including gender) and experience, amongst other factors when reviewing its composition and appointing new directors, but does not consider it appropriate to establish targets or quotas in this regard. The Board comprises five non-executive directors of whom one is a woman, thereby constituting 20% female representation. Summary biographical details of the Directors are set out on page 21. The Company has no employees.

Social and Environmental Matters

As an investment company with no employees, property or activities outside investment, environmental policy has limited application. The Manager considers various factors when evaluating potential investments. While a company's policy towards the environment and social responsibility, including with regard to human rights, is considered as part of the overall assessment of risk and suitability for the portfolio, the Manager does not necessarily decide to, or not to, make an investment on environmental and social grounds alone. The Manager applies the United Nations Principles for Responsible Investment.

This Strategic Report was approved by the Board of Directors on 15 April 2014.
R&H Fund Services (Jersey) Limited
Company Secretary

CLASSIFICATION OF INVESTMENTS BY GEOGRAPHICAL LOCATION

AT 31 DECEMBER

	2013					2012				
	UNITED KINGDOM %	NORTH AMERICA %	EUROPE %	SOUTH AFRICA & AUSTRALIA %	TOTAL %	UNITED KINGDOM %	NORTH AMERICA %	EUROPE %	SOUTH AFRICA & AUSTRALIA %	TOTAL %
Fixed interest securities[1]	32.7	5.6	42.5	3.0	83.8	35.6	9.1	34.4	2.9	82.0
Convertibles	—	0.8	3.0	—	3.8	1.7	0.8	4.7	—	7.2
Preference	2.0	—	—	—	2.0	1.7	—	—	—	1.7
Convertible preference	4.9	—	—	—	4.9	5.2	—	—	—	5.2
Equities	0.1	0.1	0.3	—	0.5	0.2	0.2	0.4	—	0.8
Warrants	—	5.0	—	—	5.0	—	3.1	—	—	3.1
Total	39.7	11.5	45.8	3.0	100.0	44.4	13.2	39.5	2.9	100.0

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

INDUSTRY ANALYSIS OF INVESTMENTS BY GEOGRAPHICAL LOCATION

AT 31 DECEMBER

	2013			2012		
	UNITED KINGDOM %	NON-UK %	TOTAL %	UNITED KINGDOM %	NON-UK %	TOTAL %
Oil and Gas	—	4.6	4.6	—	4.9	4.9
Basic Materials	1.2	1.9	3.1	4.6	1.3	5.9
Industrials	5.0	5.8	10.8	5.3	8.4	13.7
Consumer Goods	4.2	11.4	15.6	5.1	10.5	15.6
Health Care	0.4	—	0.4	0.5	—	0.5
Consumer Services	5.3	6.4	11.7	3.6	5.5	9.1
Telecommunications	0.4	4.9	5.3	—	—	—
Utilities	1.8	3.8	5.6	5.2	2.9	8.1
Financials	19.9	19.4	39.3	20.0	20.1	40.1
Technology	—	0.8	0.8	0.1	0.8	0.9
Support Services	1.5	1.3	2.8	—	1.2	1.2
Portfolio Total	39.7	60.3	100.0	44.4	55.6	100.0

The percentages shown in the above tables are related to the value of investments of £123.8 million (2012: £117.5 million).

CURRENCY EXPOSURE OF PORTFOLIO AND CASH, INCLUDING AND EXCLUDING CURRENCY HEDGING

AT 31 DECEMBER

	2013				2012			
	INCLUDING CURRENCY HEDGING			EXCLUDING	INCLUDING CURRENCY HEDGING			EXCLUDING
	STERLING %	OTHER %	TOTAL %	HEDGING %	STERLING %	OTHER %	TOTAL %	HEDGING %
Fixed interest securites[1]	39.6	39.3	78.9	79.0	40.4	38.4	78.8	78.8
Convertibles	—	3.5	3.5	3.5	—	6.7	6.7	6.7
Preference	2.0	—	2.0	2.0	1.6	—	1.6	1.6
Convertible preference	4.7	—	4.7	4.7	5.0	—	5.0	5.0
	46.3	42.8	89.1	89.2	47.0	45.1	92.1	92.1
Equities	0.1	0.3	0.4	0.4	0.2	0.6	0.8	3.8
Warrants	—	4.8	4.8	4.8	—	3.0	3.0	—
Portfolio Total	46.4	47.9	94.3	94.4	47.2	48.7	95.9	95.9
Cash	2.1	3.5	5.6	5.6	2.9	1.2	4.1	4.1
Portfolio and Cash Total	48.5	51.4	99.9	100.0	50.1	49.9	100.0	100.0
Currency Hedging								
Forward currency sales	38.7	(38.6)	0.1		29.4	(29.4)	—	
Net Currency Exposure	87.2	12.8	100.0		79.5	20.5	100.0	

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

BOND RATING ANALYSIS (STANDARD AND POOR'S RATINGS)

For the definitions of these ratings see the Glossary on page 63.

	2013		2012	
RATING	% OF PORTFOLIO	CUMULATIVE TOTAL %	% OF PORTFOLIO	CUMULATIVE TOTAL %
Investment Grade:				
A–	1.2	1.2	3.0	3.0
BBB+	4.6	5.8	3.9	6.9
BBB	7.0	12.8	7.7	14.6
BBB–	10.0	22.8	9.3	23.9
Non-investment Grade:				
BB+	12.2	35.0	5.7	29.6
BB	8.5	43.5	12.7	42.3
BB–	6.0	49.5	10.5	52.8
B+	9.8	59.3	11.4	64.2
B	11.6	70.9	4.0	68.2
B–	2.6	73.5	3.3	71.5
CCC+	1.9	75.4	1.5	73.0
CCC	0.3	75.7	0.8	73.8
NR (including equity)	24.3	100.0	26.2	100.0
	100.0		100.0	

INVESTMENTS IN ORDER OF VALUATION

AT 31 DECEMBER 2013

ISSUER	ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Lloyds Banking Group –	7.975% 15 Sep 2024	Ba2/BB+	Financials	UK	3,915	3.16
Lloyds Bank &	6.385% 12 May 2020	Ba1/BBB–			1,316	1.06
LBG Capital	9% 15 Dec 2019	Ba1/BBB–			1,070	0.86
	6.439% 23 May 2020	Ba2/BB+			880	0.71
					7,181	5.79
General Motors	Wts 10 Jul 2019	Equity	Consumer Goods	USA	5,624	4.54
	Wts 10 Jul 2016	Equity			588	0.48
					6,212	5.02
Aviva	6.125% Perpetual	Baa1/BBB	Financials	UK	3,738	3.02
General Accident	8.875% Preference	NR/NR			1,409	1.14
					5,147	4.16
Société Genérale	8.875% FRN Perpetual	Ba2/BBB–	Financials	France	4,500	3.64
	8.25% Perpetual	Ba3/BB+			229	0.19
	7.875% FRN Perpetual	Ba3/BB+			170	0.14
					4,899	3.97
Premier Farnell	89.2p Convertible Preference	NR/NR	Industrials	UK	4,077	3.29
Abengoa	6.25% Cnv 17 Jan 2019	NR/NR	Industrials	Spain	1,103	0.89
	8.5% 31 Mar 2016	B2/B			898	0.73
	6.875% Cnv 24 Jul 2014	NR/NR			594	0.48
	4.5% Cnv 03 Feb 2017	NR/NR			335	0.27
					2,930	2.37
Intesa Sanpaolo	8.375% FRN Perpetual	Ba3/BB	Financials	Italy	2,926	2.36
Credit Agricole	7.589% FRN Perpetual	Ba2/BBB–	Financials	France	2,254	1.81
	8.125% FRN Perpetual	Ba2/BBB–			547	0.44
					2,801	2.25
Enterprise Inns	6.5% 06 Dec 2018 (SNR)	NR/BB–	Consumer Goods	UK	2,594	2.10
UPC	9.625% 01 Dec 2019	B3/B	Consumer Services	Germany	1,839	1.49
	5.625% 15 Apr 2023	Ba3/BB–			674	0.54
					2,513	2.03
Telefonica Europe	7.625% Perpetual	Ba1/BB+	Telecommunications	Netherlands	1,285	1.03
	6.75% Perpetual	Ba1/BB+			1,123	0.91
					2,408	1.94
Balfour Beatty	10.75p Convertible Preference	NR/NR	Industrials	UK	2,158	1.74
Barclays	9.25% Perpetual	Ba1/BBB–	Financials	UK	1,122	0.91
	6.625% 30 Mar 2022	Baa3/BBB			979	0.79
					2,101	1.70
REA Finance	9.5% 31 Dec 2017	NR/NR	Consumer Goods	Netherlands	2,080	1.68
Citigroup	6.829% FRN 28 Jun 2067	Ba1/BB+	Financials	USA	1,990	1.60
	US common stock	Equity			63	0.05
					2,053	1.65
Catlin Insurance	7.249% FRN Perpetual	NR/BBB+	Financials	USA	1,972	1.59
Santos Finance	8.25% FRN 22 Sep 2070	NR/BBB	Oil and Gas	Australia	1,871	1.51
Obrascon Huarte Lain	8.75% 15 Mar 2018	Ba3/NR	Industrials	Spain	1,844	1.49

ISSUER	ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Origin Energy	7.875% 16 Jun 2071	Ba1/BB+	Oil and Gas	Australia	1,796	1.45
Equiniti Newco 2	7.125% 15 Dec 2018	B3/B	Support Services	UK	1,213	0.98
	FRN 15 Dec 2018	B3/B			557	0.45
					1,770	1.43
ENEL	7.75% 10 Sep 2075	Ba1/BB+	Utilities	Italy	1,513	1.22
AXA	5.25% FRN 16 Apr 2040	A3/BBB	Financials	France	887	0.72
	6.379% FRN Perpetual	Baa1/BBB–			590	0.48
					1,477	1.20
Iron Mountain	6.75% 15 Oct 2018	B1/B	Support Services	USA	1,470	1.19
Standard Life	6.75% Perpetual	A3/A–	Financials	UK	1,097	0.89
	5.5% 04 Dec 2042	Baa2/BBB			358	0.29
					1,455	1.18
UniCredit International Bank	8.125% FRN Perpetual	Ba3/BB	Financials	Luxembourg	898	0.73
	8.5925% FRN Perpetual	Ba3/BB			516	0.42
					1,414	1.15
Virgin Media Finance	8.875% 15 Oct 2019	B2/B	Consumer Services	UK	725	0.59
	6% 15 Apr 2021	Ba3/BB–			666	0.54
					1,391	1.13
Commerzbank	7.75% 16 Mar 2021	Ba2/BB+	Financials	Germany	957	0.77
	8.125% 19 Sep 2023	Ba2/BB+			399	0.32
					1,356	1.09
Electricite De France	6% Perpetual	A3/BBB+	Utilities	France	1,346	1.09
Wind Acquisition Finance	7.375% 15 Feb 2018	Ba3/BB	Consumer Services	Luxembourg	682	0.55
	11.75% 15 Jul 2017	B3/B+			663	0.54
					1,345	1.09
Campofrio Food	8.25% 31 Oct 2016	B1/B+	Consumer Goods	Spain	1,309	1.06
Suez Environnement	4.82% FRN Perpetual	Baa2/NR	Utilities	France	1,287	1.04
CEMEX S.A.B	4.875% Cnv 15 Mar 2015	NR/NR	Consumer Goods	Mexico	712	0.58
España	9.25% 12 May 2020	NR/B+		Spain	573	0.46
					1,285	1.04
Mobile Challenger Intermediate	8.75% 15 Mar 2019	NR/B–	Telecommunications	Luxembourg	1,209	0.98
Ecclesiastical Insurance Office	8.625% Preference	NR/NR	Financials	UK	1,150	0.93
Southern Water (Greensands)	8.5% 15 Apr 2019	NR/BB–	Utilities	UK	1,115	0.90
Direct Line Insurance	9.25% FRN 27 Apr 2042	Baa1/BBB+	Financials	UK	1,105	0.89
Boparan Finance	9.875% 30 Apr 2018	B1/B+	Consumer Goods	UK	1,100	0.89
Thames Water	7.75% 01 Apr 2019	B1/NR	Utilities	UK	1,090	0.88
Gala Electric Casinos	11.5% 01 Jun 2019	Caa2/CCC+	Consumer Services	UK	1,090	0.88
Gala Finance	8.875% 01 Sep 2018	B2/B+	Consumer Services	UK	1,079	0.87
InterGen Services	7.5% 30 Jun 2021	B1/B+	Oil and Gas	Netherlands	1,060	0.86
Alcatel-Lucent	6.45% 15 Mar 2029	WR/CCC+	Technology	USA	533	0.43
	6.5% 15 Jan 2018	WR/CCC+			526	0.42
					1,059	0.85

INVESTMENTS IN ORDER OF VALUATION

continued

ISSUER	ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Aabar Investments	4% Exch 27 May 2016	NR/NR	Financials	UAE	981	0.79
Peabody Energy	4.75% Cnv 15 Dec 2066	B1/B	Basic Materials	USA	949	0.77
Bormioli Rocco	10% 01 Aug 2018	B3/BB–	Consumer Goods	Luxembourg	909	0.73
RSA Insurance	8.5% FRN Perpetual	Baa1/BBB	Financials	UK	905	0.73
Algeco Scotsman Global Finance	9% 15 Oct 2018	B1/NR	Consumer Services	UK	902	0.73
Nara Cable Funding	8.875% 01 Dec 2018 (SNR)	B1/B+	Consumer Services	Ireland	649	0.52
	8.875% 01 Dec 2018	B1/B+			225	0.18
					874	0.70
CGG Veritas	7.75% 15 May 2017	Ba3/BB–	Oil and Gas	France	866	0.70
KBC	8% Perpetual	Ba2/BB+	Financials	Belgium	848	0.69
Pipe	9.5% 01 Nov 2015	B3/B	Basic Materials	UK	842	0.68
BNP Paribas Fortis	Cnv FRN Perpetual	Ba3/BB	Financials	Belgium	832	0.67
Scottish Widows	5.5% 16 Jun 2023	Baa2/BBB+	Financials	UK	801	0.65
Phoenix Life	7.25% Perpetual	WR/NR	Financials	UK	741	0.60
Telekom Austria	5.625% Perpetual	Ba1/BB	Telecommunications	Austria	704	0.57
AG Spring Finance II	7.5% 01 Jun 2018	B1/B+	Financials	Ireland	692	0.56
Royal Bank of Scotland	FRN 14 Jun 2022	Ba1/BBB–	Financials	UK	673	0.54
Chrysler	8% 15 Jun 2019	B1/B	Consumer Goods	USA	668	0.54
Cirsa Funding	8.75% 15 May 2018	B3/B+	Consumer Goods	Luxembourg	663	0.54
ENCE Energia y Celulosa	7.25% 15 Feb 2020	B1/BB	Utilities	Spain	639	0.52
Vougeot Bidco	7.875% 15 Jul 2020	B2/B	Consumer Services	UK	607	0.49
Vedanta Resources	8.25% 07 Jun 2021	Ba3/BB	Basic Materials	UK	606	0.49
Pendragon	6.875% 01 May 2020	B2/B+	Consumer Services	UK	579	0.47
La Financiere Atalian	7.25% 15 Jan 2020	B3/B	Consumer Services	France	573	0.46
Peel Land & Property Investments	8.375% Var 30 Apr 2040	NR/NR	Financials	UK	573	0.46
Legal & General	6.385% FRN Perpetual	Baa2/BBB+	Financials	UK	531	0.43
Care UK Health and Social Care	9.75% 01 Aug 2017	Caa1/B	Health Care	UK	528	0.43
Santander Finance	11.3% FRN Perpetual	Ba3/BB	Financials	Spain	518	0.42
Matalan Finance	8.875% 29 Apr 2016	B1/B+	Consumer Goods	UK	514	0.42
Arqiva Broadcast Finance	9.5% 31 Mar 2020	B3/NR	Telecommunications	UK	512	0.41
Odeon & UCI Finco	9% 01 Aug 2018	B3/B–	Consumer Services	UK	505	0.41
Galaxy Bidco	FRN Nov 2019	B2/B	Financials	UK	504	0.41
DFS Furniture	7.625% 15 Aug 2018	B2/B	Consumer Goods	UK	501	0.40
Eileme 2	11.75% 31 Jan 2020	B3/B	Telecommunications	Sweden	501	0.40
M&G Finance	7.5% FRN Perpetual	NR/NR	Financials	Luxembourg	480	0.39
SMCP	8.875% 15 Jun 2020	B3/B	Consumer Goods	France	459	0.37
Ono Finance II	11.125% 15 Jul 2019	Caa1/B–	Consumer Services	Ireland	458	0.37
S & B Industrial Minerals	9.25% 15 Aug 2020	B3/B+	Basic Materials	Luxembourg	455	0.37
Lottomatica	8.25% FRN 03 Mar 2066	Ba2/BB	Consumer Services	Italy	451	0.36
Xefin	8% 01 Jun 2018	Ba3/B+	Industrials	Luxembourg	449	0.36
Fiat Finance & Trade	6.375% 01 Apr 2016	B1/BB–	Consumer Goods	Luxembourg	443	0.36
Manutencoop Facility Management	8.5% 01 Aug 2020	B2/B+	Consumer Services	Italy	440	0.36
Telecom Italia	6.125% 15/11/2016	NR/B+	Telecommunications	Italy	437	0.35
Zobele	7.875% 01 Feb 2018	B2/B	Basic Materials	Italy	436	0.35
Jaguar Land Rover	8.125% 15 May 2018	Ba2/BB	Consumer Goods	UK	433	0.35
ALBA	8% 15 May 2018	WR/B–	Industrials	Germany	424	0.34
Gategroup	Swiss common stock	Equity	Consumer Goods	Switzerland	420	0.34
Takko	9.875% 15 Apr 2019	B3/B–	Consumer Services	Luxembourg	405	0.33

ISSUER	ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Principality Building Society	7% Perpetual	B1/NR	Financials	UK	401	0.32
Solvay Finance	5.425% Perpetual	Baa3/BBB–	Basic Materials	France	400	0.32
Telenet Finance	6.75% 15 Aug 2024	B1/B+	Telecommunications	Luxembourg	222	0.18
	6.25% 15 Aug 2022	B1/B+			176	0.14
					398	0.32
BBVA	9% Perpetual	NR/NR	Financials	Spain	390	0.32
Koninklijke KPN	6.875% FRN 14 Mar 2073	Ba1/BB	Telecommunications	Netherlands	354	0.29
BES Finance	6% FRN 07 Feb 2035	Ba3/BB–	Financials	Luxembourg	353	0.29
Sisal	7.5% 30 Sep 2017	B1/B	Consumer Services	Italy	339	0.27
AA Bond	9.5% 31 Jul 2043	NR/BB	Consumer Services	UK	329	0.27
Standard Chartered	9.5% FRN Perpetual	A3/A–	Financials	UK	322	0.26
Rothschilds Continuation Finance	1% FRN Perpetual	NR/NR	Financials	Netherlands	318	0.26
Beverage Packaging	9.5% 15 Jun 2017	Caa2/CCC+	Industrials	Luxembourg	301	0.24
Novae	6.5% 27 Apr 2017	Baa3/NR	Financials	UK	295	0.24
Gestamp Funding Luxembourg	5.875% 31 May 2020	B1/BB	Consumer Goods	Luxembourg	264	0.21
Aperam	7.75% 01 Apr 2018	B3/B+	Industrials	Luxembourg	248	0.20
Cerved Technologies	FRN 15 Jan 2019	B2/B	Consumer Services	Italy	247	0.20
KM Germany	8.75% 15 Dec 2020	B2/B–	Financials	Germany	222	0.18
Lecta	8.875% 15 May 2019	B2/B+	Industrials	Luxembourg	197	0.16
Kloeckner Pentaplast Erste	11.625% 15 Jul 2017	B3/CCC	Industrials	Germany	191	0.15
Investec Tier I	7.075% Perpetual	B1/NR	Financials	UK	165	0.13
Pearl	6.5864% FRN Perpetual	NR/NR	Financials	UK	148	0.12
NH Hoteles	6.875% 07 November 2019	NR/B	Consumer Services	Spain	132	0.11
Pittards	Ordinary shares	Equity	Consumer Goods	UK	128	0.10
FAGE International	9.875% 01 Feb 2020	B3/B	Consumer Goods	Greece	110	0.09
Oberthur Technologies	9.25% 30 Apr 2020	Caa1/CCC	Support Services	France	94	0.08
HellermannTyton Finance	5.308% FRN 15 Dec 2017	B1/BB	Industrials	UK	93	0.08
Corero Network Security	Ordinary shares	Equity	Technology	UK	38	0.03
Brazilian Resources	Unquoted Brazilian common stock	Equity	Basic Materials	Canada	24	0.02
Pfleiderer Finance	7.125% FRN Perpetual	WR/NR	Industrials	Netherlands	5	—
					123,775	100.0

Abbreviations used in the above valuation:

Cnv: Convertible
Exch: Exchange
FRN: Floating Rate Note
SNR: Senior
VAR: Variable
Wts: Warrants

TOP TEN INVESTMENTS

AT 31 DECEMBER

COMPANY	ISSUE	2013 MARKET VALUE £'000	2013 % OF PORTFOLIO	2012 MARKET VALUE £'000	2012 % OF PORTFOLIO
Lloyds Banking Group – Lloyds Bank & LBG Capital	7.975% 15 Sep 2024	3,915	5.8	3,764	5.9
	6.385% 12 May 2020	1,316		1,210	
	9% 15 Dec 2019	1,070		1,071	
	6.439% 23 May 2020	880		803	
	16.125% 10 Dec 2024	—		141	
General Motors	Wts 10 Jul 2019	5,624	5.0	3,325	3.1
	Wts 10 Jul 2016	588		360	
Aviva	6.125% Perpetual	3,738	4.2	3,414	4.1
General Accident	8.875% Preference	1,409		1,380	
Société Genérale	8.875% FRN Perpetual	4,500	4.0	4,184	3.6
	8.25% Perpetual	229		—	
	7.875% FRN Perpetual	170		—	
Premier Farnell	89.2p Convertible Preference	4,077	3.3	3,814	3.3
Abengoa	6.25% Cnv 17 Jan 2019	1,103	2.4	—	1.9
	8.5% 31 Mar 2016	898		821	
	6.875% Cnv 24 Jul 2014	594		1,144	
	4.5% Cnv 03 Feb 2017	335		300	
Intesa Sanpaolo	8.375% FRN Perpetual	2,926	2.4	2,622	2.2
Credit Agricole	7.589% FRN Perpetual	2,254	2.3	2,001	2.1
	8.125% FRN Perpetual	547		511	
Enterprise Inns	6.5% 06 Dec 2018 (SNR)	2,594	2.1	1,936	1.7
UPC	9.625% 01 Dec 2019	1,839	2.0	1,820	1.6
	5.625% 15 Apr 2023	674		—	

THE DIRECTORS

Clive A. H. Nicholson (Chairman)
Joined the Board on 19 December 2011. He was appointed to the board of CMHYT plc on 21 November 2005 and became its chairman on 1 January 2007. He was previously a senior Partner of Chartered Accountants Saffery Champness, having joined the partnership in 1972.

Philip Austin
Joined the Board on 19 December 2011. He spent most of his career in banking with HSBC where he was, latterly, Deputy CEO of the Bank's business in the Offshore Islands. He now holds a portfolio of part-time non-executive directorships, which include 3i Infrastructure plc and Invesco Property Income Trust Limited.

John Boothman
Joined the Board on 19 December 2011. He is a freelance consultant with a portfolio of part-time directorships. Previously he has held several public sector appointments including acting as Commissioner of the Jersey Financial Services Commission.

Winifred Robbins
Joined the Board on 19 December 2011. She was appointed to the board of CMHYT plc on 19 March 2009. She was previously Managing Director and Head of Pan-European Fixed Income at Credit Suisse Asset Management, Managing Director and Head of Non-US Fixed Income at Citigroup Asset Management, and Managing Director and Head of European Fixed Income at Barclays Global Investors from which appointment she retired in 2008. She is also a non-executive director of Alliance Trust PLC.

Philip Taylor
Joined the Board on 19 December 2011 and is Chairman of the Audit Committee. He was previously the senior Partner of PricewaterhouseCoopers CI LLP for 16 years, and has since built up a number of non-executive appointments including Membership of the Conduct Committee of the Financial Reporting Council. He is also a Director of JPMorgan Global Convertibles Income Fund Limited.

All directors are non-executive and, in the opinion of the Board, are independent of the Manager.

The Company's Governance Framework

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

The Board

Five non-executive directors (NEDs)

Chairman Clive Nicholson

Key objectives:

– to set strategy, values and standards;
– to provide leadership within a framework of prudent and effective controls which enable risk to be assessed and managed; and
– to constructively challenge and scrutinise performance of all outsourced activities.

Audit Committee

All NEDs

Chairman Philip Taylor

Key objectives:

– to oversee financial reporting and the control environment; and
– to review the effectiveness of the audit process and the independence and objectiveness of the auditor.

Management Engagement Committee Function

The Board as a whole performs this function

Key objectives:

– to review the performance of the Manager; and
– to review other service providers.

Nomination Committee Function

The Board as a whole performs this function

Key objectives:

– to review regularly the Board's structure and composition; and
– to make any new appointments.

Remuneration Committee Function

The Board as a whole performs this function

Key objective:

– to set the remuneration policy of the Company.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

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 Directors have considered the principles and recommendations of the 2013 AIC Code of Corporate Governance for Jersey domiciled investment companies ('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 2012 UK Corporate Governance Code ('UK Code'), as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies.

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

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

- the role of the chief executive;
- executive directors' remuneration;
- the need for an internal audit function; and
- nomination of a senior independent director.

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers these provisions are not relevant to the position of City Merchants High Yield Trust Limited, being an externally managed investment company with no executive employees and, in relation to the third, in view of the Manager having an internal audit function. In relation to the fourth, the Board takes the view that the nature of the Company and the relationship between the Board and the Manager are such that it is unnecessary to identify a senior independent director other than the Chairman. All Directors are available to shareholders if they have concerns that cannot be resolved through contact with the Chairman or the Manager or for which such contact is inappropriate.

Information on how the Company has applied the principles of the AIC Code and the UK Code is provided in the Directors' Report as follows:

The composition and operation of the Board and its committee functions are summarised on pages 50 and 51, and on pages 23 and 24 in respect of the Audit Committee.

The Company's approach to internal control and risk management is summarised on page 53.

The contractual arrangements with, and assessment of, the Manager are summarised on page 54.

The Company's capital structure and voting rights are summarised on page 55.

The most substantial shareholders in the Company are listed on page 12.

The rules concerning the appointment and replacement of directors are contained in the Company's Articles of Association and are discussed on pages 51 and 52. There are no agreements between the Company and its directors concerning compensation for loss of office.

Powers to issue or buy back the Company's shares, which are sought annually, and any amendments to the Company's Articles of Association require a special resolution to be passed by shareholders.

By order of the Board

R&H Fund Services (Jersey) Limited
Company Secretary

15 April 2014

AUDIT COMMITTEE REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

The Audit Committee comprises all of the Directors on the Board and is chaired by Philip Taylor. The Committee has written terms of reference that clearly define its responsibilities and duties. These can be inspected at the Registered Office of the Company and on the Manager's website at www.invescoperpetual.co.uk/investmenttrusts.

Audit Committee Responsibilities

The responsibilities of the Audit Committee include:

– evaluation of the effectiveness of the internal controls and risk management systems, including reports received on the operational controls of the Company's service providers and the Managers' and Company Secretary's whistleblowing arrangements;

– reviewing the annual and half-yearly financial reports and announcements of the Company and ensuring compliance with relevant statutory and listing requirements;

– management of the relationship with the external auditor, including their appointment, and the scope, effectiveness, independence and objectivity of their audit; and

– ensuring, at the request of the Board, that the annual financial report taken as a whole is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's performance, business model and strategy.

The Committee meets at least twice a year to review the internal financial and non-financial controls, accounting policies and the contents of the half-yearly and annual financial reports to shareholders. The Committee reviews the auditor's independence, objectivity and effectiveness, the quality of the services provided to the Company and, together with the Manager, reviews the Company's compliance with financial reporting and regulatory requirements as well as risk management processes. Representatives of the Manager's Compliance and Internal Audit Departments attend at least two meetings each year. Representatives of the auditor, Ernst & Young LLP, attend the Committee meeting at which the draft annual financial report is reviewed and are given the opportunity to speak to Committee members without the presence of representatives of the Manager.

The audit programme and timetable are drawn up and agreed with the auditor in advance of the end of the financial period. At this stage, matters for audit focus are discussed and agreed. These matters are given particular attention during the audit process and, among other matters, are reported on by the auditor in the audit report to the Committee. The report is considered by the Committee and discussed with the auditor and the Manager prior to approval and signature of the financial statements.

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

Accounting Matters and Significant Areas

The Audit Committee reviewed and agreed the audit plan, which included the accounting matters that were expected to require focus in relation to the Company's annual financial report.

The accounting matters that were subject to specific consideration by the Committee follow:

SIGNIFICANT AREA	HOW ADDRESSED
Accuracy of the portfolio valuation	Actively traded listed investments are valued using stock exchange prices provided by third party pricing vendors.
The allocation of management fees and finance costs between revenue and capital	The allocation is considered annually by the Committee, which takes account of the long-term split of returns from the portfolio, yields, the objective of the Company and current market practice.
Income recognition	Accrued income is calculated by the Manager and each stock line is reviewed to ensure that capital appreciation is not inappropriately attributed to revenue.

We are satisfied that these matters have been satisfactorily addressed through consideration of reports provided by, and discussed with, the Manager and the auditor. Following a thorough review process, the Audit Committee is satisfied that the 2013 annual financial report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

AUDIT COMMITTEE REPORT
continued

Auditor
We assessed the effectiveness of the external audit process through discussions with the Manager and the auditor and consideration of review points raised.

Ernst & Young LLP has been the appointed auditor of the Company from its launch in 2012. In due course, auditor rotation will be reviewed in accordance with the UK Code of Corporate Governance and the AIC Corporate Governance Code.

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

We considered the independence of the external auditor and the objectivity of the audit process and are satisfied that Ernst & Young LLP has fulfilled its obligations to shareholders and as independent auditor to the Company.

A resolution proposing the reappointment of Ernst & Young LLP as the Company's auditor for the year to 31 December 2014 and authorising the Directors to determine their remuneration will be put to the shareholders at the forthcoming AGM.

Internal Controls and Risk Management
The Committee assessed the risks arising in relation to the Company's operations and identified the controls exercised to mitigate them by the Board and its delegates; the Manager and other service providers. The Committee also received and considered, together with representatives of the Manager, reports in relation to the operational controls of the investment manager, accounting administrator, custodian, company secretary and registrar. These reviews identified no issues of significance in the last year.

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

Philip Taylor
Chairman of the Audit Committee

15 April 2014

DIRECTORS' REMUNERATION AND INTERESTS

Remuneration Responsibilities

The Board has resolved that a remuneration committee is not appropriate for a company of this size and nature. Remuneration is therefore regarded as part of the Board's responsibilities to be addressed regularly. All Directors are non-executive and all participate in meetings of the Board at which Directors' remuneration is considered.

Directors' Remuneration Policy

The Board's policy is that Directors' remuneration should be fair and reasonable by comparison with fees paid by other investment companies of similar size and complexity. The remuneration of the Chairman and the Audit Committee Chairman is set to reflect the extra responsibilities and time spent on their respective roles.

Fees for Directors are determined by the Board within the aggregate limit stated in the Company's Articles of Association of £150,000 per annum.

Directors do not have service contracts. Directors are appointed under letters of appointment, copies of which are available for inspection at the registered office of the Company. Directors are entitled to be reimbursed for any reasonable expenses properly incurred by them in connection with the performance of their duties and attendance at board and general meetings and committees. Directors are not eligible for bonuses, pension benefits, share options or other incentives or benefits. There are no agreements between the Company and its Directors concerning compensation for loss of office.

Since the launch of the Company and up to 31 December 2013, Directors' fees were paid at the following rates: Chairman £28,500; Chairman of the Audit Committee £22,000; and other Directors £19,000.

New fee rates from 1 January 2014, apply as follows: Chairman £30,000; Chairman of the Audit Committee £23,500; and other Directors £20,000.

The same fees will apply to any new appointments.

The Company's Articles also provide that additional discretionary payments can be made for services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director.

The Company has no employees and consequently has no policy on the remuneration of employees.

The Board will consider, where raised, shareholders' views on Directors' remuneration.

Chairman's Annual Statement on Directors' Remuneration

The Board has reviewed Directors' remuneration and considers that the current level of remuneration is appropriate. No additional discretionary payments were made in the year.

Annual Report on Directors' Remuneration

Directors' Remuneration for the Year

The Directors who served during the year received the following total emoluments, all of which were in the form of fees:

	2013 £	2012 £
Clive Nicholson – Chairman	28,500	28,500
Philip Taylor – Chairman of the Audit Committee	22,000	22,000
Philip Austin	19,000	19,000
John Boothman	19,000	19,000
Winifred Robbins	19,000	19,000
Total	107,500	107,500

DIRECTORS' REMUNERATION AND INTERESTS
continued

Directors' Interests

The beneficial interests of the Directors in the ordinary share capital of the Company are shown below:

	31 DECEMBER 2013	31 DECEMBER 2012
Clive Nicholson (Chairman)	49,500	49,500
Philip Austin	—	—
John Boothman	—	—
Winifred Robbins	189,818	189,818
Philip Taylor	73,271	69,146

Save as aforesaid, no Director had any interests, beneficial or otherwise, in the shares of the Company during the period. Since the year end Philip Taylor's interest has increased by 967 shares to 74,238 shares, as a result of automatic dividend reinvestment. No further changes to these holdings have been notified up to the date of this report. No connected person interests have been notified.

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

No Director was a party to, or had any interests in, any contract or arrangement with the Company at any time during the period or at the period-end other than in respect of indemnification and insurance as set out below.

Directors' Indemnification and Insurance

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

The Company has entered into a Deed of Indemnity with each of the Directors by which, to the extent permitted by law and the Company's Articles of Association, the Company will indemnify them against liabilities incurred in connection with their office as Directors of the Company and fund reasonable expenditure incurred by them in defending proceedings brought against them in connection with their position as Directors of the Company. The indemnity does not apply to the extent that the costs are recoverable under the Directors' and Officers' liability insurance policy maintained by the Company or from any other insurance maintained by the Director.

STATEMENT OF DIRECTORS' RESPONSIBILITIES
IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS

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

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

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

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

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

The Directors of the Company, who are listed on page 21, each confirm to the best of their knowledge that:

- the financial statements, which have been prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- this annual financial report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces; and
- this annual financial report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Clive Nicholson
Chairman

Signed on behalf of the Board of Directors

15 April 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITY MERCHANTS HIGH YIELD TRUST LIMITED

We have audited the financial statements of City Merchants High Yield Trust Limited (the 'Company') for the year ended 31 December 2013 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Statement of Cash Flows and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 27, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 December 2013 and of its return for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Our assessment of risks of material misstatement

We identified the following risks of material misstatement that had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team:

- valuation and ownership of the Company's investments; and
- recognition of dividend and fixed interest income.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and of uncorrected misstatements, if any, on the financial statements and in forming our audit opinion.

We determined materiality for the Company to be £1,340,000 which is 1% of total equity. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgment was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Company should be 50% of materiality, namely £670,000. Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our planning materiality level.

We have agreed with the Audit Committee to report all audit differences in excess of £67,000, as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our response to the risks identified above was as follows:

- we agreed year end prices for quoted investments to an independent source and considered the appropriateness of valuation techniques applied to unlisted investments. We also obtained independent confirmation from the custodian of the Company's investments and agreed them to the books and records of the Company; and
- we traced on a sample basis the terms of dividends and rates of interest receivable for portfolio securities, we recalculated the income receivable based on holdings of the securities within the Company's portfolio and checked the bond portfolio for evidence of actual or potential credit losses that would impact the expected flow of income.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

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

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

- proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; 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 part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Andrew Jonathan Dann FCA
for and on behalf of Ernst & Young LLP
St. Helier, Jersey, CI

15 April 2014

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

Trading commenced on 2 April 2012

		YEAR TO 31 DECEMBER 2013			19 DECEMBER 2011 TO 31 DECEMBER 2012		
	NOTES	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Profit on investments held at fair value	11	—	10,272	10,272	—	8,370	8,370
Exchange differences		—	(500)	(500)	—	123	123
(Loss)/profit on derivative instruments – currency hedges		—	(384)	(384)	—	1,088	1,088
Income	4	8,686	—	8,686	6,422	—	6,422
Investment management fees	5	(632)	(340)	(972)	(433)	(233)	(666)
Other expenses	6	(361)	(1)	(362)	(286)	—	(286)
Profit before finance costs and taxation		7,693	9,047	16,740	5,703	9,348	15,051
Finance costs	7	(29)	(15)	(44)	(21)	(12)	(33)
Profit before tax		7,664	9,032	16,696	5,682	9,336	15,018
Taxation	8	(75)	—	(75)	(42)	—	(42)
Profit after tax		7,589	9,032	16,621	5,640	9,336	14,976
Return per ordinary share	9	10.4p	12.4p	22.8p	7.8p	12.8p	20.6p

The total column of this statement represents the Company's statement of comprehensive income, prepared in accordance with International Financial Reporting Standards. The profit after tax is the total comprehensive income. The supplementary revenue and capital columns are both prepared in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies. All items in the above statement derive from continuing operations and the Company has no other profits or losses. No operations were acquired or discontinued in the year.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

Trading commenced on 2 April 2012

	NOTES	STATED CAPITAL £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
Issue of new shares	15	113,930	—	—	113,930
Issue costs	15	(520)	—	—	(520)
Total comprehensive income for the period		—	9,336	5,640	14,976
Dividends paid	10	—	—	(3,711)	(3,711)
At 31 December 2012		113,410	9,336	1,929	124,675
Total comprehensive income for the year		—	9,032	7,589	16,621
Dividends paid	10	—	—	(7,279)	(7,279)
At 31 December 2013		113,410	18,368	2,239	134,017

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

BALANCE SHEET

AT 31 DECEMBER 2013

	NOTES	2013 £'000	2012 £'000
Non-current assets			
Investments held at fair value through profit or loss	11	123,775	117,527
Current assets			
Other receivables	12	3,028	2,407
Derivative financial instruments – unrealised gain	14	216	—
Cash and cash equivalents		7,365	5,094
		10,609	7,501
Current liabilities			
Other payables	13	(367)	(343)
Derivative financial instruments – unrealised loss	14	—	(10)
		(367)	(353)
Net current assets		10,242	7,148
Net assets		134,017	124,675
Capital and reserves			
Stated capital	15	113,410	113,410
Capital reserve	16	18,368	9,336
Revenue reserve	16	2,239	1,929
Shareholders' funds		134,017	124,675
Net asset value per ordinary share	17	184.12p	171.29p

These financial statements were approved and authorised for issue by the Board of Directors on 15 April 2014.

Signed on behalf of the Board of Directors

Clive Nicholson
Chairman

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

Trading commenced on 2 April 2012

	YEAR TO 31 DECEMBER 2013 £'000	19 DECEMBER 2011 TO 31 DECEMBER 2012 £'000
Cash flow from operating activities		
Profit before tax	16,696	15,018
Taxation	(75)	(42)
Adjustment for:		
Purchases of investments	(30,182)	(18,171)
Sales of investments	33,680	18,542
	3,498	371
Profit on investments	(10,272)	(8,370)
Exchange differences	500	(123)
Net cash (outflow)/inflow from derivative instruments – currency hedges	(226)	10
Finance costs	44	33
Operating cash flows before movements in working capital	10,165	6,897
Other receivables	(95)	(2,407)
Accrued interest received from City Merchants High Yield Trust plc	—	2,823
(Increase)/decrease in receivables	(95)	416
Increase in payables	24	336
Net cash flows from operating activities	10,094	7,649
Cash flow from financing activities		
Costs incurred in formation of new company	—	(520)
Cash received from City Merchants High Yield Trust plc	—	1,579
Finance cost paid	(44)	(26)
Equity dividends paid – note 10	(7,279)	(3,711)
Net cash flows from financing activities	(7,323)	(2,678)
Net increase in cash and cash equivalents	2,771	4,971
Exchange differences	(500)	123
Cash and cash equivalents at beginning of year/period	5,094	—
Cash and cash equivalents at the end of the year/period	7,365	5,094

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. Principal Activity

The Company is a closed-end investment company incorporated in Jersey and operates under the Companies (Jersey) Law 1991. The principal activity of the Company is investment in a diversified portfolio of high-yielding fixed-interest securities as set out in the Company's Investment Objective and Policy.

2. Principal Accounting Policies

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

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(a) Basis of Preparation

(i) *Accounting Standards Applied*

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

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

(ii) *Adoption of New and Revised Standards*

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

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

- IFRS 9: Financial Instruments (2013) (effective 1 January 2018).
- Mandatory Effective Date and Transition Disclosures – Amendments to IFRS 9 and IFRS 7 Financial Instruments: Disclosure (effective 1 January 2018).
- IAS 32 Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities (effective 1 January 2014).

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

(iii) *Critical Accounting Estimates and Judgements*

The preparation of the financial statements requires the Company to make estimations where uncertainty exists. It also requires the Company to exercise judgement in the process of applying the accounting policies. The critical accounting estimates and areas involving a higher degree of judgement or complexity comprise the fair value of derivatives and other financial instruments.

The Directors use their judgement in selecting an appropriate valuation technique for financial instruments not quoted on an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rated.

2. Principal Accounting Policies (continued)

(a) Basis of Preparation (continued)

(iii) *Critical Accounting Estimates and Judgements (continued)*
Where there is no active market, illiquid/unlisted investments are valued by the Directors at fair value based on recommendations from Invesco's Pricing Committee, which in turn is guided by the International Private Equity and Venture Capital Association Guidelines, using valuation techniques such as earnings multiples, recent arm's length transactions and net assets, adjusted if appropriate.

(b) Foreign Currency

(i) *Functional and Presentation Currency*
The financial statements are presented in sterling, which is the Company's functional and presentation currency and the currency in which the Company's stated capital and expenses are denominated, as well as certain of its income, assets and liabilities.

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

(c) Financial Instruments

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

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

(iii) *Derecognition of Financial Liabilities*
The Company derecognises financial liabilities when its obligations are discharged, cancelled or expired.

(iv) *Trade Date Accounting*
Purchases and sales of financial assets are recognised on trade date, being the date on which the Company commits to purchase or sell the assets.

(v) *Classification of Financial Assets and Financial Liabilities*

Financial Assets
The Company's investments are classified as held at fair value through profit or loss as the investments are managed and their performance evaluated on a fair value basis in accordance with the Company's documented investment strategy and this is also the basis on which information about investments is provided internally to the Board.

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

For investments that are actively traded in organised financial markets, fair value 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, investments are valued by the Directors at fair value based on recommendations from Invesco's Pricing Committee using valuation techniques such as earnings multiples, recent arm's length transactions and net assets, adjusted if appropriate.

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

(d) Derivatives and Hedging

Derivative instruments are valued at fair value in the balance sheet.

Forward currency contracts entered into for hedging purposes are valued at the appropriate forward exchange rate ruling at the balance sheet date and any profits and losses are recognised in the statement of comprehensive income and taken to capital reserves.

Futures contracts entered into for hedging purposes are valued at fair value at the quoted trade price of the contract and any profits and losses on the closure or revaluation of positions are recognised in the statement of comprehensive income and taken to capital reserves.

(e) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and short-term deposits with an original maturity date of three months or less.

(f) Revenue Recognition

All income is recognised in the statement of comprehensive income. Interest income arising from fixed income securities and cash is recognised using the effective interest method. Dividend income arises from equity investments held and is recognised on the date investments are marked 'ex-dividend'. Deposit interest and underwriting commission are taken into account on an accruals basis.

(g) Expenses and Finance Costs

All expenses are accounted for on an accruals basis and are recognised in the statement of comprehensive income. Investment management fees and finance costs are allocated 35% to capital and 65% to revenue in accordance with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio. Except for custodian dealing costs, all other expenses are charged through revenue. Expenses in relation to the set up of the Company are charged to stated capital.

(h) Tax

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

3. Segmental Reporting

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

NOTES TO THE FINANCIAL STATEMENTS
continued

4. Income

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

	YEAR ENDED 31 DECEMBER 2013 £'000	19 DECEMBER 2011 TO 31 DECEMBER 2012 £'000
Income from investments		
UK dividends	720	453
UK investment income – interest	2,987	2,286
Overseas investment income – interest	4,966	3,669
Overseas dividends	11	2
	8,684	6,410
Other income		
Deposit interest	2	12
Total income	8,686	6,422

5. Investment Management Fee

This note shows the fees paid to the Manager, which are calculated quarterly on the basis of the value of the assets being managed.

	YEAR ENDED 31 DECEMBER 2013			19 DECEMBER 2011 TO 31 DECEMBER 2012		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Investment management fee	632	340	972	433	233	666

Details of the investment management agreement are disclosed in the Directors' Report. At the period end the management fee accrued was £251,000 (2012: £234,000).

6. Other Expenses

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

	YEAR ENDED 31 DECEMBER 2013			19 DECEMBER 2011 TO 31 DECEMBER 2012		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
General expenses (i)	223	1	224	179	—	179
Directors' fees (ii)	108	—	108	81	—	81
Auditor's remuneration:						
– for the audit of the financial statements	30	—	30	26	—	26
Investment management fee	361	1	362	286	—	286

(i) General expenses include £37,500 due to R&H Fund Services (Jersey) who act as Administrator and Company Secretary to the Company under an Agreement dated 19 December 2011. This agreement is terminable at any time by either party giving no less than three months' notice. The fee is payable quarterly in arrears based on the initial rate of £37,500 per annum. The fee is revised with effect from 1 January each year, by the application of a formula based on the Retail Price Index for the month of December of the previous year.

In 2012 an additional £5,000 was paid to R&H Fund Services (Jersey) in respect of set up costs of the Company and charged to stated capital.

General expenses include an administration fee due to Invesco Asset Management Limited of a fixed fee of £22,500 plus RPI per annum, the equivalent of £23,000 (2012: £17,000) for the period which is payable quarterly in arrears. The fee is revised with effect from 1 July each year by the application of a formula based on the Retail Price Index for the month of May in the relevant year.

Custodian dealing costs of £1,000 (2012: nil) are charged wholly to capital.

(ii) The maximum Directors' fees authorised by the Articles of Association are £150,000 per annum. In 2012, an amount of £26,875, equivalent to one quarter of the annual directors' fees, has been charged to stated capital as part of initial issue costs in connection with set up of the Company.

7. Finance Costs

Finance costs arise on any borrowing facilities the Company has and comprise commitment fees on any unused facility as well as interest when the facility is used.

	YEAR ENDED 31 DECEMBER 2013			19 DECEMBER 2011 TO 31 DECEMBER 2012		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Commitment fees due on loan facility	29	15	44	21	12	33

The Company has a 364 day committed £20 million multi-currency revolving credit facility with Bank of New York Mellon which is renewable on 9 May 2014. Interest payable is based on the interbank offered rate for the currency drawn down. The commitment fee at the balance sheet date is based on 0.20% of the average undrawn amount each quarter, reduced from 0.25% during the year. At the balance sheet date the Company had no drawdowns (2012: none).

8. Taxation

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

	YEAR ENDED 31 DECEMBER 2013 £'000	19 DECEMBER 2011 TO 31 DECEMBER 2012 £'000
Overseas taxation	75	42

The Company is subject to Jersey income tax at the rate of 0% (2012: 0%). The overseas tax charge consists of irrecoverable withholding tax.

9. Return per Ordinary Share

Return per share is the amount of gain generated for the financial year divided by the weighted average number of ordinary shares in issue.

The basic revenue, capital and total return per ordinary share is based on each of the profit after tax and on 72,786,327 (2012: 72,786,327) ordinary shares, being the weighted average number of ordinary shares in issue throughout the year.

NOTES TO THE FINANCIAL STATEMENTS
continued

10. Dividends on Ordinary Shares

Dividends are paid from the income less expenses. Dividends are paid as an amount per ordinary share held.

	YEAR ENDED 31 DECEMBER 2013 PENCE	YEAR ENDED 31 DECEMBER 2013 £'000	19 DECEMBER 2011 TO 31 DECEMBER 2012 PENCE	19 DECEMBER 2011 TO 31 DECEMBER 2012 £'000
Dividends paid and recognised in the period:				
Third interim paid 28 February 2013	2.5	1,820	—	—
First interim	2.5	1,820	2.6	1,891
Second interim	2.5	1,819	2.5	1,820
Third interim	2.5	1,820	—	—
	10.0	7,279	5.1	3,711
Special interim dividend paid and recognised by City Merchants High Yield Trust plc	—	—	2.4	1,747
	10.0	7,279	7.5	5,458

Set out below are the dividends that have been declared in respect of the financial period:

	YEAR ENDED 31 DECEMBER 2013 PENCE	YEAR ENDED 31 DECEMBER 2013 £'000	19 DECEMBER 2011 TO 31 DECEMBER 2012 PENCE	19 DECEMBER 2011 TO 31 DECEMBER 2012 £'000
Dividends in respect of the period:				
First interim	2.5	1,820	2.6	1,891
Second interim	2.5	1,819	2.5	1,820
Third interim	2.5	1,820	2.5	1,820
Fourth interim paid 28 February 2014	2.5	1,828	—	—
	10.0	7,287	7.6	5,531
Special interim dividend paid by City Merchants High Yield Trust plc	—	—	2.4	1,747
	10.0	7,287	10.0	7,278

11. Investments Held at Fair Value Through Profit or Loss

The portfolio is principally made up of investments which are listed and traded on a regulated stock exchange. Profits and losses in the year are either:

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

(a) Analysis of investment profits

	2013 £'000	2012 £'000
Investments acquired from City Merchants High Yield Trust plc	—	109,528
Opening bookcost	109,118	—
Opening investment holding profits	8,409	—
Opening valuation	117,527	109,528
Movements in the period:		
Purchases at cost	30,182	18,171
Sales – proceeds	(34,206)	(18,542)
– net realised profit/(loss)	4,053	(39)
Movement in investment holding profit	6,219	8,409
Closing valuation	123,775	117,527
Closing book cost	109,147	109,118
Closing investment holding profit	14,628	8,409
Closing valuation	123,775	117,527
Realised profit/(loss) in the period	4,053	(39)
Movement in investment holding profit in the period	6,219	8,409
	10,272	8,370

(b) Transaction costs

The transaction costs on investments amount to £1,000 on sales and £nil on purchases (2012: £nil on sales and £nil on purchases).

(c) Registration of investments

The investments of the Company are registered in the name of the Company or in the name of nominees and held to the account of the Company.

12. Other Receivables

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

	2013 £'000	2012 £'000
Prepayments and accrued income	2,502	2,407
Amount due from brokers	526	—
	3,028	2,407

NOTES TO THE FINANCIAL STATEMENTS
continued

13. Other Payables

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

	2013 £'000	2012 £'000
Accruals	367	343
	367	343

14. Derivative Financial Instruments

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

Derivative financial instruments comprise forward currency contracts.

	2013 £'000	2012 £'000
Forward currency contracts – net unrealised profit/(loss)	216	(10)
	216	(10)

15. Stated Capital

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

	2013 £'000	2012 £'000
72,786,327 allotted ordinary shares of no par value	113,410	113,410

At launch, 72,786,327 ordinary shares of no par value in City Merchants High Yield Trust Limited were issued on a 1:1 basis to the shareholders of City Merchants High Yield Trust plc, in lieu of their investment in that company. The issue proceeds were £113,930,000 and issue costs were £520,000.

Subsequent to the year end 3,175,000 ordinary shares have been issued, at an average price of 187.39p.

16. Reserves

This note explains the different reserves attributable to shareholders. The aggregate of the reserves and share capital (see previous note) make up total shareholders' funds.

The capital reserve includes investment holding profits and losses, being the difference between cost and market value at the balance sheet date, as well as realised profits and losses on disposals of investments. Both the capital and revenue reserves are distributable.

17. Net Asset Value per Ordinary Share

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

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

	NET ASSET VALUE PER ORDINARY SHARE		NET ASSETS ATTRIBUTABLE	
	2013 PENCE	2012 PENCE	2013 £'000	2012 £'000
Ordinary shares	184.12	171.29	134,017	124,675

The net asset value per ordinary share is based on 72,786,327 (2012: 72,786,327) ordinary shares, being the number of ordinary shares in issue at the year end.

18. Financial Instruments

Financial instruments comprise the Company's investment portfolio and derivative financial instruments (for the latter see note 14) as well as any cash, borrowings, other receivables and other payables.

The Company's financial instruments comprise its investment portfolio (as shown on pages 16 to 19), cash, borrowings, other receivables and other payables that arise directly from its operations such as sales and purchases awaiting settlement, derivatives and accrued income. The accounting policies in note 2 include criteria for the recognition and the basis of measurement applied for financial instruments. Note 2 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised and measured.

The principal risks that the Company faces in its portfolio management activities are set out below:

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

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

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

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

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

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

Risk Management Policies and Procedures

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

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

18. Financial Instruments (continued)

Market Risk

As described on page 10 in the Strategic Report, high-yield fixed-interest securities are subject to a variety of risks. Many of the Company's investments are non-investment grade securities and adverse changes in the financial position of an issuer or in the general economy may effect both the principal and the interest. Gearing by using the Company's borrowing facility can enhance returns, however, this will also increase the Company's exposure to market risk and volatility.

The portfolio managers assess the exposure to market risk when making each investment decision, and monitor the overall level of market risk on the whole of the portfolio on an ongoing basis. Risk management is an integral part of the investment management process. The portfolio managers mitigate risk by ensuring that the Company's investment portfolio is appropriately diversified. In-depth and continual analysis of market and stock fundamentals give the portfolio managers the best possible understanding of the risks associated with a particular stock.

(a) *Currency Risk*

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

Management of the Currency Risk

The Board meets at least quarterly to assess risk and review investment performance. The portfolio managers monitor the Company's exposure to foreign currencies on a daily basis and report to the Board. Drawings in foreign currencies on the borrowing facility can be used to limit the Company's exposure to anticipated future changes in exchange rates and can also be used to achieve the portfolio characteristics that assist the Company in meeting its investment objective. The Company can also use forward currency contracts to limit the Company's exposure to anticipated future changes in exchange rates. All facility drawings and derivative contracts are limited to currencies and amounts commensurate with asset exposure to those currencies.

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

Currency Exposure

The fair values of the Company's monetary items that have foreign currency exposure at 31 December are shown in the table below. Where the Company's investments (which are not monetary items) are priced in a foreign currency, they have been included separately in the analysis to show the overall level of exposure.

31 DECEMBER 2013	EURO £'000	US DOLLAR £'000	CANADIAN DOLLAR £'000	SWISS FRANC £'000
Investments at fair value through profit or loss that are monetary items (fixed-interest)	45,584	10,829	—	—
Cash at bank	1,765	1,654	—	109
Other receivables (due from brokers, dividends receivable and accrued income)	1,011	155	—	—
Forward currency contracts	(44,489)	—	—	—
Foreign currency exposure on net monetary items	3,871	12,638	—	109
Investments at fair value through profit or loss that are equities/warrants	—	6,275	24	420
Total net foreign currency exposure	3,871	18,913	24	529

31 DECEMBER 2012	EURO £'000	US DOLLAR £'000	CANADIAN DOLLAR £'000	SWISS FRANC £'000
Investments at fair value through profit or loss that are monetary items (fixed-interest)	40,395	15,084	—	—
Cash at bank	1,009	522	—	—
Other receivables (due from brokers, dividends receivable and accrued income)	872	225	—	—
Forward currency contracts	(36,097)	—	—	—
Foreign currency exposure on net monetary items	6,179	15,831	—	—
Investments at fair value through profit or loss that are equities/warrants	—	3,843	112	518
Total net foreign currency exposure	6,179	19,674	112	518

The above may not be representative of the exposure to risk during the period reported because the levels of monetary foreign currency exposure may change significantly throughout the period.

Currency Sensitivity

The effect on the income statement and the net asset value that changes in exchange rates have on the Company's financial assets and liabilities is based on the following exchange rates. These rates have been calculated by reference to the volatility of exchange rates during the period using the standard deviation of currency fluctuations against the mean.

	2013	2012
£/Euro	±1.4%	±1.4%
£/US dollar	±2.8%	±1.5%
£/Canadian dollar	±3.7%	±1.0%
£/Swiss franc	±1.3%	±1.4%

The following sensitivity analysis is based on the Company's monetary foreign currency financial instruments held at the balance sheet date and takes account of any forward foreign exchange contracts that offset the effects of changes in currency exchange rates.

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

2013	EURO £'000	US DOLLAR £'000	CANADIAN DOLLAR £'000	SWISS FRANC £'000
Effect on income statement				
Revenue loss	(45)	(24)	—	—
Capital loss	(54)	(530)	(1)	(7)
Effect on net asset value	(99)	(554)	(1)	(7)

2012	EURO £'000	US DOLLAR £'000	CANADIAN DOLLAR £'000	SWISS FRANC £'000
Effect on income statement				
Revenue loss	(32)	(13)	—	—
Capital loss	(78)	(301)	(1)	(7)
Effect on net asset value	(110)	(314)	(1)	(7)

If sterling had weakened by the changes in exchange rates shown above this would have an equal and opposite effect.

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

18. Financial Instruments (continued)

(b) ***Interest Rate Risk***

Interest rate risk represents the risk that the fair value or the future payment flows generated by a financial instrument could fluctuate because of changes in interest rate levels. Interest rate risk comprises the fair value (present value) risk on fixed interest financial instruments as well as the risk associated with cash flows from variable interest (floating rate) financial instruments. It is related above all to long-term financial instruments. These longer terms can be material for financial assets, securities and financial liabilities.

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 floating rate investments; 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 Manager. 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 committed £20 million multi-currency facility with the Bank of New York Mellon which is renewable on 9 May 2014. This facility allows the Company to draw down amounts in sterling, euros or US dollars to maximum sterling equivalent of £20 million. Drawings under this facility are subject to the restriction that the Company's total financial indebtedness must not exceed 30% of total assets and that the assets must be in excess of £50 million. At the period end there were no drawings. The Company uses the facility when required at levels approved and monitored by the Board.

Interest Rate Exposure

The following table shows the Company's exposure to interest rate risk at the balance sheet date arising from its monetary financial assets and liabilities.

2013	WITHIN ONE YEAR £'000	MORE THAN ONE YEAR £'000	TOTAL £'000
Exposure to floating interest rates:			
Investments at fair value through profit or loss	—	45,727	45,727
Cash and cash equivalents	7,365	—	7,365
	7,365	45,727	53,092
Exposure to fixed-interest rates:			
Investments at fair value through profit or loss	594	61,776	62,370
Net exposure to interest rates	7,959	107,503	115,462

2012	WITHIN ONE YEAR £'000	MORE THAN ONE YEAR £'000	TOTAL £'000
Exposure to floating interest rates:			
Investments at fair value through profit or loss	—	35,263	35,263
Cash and cash equivalents	5,094	—	5,094
	5,094	35,263	40,357
Exposure to fixed-interest rates:			
Investments at fair value through profit or loss	3	69,587	69,590
Net exposure to interest rates	5,097	104,850	109,947

The nominal interest rates on the investments at fair value through profit or loss are shown in the portfolio statement on pages 16 to 19. The weighted average effective interest rate on these investments is 6.9% (2012: 6.9%). The weighted average effective interest rate on cash and cash equivalents is 0.23% (2012: 0.25%).

Interest Rate Sensitivity

The following table illustrates the sensitivity of the profit after taxation for the year to a 1% increase in interest rates in regard to the Company's financial assets and financial liabilities. As future changes cannot be estimated with any degree of certainty, the sensitivity analysis is based on the Company's financial instruments held at the balance sheet date, with all other variables held constant.

	2013 £'000	2012 £'000
Effect on income statement		
Revenue profit	74	51
Capital loss	(4,313)	(4,393)
Total profit/(loss) after taxation for the year	(4,239)	(4,342)
Effect on NAV	(5.8)p	(6.0)p

If interest rates had decreased by 1%, this would have had an equal and opposite effect.

The above exposure and sensitivity analysis are not representative of the period as a whole, since the level of exposure changes frequently as borrowings are drawn down and repaid throughout the period. In addition, for the year under review there has been limited interest rate movements and as a consequence little change in interest rate sensitivity.

(c) ***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 investment portfolio. It is the business of the portfolio managers to manage the portfolio and borrowings to achieve the best returns.

Management of Other Price Risk

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

The Company's portfolio is the result of the portfolio managers investment process and as a result is not correlated with the markets in which the Company invests. The value of the portfolio will not move in line with the markets but will move as a result of the performance of the underlying portfolio.

The Company's exposure to other changes in market prices at 31 December on its quoted equity investments and fixed interest investments was as follows:

	2013 £'000	2012 £'000
Fixed asset investments at fair value through profit or loss		
– Fixed interest securities(1)	103,571	96,374
– Convertibles	4,525	8,479
– Preference	2,559	1,967
– Convertible preference	6,235	6,082
– Equities	673	940
– Warrants	6,212	3,685
	123,775	117,527

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

18. Financial Instruments (continued)

(c) ***Other Price Risk*** *(continued)*

Concentration of Exposure to Other Price Risks

The Company's investment portfolio on pages 16 to 19 is not concentrated to any single country of domicile, however, it is recognised that an investment's country of domicile or listing does not necessarily equate to its exposure to the economic conditions in that country.

Other Price Risk Sensitivity

Except for fixed interest securities and convertibles, at the year end, the Company also held other investments of £15,679,000 (2012: £12,674,000). The effect of a 10% increase or decrease in the fair values of these investments (including any exposure through derivatives) on the profit after taxation for the period is £1,568,000 (2012: £1,267,000). This level of change is considered to be reasonably possible based on the observation of current market conditions. The sensitivity analysis is based on the Company's other investments (including equity exposure through derivatives) at the balance sheet date with all other variables held constant.

Liquidity Risk

This is the risk the Company encounters when realising assets or raising finance to meet financial commitments. A lack of liquidity in the portfolio may make it difficult for the Company to realise assets at or near their purported value in the event of a forced sale.

Management of Liquidity Risk

The portfolio managers, as part of their ongoing responsibilities, ascertain the Company's cash and borrowing requirements on a daily basis by reviewing future cash flows from purchases and sales of investments, interest and dividend receipts, expenses and dividend payments, and available financing. If the borrowing facility was fully utilised the portfolio managers could potentially realise the more liquid assets in the portfolio, taking into account the effect of this on performance as well as the objectives of the Company.

Liquidity Risk Exposure

The contractual maturities of the financial liabilities at the balance sheet, based on the earliest date on which payment can be required follow:

	2013 THREE MONTHS OR LESS £'000	2012 THREE MONTHS OR LESS £'000
Forward currency contracts	—	10
Other payables	367	343
	367	353

Credit Risk

Credit risk encompasses the failure by counterparties to deliver securities which the Company has paid for, or to pay for securities which the Company has delivered. This risk is mitigated by using only approved counterparties. The portfolio may be adversely affected if the Company's custodian suffers insolvency or other financial difficulties. The Board reviews the custodian's annual control report and the Manager's management of the relationship with the custodian.

Management of and Exposure to Credit Risk

All of the Company's assets are subject to credit risk. The Company's principal credit risk is the risk of default of the non-investment grade debt. Where the portfolio managers make an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account to minimise the risk to the Company of default. Investments in bonds are across a variety of industrial sectors and geographical markets to avoid concentration of credit risk. Transactions involving derivatives are entered into only with banks whose credit rating are taken into account to minimise default risk. Details of the Company's investments, including their credit ratings, are shown on pages 16 and 19.

Credit risk for transactions involving equity investments is minimised as the Company only uses approved counterparties.

Cash balances are held with approved depositaries only and are limited to a maximum of 4% of the Company's net asset value with any one depositary. Balances held with Short-Term Investments Company (Global Series) plc, a triple-A rated money market fund (STIC), are limited to a maximum of 6% of the Company's net asset value. At the balance sheet date the Company had £2.8 million (2012: £1.7 million) held at the custodian and £4.6 million (2012: £3.4 million) held in STIC.

Fair Values of Financial Assets and Financial Liabilities

The financial assets and financial liabilities are either carried in the balance sheet at their fair value (investments and derivatives), or the balance sheet amount is a reasonable approximation of fair value (due from brokers, dividends receivable, accrued income, due to brokers, accruals and cash).

Classification Under Fair Value Hierarchy

The table that follows sets out the fair value of the financial instruments. The three levels set out in IFRS 13 hierarchy follow:

Level 1 – valued using quoted prices in active markets for identical assets.

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

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

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

2013	LEVEL 1 £'000	LEVEL 2 £'000	LEVEL 3 £'000	TOTAL £'000
Financial assets designated at fair value through profit or loss:				
Quoted securities:				
– Fixed interest securities[(1)]	—	103,571	—	103,571
– Convertibles	—	4,525	—	4,525
– Preference	2,559	—	—	2,559
– Convertible preference	6,235	—	—	6,235
– Equities	649	—	—	649
– Warrants	6,212	—	—	6,212
Unquoted securities:				
– Equities	—	—	24	24
	15,655	108,096	24	123,775
Derivative financial instruments:				
Currency hedges	—	216	—	216
Total for financial assets	15,655	108,312	24	123,991

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

18. Financial Instruments (continued)

Classification Under Fair Value Hierarchy *(continued)*

2012	LEVEL 1 £'000	LEVEL 2 £'000	LEVEL 3 £'000	TOTAL £'000
Financial assets designated at fair value through profit or loss:				
Quoted securities:				
– Fixed interest securities(1)	—	96,321	—	96,321
– Convertibles	—	8,479	—	8,479
– Preference	1,967	—	—	1,967
– Convertible preference	6,082	—	—	6,082
– Equities	826	—	—	826
– Warrants	3,685	—	—	3,685
Unquoted securities:				
– Fixed interest securities(1)	—	—	53	53
– Equities	—	—	114	114
Total for financial assets	12,560	104,800	167	117,527
Financial liabilities designated at fair value through profit and loss:				
Derivative financial instruments				
– Currency hedges	—	(10)	—	(10)
Total for financial liabilities	—	(10)	—	(10)

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

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

Normally investment company investments would be valued using stock market active prices, with investments disclosed as Level 1 and this is the case for the quoted equity investments that the Company holds. However, a majority of the Company's investments are non-equity investments. Evaluated prices from a third party pricing vendor are used to price these securities, together with a price comparison made to secondary and tertiary evaluated third party sources. Evaluated prices are in turn based on a variety of sources including broker quotes and benchmarks. As a result, the Company's non-equity investments have been shown as Level 2 – recognising that the fair values of these investments are not as visible as quoted equity investments and their higher inherent pricing risk. However, this does not mean that the fair values shown in the portfolio valuation are not achievable at point of sale.

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

	2013 £'000	2012 £'000
Opening fair value	167	—
Transfer of Level 3 investments from City Merchants High Yield Trust plc	—	442
Investments redeemed, sold or written off	(8)	—
Movement in holding losses in the year/period	(135)	(275)
Closing fair value of Level 3	24	167

Level 3 valuations comprise investments held at Directors' valuation as disclosed in the accounting policies note.

Capital Management

The Company's capital, or equity, is represented by its net assets which are managed to achieve the Company's investment objective set out on page 7.

The main risks to the Company's investments are shown in the Strategic Report under the 'Principles Risks and Uncertainties' section on pages 10 to 12. These also explain that the Company is able to borrow and that any resultant 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 availability of the borrowing facility, by the terms imposed by the custodian. The Board regularly monitors, and has complied with, the externally imposed capital requirements throughout the period.

Total equity at the balance sheet date, the composition of which is shown on the balance sheet on page 31, was £134,017,000 (2012: £124,675,000).

19. Contingencies, Guarantees and Financial Commitments

Liabilities the Company is committed to honour but which are dependent on a future circumstance or event occurring would be disclosed in this note if any existed.

There were no contingencies, guarantees or financial commitments outstanding at the balance sheet date.

20. Related Party Transactions and Transactions with the Manager

A related party is a company or individual who has direct or indirect control or who has significant influence over the Company.

Under International Financial Reporting Standards, the Company has identified the Directors as related parties. The Directors' remuneration and interests have been disclosed on pages 25 and 26 with additional disclosure in note 6. No other related parties have been identified.

Invesco Asset Management Limited (IAML), a wholly owned subsidiary of Invesco Limited, acts as Manager to the Company. Details of the investment management agreement are disclosed in the Directors' Report and management fees payable to IAML are shown in note 5.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

Business and Status

The Company is a closed-ended public investment company limited by shares incorporated in Jersey, Channel Islands on 19 December 2011, registered under the Companies (Jersey) Law 1991 (registered number 109714) and established as a listed fund. It commenced trading on 2 April 2012 following the scheme of reconstruction and voluntary winding up of City Merchants High Yield Trust plc on 30 March 2012, as detailed in the prospectus dated 23 February 2012. The Company is a collective investment fund under the Collective Investment Funds (Jersey) Law 1988 and is registered as an International Services Entity under the Goods and Services Tax (Jersey) Law 2007.

Corporate Governance

The Corporate Governance Statement set out on page 22 is included in this Directors' Report by reference.

The Board

The Board comprises five Directors, all of whom are non-executive. The Board regards all of the Directors to be independent of the Company's Manager. However, Philip Austin is a director of Invesco Property Income Trust Limited, which is managed by the Company's Manager, and as such is deemed not to be independent under the UKLA Listing Rules. The Directors have a range of financial, business and asset management skills as well as recent and relevant experience pertinent to the direction and control of the Company. Brief biographical details of the members of the Board are shown on page 21.

Chairman

The Chairman of the Board is Clive Nicholson, a non-executive and independent Director who has no conflicting relationships. Mr Nicholson also served as a Director and Chairman of the Company's predecessor, City Merchants High Yield Trust plc.

Board Responsibilities

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

The Directors are equally responsible for the proper conduct of the Company's affairs and for promoting the success of the Company by directing and supervising its affairs within a framework of effective controls which enable risk to be assessed and managed. In addition, the Directors are responsible for ensuring that the Company's policies and operations are in the best interest of all of its shareholders and that the interests of other stakeholders such as creditors and suppliers to the Company are also properly considered.

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.

A formal schedule of matters reserved for decision by the Board has been established and is available at the Registered Office of the Company and on the Manager's website at *www.invescoperpetual.co.uk/investmenttrusts*. The main responsibilities of the Board include: setting the Company's objectives, strategy and standards; ensuring that the Company's obligations to shareholders and others are understood and complied with; approving accounting policies and dividend policy; managing the capital structure; assessing risk and overseeing its mitigation; reviewing investment performance; approving loans and borrowing; approving recommendations by the Audit Committee; reviewing Directors' remuneration; undertaking nomination responsibilities; and assessing the Manager on an ongoing basis.

The Board as a whole undertakes the responsibilities which would otherwise be assumed by committees for management engagement, nomination and remuneration and has adopted appropriate terms of reference in respect of such responsibilities, which are also available at the Registered Office of the Company and on the Manager's website at *www.invescoperpetual.co.uk/investmenttrusts*.

- *Management Engagement*
  The Board as a whole undertakes the functions of a Management Engagement Committee and takes responsibility for reviewing the Investment Management and Secretarial and Administration Agreements. The performance of the Manager in respect of investment performance and administration is reviewed formally against agreed standards and reported on in the Directors' Report under 'Assessment of the Manager' on page 54.
- *Remuneration*
  The Board as a whole undertakes the functions of a Remuneration Committee by determining the Company's remuneration policy, taking into account all factors which are deemed necessary in order to ensure that members of the Board are provided with appropriate compensation and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. The remuneration of Directors is reviewed periodically and is reported on in more detail on pages 25 and 26.
- *Nomination*
  The Board as a whole undertakes the functions of a Nomination Committee. As such it is responsible for making changes to the structure, size and composition of the Board as well as ensuring adequate succession planning.

Supply of Information

To enable the Directors to fulfil their roles, the Company Secretary ensures that all Directors have timely access to all relevant management, financial and regulatory information.

On being appointed to the Board, Directors are fully briefed as to their responsibilities and are updated throughout their term in office on industry and regulatory matters. The Board has formulated a programme of induction training for newly-appointed Directors. It has arrangements in place to address ongoing training requirements of Directors which ensure that Directors can keep up-to-date with new legislation and changing risks. This includes briefings from senior members of the Manager's staff.

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 £5,000, having first consulted the Chairman.

The Board meets on a regular basis at least four times each year. Additional meetings are arranged as necessary. Regular contact is maintained between the Manager, including the portfolio managers, and the Board between formal meetings.

Board meetings follow a formal agenda, which includes a review of the investment portfolio with a report from the portfolio managers on the current investment position and outlook, performance against stock market indices and the Company's peer group, asset allocation, gearing, cash management, revenue forecasts for the financial year, marketing and shareholder relations, corporate governance, regulatory changes and industry and other issues.

Nomination, Appointment, Re-election and Tenure of Directors

As permitted by the AIC Code, there is no separate nomination committee as the Board is considered too small to require one. All of the Directors are therefore responsible for reviewing the size and structure of the Board, and ensuring an appropriate balance of skills, experience, independence and knowledge of the Company.

The Board has due regard for the benefits of diversity (including gender) in its members and seeks to ensure that its composition is sufficient for the effective direction and control of the Company. The Board has not set any measurable objectives in respect of this policy.

No Director has a contract of employment with the Company. Directors' terms and conditions of appointment are set out in letters of appointment which are available for inspection at the registered office of the Company and on the Manager's website at *www.invescoperpetual.co.uk/investmenttrusts*.

The Articles of Association require that a Director shall retire and be subject to re-election at the first AGM after appointment and at least every three years thereafter. Thus, no Director serves a term of more than three years before re-election. A Director's tenure of office will normally be a maximum of three terms of three years, except that the Board may determine otherwise if it is considered that the continued service on the Board of an individual Director is in the best interests of the Company and its shareholders. In this case, a Director serving longer than nine years will seek re-election annually.

Since the whole Board was elected in 2013 the Company's Articles do not require any of the Directors to be re-elected until 2016.

The Articles of Association provide that the Directors may, by notice in writing, remove any Director from the Board.

The Audit Committee

The composition and activities of the Audit Committee are summarised in the Audit Committee Report on pages 23 to 24, which is included in this Directors' Report by reference.

Board, Committee and Directors' Performance Appraisal

The Directors recognise the importance of the AIC Code's recommendations in respect of evaluating the performance of the Board as a whole, its Committees and individual Directors. The performance of the Board, Committees and Directors is assessed in terms of:

- attendance at Board and Committee meetings;
- independence of Directors;
- the ability of Directors to make an effective contribution to the Board and Committees through the diversity of skills and experience each Director brings to their role; and
- the Board's ability to challenge the Manager's recommendations, suggest areas of debate and set the future strategy of the Company.

An independent external search consultancy, Stephenson & Co, was engaged to assist in the selection of the Board. When appointing a new director, care is taken to ensure that there is a balance of skills and experience appropriate for the requirements of the Company and that new directors have enough time available to devote to the affairs of the Company. The composition of the Board is reviewed annually as part of the appraisal of the Board, the Audit Committee and the Directors individually. Every three years this review will be undertaken by an outside, impartial, agency.

The Board confirms that the performance of all Directors and the Chairman since their appointment has been effective and that they have demonstrated commitment to their respective roles.

Attendance at Board and Committee Meetings

The following table sets out the number of scheduled meetings of the Board and Audit Committee held during the year and the number attended by each Director:

	SCHEDULED BOARD MEETINGS	AUDIT COMMITTEE MEETINGS
NUMBER OF MEETINGS	4	2
Clive Nicholson (Chairman)	4	2
Philip Austin	4	2
John Boothman	4	2
Winifred Robbins	4	2
Philip Taylor	4	2

Board members also attended a number of additional non-scheduled meetings to deal with the declaration of dividends and other *ad hoc* items.

Directors' Remuneration and Interests

Details of the Directors' remuneration and interests in the Company are set out on pages 25 and 26 and are included in this Directors' Report by reference.

Conflicts of Interest

A Director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests.

The Articles of Association of the Company give the Directors authority to approve conflicts and potential conflicts. The Directors are able to impose limits or conditions when giving authorisation if they think it is appropriate. Only Directors who have no interest in the matter being considered are able to take the relevant decision. Also, 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 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 kept at the Company's Registered Office and is reviewed regularly by the Board. The Directors must advise the Company Secretary as soon as they become aware of any potential conflicts of interest.

Internal Controls and Risk Management

The Directors acknowledge that they are responsible for ensuring that the Company maintains a sound system of internal financial and non-financial controls (internal controls) 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 achieve the Company's investment objective and/or adhere to the Company's investment policy and/or investment limits. This system can therefore only provide reasonable and not absolute assurance against material misstatement or loss. The Board confirms that if any significant failings or weaknesses are identified, actions necessary to remedy them are taken.

The Company's internal controls and risk management systems have been reviewed with the Manager against risk parameters approved by the Board. The Audit Committee has also received satisfactory reports on the Manager's internal operations from the Manager's Compliance and Internal Audit Officers. No significant failings or weaknesses were identified in the year ended 31 December 2013 and up to the date of this annual financial report.

As stated above, the Board meets regularly, at least four times a year, and reviews financial reports and performance against revenue forecasts, stock market indices and the Company's peer group. In addition, the Manager and Custodian maintain their own systems of internal controls and the Board and Audit Committee receive regular reports from the Manager's Compliance and Internal Audit Officers. Formal reports are also produced annually on the internal controls and procedures in place for secretarial and administrative, custodial, investment management and accounting activities and are reviewed by the Board.

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

Going Concern

The financial statements have been prepared on a going concern basis. The Directors consider this is the appropriate basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being taken as 12 months after the signing of the balance sheet. In considering this, the Directors took into account the diversified portfolio of readily realisable securities which can be used to meet short-term funding commitments, and the ability of the Company to meet all of its liabilities and ongoing expenses. The Directors also considered the revenue forecasts for the forthcoming year and future dividend payments in concluding on the going concern basis.

As previously explained, the Company's Articles of Association require that unless an ordinary resolution is passed at or before the AGM each year releasing the Directors from an obligation to do so, the Directors must propose within predetermined time limits a special resolution to wind up the Company. The Directors are therefore proposing an ordinary resolution to release the Directors from this obligation at the forthcoming AGM. After making enquiries, the Directors have no reason to believe that such a resolution will not receive shareholders' approval. Accordingly the accounts do not include any adjustments which might arise from the reconstruction or liquidation of the Company.

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. The Board does not seek to intervene in daily management decisions, but aims to support high standards of governance. The principal means of putting shareholder responsibility into practice is through the exercise of voting rights. The Company's stewardship functions have been delegated to the Manager who exercises the Company's voting rights on an informed and independent basis. The Board monitors how the Company's voting rights are used. The Manager's policy on Corporate Governance and stewardship can be found on the Manager's website at *www.invescoperpetual.co.uk*.

Greenhouse Gas Emissions

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

Investment Management

Invesco Asset Management Limited (the Manager) provides investment management and certain administrative services to the Company under an agreement dated 23 February 2012, terminable at any time by either party giving no less than three months' prior written notice and subject to earlier termination without compensation in the event of a material breach of the agreement or the insolvency of either party. The management fee is payable quarterly in arrear and is equal to 0.1875% of the value of the Company's total assets under management less current liabilities at the end of the relevant quarter. In addition, the Manager is paid a fixed fee of £22,500 plus RPI per annum for administrative services.

The Alternative Investment Fund Managers Directive (AIFMD) applies from July 2014. The Board is taking independent legal advice in relation to the Directive and has decided in principle to appoint Invesco Fund Managers Limited (IFML) as the Company's Alternative Investment Fund Manager (AIFM), pending IFML's approval as such by the Financial Conduct Authority. IFML is an associated company of Invesco Asset Management Limited (IAML), the current Manager, and it is expected that IAML will continue to manage the Company's investments under delegated authority from IFML.

The Manager's Responsibilities

The Directors have delegated to the Manager the responsibility for the investment management activities of the Company, for seeking and evaluating investment opportunities and for analysing the accounts of investee companies. The Manager has full discretion to manage the assets of the Company in accordance with the Company's stated objectives and policies as determined from time to time by the Board and approved by shareholders. Within the guidelines specified by the Board, the Manager has discretion to make purchases and sales, make and withdraw cash deposits, enter into underwriting commitments and exercise all rights over the investment portfolio. The Manager also advises on currency exposures and borrowings.

Assessment of the Manager

The performance of the Manager is reviewed continuously by the Board and the ongoing requirements of the Company and services received are assessed annually with reference to key performance indicators as set out on page 8.

Based on its recent review of activities, the Board believes that the continuing appointment of Invesco Asset Management Limited remains in the best interests of the Company and its shareholders.

The Company Secretary

The Board has direct access to the advice and services of the Company Secretary, R&H Fund Services (Jersey) Limited, which is responsible for ensuring that Board and Committee procedures are followed and that applicable rules and regulations are complied with. The Company Secretary is also responsible to the Board for ensuring timely delivery of information and reports and that the statutory obligations of the Company are met. In addition, the Company Secretary is responsible for advising the Board through the Chairman on all governance matters.

Stated Capital and Rights Attaching to the Company's Ordinary Shares

At 31 December 2013, the Company's stated capital consisted of 72,786,327 ordinary shares of no par value, allotted and fully paid.

At a general meeting of the Company every member has one vote on a show of hands and on a poll one vote for each share held. The notice of general meeting will specify deadlines for exercising voting rights either by proxy or in person in relation to resolutions to be passed at the meeting.

The Directors may restrict voting powers where shareholders fail to provide information with respect to interests in voting rights when so requested, may refuse to register any transfer of a share in favour of more than four persons jointly and can require certain US holders of shares to transfer their shares compulsorily.

Save for the foregoing, there are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; and no agreements which the Company is party to that might affect its control following a successful takeover bid.

Relations with Shareholders

Shareholder relations are given high priority by both the Board and the Manager. The principal medium by which the Company communicates with shareholders is through the half-yearly and annual financial reports, which endeavour to provide shareholders with a full understanding of the Company's activities and their results. This information is supplemented by the daily publication of the net asset value of the Company's ordinary shares, monthly fact sheets and biannual interim management statements.

There is a regular dialogue between the Manager and institutional shareholders to discuss aspects of investment performance, governance and strategy and to listen to shareholder views in order to help to develop an understanding of their issues and concerns. Meetings between the Manager and institutional shareholders are reported to the Board, which monitors and reviews shareholder communications on a regular basis.

Shareholders can also visit the Manager's investment trust website, *www.invescoperpetual.co.uk/investmenttrusts* in order to access copies of half-yearly and annual financial reports, interim management statements, shareholder circulars, factsheets, Stock Exchange Announcements and Individual Savings Account (ISA) and savings scheme literature. Shareholders are also able to access copies of the Schedule of Matters Reserved for the Board, the Terms of Reference of the Audit Committee, the Directors' letters of appointment and, following any shareholders' general meetings, proxy voting results.

ISA

The ordinary shares of the Company are qualifying investments under applicable ISA regulations.

Business of the Annual General Meeting (AGM)

The following summarises the business of the forthcoming AGM of the Company, which is to be held at the offices of R&H Fund Services (Jersey) Limited, Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW, at 10.30 am on 3 July 2014. The Notice of the AGM and related notes can be found on pages 57 to 59.

Shareholders are also cordially invited to a separate presentation meeting in Invesco Perpetual's offices at 43-45 Portman Square, London W1H 6LY at 11 am on 17 June 2014, where one of the portfolio managers will give a presentation on the Company and will be available, with the Directors, to take shareholders' questions.

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

Resolution 2 is to re-appoint 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.

Resolutions 3 is to approve the continuation of the Company. The Company does not have a fixed life, but the Company's Articles of Association require that, unless an ordinary resolution to approve continuation of the Company is passed at or before the AGM each year, the Directors must convene a general meeting, to be held within six months of the AGM, at which a special resolution to wind up the Company would be proposed.

Resolution 4 (Special) is to renew the Directors' authority to issue shares, up to 10% of the existing shares in issue at the time of the AGM, without pre-emption. This will allow shares to be issued to new shareholders without them first having to be offered to existing shareholders, thus broadening the shareholder base of the Company. This authority will not be exercised at a price below NAV so the interests of existing shareholders are not diluted and will expire at the AGM in 2015.

There are no provisions of Jersey law which confer rights of pre-emption in respect of the allotment of Shares, or require shareholder approval for issues of shares. The Articles, however, contain pre-emption rights in relation to allotments of shares for cash and the Directors expressed an intention in the Company's 2012 prospectus to request that the authority to allot Shares for cash on a non-pre-emptive basis is renewed at each annual general meeting.

Resolution 5 (Special) is to renew the authority for the Company to purchase up to 14.99% of its own ordinary shares subject to the restrictions referred to in the notice of the AGM. This authority will expire at the AGM in 2015. These powers, if approved, will allow the Company to buy back shares at a discount to NAV. Your Directors are proposing that shares bought back by the Company either be cancelled or, alternatively, be held as treasury shares with a view to their resale, if appropriate, or later cancellation. Any resale of treasury shares will only take place on terms that are in the best interests of shareholders.

Resolution 6 (Special) is to permit the Company to hold general meetings (other than annual general meetings) on 14 days' notice. The EU Shareholder Rights Directive increases the minimum notice period to 21 days unless certain conditions are met. The first condition is that the Company offers facilities for shareholders to vote by electronic means. The second condition is that there is an annual resolution of shareholders approving the reduction in the minimum notice period from 21 days to 14 days, hence this resolution being proposed. It is intended that the flexibility will be used only where the Board believe it is in the interests of shareholders as a whole.

R&H Fund Services (Jersey) Limited
Company Secretary

15 April 2014

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 City Merchants High Yield Trust Limited, please forward this document and accompanying form of Proxy to the person through whom the sale or transfer was effected, for transmission to the purchase or transferee.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS GIVEN that the Annual General Meeting (AGM) of City Merchants High Yield Trust Limited (the Company) will be held at 10.30 am on 3 July 2014 at R&H Fund Services (Jersey) Limited, Ordnance House, 31 Pier Road, St Helier, Jersey, JE4 8PW, for the following purposes:

Ordinary Business

1. To receive the Annual Financial Report for the year ended 31 December 2013.
2. To reappoint the Auditor, Ernst & Young LLP, and authorise the Directors to determine their remuneration.

Special Business

To consider and if thought fit, to pass the following resolutions, of which resolution 3 will be proposed as an ordinary resolution and resolutions 4 to 6 will be proposed as special resolutions:

3. THAT, in accordance with Article 158 of the Company's Articles of Association, the Directors of the Company be and they are hereby released from their obligation pursuant to such Article to convene a general meeting of the Company within six months of the AGM at which a special resolution would be proposed to wind up the Company.
4. THAT, pursuant to Article 14.1 of the Company's Articles of Association, the Directors be and are hereby empowered to issue shares, up to 10% of the existing shares in issue at the time of the AGM, without pre-emption.
5. THAT, pursuant to Article 8.2 of the Company's Articles of Association and Article 57 of the Companies (Jersey) Law 1991 as amended (the Law), the Company be generally and unconditionally authorised:
    (a) to make purchases of its issued ordinary shares of no par value (Shares) to be cancelled or held as treasury shares provided that:
        (i) the maximum number of Shares hereby authorised to be purchased shall be 14.99% of the Company's issued ordinary shares, this being 11,386,602 on the date of this notice;
        (ii) the minimum price which may be paid for a Share is 1p;
        (iii) the maximum price, exclusive of expenses, which may be paid for a Share is an amount equal to 105% of the average of the middle market quotations for a Share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Share is purchased; and
        (iv) the authority hereby conferred shall expire on the earlier of the conclusion of the next AGM of the Company held after passing of this resolution or 15 months from the date of the passing of this resolution, whichever is the earlier.
6. THAT, the period of notice required for general meetings of the Company (other than AGMs) shall not be less than 14 days.

Dated this 15th April 2014

By order of the Board

R&H Fund Services (Jersey) 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, duly executed and completed, by one of the following methods:

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

   and in each case to be received by 10.30 am, 1 July 2014.

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

2. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time for receipt of proxy appointments specified in this document. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies through CREST should be communicated to the appointee through other means. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take or, if the CREST member is a CREST Personal Member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s), such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning the practical limitations of the CREST system and timings.

3. A person entered on the Register of Members at close of business 48 hours before the time of the AGM (a member) is entitled to attend and vote at the AGM pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001. Any changes to the Register of Members after such time and date shall be disregarded in determining the rights of any person to attend and/or vote at the AGM. If the AGM is adjourned, entitlement to attend and vote at the adjourned meeting, and the number of votes which may be cast thereat, will be determined by reference to the Company's Register of Members 48 hours before the time fixed for the adjourned meeting.

4. The schedule of matters for the Board and the terms of Reference of the Audit Committee will be available at the AGM for at least 15 minutes prior to and during the AGM.

5. A copy of the Articles of Association is available for inspection at the Registered Office of the Company during normal business hours on any business day (excluding public holidays) until the close of the AGM and will also be available at the AGM for at least 15 minutes prior to and during the AGM.

6. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

7. Any member attending the AGM has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the AGM but no such answer need be given if (a) to do so would interfere unduly with the preparation of the AGM or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the AGM that the question be answered.

8. You may not use any electronic address (any address or number used for the purposes of sending or receiving documents or information by electronic means) provided in this Notice (or in any related documents including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

9. As at 14 April 2014 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consisted of 75,961,327 ordinary shares of no par value each carrying one vote.

10. A copy of the Notice as well as various other documents relating to the Company can be found at *www.invescoperpetual.co.uk/investmenttrusts*.

The shares of City Merchants High Yield Trust Limited are quoted on the London Stock Exchange.

Savings Plan and ISA

The Company's ordinary shares are eligible for investment via an ISA.

City Merchants High Yield Trust Limited is also a member of the Invesco Perpetual Investment Trust Savings Scheme and the Invesco Perpetual Investment Trust ISA. Shares in the Company can be purchased and sold via these two schemes.

Invesco Perpetual Investment Trust Savings Scheme
The Invesco Perpetual Investment Trust Savings Scheme allows investors to make purchases from £20 per month or through lump sum investments from £500.

Invesco Perpetual Investment Trust ISA
The Invesco Perpetual Investment Trust ISA allows investments up to the current ISA limit. For the tax year 2014/15 this has been increased to £15,000 from 1 July 2014; up to that date £11,880 can be invested. Investors can also choose to make lump sum investments from £500, or regular investments from as little as £20 per month.

Full details of these Invesco Perpetual investment schemes can be obtained free from Invesco Perpetual's Investor Services Team on ☎ 0800 085 8677.

Manager's Website

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

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

Share Price Listings

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

In addition, share price information can be found using the CMHY.L ticker code.

Internet addresses

Invesco Perpetual	www.invescoperpetual.co.uk/investmenttrusts
The Association of Investment Companies	www.theaic.co.uk

Net Asset Value (NAV) Publication

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

Financial Calendar

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

Announcements

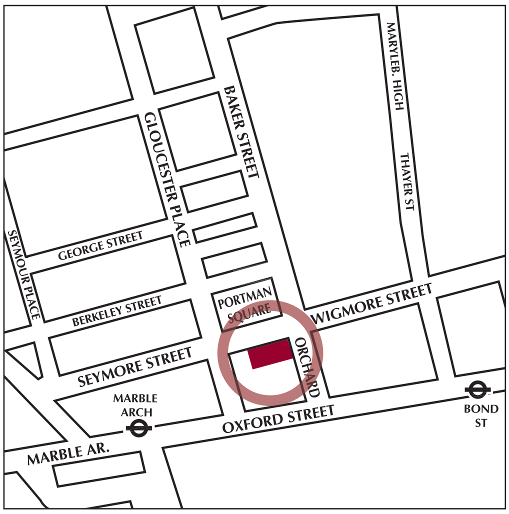
Annual financial results	March/April
Interim management statement	April/May
Half-yearly unaudited results	August
Interim management statement	October

Ordinary Share Dividends

Interim dividends payable	May, August November, February
Annual General Meeting	June/July
Year End	31 December

Mainland Shareholder Meeting

The London shareholder meeting will be held at 11 am on 17 June 2014 in Invesco Perpetual's offices on the first floor of 43-45 Portman Square, London W1H 6LY.



ADVISERS AND PRINCIPAL EXTERNAL SERVICE PROVIDERS

Investment Manager

City Merchants High Yield Trust Limited is managed by Invesco Asset Management Limited (Invesco). Day-to-day management is the responsibility of Paul Read and Paul Causer, Co-Heads of Invesco's Fixed-Interest Team based in Henley.

Company Secretary, Administrator and Registered Office

R&H Fund Services (Jersey) Limited
PO Box 83
Ordnance House
31 Pier Road
St Helier
Jersey JE4 8PW

Registered in Jersey
Number 109714

Invesco Perpetual Investor Services

Invesco Perpetual's Investor Services Team is available from 8.30 am to 6 pm (excluding bank holidays) by ringing
☎ 0800 085 8677

Savings Scheme and ISA Administration

for both the Invesco Perpetual Investment Trust Savings Scheme and ISA:

Invesco Perpetual
P.O. Box 11150
Chelmsford CM99 2DL
☎ 0800 085 8677

Registrar

Capita Registrars
12 Castle Street
St Helier
Jersey JE2 3RT

Shareholders who hold shares directly and not through a Savings Scheme or ISA and have queries relating to their shareholding should – contact the Registrar's call centre on:
☎ 0871 664 0300
Calls cost 10p per minute plus network charges.
☎ +44 (0)20 8639 3399 (from outside the UK).

Lines are open 9.00 am to 5.30 pm Monday to Friday (excluding UK bank holidays).

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

The Registrar provides an on-line and telephone share dealing service to existing shareholders who are not seeking advice on buying or selling. This website is: www.capitadeal.com or by ringing
☎ 0871 664 0454
Calls cost up to 10p per minute plus network charges. Lines are open 8 am to 4.30 pm Monday to Friday (excluding UK bank holidays).

☎ +44 (0)20 3367 2699 (from outside the UK).

Dividend Re-Investment Plan

Capita Registrars also manage a Dividend Re-Investment Plan for the Company. Shareholders wishing to re-invest their dividends should contact the Registrar at the above address.

Auditor

Ernst & Young LLP
Liberation House
Castle Street
St Helier
Jersey JE1 1EY

Custodian

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

Corporate Brokers

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

Electronic Publication

The Annual Financial Report is published on www.invescoperpetual.co.uk/investmenttrusts, a website maintained by the Company's Manager. The work carried out by the Auditor does not involve consideration of the maintenance and integrity of this website and, accordingly, the Auditor accepts no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom and Jersey governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Premium/(Discount)

The amount by which the mid-market price per share of an investment trust is higher/lower than the net asset value per share. The premium/(discount) is normally expressed as a percentage of the net asset value per share.

Gearing

The gearing percentage reflects the amount of borrowings that a company has invested, in addition to Shareholders' funds. This figure indicates 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 the company is ungeared.

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

Gross Gearing reflects the amount of gross borrowings 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 reflects the amount of net borrowings invested, ie borrowings less cash/cash equivalents. It is based on net borrowings as a percentage of shareholders' funds.

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

Gross Assets

The gross worth of the Company's assets. It is arrived at by totalling the value of the Company's listed investments at bid-market prices, unlisted at directors' valuation, cash and other net current assets.

Net Asset Value (NAV)

Also described as shareholders' funds, the net asset value is the value of total assets less liabilities. Liabilities include current and long-term liabilities. The net asset value per share is calculated by dividing the net asset value by the number of ordinary shares in issue.

Return

The return generated in the period from the investments.

Capital Return reflects the return on capital, excluding any income returns.

Total Return reflects the aggregate of capital and income returns in the period. The NAV total return reflects capital changes in the NAV and dividends paid in the period.

Ongoing Charges

The annualised ongoing charges, including those charged to capital but excluding finance costs, incurred by the Company, expressed as a percentage of the average net asset value (with debt at fair value). Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future.

Credit ratings

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

Moody's Ratings
Investment Grade

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

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

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

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

Speculative Grade (non-investment grade)

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

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

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

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

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

WR: withdrawn rating.

P: provisional.

Standard & Poor's Ratings
Investment Grade

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

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

A: economic situation can affect finance.

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

Non-investment Grade

BB: more prone to changes in the economy.

B: financial situation varies noticeably.

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

CC: highly vulnerable, very speculative.

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

CI: past due on interest.

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

SD: has selectively defaulted on some obligations.

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

NR: not rated.

Invesco Perpetual

The Manager of City Merchants High Yield Trust Limited 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 assets under management in excess of $787 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.

**Assets under management at 31 March 2014*

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 use bank borrowings.

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

Invesco Perpetual Enhanced Income Limited (formerly 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 uses repo financing to enhance returns.

Invesco Perpetual Select Trust plc – Managed Liquidity Portfolio
Aims to generate income from a variety of fixed income instruments combined with a high degree of security. Income will reduce during periods of very low interest rates.

Invesco Perpetual Select Trust plc – UK Equity 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 may use bank borrowings.

Invesco Property Income Trust Limited
The investment objective of the Company is to repay its bank borrowings and other liabilities 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 has debenture stocks in issue.

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 and fixed interest markets. The Company has a debenture stock in issue and may use bank borrowings.

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

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

The Company has two debenture stocks in issue.

Investing in Smaller Companies

Invesco Perpetual UK Smaller Companies Investment Trust plc
Aims to achieve long-term total returns for the Company's shareholders primarily by investment in a broad cross-section of small to medium sized UK-quoted companies. The pursuit of income is of secondary importance. The Company may use bank borrowings.

Investing Internationally

Invesco Asia Trust plc
Aims to provide long-term capital growth by investing in a diversified portfolio of Asian and Australasian securities. The Company aims to achieve growth in its net asset value in excess of the MSCI All Country Asia Pacific ex Japan Index, measured in Sterling. The Company may use bank borrowings.

Invesco Perpetual Select Trust plc – Global Equity Income Portfolio
Aims to provide an attractive and growing level of income return and capital appreciation over the long term, predominantly through investment in a diversified portfolio of equities worldwide. The portfolio may use bank borrowings.

Investing for Total Returns

Invesco Perpetual Select Trust plc – Balanced Risk 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 leverage.

Investing in Multiple Asset Classes

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

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

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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