City Merchants High Yield Trust Limited

Annual Financial Report

Year Ended 31 December 2019

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

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www.invesco.co.uk/citymerchants

The Company is a member of

aic

The Association of Investment Companies

Contents

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

Investment Objective

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

Investment Policy

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

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

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

FINANCIAL INFORMATION AND PERFORMANCE STATISTICS

Twelve Month Total Return(1)(2)	2019	2018
Net asset value	+13.4%	–3.6%
Share price	+18.7%	–7.6%
Ongoing Charges Ratio(2)	1.02%	0.98%
Dividend for the year	10p	10p

Year End Information

	31 DECEMBER 2019	31 DECEMBER 2018	% CHANGE
Net asset value per ordinary share(2)	192.11p	178.69p	+7.5
Share price(1)	197.00p	175.00p	+12.6
Premium/(discount)(2)	2.5%	(2.1)%	
Gearing(2)			
Gross gearing	nil	nil	
Net cash(2)	4.3%	2.4%	

(1) Source: Refinitiv.

(2) Alternative Performance Measure (APM). See Glossary of Terms and Alternative Performance Measures on pages 65 to 67 of the financial report for details of the explanation and reconciliations of APMs.

Ten Year Record – combined CMHYT plc and new CMHYT(1)

TO 31 DECEMBER	DIVIDENDS ON ORDINARY SHARES		ONGOING CHARGES(2) %	NET ASSET VALUE PER ORDINARY SHARE P	SHARE PRICE P
	COST £'000	RATE P			
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
2014	7,872	10.0	1.02	183.4	189.25
2015	8,454	10.0	1.01	178.3	180.75
2016	8,995	10.0	1.01	189.3	191.00
2017	9,429	10.0	0.98	195.4	199.50
2018	9,648	10.0	0.98	178.7	175.00
2019	**9,870**	**10.0**	**1.02**	**192.1**	**197.00**

(1) City Merchants High Yield Trust Limited (new CMHYT, the Company) was incorporated on 19 December 2011 as the successor vehicle for City Merchants High Yield Trust plc (CMHYT plc), which was placed in members' voluntary liquidation 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. This includes the aggregate dividends of these companies for the year to 31 December 2012.

(2) The ongoing charges ratio excludes any refund of VAT on management fees and liquidation expenses incurred by the predecessor company.

CHAIRMAN'S STATEMENT

The rapid spread of COVID-19 has had a profound impact on countries around the world and on behalf of the Board I wish to extend our best wishes to all our shareholders in these challenging times.

Ordinarily I would start my report with a review of the Company's performance during the last financial year, however in the circumstances it seems appropriate to begin by commenting on how the COVID-19 crisis has impacted the Company thus far in 2020.

I am able to report that despite the huge disruption caused by restrictions on movement, the Company has continued to operate smoothly. The Company's investment management, company secretarial, corporate broking, depositary and custodian functions have all functioned effectively. The Board is in close contact with key third party providers and will continue to monitor developments closely.

Governments responded to the spread of COVID-19 by restricting movement for fear that the virus would overwhelm healthcare resources. The resulting sudden collapse in economic activity and uncertainty over how the crisis would be resolved led to steep falls in asset prices, and the high yield market experienced losses well into double digits during March. Fortunately, the portfolio entered the crisis on a strong footing with raised cash levels and a defensive stance reflecting the extent to which yields had fallen during 2019. The portfolio remains well diversified and constructed using rigorous 'bottom-up' credit analysis of each security, and the Manager is in a good position to invest selectively as opportunities emerge.

Unsurprisingly, given the panic which at times gripped markets, the share price became detached from the Company's Net Asset Value (NAV) and for a brief period in March the discount exceeded 20% before narrowing. The Board will continue to monitor closely the share price in relation to the NAV. Finally, before turning to a review of performance during 2019, I can confirm that our dividend target of 10 pence per share for the current financial year remains unchanged.

2019 Performance

It is hard to escape the conclusion that conventional economic theory can provide little insight into the nature of the market environment during 2019. It used to be a tenet of the 'dismal science' that as an economy approached capacity inflation would inevitably start to accelerate and interest rates rise as central banks moved to dampen price pressure. This 'tightening' in monetary policy in response to rising inflation usually marked an end to the cycle and presaged a challenging period for asset markets.

However, despite continued economic growth in 2019, the threat of inflation in the UK and throughout the developed world remained muted allowing central banks to remain very much in stimulus mode. Concerned about the impact of trade tensions between the United States and China the Federal Reserve cut rates three times in 2019, largely reversing 2018's tightening. The European Central Bank introduced a fresh round of stimulus, and it was little surprise that asset markets were propelled higher by a seemingly relentless tide of 'cheap money'. Continued modest growth and monetary stimulus provided a favourable environment for high yield securities and yields fell steadily throughout the year.

I am pleased to report that the Company's NAV total return for the year was +13.4% compared with a total return of +12.6% for the ICE Bank of America Merrill Lynch European Currency High Yield Index ('the Index') and an average return of +8.9% for funds in the Investment Association Sterling Strategic Bond sector. The share price returned a very respectable +18.7% moving from a discount to a premium to NAV during the year.

Investment returns over the longer term are a more meaningful guide to an active investment manager's effectiveness, and to repeat a mantra familiar to regular readers of the Company's Annual Financial Reports the Board pays particular attention to returns over three and five years in its appraisal of investment performance. For the three and five years to the end of 2019 the Company's NAV total return was +18.9% and +37.0% respectively, compared to total returns of +18.3% and +32.9% for the Index.*

Dividends

We recognise the importance that shareholders place on dividend income and I am able to report that we again met our target of 10p for the year, paid in four equal, interim dividends. The fourth payment was paid on 25 February 2020 and as with previous years was paid in the form of an interim. This meant that it could be paid earlier than would be the case had we declared a final dividend, since this would need approval at the Annual General Meeting (AGM).

* Index performance shows sterling hedged total returns.

Costs

The Company's ongoing charges ratio (OCR) for the year was 1.02% compared to 0.98% for the previous year. The OCR is a measure of the expenses of managing the Company. The year-on-year increase in the OCR was the result of a number of factors including the costs associated with the implementation of our Board succession plan and the appointment of a new administrator.

We remain confident that the Company is competitive when compared to actively managed alternative investment vehicles and the Board remains focused on ensuring that costs are kept to a minimum.

Premium/Discount and Share Issuance

The Board closely monitors the Company's share price in relation to the NAV. Powers are sought each year at the AGM both to issue and to buy back shares. These powers provide us with some scope to influence the premium or discount, though it should be kept in mind that the premium or discount at which shares trade can be determined by factors beyond the Board's influence.

The Company's shares traded at a small premium to NAV for most of 2019. The average premium was 0.9% and we issued a further 2,950,000 shares during the year. Shares are always issued at a premium sufficient to ensure that existing shareholders do not experience dilution of the NAV.

The average price of these shares issued was 191.90p and I am pleased to confirm that a further 1,600,000 shares have been issued since the date of this report. The Company has seen its shares in issue grow by approximately 9% in the past three years.

Gearing

As at 31 December 2019 the Company's net cash position was 4.3% (compared to 2.4% at the end of 2018). The Company's policy on borrowing is determined by the Board and the maximum amount of borrowing permitted remains unchanged at 30% of total assets. The decision to gear the portfolio within the parameters set by the Board rests with the Manager and hence will be driven by the Manager's assessment of market conditions, valuation and the fundamental outlook for individual high yield securities.

The Board's preferred method of financing is to use repo facilities. Securities sold under agreements to repurchase (repo financing) are typically more efficient and less costly than loan arrangements. Having established appropriate repo facilities, we allowed our existing bank credit facilities to lapse during the year. More detail regarding repo arrangements can be found on page 9. Since the year end and as at 23 April 2020, the Company has 4.7% of repo borrowing and cash of 3.6%, resulting in net gearing of 1.1%.

Board Composition

Philip Taylor retired from the Board on 4 September 2019. Philip joined the Board in December 2011 and served throughout his tenure as Chairman of the Audit Committee. On behalf of the Board and shareholders I would like to thank him for his excellent contribution over the years.

I am delighted to welcome two new members to the Board, Heather MacCallum and Stuart McMaster both of whom joined in June 2019. They both bring a wealth of experience to the Board, and Heather assumed the Chair of the Audit Committee on Philip's retirement.

Environmental, Social and Governance Matters (ESG)

There seems little doubt that both investors and investment managers will pay greater attention to environmental, social and governance matters during the coming year. A number of factors account for this increased focus on 'ESG' factors, including regulatory change and the growing public discourse on climate change. It is perhaps the 'E' component of 'ESG' which is set to have the biggest potential impact on capital markets over the longer term.

The Board recognises the importance of ESG considerations and on page 18 we explain our approach. We will continue to monitor closely developments in this space. The Manager is well-placed to assess the risks and opportunities which may result from accelerating ESG-driven change. The Manager is a Tier 1 signatory of the Financial Reporting Council's Stewardship Code and is an active member of the UK Sustainable Investment and Finance Association. In addition, the Manager achieved a global 'A+' rating in 2018 from United Nations sponsored Principles of Responsible Investment (PRI) for Strategy and Governance.

Liquidity

Portfolio liquidity, or rather 'illiquidity' was an important topic for the UK investment industry in 2019. In June the Governor of the Bank of England Mark Carney highlighted the risk that illiquid holdings might impact on the ability of investors to redeem their shareholdings. Let me reassure shareholders that the liquidity of the Company's investments is reviewed regularly by the Board, that the portfolio is well diversified, and largely invested in readily tradable securities.

Change of Company Secretary, Administrator and Registered Office

During the year R&H Fund Services (Jersey) Limited advised the Board that they would no longer be carrying out company secretarial services for listed funds and served notice on 1 August 2019. Following a competitive tender process, the Board selected JTC Fund Solutions (Jersey) Limited as their new Company Secretary and Administrator with effect from 10 December 2019. As a result of the change, the registered office of the Company changed to JTC Fund Solutions (Jersey) Limited, details of which can be found on page 70.

AGM

This year with many travel and meeting restrictions in place due to the Stay at Home Measures introduced by the Government on 26 March 2020 in response to COVID-19, the Board has taken the decision to postpone the date of the AGM to later in the year, as permitted by Jersey law. The situation and Government guidance are being monitored and shareholders will be notified as soon as possible when a date has been agreed and arrangements made for the AGM, which is expected to be before the end of September 2020. Invesco will provide details via the Company's website at www.invesco.co.uk/citymerchants, a separate announcement will be made to the market and a Notice of Meeting sent to shareholders.

Outlook

Predicting the direction of financial markets is challenging at the best of times and I am forced to conclude that the rapid spread of COVID-19 makes the outlook for markets as uncertain as I can recall during the course of a thirty-year investment career; events have unfolded at a dramatic, unsettling pace and we have little by way of precedent to guide us.

We have entered a period of economic and social dislocation as efforts to slow the virus's rate of progress remain the priority of government, here and abroad. Global economic growth will be hit hard, but by how much and for how long remains very unclear. Unfortunately, the shock to economic activity will result in corporate failures. Hopefully, the combination of increased hospital and testing capacity will allow a gradual relaxation in the restrictions on movement and hence a return to economic normality.

One lesson we can draw on from financial history is the importance of rapid and aggressive policy action in the face of sudden economic shocks. It is therefore encouraging to see the extensive, coordinated action by central banks and governments to keep the 'financial plumbing' working and to provide economic stimulus. Furthermore, we should perhaps not lose sight of the fact that the major economies entered the crisis in reasonable shape, with financial systems much improved since the Global Financial Crisis of 2008-09.

How best to approach high yield investment faced with this type of challenging environment? An experienced investment team and a robust, well established investment process are, in my view, two essential requirements. In addition, there is no substitute for rigorous, detailed analysis of each company, its long-term prospects and the risks it faces. It is precisely this type of approach which sits at the core of the Manager's long-established and successful record in high yield markets, and which gives the Board confidence that the Company is well placed to navigate the challenges of the coming months.

Tim Scholefield
Chairman
24 April 2020

MANAGER'S INVESTMENT REPORT

Market Background

High yield bond markets rebounded strongly in 2019. Index data from ICE Bank of America Merrill Lynch European Currency High Yield Index shows that European currency (€ and £) high yield delivered its highest return since 2012 and US high yield its highest return since 2016.

The main driver of this strong performance was the pivot by central banks back towards a more accommodative policy. This helped to offset the impact of weaker economic data and concerns over global trade, which are factors that would normally be expected to have a negative influence on high yield bond returns.

At the start of 2019, the US Federal Reserve System (the Fed) moved from contemplating rate hikes to discussing rate cuts. It subsequently made three 25 basis points (bps) cuts in the Federal Funds Rate, which took the upper bound to 1.75% by 31 December 2019. The European Central Bank (ECB), which ended its Quantitative Easing (QE) programme in December 2018, followed the Fed's lead. In March 2019, it announced plans for a new Targeted Longer Term Refinancing Operation (TLTRO) and later in the year announced plans to restart bond purchases.

Given the pivotal role that central banks have played within financial markets since the global financial crisis, these policy announcements were very well received. The about turn by central banks did not however lift all bonds. Some were more materially impacted by concerns over the weakening economic backdrop. This dispersion of yields, which began in late 2018 and continued through much of 2019, saw a meaningful number of bonds priced at a significant discount to par. Furthermore, there were several high profile bankruptcies and restructurings in the European high yield market during 2019. These included Thomas Cook, New Look, House of Fraser and Debenhams. Signs of a stabilisation of economic data and optimism over trade at the end of the year saw some of the names that had come under pressure rally strongly.

Over the course of the year, European currency high yield credit spreads tightened from 522bps to 324bps. This reduces credit spreads to the level they were at in early summer 2018. Over this period yields moved from 5.18% to 3.61%.

Portfolio strategy

Over the 12 months to 31 December 2019 the NAV per share rose from 178.69p to 192.11p delivering a total return of +13.4%. A total dividend of 10 pence has been paid for the year.

Positioning continues to reflect the Company's objective of delivering a consistent and relatively high level of income. To this end, we used the strength of markets during 2019 as an opportunity to take profits and reduce the subordinated financials exposure we had built up toward the end of 2018. The allocation to this area of the market was reduced from 36% at the start of 2019 to 27% by the end of the year. At the same time, the allocation to non-financial high yield and corporate hybrids was increased.

Following these changes, the portfolio continues to hold a core of non-financial high yield corporate bonds, focused on seasoned issuers that we consider have a low likelihood of default. Alongside these core positions the portfolio also has a smaller allocation to more speculative positions. The expectation with these bonds is that the return will come from both capital appreciation and income. The dispersion that we saw in markets at the start of 2019 provided the opportunity to add to this part of the portfolio. Examples of bonds that we thought offered value that we added to the portfolio include Jaguar Land Rover and car seat manufacturer, Adient. As these bonds rallied and offered less value, we took profits.

Despite the adjustments, at a sector level the portfolio's largest exposure remains financials (both subordinated bank and subordinated insurance bonds). Elsewhere, the largest allocations are to telecoms, food, cable and auto companies.

The Company continues to exploit opportunities in both the European and US markets. Most of the currency exposure from these positions is hedged back to sterling with around 5% left in US dollars and 2% in euros at the end of December 2019.

Outlook

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

The portfolio is well diversified and has always maintained exposure to well over 100 different companies. It is our belief that such diversification of credit risk is essential in a portfolio that is focused on high yield bonds. These are unprecedented times and it is not clear how the default environment will evolve but a diversified portfolio will leave the Company in a strong position to cope.

The global policy responses announced so far are astounding but markets remain rightly focused on the economic impact that the virus will inflict. High yield bond markets have repriced to reflect the severe economic shock that we can expect, but a lack of market liquidity has undoubtedly exacerbated price moves. Such dislocation between prices today and longer-term value is already creating very attractive opportunities for the Company. Whilst maintaining a prudent level of cash we are slowly and cautiously starting to add positions to the portfolio, buying bonds from companies that we believe have a balance sheet and business profile that can survive even a severe economic disruption.

Finally, the portfolio has been constructed with a bottom-up approach, based on individual company selection and fundamental analysis. Invesco has a team of highly experienced credit analysts whose job it is to navigate credit markets in both good times and bad. We believe the Company is well positioned for the challenges ahead and to continue to deliver an attractive level of income for shareholders.

Rhys Davies **Paul Read** **Paul Causer**
Portfolio Managers

24 April 2020

STRATEGIC REPORT
BUSINESS REVIEW

Purpose, Business Model and Strategy

City Merchants High Yield Trust Limited is a Jersey domiciled investment company which is listed on the London Stock Exchange and its investment objective is set out below.

The Company's purpose is to generate sustainable returns for its shareholders by investing their pooled capital to achieve the Company's investment objective through the application of its investment policy (set out below) and with the aim of spreading investment risk.

The strategy the Board follows to achieve the objective is to set investment policy and risk guidelines, together with investment limits, and to monitor how they are applied.

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 Fund Managers Limited (the 'Manager') to manage the portfolio in accordance with the Board's strategy; and

– JTC Fund Solutions (Jersey) Limited (the 'Company Secretary') to provide company secretarial and general administration services, with effect from 10 December 2019. This service was, until this date, undertaken by R&H Fund Services (Jersey) Limited ('R&H').

In addition to the management and administrative functions of the Manager and the Company Secretary, the Company has contractual arrangements with Link Market Services (Jersey) Limited to act as registrar and the Bank of New York Mellon (International) Limited (BNYMIL) as depository and custodian.

The Board has oversight of the Company's service providers, and monitors them on a formal and regular basis. The Board has a collegiate culture and pursues its fiduciary responsibilities with independence, integrity and diligence, taking advice and outside views as appropriate and constructively challenging and interacting with service providers, including the Manager. The portfolio managers responsible for the day-to-day management of the portfolio are Rhys Davies, Paul Read and Paul Causer.

The Company is an alternative investment fund for the purposes of the Alternative Investment Fund Managers Directive.

Investment Objective and Policy

Investment Objective

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

Investment Policy

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

This Investment Policy should be read in conjunction with the descriptions of Investment Style, Investment Limits, Derivatives and Currency Hedging, and Borrowings set out below.

Investment Style

The Manager 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 are 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.

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 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, which has set a maximum of 30% of the Company's total assets. This limit may be varied from time to time in the light of prevailing circumstances, but has not been changed since the Company's incorporation in its current form. The Manager has discretion to borrow within the limit set by the Board. Any borrowings are covered by investments in matching currencies to manage exposure to exchange rate fluctuations.

The Board has reviewed the methods of financing available to the Company including repo financing whereby a company participates in sale and repurchase arrangements in connection with its portfolio. Under these arrangements, a company sells fixed interest securities and is contractually obliged to repurchase them at a fixed price on a fixed date, whilst retaining economic exposure to the securities sold. The difference between the (lower) sale price and the later purchase price is the cost (effectively interest) of the repo financing. Repo financing agreements are in place and may be used subject to the aggregate 30% ceiling. The Company did not use repo financing during the year to 31 December 2019 (2018: none) nor drawdown on the credit facility (2018: none) which lapsed on 4 May 2019. Since the year end and as at 23 April 2020, the Company has 4.7% of repo borrowing and cash of 3.6%, resulting in net gearing of 1.1%.

Key Performance Indicators

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

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

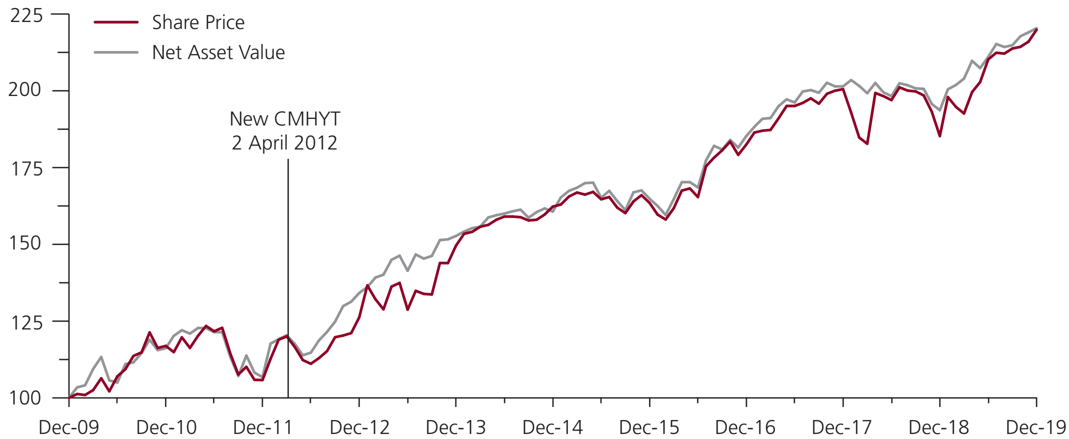
Performance

As the Company's objective is to seek to obtain capital growth and high income, the performance is best measured in terms of total return. There is no single index against which the Company's performance may be meaningfully assessed. Therefore, the Board refers to a variety of relevant data and this is reflected in both the Chairman's Statement and the Manager's Investment Report on pages 6 to 7. The Manager has a long-term horizon and consequently the Board pays close attention to returns over three and five years in its assessment of investment performance. As explained in the Chairman's Statement, the Board has noted the performance in the year and is satisfied with the longer term performance of the portfolio.

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 companies, and the graph that follows shows the performance of the share price and net asset value (both on a total return basis) for the last ten years.

Ten Year Total Return Graph

All figures rebased to 100 at 31 December 2009.



Source: Refinitiv.

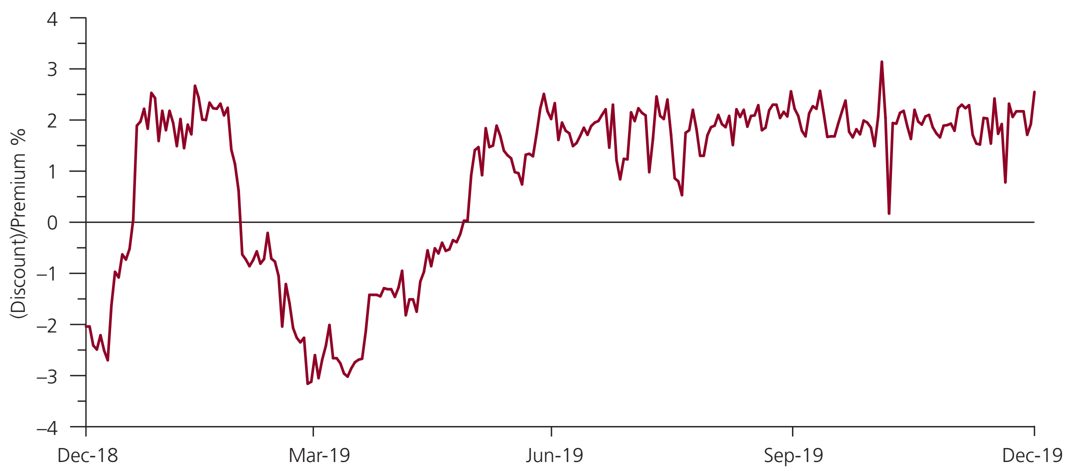
Dividends and Dividend Payment Policy

Dividends form a key component of the total return to shareholders and the Board currently targets dividends of 10p per year. This target has been met in the year under review. Dividends paid over the last ten years are shown in the table on page 2.

The Board's Dividend Payment Policy is to pay dividends on a regular quarterly basis in May, August, November and February in respect of each accounting year. The timing of these regular three-monthly payments means that shareholders do not have an opportunity to vote on a final dividend. Recognising the importance of shareholder engagement, and although not required by any regulation, shareholders are given an opportunity to vote on this policy at the forthcoming AGM.

Premium/Discount

The Board monitors the price of the Company's shares in relation to their net asset value and the premium/discount at which the shares trade. Powers are taken each year to issue and buy back shares, which can assist short term management, however the level of discount or premium is mostly a function of investor sentiment and demand for the shares, over which the Board may have limited influence. The ideal would be for the shares to trade close to their net asset value. The following graph shows the discount/premium through the year, ending with a premium of 2.5%. As explained in the Chairman's Statement, demand for shares during the year resulted in the issue of 2,950,000 shares at an average price of 191.90p.



Source: Refinitiv.

Ongoing Charges Ratio

The expenses of managing the Company are carefully monitored by the Board. The standard measure of these is the ongoing charges ratio (OCR), which 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 ratio provides a guide to the effect on performance of annual operating costs. The Company's ongoing charges ratio for the current year was 1.02%, compared to 0.98% for the previous year. The year-on-year increase in the OCR was the result of a number of factors including the costs of implementing a Board succession plan and the appointment of a new administrator.

Investment Process

At the core of the portfolio managers' philosophy is a belief in active investment management. They seek to invest where they see the potential for attractive returns and to avoid risks that they do not think are well rewarded. Fundamental principles drive a genuinely unconstrained investment approach, with a strong emphasis on value.

The investment process comprises four key elements to deliver the information the portfolio managers use to make their decisions:

- top down, macroeconomic analysis – examining the factors that shape the economy;
- credit analysis using internal and external research with a view to maximising returns from acceptable and understood credit risk exposure;
- value assessment, considering the risk/return profile of any bond in relation to cash, core government bonds and the rest of the fixed interest universe; and
- risk considerations, analysing all holdings to allow for a comprehensive understanding of risks involved to ensure diversification of the portfolio.

The portfolio managers enter into the majority of positions with a view to holding them until their call or maturity date and their investment process is based on making investments where the yield to maturity or call appears to them to be at least an adequate reward for the risk. The nature of the high yield market and the Company's mandate mean that there will be occasions when the value the portfolio manager assessed in an investment is fully realised by the market. On these occasions, they may exit the position before maturity.

The portfolio managers believe that it is good investment practice to try and keep the level of turnover low, whilst at the same time recognising that this should not at any time act as a deterrent to effective portfolio management. Turnover will generally be very low due to the long term nature of many of the holdings and given the closed end nature of the Company, the portfolio managers are not presented with regular daily inflows and outflows which require managing.

Internal Control and Risk Management

The Directors have overall responsibility for the Company's system of internal controls and are responsible for reviewing the effectiveness of these controls. This includes safeguarding of the Company's assets. The Directors have carried out a robust assessment of the principal and emerging risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

The Audit Committee (the 'Committee'), on behalf of the Board, has established an ongoing process for identifying and assessing the risks to which the Company is exposed by reference to a risk control summary, which maps the risks, mitigating controls in place, and monitoring and reporting of relevant information to it. The review of the risk control summary also incorporated a robust assessment of new and emerging risks for monitoring purposes.

As part of the process, the Committee has identified four risk categories: strategic; investment management; third party service providers; and regulation and corporate governance. An explanation of these categories follows.

Strategic Risk

The Board sets the Company's strategy, including setting its objective and how this should be achieved. The Board assesses the performance of the Company in the context of the market and macro conditions and gives direction to, and monitors, the Manager's actions, and those of other third parties, on behalf of the Company.

Investment Management Risk

Investment management covers management of the portfolio together with cash management, gearing and hedging, all being areas the portfolio managers can control, and which generate the Company's investment performance.

Third Party Service Providers Risk

The Company has no employees and its Directors are appointed on a non-executive basis. The Company is reliant on third party service providers (TPPs) for its executive functions. The Company's most significant TPPs are the Manager, to which portfolio management is delegated, and the Company Secretary. Other significant TPPs are the corporate broker, depositary, custodian, registrar and auditor.

Regulation and Corporate Governance Risk

The Company is required to comply with many regulations. For the year under review these included but were not limited to, the provisions of the Companies (Jersey) Law 1991, the UK Listing Rules, the Alternative Investment Fund Managers Directive, the Market Abuse Regulation, the FCA's Disclosure Guidance and Transparency Rules, the UK Corporate Governance Code and International Financial Reporting Standards.

A matrix of the risks, set out according to their assessed risk levels after mitigation, enables the Directors to concentrate on those risks that are most significant, and also forms the basis of the list of principal risks and uncertainties on pages 13 to 15. The ratings take into account the Directors' risk appetite and the ongoing monitoring by the Manager.

Oversight of the control environment is based on the Company's relationship with its TPPs, all of which have clearly defined lines of responsibility, delegated authority, and control procedures and systems. The Company's main TPPs, the Manager and the Company Secretary, both have, a 'Three Lines of Defence Model', which is embedded into their risk management systems.

The effectiveness of the Company's internal control and risk management system is reviewed at least twice a year by the Committee. The Committee received and considered, together with representatives of the Manager, reports in relation to operations and systems of internal controls of the Manager, Company Secretary, accounting administrator, custodian and registrar. The Committee also receives regular reports from the Manager's internal audit and compliance departments. The Committee also received a comprehensive and satisfactory report from the depositary at the year end Committee meeting. The Company's risk management policies and procedures for financial instruments are set out in note 18 on pages 53 to 59.

Due diligence is undertaken before any contracts are entered into with any third party service provider. The Manager regularly reviews, against agreed service standards, the performance of TPPs 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 Committee. These various reports and reviews did not identify any significant failings or weaknesses which were relevant to the Company during the year and up to the date of this annual financial report. If any had been identified, the required remedial action would have been taken.

Reporting to the Board at each board meeting comprises, but is not limited to: financial reports, including any hedging and gearing; performance against relevant indices and the Company's peers; the portfolio managers' review, including of the market, the portfolio, transactions and prospects; revenue forecasts; and investment monitoring against investment guidelines. The portfolio managers are permitted discretion within these investment guidelines, which are set by the Board. Compliance with the guidelines is monitored daily by the Manager. Any proposed variation to these guidelines is referred to the Board for consideration and approval.

The Board, through the Management Engagement Committee, formally reviews the performance of the Manager and the Company Secretary annually and informally at every board meeting. The Board has reviewed and accepted both the Manager's and Company Secretary's whistleblowing policy under which staff of both Invesco Fund Managers Limited and JTC Fund Solutions (Jersey) Limited can, in confidence, raise concerns about possible improprieties or irregularities in matters affecting the Company.

Principal Risks and Uncertainties

The Board has carried out a robust assessment of the risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity. The principal risks that follow are those identified by the Board after consideration of mitigating factors. In carrying out this assessment, consideration was given to market uncertainty in relation to Brexit and the continuing impact of COVID-19.

Strategic Risks

Market Risk

The Risk: The Company invests primarily in fixed interest securities, the majority of which are traded on global security markets. The principal risk for investors in the Company is a significant fall and/or a prolonged period of decline in these markets. This could be triggered by unfavourable developments globally and/or in one or more regions, contemporary examples being the market uncertainty in relation to Brexit during 2019 and in 2020 the COVID-19 outbreak. The Board cannot control the effect of such external influences on the portfolio. Market risk also arises from movements in foreign currency exchange rates and interest rates.

Mitigating Procedures and Controls: An explanation of market risk and how this is addressed is given in note 18.1 to the financial statements.

Investment Objectives

The Risk: The Company's investment objectives and structure no longer meet investors' demands.

Mitigating Procedures and Controls: The Board receives regular reports reviewing the Company's investment performance against its stated objectives and peer groups, and reports from discussion with its broker and major shareholders. The Board also has a periodic strategy meeting.

Lack of Liquidity in the Company's Shares

The Risk: Lack of liquidity and lack of marketability of the Company's shares leading to stagnant share price and wide discount.

Mitigating Procedures and Controls: The Board receives regular reports from both the Manager and the Company's broker on the Company's share price performance and level of discount (or premium), together with regular reports on marketing and meetings with shareholders and prospective investors. The Board recognises the importance of the Company's scale in terms of the aggregate value of its shares in the market ('market cap') in creating liquidity and the benefit of a wide shareholder base, and has the ability to both issue and buy back shares to assist with market volatility. The foundation to this lies in solid investment performance and a high level of dividend. Powers are also taken to issue and buy back shares.

Investment Management Risk

Performance

The Risk: The portfolio persistently underperforms relevant indices and/or peers because of the investments selected. Performance will also be affected by market risk, which was addressed above, and by credit risk. A significant portion of the Company's portfolio consists of non-investment grade securities which by their nature have a higher risk of default as well as the likelihood of price volatility.

Mitigating Procedures and Controls: The Company does not have a formal benchmark, however, the ICE Bank of America Merrill Lynch European Currency High Yield Index ('the Index') is used in contribution analysis. This index tracks the performance of EUR and GBP denominated sub-investment grade corporate debt publicly issued in the eurobond, sterling domestic and euro domestic markets. The Board regularly compares the Company's NAV performance over both the short and long term to that of the Index and relevant peers as well as reviewing analyses breaking out contributory elements of the portfolio's performance compared with the Index. The Board also receives reports on and reviews: the constituents of the portfolio, transactions in the period and, if applicable, gearing and hedging. The investment process the portfolio managers employ to address risk versus return is explained on page 11, and an explanation of credit risk and how this is addressed is given in note 18.3 to the financial statements.

Borrowing Risk

The Risk: Borrowings for investment purposes will amplify the reduction in NAV in a falling market, which in turn is likely to adversely affect the Company's share price. There is no guarantee that it will be possible to re-finance repo financing arrangements on their maturity either at all or on terms that are acceptable to the Company, in which case any amounts owing by the Company would need to be funded by the sale of investments and the Company may not be able to realise the expected value of those assets. Repo financing introduces an element of counterparty risk. Repo financing transactions require the counterparty to sell the relevant assets to the Company on the repurchase date at a fixed price but if a counterparty failed to do so, the Company would be left with a contractual claim against the defaulting counterparty and there is no guarantee the Company would be able to recover all of the value of the assets from that counterparty. In adverse market conditions, the risks of counterparty default may be greater than at other times.

Mitigating Procedures and Controls: All borrowings are actively managed by the Manager and monitored by the Board. The Company will only enter into repo arrangements with counterparties who are authorised or regulated by an appropriate regulator and whose credit rating is not less than the minimum investment grade credit ratings issued by internationally recognised agencies. There is a maximum limit allowed with any one counterparty, and transactions typically have a maturity tenor of three months or less.

Third Party Service Providers Risk

Unsatisfactory Performance of Third Party Service Providers (TPPs)

The Risk: Failure by any service provider to carry out its obligations to the Company in accordance with the terms of its appointment could have a materially detrimental impact on the operations of the Company and affect its ability to pursue successfully its investment policy and expose it to reputational risk. Disruption to the accounting, payment systems or custody records could prevent the accurate reporting and monitoring of the Company's financial position.

Mitigating Procedures and Controls: Details of how the Board monitors the services provided by the Manager and the other TPPs, and the key elements designed to provide effective internal control, are included in the internal control and risk management section on pages 11 and 12.

Information Technology Resilience and Security

The Risk: The Company's operational structure means that all cyber risk (information technology and physical security) arises at its TPPs. This cyber risk includes fraud, sabotage or crime perpetrated against the Company or any of its TPPs.

Mitigating Procedures and Controls: The Audit Committee on behalf of the Board regularly reviews TPPs' audited service organisation control reports and meets with representatives of the Manager's Investment Management, Compliance, Internal Audit and Investment Trust teams as well as the Company Secretary's senior staff and Compliance team. The Board receives regular updates on the Manager's and the Secretary's information security. The Board monitors TPPs' business continuity plans and testing – including their regular 'live' testing of workplace recovery arrangements.

Pandemic (COVID-19) Risk

The Risk: As the spread of COVID-19 continues, the Directors are monitoring the situation closely, together with the Manager and other service providers. A range of actions has been implemented to ensure that the Company and its service providers are able to continue to operate as normal, even in the event of prolonged disruption.

Mitigating Procedure and Controls: The Manager's business continuity plans are reviewed on an ongoing basis and the Directors are satisfied that the Manager has in place robust plans and infrastructure to minimise the impact on its operations so that the Company can continue to trade, meet regulatory obligations, report and meet shareholder requirements.

The Manager has mandated work from home arrangements and implemented split team working for those whose work is deemed necessary to be carried out on business premises. Any meetings are being held virtually or via conference calls.

Other similar working arrangements are in place for the Company's third-party service providers. The Directors remain confident that with these measures in place, the Company is in a good position to continue operating as normal in these extreme market conditions. In addition, due to the nature of the Company being a closed end investment company, the portfolio managers are not presented with regular daily inflows and outflows that require managing.

Regulation and Corporate Governance Risk

Failure to Comply With or Adverse Changes to Law or Regulation

The Risk: A serious breach of law or regulation could lead to suspension from the Official List and from trading on the London Stock Exchange, a fine or a qualified audit report. Adverse changes to law or regulation could affect the ability of the Company to operate or the practicality of its domicile.

Mitigating Procedures and Controls: The Board, the Company Secretary and the Manager monitor compliance with and changes to government policy, legislation and other regulations relevant to the Company.

Viability Statement

This Company is an investment company whose business consists of investing the pooled funds of its shareholders to provide them with capital growth and a high income over the long term, predominantly from a portfolio of high yielding fixed income securities. Long term for this purpose is considered to be at least five years and the Directors have assessed the Company's viability over that period. However, the life of the Company is not intended to be limited to that or any other period.

The main risk to the Company's continuation is shareholder dissatisfaction through failure to meet the Company's investment objective, through poor investment performance or the investment policy not being appropriate in prevailing market conditions, either of which could affect the demand for and liquidity of the Company's shares. Accordingly, failure to meet the Company's investment objective, and contributory market and investment risks, are deemed by the Board to be principal risks of the Company and are given particular consideration in the continuing assessment of its long term viability.

The Company's investment objective and policy are kept under review. In essence they are the same as they have been since the Company commenced trading in 2012, which in turn were unchanged from those of the Company's UK based predecessor, City Merchants High Yield Trust plc. The continued relevance of the investment objective and policy are underlined by the Company's annual continuation vote. Last year nearly 100% of the votes registered were in favour of continuation and the Board has no reason to believe that the continuation resolution will not be passed at the forthcoming and subsequent AGMs.

Performance derives from returns for risk taken. The Manager's Investment Report on pages 6 and 7 sets out the current investment strategy of the portfolio managers. The portfolio contains a high level of relatively high-yielding non-investment grade bonds and these carry a higher risk of default than investment grade paper. This is discussed further in note 18 to the financial statements. The Board has adopted investment limits within which the portfolio managers operate. The Directors and the portfolio managers constantly monitor the portfolio, its ratings and default risk. A bond rating analysis of the portfolio at the year-end is shown on page 20. Exposure is weighted towards higher quality issuers where the risk of default is considered to be more remote.

The terms of the Company's corporate transition in 2012 allow direct comparison of the Company's financial information with its UK predecessor. Taking the two together, performance has been strong for many years through different, and difficult, market cycles – as shown by the ten year total return performance graph on page 10. The investment policy has effectively been stress tested by market events in 2007/8 and earlier cycles, and in recent times by both global and domestic events. These events affected performance, but at no time did they threaten the viability of the Company. Whilst past performance may not be indicative of performance in the future, the investment policy has been consistent and the Company's portfolio managers, overseen by the Board, have been in place throughout those past periods.

Performance and demand for the Company's shares are not things that can be forecast. Indeed the COVID-19 outbreak is having a significant, if not unprecedented impact on the economy and markets. However, the portfolio manager has put in place a defensive strategy to reduce the impact. Furthermore, the portfolio manager and other service providers have taken steps to mitigate and control the impact on their own businesses thereby ensuring that the Company can continue to trade, report and meet shareholder needs. There are no current indications that the Company is unable to weather the COVID-19 impact or that performance and demand for the Company's shares may be permanently affected over the next five years so as to affect the Company's viability.

As described in note 18.2 to the financial statements on page 58 liquidity risk is not viewed by the Directors as a significant risk. The majority of the Company's assets are readily realisable and amount to many times the value of its short term liabilities and annual operating costs. The Company is permitted to borrow up to a maximum of 30% of the Company's total assets but currently has no long term debt obligations.

Based on the above analysis, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of their assessment. Despite the recent disruption from COVID-19 and the impact on global markets, the Directors consider that the Company's investment strategy will continue to serve shareholders well over the longer term.

Investment Management

As noted earlier, the Manager provides investment management and certain administrative services to the Company. The agreement is terminable 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 arrears and is equal to 0.1875% of the value of the Company's total assets under management less current liabilities at the end of the relevant quarter. In addition, the Manager is paid a fee, based on an initial amount of £22,500 plus RPI per annum, for administrative services.

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

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 pages 9 to 11.

The Management Engagement Committee is responsible for reviewing the Manager. Based on its recent review of activities, the Board believes that the continuing appointment of Invesco Fund Managers Limited remains in the best interests of the Company and its shareholders.

Financial Position

The Company's balance sheet on page 44 shows the assets and liabilities at the year end. A £20 million revolving credit facility was available until 4 May 2019 when this lapsed and was not renewed. The Company also has repo financing agreements in place, which were not used during the year. Subsequent to the year end, the Company has started to utilise repo financing and, as at 23 April 2020, the Company has 4.7% of repo borrowing and cash of 3.6%, resulting in net gearing of 1.1%.

Performance and Future Development

The performance and future development of the Company depend on the success of the Company's investment strategy. A review of the Company's performance, market background, investment activity and strategy during the year, together with the investment outlook are provided in the Chairman's Statement and Manager's Investment Report on pages 3 to 7.

Annual Continuation Vote

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 reviewed the performance of the Company, the Directors have no reason to believe that a resolution to release them from that obligation, will not be passed at the AGM to be held later in the year.

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:

FUND MANAGER/REGISTERED HOLDER	AT 31 MARCH 2020 HOLDING	%	AT 31 DECEMBER 2019 HOLDING	%	AT 31 DECEMBER 2018 HOLDING	%
Hargreaves Lansdown, stockbrokers (EO)	11,326,497	11.1	10,582,817	10.6	8,841,373	9.1
Charles Stanley	10,437,444	10.3	10,076,470	10.1	10,162,647	10.8
Redmayne Bentley, stockbrokers	7,288,841	7.2	6,825,247	6.8	5,797,331	6.0
Interactive Investor (EO)	7,252,850	7.1	7,302,539	7.3	2,336,078	2.4
Invesco	6,881,470	6.8	6,881,470	6.9	6,881,470	7.1
EFG Harris Allday, stockbrokers	6,008,026	5.9	5,974,261	6.0	5,264,368	5.4
Brewin Dolphin, stockbrokers	3,633,604	3.6	3,557,849	3.6	3,546,085	3.7
AJ Bell, stockbrokers (EO)	3,601,127	3.5	3,301,548	3.3	2,753,505	2.8

Board's Duty to Promote the Success of the Company

The Directors have a fiduciary duty to act, in good faith, for the benefit of shareholders taken as a whole. In the UK, section 172 of the Companies Act 2006 seeks to codify this duty and to widen the responsibility to incorporate the consideration of wider relationships that are necessary for the Company's sustainability. As a UK listed Company it is necessary for the Company to report against this UK statutory duty, being that the Directors have a duty to promote the success of the Company, whilst also having regard to certain broader matters, including the need to engage with employees, suppliers, customers and others, and to have regard to their interests. This is reflected in the summary of the Board's responsibilities on page 28.

In fulfilling these duties, and in accordance with the Company's nature as an investment company with no employees and no customers in the traditional sense, the Board's principal concern has been, and continues to be, the interests of the Company's shareholders taken as a whole. Notwithstanding this, the Board has a responsible governance culture and also has due regard for broader matters so far as they apply. In particular, the Board engages with the Manager and Company Secretary at every Board meeting and the Management Engagement Committee also reviews the Company's relationships with these and other service providers, such as the registrar, depositary and custodian, at least annually. The assessment of the Manager consequent to these reviews is set out on page 16.

The Company communicates with its shareholders at least three times a year providing information about shareholder meetings, dividend payments and half-yearly and annual financial results. In addition, the annual general meeting of the Company is under normal circumstances held in a central London location, providing shareholders with the opportunity to attend and meet with the Directors and the Manager. The AGM this year has been postponed, due to the circumstances surrounding COVID-19 and will be held at a later date in 2020, the details of which shall be communicated to shareholders. Furthermore, the Manager provides a schedule of regional meetings with institutional investors and analysts to gather the views and thoughts of investors.

Board Diversity

The Company's policy on diversity is set out on page 29. The Board considers diversity, including the balance of skills, knowledge, experience and gender 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. During the year to 31 December 2019, due to Board refreshment, the Board comprised between four and six non-executive directors at various times of whom one was female, thereby constituting 20% female representation. The Board briefly comprised of four male directors whilst the Board undertook a recruitment process for the replacement of Winifred Robbins. The recruitment process resulted in the appointment of Stuart McMaster and Heather MacCallum. Further details of the recruitment process can be found on pages 28 and 29. Summary biographical details of the Directors are set out on page 25. The Company has no employees.

Environment, Social and Governance (ESG) Matters

As an investment company with no employees, property or activities outside investment, environmental policy has limited direct application. In relation to the portfolio, the Company has delegated the management of the Company's investments to the Manager, who has an ESG Guiding Framework which sets out a number of principles that are intended to be considered in the context of its responsibility to manage investments in the financial interests of shareholders.

The Manager is committed to being a responsible investor and applies, and is a signatory to, the United Nations Principles for Responsible Investment, which demonstrates its extensive efforts in terms of ESG integration, active ownership, investor collaboration and transparency. The Manager is also a signatory to the FRC Stewardship Code 2012, which seeks to improve the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities.

The Henley fixed income team incorporates ESG considerations in its investment process as part of the evaluation of new primary and secondary market opportunities, with identified ESG concerns feeding into the final investment decision and assessment of relative value. The process for ESG integration in fixed income differs from that of equities given the nature of the primary issuance process and the reduced availability of data for unlisted companies where a significant proportion of investments are made. The investment team makes its own subjective conclusions about the ESG characteristics of each investment held and about the overall ESG characteristics of the portfolio, although third party ESG ratings may inform their view. Additionally, the Manager's ESG team provides formalised ESG portfolio monitoring. This is a rigorous semi-annual process where the portfolio is reviewed from an ESG perspective.

Regarding Stewardship, as noted on page 31, in the normal course of business the fixed income team has relatively few opportunities to engage via shareholder voting, although they normally fully engage on bond holder matters or if equity positions are held. The team is an active investor in the primary market and where appropriate will seek to engage with issuers in order to influence the terms and conditions of bonds issued. A copy of the Manager's Stewardship Code can be found at *www.invesco.co.uk*.

As an investment vehicle the Company does not provide goods or services in the normal course of business, and does not have customers or employees. Accordingly, the Directors consider that the Company is not within the scope of the UK Modern Slavery Act 2015.

This Strategic Report was approved by the Board of Directors on 24 April 2020.

JTC Fund Solutions (Jersey) Limited
Company Secretary

CLASSIFICATION OF INVESTMENTS BY GEOGRAPHICAL LOCATION
AT 31 DECEMBER

	2019				
	UNITED KINGDOM	NORTH AMERICA	EUROPE	OTHER AREAS	TOTAL
	%	%	%	%	%
Fixed interest securities[1]	43.2	8.0	42.5	0.7	94.4
Convertibles	0.6	—	0.8	—	1.4
Preference	1.9	—	—	—	1.9
Convertible preference	1.4	—	—	—	1.4
Equities	—	—	0.9	—	0.9
Total	47.1	8.0	44.2	0.7	100.0

	2018				
	UNITED KINGDOM	NORTH AMERICA	EUROPE	OTHER AREAS	TOTAL
	%	%	%	%	%
Fixed interest securities[1]	44.6	10.1	38.6	1.6	94.9
Convertibles	0.4	—	0.7	—	1.1
Preference	1.7	—	—	—	1.7
Convertible preference	1.5	—	—	—	1.5
Equities	—	—	0.8	—	0.8
Total	48.2	10.1	40.1	1.6	100.0

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

INDUSTRY ANALYSIS OF INVESTMENTS BY GEOGRAPHICAL LOCATION
AT 31 DECEMBER

	2019			2018		
	UNITED KINGDOM	NON-UK	TOTAL	UNITED KINGDOM	NON-UK	TOTAL
	%	%	%	%	%	%
Financials	22.1	13.4	35.5	23.8	22.1	45.9
Consumer Services	10.9	7.6	18.5	11.4	5.9	17.3
Telecommunications	4.1	10.9	15.0	1.8	8.1	9.9
Consumer Goods	4.2	6.0	10.2	4.4	5.2	9.6
Oil and Gas	2.0	3.1	5.1	—	1.6	1.6
Utilities	1.1	3.7	4.8	3.6	3.3	6.9
Industrials	2.1	2.3	4.4	2.2	2.3	4.5
Basic Materials	0.6	2.9	3.5	1.0	2.2	3.2
Health Care	—	1.8	1.8	—	0.4	0.4
Technology	—	1.0	1.0	—	0.7	0.7
Government Bonds	—	0.2	0.2	—	—	—
Portfolio Total	47.1	52.9	100.0	48.2	51.8	100.0

The percentages shown in the above tables are related to the value of investments of £179.7 million (2018: £168.2 million).

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

AT 31 DECEMBER

	2019				2018			
	INCLUDING CURRENCY HEDGING			EXCLUDING	INCLUDING CURRENCY HEDGING			EXCLUDING
	STERLING %	OTHER %	TOTAL %	HEDGING %	STERLING %	OTHER %	TOTAL %	HEDGING %
Fixed interest[1]	41.7	47.9	89.6	90.3	47.4	46.1	93.5	92.5
Convertibles	0.2	1.2	1.4	1.4	—	1.1	1.1	1.1
Preference	1.8	—	1.8	1.8	1.7	—	1.7	1.7
Convertible preference	1.3	—	1.3	1.3	1.5	—	1.5	1.5
Equities	—	0.9	0.9	0.9	—	0.7	0.7	0.8
Portfolio Total	45.0	50.0	95.0	95.7	50.6	47.9	98.5	97.6
Cash	3.9	0.4	4.3	4.3	1.7	0.7	2.4	2.4
Portfolio and Cash Total	48.9	50.4	99.3	100.0	52.3	48.6	100.9	100.0
Currency Hedging								
Forward currency sales	44.1	(43.4)	0.7		40.5	(41.4)	(0.9)	
Net Currency Exposure	93.0	7.0	100.0		92.8	7.2	100.0	

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

BOND RATING ANALYSIS

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

For the definitions of these ratings see the Glossary of Terms and Alternative Performance Measures on page 68.

RATING	2019 % OF PORTFOLIO	2019 CUMULATIVE TOTAL %	2018 % OF PORTFOLIO	2018 CUMULATIVE TOTAL %
Investment Grade:				
A+	—	—	0.4	0.4
A	—	—	1.2	1.6
A–	0.8	0.8	2.2	3.8
BBB+	4.0	4.8	1.7	5.5
BBB	3.2	8.0	6.3	11.8
BBB–	6.0	14.0	7.8	19.6
Non-investment Grade:				
BB+	15.6	29.6	12.5	32.1
BB	7.3	36.9	8.4	40.5
BB–	12.3	49.2	16.9	57.4
B+	5.4	54.6	5.7	63.1
B	17.4	72.0	15.4	78.5
B–	11.2	83.2	9.2	87.7
CCC+	1.5	84.7	1.0	88.7
CCC	2.9	87.6	2.0	90.7
CCC–	1.0	88.6	0.4	91.1
CC	0.2	88.8	—	91.1
NR (including equity)	11.2	100.0	8.9	100.0
	100.0		100.0	
Summary of Analysis				
Investment Grade	14.0		19.6	
Non-investment Grade	74.8		71.5	
NR (including equity)	11.2		8.9	
Total	100.0		100.0	

INVESTMENTS IN ORDER OF VALUATION

AT 31 DECEMBER 2019

ISSUER	ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Aviva	6.125% Perpetual	A3/BBB+	Financials	UK	4,001	2.2
	8.875% Preference	NR/NR			1,714	1.0
					5,715	3.2
Altice	7.375% 01 May 2026	B2/B	Telecommunications	France	3,398	1.9
	6.625% 15 Feb 2023	B2/B+		Luxembourg	1,230	0.7
	7.5% 15 May 2026	B2/B+			510	0.3
					5,138	2.9
Lloyds Banking Group	7.875% Perpetual	Baa3/BB–	Financials	UK	4,937	2.7
Virgin Media Finance	6.25% 28 Mar 2029	Ba3/BB–	Consumer Services	UK	3,353	1.9
	5.75% 15 Apr 2023 (SNR)	B1/B		Ireland	1,337	0.7
					4,690	2.6
Vodafone Group	6.25% 03 Oct 2078	Ba1/BB+	Telecommunications	UK	1,641	0.9
	4.875% 03 Oct 2078	Ba1/BB+			1,404	0.8
	7% FRN 04 Apr 2079	Ba1/BB+			859	0.5
	1.5% Cnv 12 Mar 2022	NR/NR			343	0.2
					4,247	2.4
Koninklijke KPN	6.875% FRN 14 Mar 2073	Ba2/BB+	Telecommunications	Netherlands	4,034	2.2
Barclays	9.25% Perpetual	Ba2/BB+	Financials	UK	1,133	0.6
	8% FRN Perpetual	Ba3/B+			1,081	0.6
	7.125% FRN Perpetual	Ba3/B+			689	0.4
	7.875% FRN Perpetual	Ba3/B+			554	0.3
	2.75% FRN Perpetual	Ba2/BB+			128	0.1
					3,585	2.0
Stonegate	4.875% 15 Mar 2022 (SNR)	B2/B–	Consumer Services	UK	1,836	1.0
	FRN 15 Mar 2022 (SNR)	B2/B–			902	0.5
	7% FRN 15 Mar 2022 (SNR)	B2/B–			803	0.5
					3,541	2.0
Enel	7.75% 10 Sep 2075	Ba1/BBB–	Utilities	Italy	2,708	1.5
	6.625% 15 Sep 2076	Ba1/BBB–			820	0.5
					3,528	2.0
Telecom Italia	7.721% 04 Jun 2038	Ba1/BB+	Telecommunications	Luxembourg	1,854	1.0
	5.303% 30 May 2024	Ba1/BB+		Italy	1,620	0.9
					3,474	1.9
Ziggo Bond Finance	6% 15 Jan 2027 (SNR)	B3/B–	Telecommunications	Netherlands	2,385	1.3
	5.875% 15 Jan 2025	B3/B–			932	0.5
					3,317	1.8
Matalan Finance	9.5% 31 Jan 2024 (SNR)	Caa2/CCC	Consumer Goods	UK	1,745	1.0
	6.75% 31 Jan 2023 (SNR)	B2/B–			1,431	0.8
					3,176	1.8
Premier Foods Finance	6.25% 15 Oct 2023	B2/B	Consumer Goods	UK	2,239	1.3
	FRN 15 Jul 2022 (SNR)	B2/B			782	0.4
					3,021	1.7
Arqiva Broadcast Finance	6.75% 30 Sep 2023	B2/NR	Telecommunications	UK	2,978	1.7
DKT Finance	9.375% 17 Jun 2023 (SNR)	Caa1/B–	Financials	Denmark	1,685	1.0
	7% 17 Jun 2023 (SNR)	Caa1/B–			1,129	0.6
					2,814	1.6
Virgin Money	8.75% Perpetual	Ba2/B	Financials	UK	2,809	1.6
Enterprise Inns	6.375% 15 Feb 2022 (SNR)	NR/BB–	Consumer Services	UK	1,264	0.7
	6% 06 Oct 2023	NR/BB–			1,002	0.5
	7.5% 15 Mar 2024	NR/B			513	0.3
					2,779	1.5
Teva Pharmaceutical	6.75% 01 Mar 2028 (SNR)	Ba2/BB	Health Care	Netherlands	1,881	1.0
	6% 31 Jan 2025 (SNR)	Ba2/BB			545	0.3
	7.125% 31 Jan 2025 (SUB)	Ba2/BB			331	0.2
					2,757	1.5

INVESTMENTS IN ORDER OF VALUATION

continued

ISSUER	ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Pinnacle Bidco	6.375% 15 Feb 2025 (SNR)	B2/B	Financials	UK	2,604	1.4
Aker BP	5.875% 31 Mar 2025 (SNR)	Ba1/BBB–	Oil and Gas	Norway	2,002	1.1
	6% 01 Jul 2022 (SNR)	Ba1/BBB–			480	0.3
					2,482	1.4
Sainsbury's	6.5% Var Perpetual	NR/NR	Consumer Services	UK	1,652	0.9
	6% FRN 23 Nov 2027	NR/NR			827	0.5
					2,479	1.4
Balfour Beatty	10.75p Cnv Preference	NR/NR	Industrials	UK	2,458	1.4
Royal Bank of Scotland	7.64% FRN Perpetual	Ba2/BB–	Financials	UK	1,484	0.8
	8% Cnv FRN Perpetual	Ba2u/B+			610	0.4
	8.625% FRN Perpetual	Ba2u/B+			356	0.2
					2,450	1.4
Panther BF Aggregator	8.5% 15 May 2027 (SNR)	B3/B	Basic Materials	USA	2,402	1.3
Co-Operative Bank	9.5% FRN 25 Apr 2029	NR/NR	Financials	UK	1,761	1.0
	5.125% 17 May 2024 (SNR)	NR/BB			492	0.3
					2,253	1.3
Algeco Scotsman	8% 15 Feb 2023 (SNR)	B2/B–	Consumer Services	UK	1,466	0.8
	10% 15 Aug 2023 (SNR)	Caa1/CCC			753	0.4
					2,219	1.2
Adient	7% 15 May 2026 (SNR)	Ba2/BB–	Consumer Goods	USA	1,783	1.0
	3.5% 15 Aug 2024	B3/B		Jersey	320	0.2
					2,103	1.2
Electricite De France	6% Perpetual	Baa3/BB	Utilities	France	1,441	0.8
	5.875% Perpetual	Baa3/BB			657	0.4
					2,098	1.2
Drax Finco	4.25% 01 May 2022 (SNR)	NR/BB+	Utilities	UK	2,040	1.1
Pension Insurance	7.375% FRN Perpetual	NR/NR	Financials	UK	2,028	1.1
IHO Verwaltungs	6% 15 May 2027 (SNR)	Ba1/BB+	Consumer Goods	Germany	1,278	0.7
	3.875% 15 May 2027 (SNR)	Ba1/BB+			734	0.4
					2,012	1.1
Citigroup Capital	6.829% FRN Perpetual	Baa3/BB+	Financials	USA	1,926	1.1
Fiat Chrysler Automobiles	4.5% 15 Apr 2020	Ba2/BB+	Consumer Goods	Netherlands	1,896	1.1
Burger King France	8% 15 Dec 2022 (SNR)	NR/CCC	Consumer Services	France	1,444	0.8
	FRN 01 May 2023	B3/B–			446	0.2
					1,890	1.0
Codere Finance	7.625% 01 Nov 2021 (SNR)	B3/B–	Consumer Services	Luxembourg	1,087	0.6
	6.75% 01 Nov 2021 (SNR)	B3/B–			782	0.4
					1,869	1.0
Marb Bondco	6.875% 19 Jan 2025 (SNR)	NR/BB–	Financials	UK	1,865	1.0
William Hill	4.75% 01 May 2026	Ba1/BB	Consumer Services	UK	1,862	1.0
Banco BPM	8.75% FRN Perpetual	B3/NR	Financials	Italy	1,830	1.0
Neptune Energy	6.625% 15 May 2025 (SNR)	B1/BB–	Oil and Gas	UK	1,802	1.0
Ocado	4% 15 Jun 2024 (SNR)	Ba3/NR	Consumer Services	UK	1,750	1.0
Loxam SAS	5.75% 15 Jul 2027	NR/B	Consumer Services	France	951	0.5
	3.75% 15 Jul 2026 (SNR)	NR/BB–			749	0.4
					1,700	0.9
Permanent TSB	8.625% FRN Perpetual	NR/NR	Financials	Ireland	1,569	0.9
Ecclesiastical Insurance Office	8.625% Preference	NR/NR	Financials	UK	1,550	0.9
Iron Mountain	3.875% 15 Nov 2025	Ba3/BB–	Financials	UK	1,513	0.8
SCOR	5.25% 13 Mar 2067	Baa1u/A–	Financials	France	1,512	0.8
Telefonica	5.875% FRN Perpetual (SUB)	Ba2/BB+	Telecommunications	Netherlands	1,381	0.8
DNO ASA	8.375% 29 May 2024	NR/NR	Oil and Gas	Norway	825	0.5
	8.75% 31 May 2023	NR/NR			537	0.3
					1,362	0.8

ISSUER	ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Picard	FRN 30 Nov 2023	B3/B	Consumer Services	France	1,341	0.7
Maxeda DIY	6.125% 15 Jul 2022 (SNR)	B2/B–	Consumer Services	Netherlands	1,304	0.7
Platin	5.375% 15 Jun 2023 (SNR)	B3/B	Industrials	Germany	1,236	0.7
Orange	5.875% Perpetual	Baa3/BBB–	Telecommunications	France	1,211	0.7
Beazley	5.875% 04 Nov 2026	NR/NR	Financials	Ireland	1,206	0.7
Société Genérale	7.375% 31 Dec 2065	Ba2/BB+	Financials	France	1,194	0.7
OneSavings Bank	9.125% FRN Perpetual	NR/NR	Financials	UK	1,189	0.7
Time Warner Cable	5.25% 15 Jul 2042	Ba1/BBB–	Consumer Services	USA	1,184	0.7
Bombardier	6% 15 Oct 2022	Caa1/B–	Industrials	Canada	906	0.5
	7.5% 15 Mar 2025	Caa1/B–			272	0.2
					1,178	0.7
Yew Grove REIT	Common Stock	NR/NR	Financials	Ireland	1,176	0.7
Banco Comercial Portugues	9.25% 30 Apr 2067	B2/CCC+	Financials	Portugal	1,126	0.6
HSBC	5.25% 14 Mar 2044	A3/BBB+	Financials	UK	584	0.3
	4.25% 14 Mar 2024	A3/BBB+			512	0.3
					1,096	0.6
Petra Diamonds	7.25% 01 May 2022 (SNR)	Caa1/CCC+	Basic Materials	UK	1,092	0.6
Vistajet	10.5% 01 Jun 2024 (SNR)	B3/B–	Technology	Malta	1,074	0.6
Deutsche Bank	7.125% Perpetual	B1/B+	Financials	Germany	1,066	0.6
Direct Line Insurance	9.25% FRN 27 Apr 2042	A3/BBB+	Financials	UK	1,055	0.6
Travis Perkins	4.5% 07 Sep 2023 (SNR)	NR/BB+	Industrials	UK	1,049	0.6
Walnut Bidco	9.125% 01 AUG 2024 (SNR)	B1/B+	Consumer Goods	Jersey	1,038	0.6
BNP Paribas	Cnv FRN Perpetual	Baa3/BB+	Financials	Belgium	1,020	0.6
Trafigura	7.5% FRN Perpetual (SUB)	NR/NR	Basic Materials	Singapore	774	0.5
	5.25% 19 Mar 2023 (SNR)	NR/NR		Luxembourg	241	0.1
					1,015	0.6
UniCredit International Bank	8% FRN Perpetual	NR/NR	Financials	Italy	986	0.5
Intesa Sanpaolo	7% Perpetual	Ba3/BB–	Financials	Italy	984	0.5
Ithaca Energy	9.375% 15 Jul 2024 (SNR)	B3/B	Oil and Gas	UK	953	0.5
Takko	FRN 15 Nov 2023 (SNR)	B2/B–	Consumer Goods	Luxembourg	924	0.5
EG Global Finance	4.375% 07 Feb 2025 (SNR)	B2/B	Oil and Gas	UK	460	0.2
	8.5% 30 Oct 2025 (SNR)	B2/B			294	0.2
	6.75% 07 Feb 2025 (SNR)	B2/B			154	0.1
					908	0.5
AXA	6.379% FRN Perpetual	Baa1/BBB	Financials	France	907	0.5
Sigma Holdco	7.875% 15 May 2026 (SNR)	B3/B–	Consumer Goods	Netherlands	904	0.5
Pizza Express	6.625% 01 Aug 2021	Caa1/CCC–	Consumer Services	UK	903	0.5
Scottish Widows	5.5% 16 Jun 2023	Baa1/BBB+	Financials	UK	890	0.5
Trinseo	5.375% 01 Sep 2025 (SNR)	B2/B+	Basic Materials	Luxembourg	889	0.5
Lamb Weston	4.625% 01 Nov 2024	Ba2/BB+	Consumer Goods	USA	880	0.5
CGG	FRN 21 Feb 2024	Caa1/NR	Oil and Gas	France	564	0.3
	Common Stock	NR/NR			295	0.2
					859	0.5
EDP – Energias de Portugal	4.496% 30 Apr 2079	Ba2/BB	Utilities	Portugal	851	0.5
J. C. Penney	8.625% 15 Mar 2025 (SNR)	Caa2/CCC–	Consumer Services	USA	565	0.3
	6.375% 15 Oct 2036 (SNR)	Caa3/CCC–			270	0.2
					835	0.5
FAGE International	5.625% 15 Aug 2026 (SNR)	B2/B+	Consumer Goods	Luxembourg	828	0.5
Tasty Bondco	6.25 15 May 2026 (SNR)	B2/B	Consumer Services	Spain	815	0.5
Phoenix Life	7.25% Perpetual	WR/NR	Financials	UK	811	0.4
Diamond 1	5.45% 15 Jun 2023	Baa3/BBB–	Technology	USA	809	0.4
Aegon	5.625% FRN Perpetual	Baa3/BBB–	Financials	Netherlands	796	0.4
Crystal Almond	4.25% 15 Oct 2024 (SNR)	NR/B	Telecommunications	Luxembourg	791	0.4
VIVAT	6.25% Perpetual	NR/NR	Financials	Netherlands	767	0.4
National Bank Of Greece	8.25% FRN 18 Jul 2029	Caa2/CCC	Financials	Greece	740	0.4
Miller Homes	FRN 15 Oct 2023 (SNR)	NR/BB–	Consumer Goods	UK	543	0.3
	5.5% 15 Oct 2023 (SNR)	NR/BB–			196	0.1
					739	0.4

INVESTMENTS IN ORDER OF VALUATION

continued

ISSUER	ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Peel Land & Property Investments	8.375% Var 30 Apr 2040	NR/BBB	Financials	UK	738	0.4
Brink's	4.625% 15 Oct 2027	Ba2/BB	Industrials	USA	668	0.4
Nationwide	5.875% FRN Perpetual	Baa3/BB+	Financials	UK	639	0.4
CYBG	9.25% Perpetual	Ba2u/B	Financials	UK	621	0.3
CIRSA Finance	7.875% 20 Dec 2023	B2/B	Financials	Luxembourg	615	0.3
Puma International	5% 24 Jan 2026	Ba3/NR	Oil and Gas	Luxembourg	612	0.3
AMC Entertainment	6.375% 15 Nov 2024 (SUB NTS)	B3/CCC+	Consumer Services	USA	560	0.3
XPO Logistics	6.5% 15 Jun 2022 (SNR)	Ba3/BB–	Industrials	USA	558	0.3
Commerzbank	8.125% 19 Sep 2023	Baa3/BBB–	Financials	Germany	524	0.3
Rothschilds Continuation Finance	FRN Perpetual	NR/NR	Financials	Netherlands	522	0.3
Hertz	7.625% 01 Jun 2022	B1/BB–	Consumer Services	USA	506	0.3
Jaguar Land Rover	2.75% 24 Jan 2021	B1/B+	Consumer Goods	UK	499	0.3
Solvay Finance	5.869% Var Perpetual	Ba1/BB+	Basic Materials	France	499	0.3
Principality Building Society	7% Perpetual	Ba2/NR	Financials	UK	499	0.3
Europcar Mobility	4% 30 Apr 2026 (SNR)	B3/B	Consumer Services	France	491	0.3
JRP Group	9% 26 Oct 2026	NR/NR	Financials	UK	467	0.3
Bayer AG	3.125% FRN 12 Nov 2079 (SUB)	Baa3/BB+	Health Care	Germany	434	0.2
PGH Capital	5.375% 06 Jul 2027	NR/NR	Financials	Cayman Islands	432	0.2
Nyrstar	0% 31 Jul 2026 (SNR)	NR/NR	Basic Materials	Malta	381	0.2
CEMEX	6.125% 05 May 2025	NR/BB	Industrials	Mexico	359	0.2
Argentina (Rep Of)	6.875% 11 Jan 2048 (SNR)	Caa2/CC	Government Bonds	Argentina	354	0.2
La Financière ATALIAN	4% 15 May 2024 (SNR)	Caa1/B	Financials	France	338	0.2
Odyssey Europe	8% 15 May 2023 (SNR)	B2/B	Consumer Services	UK	327	0.2
Rothesay Life	8% 30 Oct 2025	NR/NR	Financials	UK	306	0.2
Millicom International Cellular	5.125% 15 Jan 2028	Ba2/NR	Telecommunications	Luxembourg	300	0.2
Petroleos Mexicanos	6.75% 21 Sep 2047 (SNR)	Baa3/BBB+	Oil and Gas	Mexico	265	0.1
Whitbread	3.375% 16 Oct 2025 (SNR)	NR/NR	Consumer Services	UK	259	0.1
NMC Health	1.875% Cnv 30 Apr 2025	NR/NR	Health Care	Jersey	239	0.1
ASR Nederland	4.625% Cnv FRN Perpetual	NR/BB+	Financials	Netherlands	235	0.1
Tesco	6.15% 15 Nov 2037 (SNR)	Baa3/BBB–	Consumer Services	UK	205	0.1
CIS General Insurance	12% FRN 08 May 2025	NR/NR	Industrials	UK	103	0.1
Chemours	7% 15 May 2025	Ba3/B+	Basic Materials	USA	91	0.0
M&G Finance	7.5% FRN Perpetual (SUB NTS)	NR/NR	Financials	Luxembourg	18	0.0
					179,728	100.0

Abbreviations used in the above valuation:

Cnv: Convertible
FRN: Floating Rate Note
SNR: Senior
Var: Variable
SUB NTS: Subordinated Notes

GOVERNANCE
The Directors

Tim Scholefield (Chairman)
Mr Tim Scholefield a Director of the Company, joined the Board on 15 June 2017, and became Chairman on the same date. He was Head of Equities at Baring Asset Management until 2014. He now holds a portfolio of non-executive directorships including BMO Capital and Income Investment Trust PLC, Fidelity Asian Values Plc and Standard Life UK Smaller Companies Plc and is an external member of the General Medical Council's Investment Committee.

Mr Scholefield contributes to the Company's long-term sustainable success by drawing on his considerable experience of the investment management industry and asset markets. He has extensive experience of the management and operation of investment trusts, and his independence from the manager means that he is able to act as Chairman to lead the Board effectively.

Philip Austin MBE
Mr Philip Austin a Director of the Company, joined the Board on 19 December 2011 and is Chairman of the Management Engagement Committee. 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 is a non-executive director and Chairman of Octopus Renewables Infrastructure Investment Trust plc. He also holds a portfolio of part-time non-executive directorships.

Following a career in banking with HSBC, Mr Austin has over 12 years' experience as a non-executive director across investment trusts and other listed entities, which provide him with a broad understanding of investment performance, market risk and current corporate governance requirements.

Heather MacCallum
Ms Heather MacCallum a Director of the Company, joined the Board on 25 June 2019 and became Chair of the Audit Committee in September 2019, following the retirement of Philip Taylor. She is a Chartered Accountant and was a partner with KPMG Channel Islands for 15 years before retiring from the partnership in 2016. She now holds a portfolio of non-executive directorships including Aberdeen Latin American Income Fund Limited and Blackstone/GSO Loan Financing Limited and is the Chair of Jersey Water.

Ms MacCallum contributes to the Company's long term sustainable success by drawing on her qualification as a Chartered Accountant and significant relevant experience as partner at KPMG Channel Islands. This allows her to effectively contribute and Chair the Company's Audit Committee.

Stuart McMaster
Mr Stuart McMaster a Director of the Company, joined the Board on 25 June 2019. He was Investment Director of Fixed Income at Alliance Trust Investments until 2016, prior to this he was Head of Multi Asset Bond Fund Management at Scottish Widows Investment Partnership. He provides consultancy investment advisory services to Anderson Strathern Asset Management and coaches the CEOs of charities via the charity Pilotlight. He is a member of The Chartered Institute of Securities and Investment.

Mr McMaster brings to the Company a wealth of fixed income experience from his time as investment director of fixed income at Alliance Trust Investments and during his time as head of multi-asset bond fund management at Scottish Widows Investment Partnership.

John Boothman
Mr John Boothman a Director of the Company, joined the Board on 19 December 2011 and is Chairman of the Nomination and Remuneration Committee. He was formerly Managing Director of Deutsche Bank International Ltd. 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.

Mr Boothman brings to bear relevant experience from running banking and treasury activities, including a book of debt securities at Deutsche Bank International Ltd. He has also been chairman of two successful businesses and served a term with the Jersey regulator, which has provided insights into corporate governance and risk oversight.

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

Winifred Robbins, not listed above, was also a Director during the year to 31 December 2019. She retired from the Board with effect from 31 March 2019.

Philip Taylor, not listed above, was also a Director during the year to 31 December 2019. He retired from the Board with effect from 4 September 2019.

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 JTC Fund Solutions (Jersey) Limited, the Manager and other external service providers.

The Board

Five non-executive directors (NEDs)

Chairman: Tim Scholefield

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

Chair: Heather MacCallum

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.

Nomination and Remuneration Committee

All NEDs

Chair: John Boothman

Key objectives:

– to review regularly the Board's structure and composition; and
– to make recommendations for any new appointments and plan for the Board's succession.
– to set the remuneration policy of the Company.

Management Engagement Committee

All NEDs

Chair: Philip Austin

Key objectives:

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

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 AIC Code of Corporate Governance ('AIC Code'). The AIC Code sets out a framework of best practice in respect of the governance of investment companies and has been endorsed by the Financial Reporting Council (FRC) and is supported by the Jersey Financial Services Commission. The AIC Code closely reflects the principles and provisions of the FRC UK Corporate Governance Code (UK Code).

The AIC Code is available from the Association of Investment Companies (www.theaic.co.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 explained in the AIC 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. The Board considers all Directors to be independent and thus all Directors are members of the respective Committees of the Board.

Information on how the Company has applied the principles of the AIC Code and the UK Code follows:

The composition and operation of the Board and its committee functions are summarised below and on page 26, and on pages 32 and 33 in respect of the Audit Committee.

The Company's policy on diversity is set out on page 29.

The Company's approach to internal control and risk management is summarised on pages 11 and 12.

The contractual arrangements with, and assessment of, the Manager are summarised on page 16.

The Company's capital structure and voting rights are summarised on page 62.

The most substantial shareholders in the Company are listed on page 17.

The rules concerning the appointment and replacement of directors are contained in the Company's Articles of Association and are discussed on page 29. 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.

The Board

The Board comprised between four and six Directors during the financial year, all of whom were non-executive. Winifred Robbins retired from the Board on 31 March 2019, following which the Board appointed Heather MacCallum and Stuart McMaster on 25 June 2019. Philip Taylor retired on 4 September 2019. The Board considers all of the Directors to be independent of the Company's Manager. 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 25.

Chairman of the Board

The Chair of the Board is Tim Scholefield, an independent non-executive Director, who has no conflicting relationships.

Board Responsibilities

The 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, other service providers 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 treat shareholders fairly. This is reported on in the Strategic Report on page 17.

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 interests of all its shareholders and that the interests of other stakeholders such as creditors and suppliers to the Company are also properly considered.

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 appropriate 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.

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. The Board has a zero tolerance approach towards the facilitation of tax evasion.

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 Company's section of the Manager's website at *www.invesco.co.uk/citymerchants*. 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, the Nomination and Remuneration Committee and the Management Engagement Committee.

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

Management Engagement Committee

The Management Engagement Committee, chaired by Philip Austin, comprises the full Board. It's main responsibilities are to review the Company's Investment Management and Company 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 page 16 under 'Assessment of the Manager'. The Committee is also responsible for the review of arrangements with other TPPs. The Committee has adopted appropriate terms of reference in respect of its responsibilities which are available at the registered office of the Company and on the Company's section of the Manager's website at *www.invesco.co.uk/citymerchants*.

Nomination and Remuneration Committee

The fact that the Board is small in size and comprised entirely of independent non-executive Directors means that all Directors are members of the Nomination and Remuneration Committee, which is chaired by John Boothman. The main responsibilities of the Committee are to review the size, structure and skills of the Board, to make recommendations with regard to any changes considered necessary or new appointments, and to plan for the Board's succession. The Committee is also responsible for determining the Company's remuneration policy, taking into account all factors which are deemed necessary in order to ensure that members of the Board are provided with appropriate compensation. The Committee has written terms of reference which are reviewed regularly and clearly define its responsibilities and duties. The terms of reference will be available for inspection at the AGM and can be inspected at the registered office of the Company as well as on the Company's section of the Manager's website.

The Board's policy on diversity is to seek to ensure that the Board's structure, size and composition, including the skills, knowledge, gender and experience of the Directors, is sufficient for the effective direction and control of the Company. The Board has not set any measurable objectives in respect of this policy. This policy, together with the tenure principles set out in the next section, guides the Committee.

During the year the Committee met twice in pursuit of its plan to ensure refreshment of the Board in a phased and orderly manner. The Committee carried out a robust assessment of the skills and experience required on the Board and a candidate specification was prepared and presented to independent search consultant, Fletcher Jones, which was engaged in the recruitment process for a suitable replacement for Winifred Robbins during 2019, following which Stuart McMaster was appointed to the Board.

Using the role specifications and rigorous scoring system prepared for the appointment of new Directors, the Committee did not feel it necessary to approach an independent search consultant for the appointment of Heather MacCallum. Ms MacCallum scored highly against the Committee's criteria for a suitable candidate to join the Board and assumed the position of Audit Chair following the retirement of Philip Taylor from the Board in September 2019.

The Committee is mindful of the Davies and Hampton-Alexander reviews of board gender diversity and is committed to giving due consideration to the Board's gender balance in connection with its ongoing refreshment programme.

Appointment, Re-election and Tenure of Directors

New Directors are appointed by the Board, following recommendation by the Nomination and Remuneration Committee. An independent external search consultancy may be used to assist in the selection of Directors. Care is taken to ensure that when a new Director is appointed 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 Board has formulated a programme of induction training for newly-appointed Directors. There are ongoing arrangements in place to ensure that Directors can keep up-to-date with new legislation, industry and regulatory matters and changing risks, including briefings from the Manager and the Company Secretary.

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 Company's section of the Manager's website at *www.invesco.co.uk/citymerchants*.

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 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. The Board has resolved that in compliance with the 2019 AIC Code all Directors shall stand for annual re-election. An outline of the reasons why their contributions and skills continue to be important to the Company's long term sustainable success are included on page 25. The Chairman's tenure of office will also normally be for up to nine years, except that the Board may determine otherwise if it is considered that the continued service on the Board of a Chairman, who has in addition served a period of time as a Director, is in the best interest of the Company and its shareholders.

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 32 and 33.

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. During the year the performance of the Board, Committees of the Board and individual Directors was assessed in terms of:

- attendance at Board and Committee meetings;
- independence of Directors;
- the ability of Directors to make an effective contribution to the Board and Committees of the Board 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.

The composition of the Board is reviewed annually as part of the appraisal of the Board, Committees of the Board and the individual Directors. The Directors concluded that the performance evaluation process proved successful with the Board, Committees of the Board and the individual Directors scoring well in all areas. The Board and the Committees of the Board continue to be effective and the individual Directors continued to demonstrate commitment to their respective roles and responsibilities. The current directors provide a good range of experience and backgrounds and are independent of the Manager and Company Secretary. The Board has determined that every three years this review will be facilitated by an external agency.

Attendance at Board and Committee Meetings

The Board meets on a regular basis at least four times a year. The following table sets out the number of scheduled meetings of the Board and committees held during the year and the number attended by each Director:

	SCHEDULED BOARD MEETINGS	AUDIT COMMITTEE MEETINGS	NOMINATION AND REMUNERATION COMMITTEE MEETINGS	MANAGEMENT ENGAGEMENT COMMITTEE MEETINGS
NUMBER OF MEETINGS	4	2	2	2
Tim Scholefield (Chairman of the Board)	4	2	2	2
Philip Austin (Chairman of the Management Engagement Committee)	4	2	2	2
John Boothman (Chairman of the Nomination and Remuneration Committee)	4	2	2	2
Heather MacCallum* (appointed 25 June 2019)	3	1	1	1
Stuart McMaster (appointed 25 June 2019)	3	1	1	1
Philip Taylor (Chairman of the Audit Committee, retired 4 September 2019)	3	2	1	1
Winifred Robbins (retired 31 March 2019)	1	1	1	1

* Heather MacCallum became Audit Chair with effect from 4 September 2019.

Board members also attended a number of additional non-scheduled meetings to deal with the declaration of dividends and other ad hoc items. Regular contact is maintained between the Manager, including the portfolio managers, the Company Secretary and the Board between formal meetings.

Conflicts of Interest

A Director must avoid a situation where he/she 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 onto 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.

The Company Secretary

During the year, R&H Fund Services (Jersey) Limited was the corporate Company Secretary and provided company secretarial and general administrative services. JTC Fund Solutions (Jersey) Limited was appointed with effect from 10 December 2019 to replace R&H Fund Services (Jersey) Limited as corporate Company Secretary and Administrator.

The Board has direct access to the advice and services of the Company Secretary, JTC Fund Solutions (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.

Stewardship

The Company's portfolio predominantly comprises bonds, which rarely carry voting rights except in specific limited circumstances. The Company's stewardship functions have been delegated to the Manager which exercises the Company's voting rights on an informed and independent basis. To the extent that voting rights are exercisable, the Board considers that the Company has responsibility as an investor towards ensuring that votes are cast with a view to supporting high standards of corporate governance. A copy of the Manager's Stewardship Code can be found at *www.invesco.co.uk*.

By order of the Board

JTC Fund Solutions (Jersey) Limited
Company Secretary

24 April 2020

AUDIT COMMITTEE REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The Audit Committee, chaired by Heather MacCallum, comprises all of the Directors on the Board including the Chairman of the Board. The Board consider the Chair of the Board to be independent and thus Tim Scholefield is appointed as a member of the Audit Committee. Philip Taylor retired as Chair of the Audit Committee on 4 September 2019. 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 Company's section of the Manager's website at www.invesco.co.uk/citymerchants. The Committee members consider that collectively they have substantial recent and relevant financial experience and competence relevant to the sector.

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 Manager's and the Company Secretary's whistleblowing arrangements;

– reviewing the Company's annual and half-yearly financial reports and announcements and ensuring compliance with relevant statutory and listing requirements and the appropriateness of accounting policies applied;

– management of the relationship with the external auditor, including their appointment, remuneration, 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 position and performance, business model and strategy.

Audit Committee Activities

The Committee met twice during the year. The Committee undertook a review of the Company's internal controls and risk management including the risk control summary used to identify the Company's top risks. The review process included consideration of emerging risks and procedures for their identification. The result of this work is reflected in the Internal Controls and Risk Management and Principal Risks and Uncertainties sections on pages 13 to 15. Particular attention was also given to reviewing controls and policies with respect to cyber security.

Other activities undertaken by the Committee follow:

The audit programme and timetable were drawn up and agreed with the auditor in advance of the financial year end. At this stage, matters for audit focus were discussed and agreed. These matters were given particular attention during the audit process and, among other matters, were reported on by the auditor in the audit report to the Committee. The report was considered by the Committee and discussed with the auditor and the Manager prior to approval and signature of the annual financial report. The Committee considered the content of the annual financial report, including the accounting policies applied, and recommended it to the Board.

The Committee reviewed the auditor's independence, objectivity and effectiveness, the quality of the services provided to the Company and, together with the Manager, reviewed 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 attended both meetings and would have met privately with the Committee if it was considered necessary. The depositary also provided a satisfactory report to the Committee on their monitoring of the activities of the Company throughout the year. Representatives of the auditor, PricewaterhouseCoopers CI LLP, attended the Committee meeting at which the draft annual financial report was reviewed and were given the opportunity to speak to Committee members without the presence of representatives of the Manager. The Committee is satisfied that PricewaterhouseCoopers CI LLP has fulfilled its obligations to shareholders as independent auditor to the Company.

The allocation of management fees and finance costs between revenue and capital is considered annually by the Committee which takes account of the long-term split of returns from portfolio, yields, the objective of the Company and current market practice.

The Audit Committee has also reviewed its own competence and effectiveness in the year and has assessed both to be satisfactory.

The Chair of the Audit Committee will be present at the AGM to be held at a future date, to deal with questions relating to the financial statements.

Accounting Matters and Significant Areas

The Committee's review of the audit plan included identifying 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 exchange prices provided by third party pricing vendors. The Board reviews detailed portfolio valuations on a regular basis throughout the year and receives confirmation from the Manager that the pricing basis is appropriate and in line with relevant accounting standards as adopted by the Company.
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. The Board reviews revenue estimates and receives explanations from the Manager for any significant movements from previous estimates and, if applicable, prior year figures. The audit includes checks on completeness and accuracy of income.

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

Auditor

PricewaterhouseCoopers CI LLP (PwC) was selected to be the Company's external auditor following a competitive tender exercise in 2016 and this is the fourth audit undertaken by PwC, led by the current engagement partner. The Committee assessed the effectiveness of the external audit process through discussions with the Manager and the auditor. A resolution to re-appoint PwC and for the Audit Committee to determine their remuneration will be put to shareholders at the forthcoming AGM to be held at a future date.

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.

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, which the Committee regularly meets with and receives reports from, the Company does not have its own internal audit function.

Heather MacCallum
Audit Committee Chair

24 April 2020

Remuneration Responsibilities

All Directors are members of the Nomination and Remuneration Committee chaired by John Boothman. Details of the Committees responsibilities can be found on pages 29 and 30.

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 Chair 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 and on the Manager's website. The same fees will apply to both current and new Directors. Directors are entitled to be reimbursed for any reasonable expenses properly incurred by them in connection with the performance of their duties and attendance at board and general meetings and committees. Directors are not eligible for bonuses, pension benefits, share options or other incentives or benefits. There are no agreements between the Company and its Directors concerning compensation for loss of office.

The 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.

Directors' Fee Rates

Directors' fee rates were last increased with effect from 1 January 2018 and remain unchanged. These rates applied during the year ended 31 December 2019 and, together with the previous fee rates, are shown in the table below.

Directors' fees were reviewed by the Board, following a recommendation from the Nomination and Remuneration Committee. The Board and Committee took into consideration the increasing demands and accountability of the corporate governance and regulatory environment, and reviewed fees of comparable investment companies and externally published remuneration surveys. The Board agreed with the Nomination and Remuneration Committee's recommendation that with effect from 1 January 2020, the following fees would apply: Chairman £34,250, Audit Chair £28,000 and Directors £23,750.

Chairman's Annual Statement on Directors' Remuneration

For the year to 31 December 2019, the Directors were paid the fee rates in the table below. No additional discretionary payments were made in the current year (2018: nil).

Annual Report on Directors' Remuneration

Directors' Remuneration for the Year

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

	2019 £	2018 £
Tim Scholefield – Chairman	33,000	33,000
Heather MacCallum (appointed 25 June 2019) – Chair of the Audit Committee	13,210	—
Philip Austin – Chairman of the Management Engagement Committee	23,000	23,000
John Boothman – Chairman of the Nomination and Remuneration Committee	23,000	23,000
Stuart McMaster (appointed 25 June 2019)	11,925	—
Winifred Robbins (retired 31 March 2019)	5,750	23,000
Philip Taylor (retired 4 September 2019)	27,000	27,000
Total	136,885	129,000

Directors' Interests

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

	31 DECEMBER 2019	31 DECEMBER 2018
Tim Scholefield (Chairman)	19,700	14,700
Heather MacCallum	—	—
Philip Austin	10,640	10,640
John Boothman	75,000	75,000
Stuart McMaster	25,000	—

Save as aforesaid, no Director had any interests, beneficial or otherwise, in the shares of the Company during the year. 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 year 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 as adopted by the European Union (IFRSs). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

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

The financial statements have been prepared on a going concern basis. When considering this, the Directors took into account the annual shareholders' continuation vote (as explained in detail on page 17) and the following: the Company's investment objective and risk management policies, the nature of the portfolio and expenditure and cash flow projections. As a result, they determined that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future.

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 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 25, 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
- they consider that 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 position and performance, business model and strategy.
- so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Signed on behalf of the Board of Directors

Heather MacCallum
Audit Committee Chair

24 April 2020

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

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of City Merchants High Yield Trust Limited (the "Company") as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

What we have audited

The Company's financial statements comprise:

- the balance sheet as at 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

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

Independence

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

Our audit approach

Overview

- Overall materiality was £1.9 million which represents 1% of net assets.

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

- Valuation and ownership of investments.
- Income recognition.
- Management's consideration of the potential impact of COVID-19.

Audit scope

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

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

continued

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

Materiality

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

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

Overall Company materiality	£1.9 million (2018: £1.7 million)
How we determined it	1% of net assets.
Rationale for the materiality benchmark	We believe that net assets is the most appropriate benchmark because this is the key metric of interest to investors. It is also a generally accepted measure used for companies in this industry.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £96,000 (2018: £85,000), as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Valuation and existence of investments *Refer to page 33 (Audit Committee Report), page 47 (Principal Accounting Policies) and page 51 (Note 11 of the financial statements).* We focused on the valuation and ownership of investments because investments represent the principal element of the net asset value as disclosed on the balance sheet in the financial statements. The valuation of investments drives a number of key performance indicators, such as net asset value, which is of significant interest to investors. Bonds and equities are valued using broker prices which are based on active stock market prices. The nature of the investment valuations is not complex as these are based primarily on quoted prices from independent pricing sources. However, the magnitude of the amounts involved means that there is potential for material misstatement. There is a risk that the investments recorded may not represent the property of the Company, this could have a significant impact on the financial statements.	We tested 100% of the valuation of the bond and equity portfolio by agreeing the prices used by management to independent third party sources. We also tested a sample of the purchase and sale transactions during the year. A recalculation of both the total unrealised and realised gain or loss was performed. We independently obtained a confirmation of 100% of investments held by the Company's custodian at 31 December 2019, and compared this to the investments recorded by the Company in the Company's ledger. No misstatements were identified by our testing which required reporting to those charged with governance.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Income recognition *Refer to page 48 (Principal Accounting Policies) and page 49 (Note 4 to the financial statements).* Income is earned primarily through bond interest income, with an immaterial amount of dividend income recognised in the year. This represents a material balance in the Statement of Comprehensive Income. Accordingly, we identified the accuracy, occurrence and completeness of investment income from the investment portfolio as an area of focus, because the incomplete or inaccurate recognition of income could have a material impact on the Company's net asset value. Income is received from various bonds by way of interest receipts, and the calculation and recognition of accrued income is not considered to be complex.	We assessed the accounting policy for income recognition for compliance with accounting standards and ensured that income had been accounted for in accordance with the stated accounting policy. For a sample of bonds, we traced the rates of interest to independent sources and recalculated the income recognised by the Company. We also traced the sample to bank statements for interest received and the accrued income listing for items accrued at the year-end. For completeness, our sample included interest received and accrued from bonds held at the financial year-end, as well as bonds that had been purchased and sold during the year. For a sample of investments which were purchased and sold during the year, we recalculated the split of interest income and realised gain/loss, based on the date it was purchased and sold during the year, and the corresponding independent rate of interest. No misstatements were identified by our testing which required reporting to those charged with governance.
Management's consideration of the potential impact of COVID-19 *Refer to page 14 (Principal Risks and Uncertainties), page 15 (Viability Statement) and page 61 (Note 23 to the financial statements).* Management considered the potential impact of the non-adjusting post balance sheet events that have been caused by the pandemic, COVID-19, on the current and future operations of the Company. In doing so, management have made estimates and judgements relating to the outcomes of these considerations. As a result of the impact of COVID-19 on the wider financial markets and the Company's share price, we have determined management's consideration of the potential impact of COVID-19 (including the associated estimates and judgements) to be a key audit matter.	In considering management's consideration of the potential impact of COVID-19, we have undertaken the following audit procedures: We obtained the latest financial reports from management regarding market (price) risk, liquidity risk, and the impact on the income of the Company. We inspected the latest financial reports to assess their consistency with our understanding of the operations of the Company, the investment portfolio and with any market commentary already made by the Company. We subjected the models to additional stress testing to confirm that management have considered a balanced range of outcomes in their assessment of the potential impact of COVID-19 on the Company. We considered the appropriateness of the disclosures made in the financial statements in respect to the potential impact of COVID-19 on the current and future operations of the Company as a non-adjusting post balance sheet event. In discussing and evaluating the estimates and judgements made by management, we noted the following factors that were considered to be fundamental by management in their consideration of the potential impact of COVID-19 on the current and future operations of the Company and which support the statements of going concern and viability: ● As at the balance sheet date, the Company was not geared and the investment portfolio (including cash) was sufficiently liquid to offset all the liabilities. ● The Company has received no notices of default within the portfolio. ● Management has identified that investments in the hospitality and travel sector are the most exposed to current negative market sentiment. Management note the investment portfolio is not significantly exposed to these sectors. Based on our procedures, we have not identified any matters to report relating to the considerations of management of the impact of COVID-19 on the current and future operations of the Company.

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

continued

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Use of this report

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

Report on other legal and regulatory requirements

Company Law exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Listing Rules of the Financial Conduct Authority (FCA)

The Company has reported compliance against the 2019 AIC Code of Corporate Governance (the "Code") which has been endorsed by the UK Financial Reporting Council as being consistent with the UK Corporate Governance Code for the purposes of meeting the Company's obligations, as an investment Company, under the Listing Rules of the FCA.

We have nothing material to add or draw attention to in respect of the following matters which we have reviewed based on the requirements of the Listing Rules of the FCA:

- The Directors' confirmation that they have carried out a robust assessment of the principal and emerging risks facing the Company, including a description of the principal risks, what procedures are in place to identify emerging risks, and an explanation of how those risks are being managed or mitigated.
- The Directors' explanation as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal and emerging risks facing the Company and the Directors' statement in relation to the longer-term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge and understanding of the Company and its environment obtained in the course of the audit.

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

continued

Additionally, we have nothing to report in respect of our responsibility to report when:

- The Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.
- The statement given by the Directors that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company obtained in the course of performing our audit.
- The section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Karl Hairon
for and on behalf of PricewaterhouseCoopers CI LLP
Chartered Accountants and Recognised Auditor
Jersey, Channel Islands

24 April 2020

a. The maintenance and integrity of the City Merchants High Yield Trust Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

b. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

	NOTES	2019 REVENUE £'000	2019 CAPITAL £'000	2019 TOTAL £'000	2018 REVENUE £'000	2018 CAPITAL £'000	2018 TOTAL £'000
Profit/(loss) on investments held at fair value	11	—	10,086	10,086	—	(12,911)	(12,911)
Profit/(loss) on derivative instruments – currency hedges		—	4,861	4,861	—	(3,395)	(3,395)
Exchange differences		—	(1,380)	(1,380)	—	355	355
Income	4	11,200	—	11,200	11,247	—	11,247
Investment management fee	5	(907)	(489)	(1,396)	(875)	(470)	(1,345)
Other expenses	6	(471)	(3)	(474)	(436)	(1)	(437)
Profit/(loss) before finance costs and taxation		9,822	13,075	22,897	9,936	(16,422)	(6,486)
Finance costs	7	(13)	(7)	(20)	(28)	(15)	(43)
Profit/(loss) before taxation		9,809	13,068	22,877	9,908	(16,437)	(6,529)
Taxation	8	(13)	—	(13)	—	—	—
Profit/(loss) after taxation		9,796	13,068	22,864	9,908	(16,437)	(6,529)
Return per ordinary share – basic	9	10.0p	13.3p	23.3p	10.3p	(17.1p)	(6.8p)

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

	NOTES	STATED CAPITAL £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
At 31 December 2017		155,458	27,659	3,517	186,634
Total comprehensive income/(loss) for the year		—	(16,437)	9,908	(6,529)
Dividends paid	10	(23)	—	(9,586)	(9,609)
Net proceeds from issue of new shares	15	2,993	—	—	2,993
At 31 December 2018		158,428	11,222	3,839	173,489
Total comprehensive income for the year		—	13,068	9,796	22,864
Dividends paid	10	(32)	—	(9,752)	(9,784)
Net proceeds from issue of new shares	15	5,617	—	—	5,617
At 31 December 2019		164,013	24,290	3,883	192,186

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

BALANCE SHEET

AT 31 DECEMBER

	NOTES	2019 £'000	2018 £'000
Non-current assets			
Investments held at fair value through profit or loss	11	179,728	168,188
Current assets			
Other receivables	12	3,285	3,128
Derivative financial instruments – unrealised net profit	13	1,309	—
Cash and cash equivalents		8,321	4,181
		12,915	7,309
Current liabilities			
Other payables	14	(457)	(427)
Derivative financial instruments – unrealised net loss	13	—	(1,581)
Net current assets		12,458	5,301
Net assets		192,186	173,489
Capital and reserves			
Stated capital	15	164,013	158,428
Capital reserve	16	24,290	11,222
Revenue reserve	16	3,883	3,839
Total shareholders' funds		192,186	173,489
Net asset value per ordinary share	17	192.11p	178.69p

These financial statements were approved and authorised for issue by the Board of Directors on 24 April 2020.

Heather MacCallum
Audit Committee Chair

Signed on behalf of the Board of Directors

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

	2019 £'000	2018 £'000
Cash flow from operating activities		
Profit/(loss) before finance costs and taxation	22,897	(6,486)
Tax on overseas income	(13)	—
Adjustments for:		
Purchase of investments	(58,645)	(57,228)
Sale of investments	57,191	51,102
	(1,454)	(6,126)
(Profit)/loss on investments held at fair value	(10,086)	12,911
Net cash movement from derivative instruments – currency hedges	(2,890)	2,031
Decrease/(increase) in receivables	38	(258)
Increase/(decrease) in payables	35	(24)
Net cash inflow from operating activities after taxation	8,527	2,048
Cash flow from financing activities		
Finance costs paid	(25)	(43)
Net proceeds from issue of new shares	5,422	2,993
Dividends paid - note 10	(9,784)	(9,609)
Net cash outflow from financing activities	(4,387)	(6,659)
Net increase/(decrease) in cash and cash equivalents	4,140	(4,611)
Cash and cash equivalents at start of the year	4,181	8,792
Cash and cash equivalents at end of the year	8,321	4,181
Reconciliation of cash and cash equivalents to the Balance Sheet is as follows:		
Cash held at custodian	1,464	1,614
Short-Term Investment Company (Global Series) plc, money market fund	6,857	2,567
Cash and cash equivalents	8,321	4,181
Cash flows from operating activities includes:		
Dividends received	535	521
Interest received	10,655	10,465

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

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

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

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied during the current year and preceding year, unless otherwise stated.

(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', updated by the Association of Investment Companies in October 2019, is consistent with the requirements of IFRS, the Directors have prepared the financial statements on a basis compliant with the recommendations of the SORP. The supplementary information which analyses the statement of comprehensive income between items of a revenue and a capital nature is presented in accordance with the SORP.

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

(ii) *Going Concern*

As explained under 'Annual Continuation Vote' on page 17, the Company has an annual continuation vote. However, as also explained in that note the Directors believe shareholders will vote for the Company to continue. The Directors also determined that the financial statements should be prepared on a going concern basis as reported on page 36. Accordingly, the financial statements have been prepared on a going concern basis and the accounts do not include any adjustments which might arise from cessation of the Company.

(iii) *Adoption of New and Revised Standards*

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

The following standards became effective during the year:

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

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

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

(b) Foreign Currency

(i) *Functional and Presentation Currency*
The financial statements are presented in sterling, which is the Company's functional and presentation currency and 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*
Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. These are offset 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*
Financial assets are derecognised 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*
Financial liabilities are derecognised when the Company's 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
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.

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.

2. Principal Accounting Policies (continued)

(d) Derivatives and Hedging

Derivative instruments are valued at fair value in the balance sheet. Hedge accounting has not been adopted.

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.

(e) Cash and Cash Equivalents

Cash and cash equivalents may comprise cash (including short term deposits which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value) as well as cash equivalents, including money market funds.

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

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

(g) Income Recognition

All income is recognised in the statement of comprehensive income. Interest income arising from fixed income securities 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 is taken into account on an accruals basis.

Special dividends are considered individually to ascertain the reason behind the payment. This will determine whether they are treated as income or capital in the income statement.

(h) 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.

(i) Tax

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

3. Segmental Reporting

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

4. Income

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

	2019 £'000	2018 £'000
Income from investments		
UK dividends	448	447
UK investment income – interest	5,002	5,099
Overseas investment income – interest	5,631	5,667
Overseas dividends	82	29
Overseas special dividends	19	—
	11,182	11,242
Other income		
Deposit interest	18	5
Total income	11,200	11,247

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.

	2019			2018		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Investment management fee	907	489	1,396	875	470	1,345

Details of the investment management agreement are given on page 16 in the Strategic Report.

At 31 December 2019, £360,000 (2018: £325,000) was accrued in respect of the investment management fee.

6. Other Expenses

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

	2019			2018		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Directors' fees (i)	137	—	137	129	—	129
Auditors' fees (ii):						
– for audit of the Company's annual financial statements	30	—	30	30	—	30
Other expenses (iii)	304	3	307	277	1	278
	471	3	474	436	1	437

(i) The maximum Directors' fees authorised by the Articles of Association are £150,000 per annum. The Report on Directors' Remuneration and Interests provides further information on Directors' fees.

(ii) Auditor's fees include out of pocket expenses.

(iii) Other expenses include:

- £40,000 (2018: £41,000) due to R&H Fund Services (Jersey) Limited who acted as Administrator and Company Secretary to the Company under an Agreement dated 19 December 2011 which was terminated on 10 December 2019. With effect from 10 December 2019, JTC Fund Solutions (Jersey) Limited was appointed as new Company Administrator and Secretary for an annual fee of £70,000.
- an administration fee due to the Manager of £27,000 (2018: £26,000). It is based on an initial fee of £22,500 plus RPI increases in May of each year.
- custodian transaction charges of £3,008 (2018: £942). These are charged to capital.

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.

	2019 REVENUE £'000	2019 CAPITAL £'000	2019 TOTAL £'000	2018 REVENUE £'000	2018 CAPITAL £'000	2018 TOTAL £'000
Commitment fees due on loan facility	9	5	14	26	14	40
Bank charges	4	2	6	2	1	3
	13	7	20	28	15	43

The Company had a 364 day committed £20 million multi-currency revolving credit facility with Bank of New York Mellon which lapsed on 4 May 2019 and was not renewed. No amounts had been drawn down under the facility during the year or the previous year.

Interest payable was based on the interbank offered rate for the currency drawn down plus a margin. The commitment fee was based on 0.20% of the average undrawn amount each quarter.

The Company has repo financing arrangements in place, which were not used during the year or the previous year.

8. Taxation

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

	2019 £'000	2018 £'000
Overseas taxation	13	—

The Company is subject to Jersey income tax at the rate of 0% (2018: 0%). The overseas tax charge consists of irrecoverable withholding tax suffered.

9. Return per Ordinary Share

Return per ordinary 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 returns on ordinary activities after taxation and on 98,065,591 (2018: 96,209,286) ordinary shares, being the weighted average number of ordinary shares in issue throughout the year.

There were no dilutive shares at the year end (2018: nil).

10. Dividends on Ordinary Shares

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

	2019 PENCE	2019 £'000	2018 PENCE	2018 £'000
Dividends paid and recognised in the year:				
Fourth interim	2.50	2,427	2.50	2,388
First interim	2.50	2,441	2.50	2,388
Second interim	2.50	2,447	2.50	2,414
Third interim	2.50	2,469	2.50	2,419
	10.00	9,784	10.00	9,609

Dividends paid in the year have been charged to revenue except for £32,000 (2018: £23,000) which was charged to stated capital. This amount is equivalent to the income accrued on the new shares issued in the year (see note 15).

Set out below are the dividends that have been declared in respect of the financial years ended 31 December:

	2019 PENCE	2019 £'000	2018 PENCE	2018 £'000
Dividends in respect of the year:				
First interim	2.50	2,441	2.50	2,388
Second interim	2.50	2,447	2.50	2,414
Third interim	2.50	2,469	2.50	2,419
Fourth interim	2.50	2,513	2.50	2,427
	10.00	9,870	10.00	9,648

The fourth interim dividend for 2019 was paid on 25 February 2020 to shareholders on the register on 24 January 2020.

11. Investments Held at Fair Value Through Profit and Loss

The portfolio is principally made up of investments which are listed and traded on regulated stock exchanges. Profits and losses 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/(losses) in the year

	2019 £'000	2018 £'000
Opening book cost	166,354	159,830
Opening investment holding profits	1,834	15,179
Opening valuation	168,188	175,009
Movements in the year:		
Purchases at cost	58,645	57,228
Sales – proceeds	(57,191)	(51,138)
Profit/(loss) on investments in the year	10,086	(12,911)*
Closing valuation	179,728	168,188
Closing book cost	171,675	166,354
Closing investment holding profits	8,053	1,834
Closing valuation	179,728	168,188

The Company received £57,191,000 (2018: £51,138,000) from investments sold in the year. The book cost of these investments when they were purchased was £53,324,000 (2018: £50,704,000) realising a profit of £3,867,000 (2018: £434,000). These investments have been revalued over time and, until they were sold, any unrealised profits/losses were included in the fair value of the investments.

* Due to adoption of the revised SORP issued in October 2019 (see Note 2(a)(i)). The loss on investments figure of £12,911,000 for the year ended 31 December 2018 is as follows:

	2018 £'000
Net realised profit on sales	434
Investment holding loss in the year	(13,345)
Loss on investments	(12,911)

(b) Transaction costs

The transaction costs included in gains on investments amount to £nil (2018: £nil) on purchases and £nil (2018: £nil) for sales.

(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 order 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.

	2019 £'000	2018 £'000
Amount due from the liquidation of CMHYT plc (predecessor vehicle)	—	36
Proceeds due from issue of new shares	195	—
Prepayments and accrued income	3,090	3,092
	3,285	3,128

13. Derivative Financial Instruments

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

Derivative financial instruments comprise forward currency contracts.

	2019 £'000	2018 £'000
Forward currency contracts – net unrealised profit/(loss)	1,309	(1,581)
	1,309	(1,581)

14. Other Payables

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

	2019 £'000	2018 £'000
Accruals	457	427
	457	427

15. Stated Capital

The stated capital represents the total number of shares in issue, for which dividends accrue. Stated capital can be used for distributions under Jersey law.

	2019 NUMBER	2018 NUMBER	2019 £'000	2018 £'000
Allotted ordinary shares of no par value				
Brought forward	97,091,204	95,516,204	158,428	155,458
Net issue proceeds	2,950,000	1,575,000	5,617	2,993
Dividends paid from stated capital	—	—	(32)	(23)
	100,041,204	97,091,204	164,013	158,428

Details of the stated capital and rights attaching to the Company's ordinary shares are shown in the Director's Report on page 61.

For the year to 31 December 2019, 2,950,000 (2018: 1,575,000) new ordinary shares were issued to the Company's corporate broker, Winterflood Securities Limited, for onward transmission to their clients. These shares were issued in tranches of various quantities throughout the year to satisfy secondary market demand. The gross issue proceeds were £5,661,000 (2018: £3,010,000), at an average price of 191.90p (2018: 191.09p), and the net proceeds after issue costs were £5,617,000 (2018: £2,993,000). The net proceeds included an aggregate amount of £32,000 (2018: £23,000) which arose from the income accrued component of the net asset value at the date of issue of the new shares.

Subsequent to the year end 1,600,000 ordinary shares were issued at an average price of 196.40p.

Because the criteria in paragraphs 16C and 16D of IAS 32 Financial Instruments: Presentation, have been met, the stated capital of the Company is classified as equity even though there is a continuation vote.

16. Reserves

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

The capital reserve includes unrealised 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 of disposals of investments. In addition, costs allocated to capital are recognised in the capital reserve. The revenue reserve shows the net revenue after payment of any dividend from the reserve. 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 year end were as follows:

	NET ASSET VALUE PER ORDINARY SHARE		NET ASSETS ATTRIBUTABLE	
	2019 PENCE	2018 PENCE	2019 £'000	2018 £'000
Ordinary shares	192.11	178.69	192,186	173,489

Net asset value per ordinary share is based on net assets at the year end and on 100,041,204 (2018: 97,091,204) 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 13) as well as any cash, borrowings, other receivables and other payables. The following note explains the risks that affect the Company's financial instruments and looks at the Company's exposure to these various risks.

Risk Management Policies and Procedures

The Strategic Report details the Company's approach to investment management risk on pages 13 and 14 and the accounting policies in note 2 explain the Company's valuation basis for investments and currency.

As an investment company, the Company invests in loan stocks, corporate bonds, government stocks, preference shares and equities which are held for the long-term in order to achieve the Company's Investment Objective in accordance with its Investment Policy. In pursuing these, 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 in the profits available for payment as dividends.

The Company's principal financial instruments at risk comprise its investment portfolio. Other financial instruments at risk include cash and cash equivalents, borrowings (including repo financing) other receivables and other payables that arise directly from the Company's operations.

The Company may enter into derivative transactions, including credit default swaps, 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. During the year the only derivatives entered into were forward currency contracts.

18. Financial Instruments (continued)

These risks and the Directors' approach to managing them are set out below, and have not changed from those applying in the comparative year.

Risk management is an integral part of the investment management process. The Manager controls risk 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. In-depth and continual analysis of market and security fundamentals give the portfolio managers the best possible understanding of the risks associated with a particular security. 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.

High-yield fixed-interest securities are subject to a variety of risks, including credit risk (18.3). Borrowing using the Company's credit facility increases the Company's exposure to interest rate risk and this is explained under interest rate risk (18.1.2).

The day to day management of the investment activities, borrowings and hedging of the Company has been delegated to the Manager, and is the responsibility of the portfolio managers to whom the Board has given 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.

18.1 Market Risk

Market risk arises from changes in the fair value or future cash flows of a financial instrument because of movements in market prices. Market risk comprises three types of risk: currency risk (18.1.1), interest rate risk (18.1.2) and other price risk (18.1.3).

18.1.1 Currency Risk

The Company has 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 is reviewed by Directors at each Board meeting. The Company may use forward currency contracts to mitigate currency risk. Borrowings through repo financing in foreign currencies can also be used to limit the Company's currency exposure and to achieve the portfolio characteristics that assist the Company in meeting its investment objective and policy. All borrowings 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 follow. 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 2019	EURO £'000	US DOLLAR £'000
Investments at fair value through profit or loss that are monetary items (fixed and floating interest)	27,385	66,193
Forward currency contracts	(24,643)	(57,497)
Other receivables (due from brokers and dividends)	442	1,008
Cash and cash equivalents	575	422
Foreign currency exposure on net monetary items	3,759	10,126
Investments at fair value through profit or loss that are equities	1,471	—
Total net foreign currency	5,230	10,126

31 DECEMBER 2018	EURO £'000	US DOLLAR £'000
Investments at fair value through profit or loss that are monetary items (fixed and floating interest)	22,947	57,587
Forward currency contracts	(23,225)	(47,554)
Other receivables (due from brokers and dividends)	389	986
Cash and cash equivalents	635	587
Foreign currency exposure on net monetary items	746	11,606
Investments at fair value through profit or loss that are equities	1,437	—
Total net foreign currency	2,183	11,606

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

Currency Sensitivity

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

	2019	2018
£/Euro	±2.3%	±1.0%
£/US Dollar	±2.6%	±3.6%

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

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

18. Financial Instruments (continued)

18.1 Market Risk (continued)

18.1.1 Currency Risk (continued)

2019	EURO £'000	US DOLLAR £'000
Effect on Statement of Comprehensive Income – profit/(loss) after taxation		
Revenue loss	(35)	(108)
Capital loss	(110)	(237)
Total return after taxation for the year	(145)	(345)
Effect on net asset value	–0.1%	–0.2%

2018	EURO £'000	US DOLLAR £'000
Effect on Statement of Comprehensive Income – profit/(loss) after taxation		
Revenue loss	(13)	(88)
Capital loss	(22)	(418)
Total return after taxation for the year	(35)	(506)
Effect on net asset value	0.0%	–0.3%

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

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

18.1.2 Interest Rate Risk

The Company is exposed to interest rate risk in a number of ways. Movements in interest rates may affect the fair value of fixed-interest rate securities, income receivable on cash deposits and floating rate securities, and interest payable on variable rate borrowings. Interest rate risk is related above all to long-term financial instruments.

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.

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 available repo financing arrangements it can use to finance investment activity, details of which are shown in note 7. The Company uses these 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.

2019	WITHIN ONE YEAR £'000	MORE THAN ONE YEAR £'000	TOTAL £'000
Exposure to floating interest rates:			
Investments held at fair value through profit or loss	7,715	32,016	39,731
Cash and cash equivalents	8,321	—	8,321
	16,036	32,016	48,052
Exposure to fixed interest rates:			
Investments held at fair value through profit or loss	5,103	127,701	132,804
Net exposure to interest rates	21,139	159,717	180,856

2018	WITHIN ONE YEAR £'000	MORE THAN ONE YEAR £'000	TOTAL £'000
Exposure to floating interest rates:			
Investments held at fair value through profit or loss	13,249	25,034	38,283
Cash and cash equivalents	4,181	—	4,181
	17,430	25,034	42,464
Exposure to fixed interest rates:			
Investments held at fair value through profit or loss	5,989	117,069	123,058
Net exposure to interest rates	23,419	142,103	165,522

The nominal interest rates on the investments at fair value through profit or loss are shown in the portfolio list on pages 21 to 24. The weighted average effective interest rate on these investments is 6.5% (2018: 6.5%). The weighted average effective interest rate on cash and cash equivalents is 0.75% (2018: 0.52%).

Interest Rate Sensitivity

The following table illustrates the sensitivity of the profit or loss 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.

	2019 £'000	2018 £'000
Effect on Statement of Comprehensive Income – profit/(loss) after taxation		
Revenue profit	83	42
Capital loss	(6,056)	(5,841)
Total loss after taxation for the year	(5,973)	(5,799)
Effect on NAV per ordinary share	(6.0)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 year as a whole, since the level of exposure changes frequently as borrowings can be drawn down and repaid as required throughout the year.

18. Financial Instruments (continued)

18.1 Market Risk (continued)

18.1.3 Other Price Risk

Other price risk includes changes in market prices, other than those arising from currency risk or interest rate risk, which may affect the value of the investment portfolio, whether by factors specific to an individual investment or its issuer, or by factors affecting the wider market.

Management of Other Price Risk

It is the portfolio managers' responsibility to manage the portfolio and borrowings in accordance with the investment objective and policy, and in accordance with the investment policy guidelines set by the Board. The Board manages the market price risks inherent in the investment portfolio by meeting regularly to monitor on a formal basis compliance with these. The Board also reviews investment performance. Because the Company's portfolio is the result of the portfolio managers' investment process, performance may not closely correlate with the markets in which the Company invests.

The Company's exposure to other changes in market prices at 31 December on its investments is shown in the fair value hierarchy table on page 60.

Concentration of Exposure to Other Price Risks

The Company's investment portfolio is not concentrated in 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

Excluding fixed interest securities and convertibles, at the year end the Company held other investments of £7,193,000 (2018: £6,847,000). The effect of a 30% increase or decrease in the fair values of these investments (including any exposure through derivatives) on the profit after taxation for the year is £2,158,000 (2018: 10% increase or decrease: £685,000). This level of change is considered to be reasonably possible based on the observation of current market volatility since the year end due to the outbreak of COVID-19. 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.

18.2 Liquidity Risk

This is the risk that the Company may encounter difficulty in meeting its obligations associated with financial liabilities i.e. when realising assets or raising/replacing repo financing 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

Liquidity risk is not viewed by the Directors as a significant risk because a majority of the Company's assets comprise readily realisable securities, although 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. On a daily basis the portfolio managers ascertain the Company's cash and borrowing requirements by reviewing future cash flows arising from purchases and sales of investments, interest and dividend receipts, expenses and dividend payments, and available financing (including repo financing).

Liquidity Risk Exposure

Financial liabilities at the balance sheet date comprised of other payables of £457,000 (2018: £427,000), all of which were payable in less than three months.

18.3 Credit Risk

Credit risk is the risk that the failure of the counterparty to a transaction to discharge its obligation under that transaction could result in a loss to the Company. This risk also includes transactions in derivatives.

At the year end 74.8% (2018: 71.5%) of the Company's portfolio consisted 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 be subject to greater uncertainties from 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.

Investment grade and non-investment grade securities totalled 88.8% (2018: 91.1%) of the portfolio at the year end. Adverse changes in the financial position of an issuer of such high-yield fixed-interest securities or in general economic conditions may impair the ability of the issuer to make payments of principal and/or interest or may cause the liquidation or insolvency of an issuer.

The portfolio may be adversely affected if the Company's custodian suffers insolvency or other financial difficulties. The appointment of a depositary has substantially lessened this risk. 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

Almost 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 also considered when assessing the risk of defaults. Investments in bonds are across a variety of industrial sectors and geographical markets to avoid concentration of credit risk. Counterparties for derivative transactions are also a source of credit risk. Transactions involving derivatives are entered into only with banks whose credit ratings are taken into account to minimise default risk. The credit ratings of the derivatives counterparties range from Aa3 through to Baa2. In addition, the Company may use credit default swaps (CDSs) to offset the credit risk of the portfolio. During the year, the Company did not use CDSs (2018: none).

Details of the Company's investments, including their credit ratings, are shown on pages 21 to 24. Credit risk for transactions involving derivatives and equity investments is minimised as the Company only uses approved counterparties.

Cash balances are held with approved deposit takers only and are limited to a maximum of 4% of the Company's net asset value with any one deposit taker. Balances held with Invesco Liquidity Funds plc (formerly Short-Term Investments Company (Global Series) plc, a triple-A rated money market fund (STIC)), are limited to a maximum of 10% of the Company's net asset value. At the balance sheet date the Company had £1.46 million (2018: £1.61 million) held at the custodian and £6.86 million (2018: £2.57 million) held in Invesco Liquidity Funds plc.

There are no financial assets that are past due or impaired during the year (2018: none).

Fair Values of Financial Assets and Financial Liabilities

Financial assets 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).

Financial liabilities are carried at amortised cost except for derivatives, which as stated above are carried at fair value.

19. Classification Under Fair Value Hierarchy

The valuation techniques used by the Company are explained in the accounting policies note 2(c). 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 – The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3 – Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

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

There were no transfers in the year between any of the levels.

Normally 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, the 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. No Level 3 investments were held during the year or the previous year.

2019	LEVEL 1 £'000	LEVEL 2 £'000	TOTAL £'000
Financial assets designated at fair value through profit or loss:			
Quoted securities:			
– Fixed interest securities(1)	—	170,088	170,088
– Convertibles	—	2,447	2,447
– Preference	3,264	—	3,264
– Convertible preference	2,458	—	2,458
– Equities	1,471	—	1,471
Derivative financial instruments:			
Forward currency contracts	—	1,309	1,309
Total for financial assets	7,193	173,844	181,037

2018	LEVEL 1 £'000	LEVEL 2 £'000	TOTAL £'000
Financial assets designated at fair value through profit or loss:			
Quoted securities:			
– Fixed interest securities(1)	—	159,386	159,386
– Convertibles	—	1,955	1,955
– Preference	2,855	—	2,855
– Convertible preference	2,555	—	2,555
– Equities	1,437	—	1,437
Total for financial assets	6,847	161,341	168,188
Financial liabilities designated at fair value through profit or loss:			
– Derivative financial instruments – forward currency contracts	—	(1,581)	(1,581)
Total for financial liabilities	—	(1,581)	(1,581)

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

20. 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 8.

The main risks to the Company's investments are shown in the Strategic Report under the 'Principal Risks and Uncertainties' section on pages 13 to 15. 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 Board regularly monitors the level of borrowing used by the Company and has imposed limits within which borrowings should be managed.

Total equity at the balance sheet date, the composition of which is shown on the balance sheet on page 44, was £192,186,000 (2018: £173,489,000).

21. 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 other financial commitments of the Company as at 31 December 2019 (2018: nil).

22. 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 as adopted by the EU, the Company has identified the Directors as related parties and Directors fees paid have been disclosed in the Report on Directors' Remuneration and Interests on page 34 with additional disclosure in note 6. Full details of Directors' interests are set out in the Report on Directors' Remuneration and Interests on page 35. No other related parties have been identified.

Invesco Fund Managers Limited and Invesco Asset Management Limited, both of which are wholly owned subsidiaries of Invesco Limited, provided investment management and administration services to the Company. Details of the services and fees are disclosed in the Strategic Report and management fees payable are shown in note 5.

23. Post Balance Sheet Events

Any significant events that occurred after the end of the reporting period but before the signing of the balance sheet will be shown here.

Except for the events around COVID-19 below, there are no other significant events after the end of the reporting period requiring disclosure.

Since the year end the COVID-19 virus was declared a global pandemic which has had a significant impact on global markets. As at 23 April 2020, the latest practical date prior to publication of this annual financial report, the impact to the Company's total return share price and NAV has been –11.8% and –10.5% respectively. Further commentary can be found in the Chairman's Statement and Portfolio Managers' Report.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

Business and Status

The Company is a closed-end 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 pages 27 to 31 is included in this Directors' Report by reference.

Directors' Remuneration and Interests

Details of the Directors' remuneration and interests in the Company are set out on pages 34 and 35 and are included in this Directors' Report by reference.

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.

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

At 31 December 2019, the Company's stated capital consisted of 100,041,204 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.

Disclosures Required by Listing Rule 9.8.4

Listing Rule 9.8.4 requires the Company to include certain applicable information in a single identifiable section of the annual financial report. For this year, only one item of this information applies – disclosure around the issue of shares – and this is covered by note 15 on pages 52 and 53 (stated capital).

Relations with Shareholders

The Board endeavours to provide shareholders with a full understanding of the Company's activities and reports formally to shareholders each year by way of the half-yearly and annual financial reports. This is supplemented by the daily publication of the net asset value of the Company's ordinary shares and monthly fact sheets. Shareholders can also visit the Company's section of the Manager's investment trust website, *www.invesco.co.uk/citymerchants* to access copies of half-yearly and annual financial reports, shareholder circulars, factsheets and Stock Exchange Announcements.

There is a regular dialogue between the Board, 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. During the year the Directors also met with a number of institutional investors.

ISA

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

JTC Fund Solutions (Jersey) Limited
Company Secretary

24 April 2020

ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE DISCLOSURES

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

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

Amongst other things, the AIFMD requires certain information to be provided to prospective investors. This information can be found in the Company's section of the Manager's website (www.invesco.co.uk/citymerchants) in a downloadable document entitled 'AIFMD Investor Information'. There have been no material changes to this information in the year to 31 December 2019 or up to the date of this report. Any information requiring immediate disclosure pursuant to the Directive will be disclosed through a primary information provider.

In addition, the Directive requires information in relation to the Company's leverage (both 'gross' and 'commitment' – see Glossary on page 66) and the remuneration of the Company's AIFM (IFML) to be made available to investors.

Accordingly:

– the leverage calculated for the Company at the year end was 142% for gross and 98% for commitment (2018: 140% and 99% respectively). The limits the AIFM has set for the Company remain unchanged at 300% and 250%, respectively;

– the AIFM summary remuneration policy is available from the corporate policies section of the Manager's website (www.invesco.co.uk) and from the Company's Company Secretary, on request (see contact details on page 70); and

– the AIFM remuneration paid for the year to 31 December 2019 is set out below.

AIFM Remuneration

The AIFM remuneration paid is based on the financial year of the AIFM, which is 31 December 2019.

The aggregate total remuneration of Invesco staff involved in AIF related activities of the Manager in respect of performance year (1 January 2019 to 31 December 2019) is £7.73 million of which £4.57 million is fixed remuneration and £3.16 million is variable remuneration. The number of beneficiaries is 36.

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

The aggregate total remuneration paid to the Identified Staff of the Manager for AIF related activities for the performance year (1 January 2019 to 31 December 2019) is £0.97 million of which £0.22 million is paid to Senior Management and £0.75 million is paid to other Identified Staff. Please note that remuneration for AIFMD Identified Staff includes remuneration for staff employed by delegates (all delegates are employed by various entities of the Invesco Ltd. Group).

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

GLOSSARY OF TERMS AND ALTERNATIVE PERFORMANCE MEASURES

Alternative Performance Measure (APM)

An APM is a measure of performance or financial position that is not defined in applicable accounting standards and cannot be directly derived from the financial statements. The calculations shown in the corresponding tables are for the years ended 31 December 2019 and 2018. The APMs listed here are widely used in reporting within the investment company sector and consequently aid comparability.

Premium/(Discount) (APM)

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

	PAGE		2019	2018
Share price	2	a	197.00p	175.00p
Net asset value per share	2	b	192.11p	178.69p
Premium/(discount)		c = (a - b) / b	2.5%	(2.1)%

Gearing

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

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

Gross Gearing (APM)

This reflects the amount of gross borrowings in use by a company and takes no account of any cash balances. It is based on gross borrowings as a percentage of net assets. As at 31 December 2019 the Company had no gross borrowings (2018: £nil).

	PAGE		2019 £'000	2018 £'000
Securities sold under agreements to repurchase (Repo financing)	—		—	—
Gross borrowings		a	—	—
Net asset value	44	b	192,186	173,489
Gross gearing		c = a / b	nil	nil

Net Gearing or Net Cash (APM)

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

	PAGE		2019 £'000	2018 £'000
Securities sold under agreements to repurchase (Repo financing)	—		—	—
Less cash and cash equivalents	44		8,321	4,181
Net cash		a	8,321	4,181
Net asset value	44	b	192,186	173,489
Net cash		c = a / b	4.3%	2.4%

Leverage

Leverage, for the purposes of the Alternative Investment Fund Managers Directive (AIFMD), is not synonymous with gearing as defined above. In addition to borrowings, it encompasses anything that increases the Company's exposure, including foreign currency and exposure gained through derivatives. Leverage expresses the Company's exposure as a ratio of the Company's net asset value. Accordingly, if a Company's exposure was equal to its net assets it would have leverage of 100%. Two methods of calculating such exposure are set out in the AIFMD, gross and commitment. Under the gross method, exposure represents the aggregate of all the Company's exposures other than cash balances held in base currency and without any offsetting. The commitment method takes into account hedging and other netting arrangements designed to limit risk, offsetting them against the underlying exposure.

Net Asset Value (NAV)

Also described as shareholder's funds the NAV is the value of total assets less liabilities. Liabilities for this purpose include current and long-term liabilities. The NAV per ordinary share is calculated by dividing the net assets by the number of ordinary shares in issue (see note 17 on page 53). For accounting purposes assets are valued at fair (usually market) value and liabilities are valued at par (their repayment – often nominal – value).

Ongoing Charges Ratio (APM)

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

	PAGE		2019 £'000	2018 £'000
Investment management fees	43		1,396	1,345
Other expenses	43		474	437
Less costs in relation to custodian dealing charges, legal advice and board succession			(11)	(8)
Total recurring expenses		a	1,859	1,774
Average daily net asset value		b	183,108	180,832
Ongoing charges ratio		c = a / b	1.02%	0.98%

Return

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

Total Return

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

Net Asset Value Total Return (APM)

Total return on net asset value per share, assuming dividends paid by the Company were reinvested into the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

Share Price Total Return (APM)

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

2019	PAGE		NET ASSET VALUE	SHARE PRICE
As at 31 December 2019	2		192.11p	197.00p
As at 31 December 2018	2		178.69p	175.00p
Change in year		a	7.5%	12.6%
Impact of dividend reinvestments	see (1) below	b	5.9%	6.1%
Total return for the year		c = a + b	13.4%	18.7%

2018	PAGE		NET ASSET VALUE	SHARE PRICE
As at 31 December 2018	2		178.69p	175.00p
As at 31 December 2017	—		195.40p	199.50p
Change in year		a	–8.6%	–12.3%
Impact of dividend reinvestments	see (1) below	b	5.0%	4.7%
Total return for the year		c = a + b	–3.6%	–7.6%

(1) Total dividends paid during the year of 10.00p (2018: 10.00p) reinvested at the NAV or share price on the ex-dividend date. NAV or share price falls subsequent to the reinvestment date consequently further reduce the returns, vice versa if the NAV or share price rises.

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.

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

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

SHAREHOLDER INFORMATION

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

Manager's Website

Information relating to the Company can be found on the Manager's website, which can be located at www.invesco.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.

Net Asset Value (NAV) Publication

The Company's NAV is calculated on a daily basis and notified to the London Stock Exchange on the next business day. Estimated NAVs are published daily in the national newspapers as detailed under Share Price Listings.

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	www.invesco.co.uk/citymerchants
The Association of Investment Companies	www.theaic.co.uk

Financial Calendar

The Company publishes information according to the following calendar:

Announcements

Annual financial report	March/April
Half-yearly unaudited financial report	August

Ordinary Share Dividends

Interim dividends payable	May, August November, February

Year End	31 December

Annual General Meeting

Due to COVID-19 the date of the Annual General Meeting has been postponed to later in the year. Details of the date, time and location will be published on the Company's website at www.invesco.co.uk/citymerchants

General Data Protection Regulation (GDPR)

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

ADVISERS AND PRINCIPAL EXTERNAL SERVICE PROVIDERS

Alternative Investment Fund Manager

Invesco Fund Managers Limited
Perpetual Park
Perpetual Park Drive
Henley-on-Thames
Oxfordshire R69 1HH
☎ 01491 417000

Company Secretary, Administrator and Registered Office

JTC Fund Solutions (Jersey) Limited
PO Box 1075
28 Esplanade
St Helier
Jersey JE4 2QP

Company Secretarial Contact: Hilary Jones
☎ 01534 700000

Company Number

Registered in Jersey
Company Number: 109714

The Company is regulated by the Jersey Financial Services Commission.

Registrar

Link Market Services (Jersey) Limited
12 Castle Street
St Helier
Jersey JE2 3RT
☎ 0371 6640300

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 the above number.

Calls are charged at the standard geographic rate and will vary by provider. From outside the UK: +44(0) 371 6640300.

Calls from outside the United Kingdom will be charged at the applicable international rate. Lines are open 9.00 am to 5.30 pm Monday to Friday (excluding UK public holidays).

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

The Registrar provides an on-line and telephone share dealing service to existing shareholders who are not seeking advice on buying or selling on:
☎ 0371 664 0445
www.linksharedeal.com

Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the United Kingdom will be charged at the applicable international rate. Lines are open 8.00 am to 4.30 pm Monday to Friday (excluding UK bank holidays).

☎ +44 371 664 0445 (from outside the UK).

Dividend Re-Investment Plan

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

Independent Auditor

PricewaterhouseCoopers CI LLP
37 Esplanade
St Helier
Jersey JE1 4XA

Depositary, Custodian & Banker

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

Corporate Brokers

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

Invesco Client Services

Invesco has a Client Services team available from 8.30 am to 6.00 pm every working day. Please feel free to take advantage of their expertise by ringing:
☎ 0800 085 8677
Website: www.invesco.co.uk/investmenttrusts

The Association of Investment Companies

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

☎ 020 7282 5555

www.theaic.co.uk
enquiries@theaic.co.uk

The Manager of City Merchants High Yield Trust Limited is Invesco Fund Managers Limited.

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

Invesco is a business name of Invesco Fund Managers Limited.

Invesco is one of the largest independent global investment management firms, with assets under management in excess of $1,159 billion.*

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

** Funds under management as at 29 February 2020.*

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

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

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

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

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

Invesco Perpetual Select Trust plc – UK Equity Portfolio
Aims to provide shareholders with an attractive real long-term total return by investing primarily in UK quoted equities. The portfolio may use bank borrowings.

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

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

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

Investing in Smaller Companies

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

Investing Internationally

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

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

Investing for Total Returns

Invesco Perpetual Select Trust plc – Balanced Risk Allocation Portfolio
Aims to provide shareholders with an attractive total return in differing economic and inflationary environments and with low correlation to equity and bond market indices by gaining exposure to three asset classes: debt securities, equities and commodities. The portfolio is constructed so as to balance risk, is long-only, using transparently-priced exchange-traded futures contracts and other derivative instruments to gain such exposure and to provide leverage.

Investing in Multiple Asset Classes

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

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

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

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