

# Invesco Perpetual Enhanced Income Limited

Half-Yearly Financial Report for the Six Months to 31 March 2017

## KEY FACTS

Invesco Perpetual Enhanced Income Limited is a closed-end investment company with limited liability incorporated in Jersey. The Company's ordinary shares are listed on the London Stock Exchange.

### Investment Objective of the Company

The Company's principal objective is to provide shareholders with a high level of income whilst seeking to maximise total return through investing in a diversified portfolio of high yielding corporate and Government bonds. The Company may also invest in equities and other instruments that the Manager considers appropriate. The Company seeks to balance the attraction of high yield securities with the need for protection of capital and to manage volatility. The Company generally employs gearing in its Investment Policy.

Full details of the Company's Investment Policy (incorporating the Company's investment objective, investment policy and risk and investment limits) can be found on pages 10 and 11 of the Company's 2016 annual financial report.

## Performance Statistics

	AT 31 MAR 2017	AT 30 SEPT 2016	% CHANGE
Shareholders' funds (£'000)	108,130	99,964	+8.2 <sup>(1)</sup>
Net asset value per ordinary share	76.1p	74.5p	+2.1
Share price <sup>(2)</sup>	78.6p	77.4p	+1.6
Premium per ordinary share	3.3%	3.9%	
Gross borrowing	24%	25%	
Net borrowing	17%	16%	

  

	SIX MONTHS ENDED 31 MAR 2017	SIX MONTHS ENDED 31 MAR 2016	YEAR ENDED 30 SEPT 2016
<b>Total Return</b>			
3 month LIBOR rate	+0.3%	+0.6%	+0.4%
Net asset value*	+5.5%	+3.8%	+15.7%
Share price <sup>(2)</sup>	+4.9%	+4.7%	+19.0%

\*The increase in total return NAV includes a 0.2% enhancement to NAV generated by the issue of ordinary shares at a premium during the six month period.

## Revenue

	31 MAR 2017	31 MAR 2016	30 SEPT 2016
Net revenue return (£'000)	3,126	2,835	5,743
Revenue return per ordinary share	2.3p	2.3p	4.5p
Dividends per ordinary share:			
– first interim	1.25p	1.25p	1.25p
– second interim	1.25p	1.25p	1.25p
– third interim	—	—	1.25p
– fourth interim	—	—	1.25p
<b>Total</b>	<b>2.50p</b>	<b>2.50p</b>	<b>5.00p</b>

(1) Reflects 7,918,368 ordinary shares issued in the period.

(2) Source: Thomson Reuters Datastream.

## INTERIM MANAGEMENT REPORT INCORPORATING THE CHAIRMAN'S STATEMENT

### CHAIRMAN'S STATEMENT

For the six months under review your Company has delivered a total return net asset value (NAV) of +5.5%. This compares very favourably with the 3 month LIBOR return of +0.3%. For the same period, the Company's share price rose by 4.9% on a total return basis. The share price has been at a premium to the NAV throughout the period, decreasing marginally from 3.9% to 3.3%. At the time of writing, the premium has increased to 5.0%. The sustained premium illustrates the re-rating of the Company's shares over the last few years and confirms the continuing demand by investors for the investment policy being delivered by the Company.

As in the previous six months, the Board welcomes a number of new shareholders, both through financial advisers and by direct investment. In response to this sustained demand, the Company has issued 7.9 million new ordinary shares in the period at an average price of 77.4p per share, and a further 6.1 million since the period end – these in total represent 9.5% of the Company's current issued share capital. The new shares have all been issued at a premium to the prevailing NAV at the point of issue, ensuring that the NAV of existing shareholders is enhanced.

As you will read in their report which follows, your portfolio managers believe that high yield markets have held up well and continue to benefit from the Central Bank quantitative easing policies which are now coming to an end. Yields continue to be at low levels as a consequence of the results of the US general election and widely held sentiment for growth and higher inflation expectations in 2017. Markets are likely to continue to be characterised by volatility impacted by the direction of US policy, election results in Europe and, on the home front, the UK 'snap' general election and the uncertainties that arise from Brexit.

Borrowing has continued to be, in the judgement of the Board and the Manager and with reference to historic levels, conservatively positioned at 24% gross and £25.5 million respectively. Cost of funds remains competitive at 1.0%.

There has been no material change in portfolio strategy. Your portfolio managers continue to seek to add exposure where good opportunities are identified in the areas of the market which they believe can offer relatively high sustainable yields whilst prudently balancing risk and reward to ensure the protection of your capital. Your Board fully endorses this approach.

### Donald Adamson

Chairman

22 May 2017

## PORTFOLIO MANAGERS' REPORT

### Market Background

The six months to 31 March was a period of positive performance for high yield bonds. Index data from Merrill Lynch shows that in sterling hedged terms European currency high yield bonds and US high yield bonds both returned 4.2% over the period.

The high yield bond sector benefited from the ongoing demand for yield and an improvement in economic data. For example, in the Eurozone, the closely watched Purchasing Managers Index (PMI) composite, which provides an indication of economic conditions within the region, climbed to record highs in both February and March. The sector also benefited from the more bullish sentiment that followed November's election of Donald Trump to the office of US President. The market has focused on the new president's plans for tax reform and pro-growth policies. As a result, high yield bonds have tended to benefit while government bond yields have risen. The rise in government bond yields provides a more favourable interest rate environment for the banking sector. This, along with the prospect of tax reform for US banks, helped the banking sector to outperform other parts of the corporate bond market over the six months. Toward the end of the six month period, concerns about the new Trump administration's ability to push through these more market friendly policies saw high yield bonds give back some performance while core government bonds recovered some of their earlier losses.

Bond issuance through 2016 was generally weak, however, the more supportive market conditions of recent months have seen issuance in the high yield bond sector increase materially. Barclays estimate that during the first three months of 2017, €24.9 billion of new European currency high yield bonds were issued. This represents a 2.5 times increase on the same three month period in 2016.

According to Moody's, the global 12 month trailing high yield default rate increased to 4.6% in January, up from 3.6% in January 2016. A large part of this increase is a result of higher defaults in the US market, in particular metals and mining and energy companies. The European default rate remains much lower at 2.3% in January 2017.

### Portfolio Strategy

The overall theme of our portfolio has not changed greatly. The core is made up of a selection of high yield bonds from seasoned issuers that we believe have a relatively low risk of default. These tend to be companies with balance sheets that are better equipped to cope with any weakness in earnings. We have much less enthusiasm for highly leveraged companies in sectors dependent on the economic cycle. That is not to say that we will not invest in these areas rather that we demand a much higher level of income to compensate for the additional risk such companies pose.

We continue to favour financials, most notably subordinated bank capital. These are bonds that we think continue to provide a relatively attractive level of income relative to the risk. Banks have taken significant steps over the past few years to raise capital and to improve their balance sheets. Elsewhere, we also see some opportunities in corporate hybrids. These instruments are issued by companies across sectors and they can provide a nice balance between higher yield (due to their subordinate position in the capital structure) and being able to invest in higher quality companies.

Over the period under review, the Company's NAV rose from 74.5p to 76.1p, an increase of 2.1%. The total return was 5.5%. The portfolio entered the period with gross borrowing of 25%. This was little changed at 24% by the end of the period.

Despite the very low level of yields we are still able to find some attractive opportunities and over the course of the past six months we added a number of bonds to the portfolio. Positions were added across sectors including beverages, food, insurance and cable companies.

## Outlook

The high yield bond market is currently pricing in very little room for disappointment, in terms of earnings and economic data. In our view this means that the likelihood of some form of correction is probably quite high. However, by identifying and understanding the credit risks within companies we aim to identify those bonds that are being appropriately priced and those that are not. This should mean we will be well placed to exploit any opportunities such a correction might present.

## Paul Read/Paul Causer/Rhys Davies

Portfolio Managers

22 May 2017

## PRINCIPAL RISKS AND UNCERTAINTIES

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

- Investment Policy – the adopted investment policy and process may not achieve the Company's published investment objective.
- Market Risk – a fall in the stock markets and/or a prolonged period of decline in the stock markets relative to other forms of investments will affect the performance of the portfolio, as well as the performance of individual portfolio investments.
- Investment Risk – the investment process employed by the Manager is likely to result, from time to time, in a more concentrated portfolio than those of other investment funds.
- Foreign Exchange Risk – the movement of exchange rates may have an unfavourable or favourable impact on returns as the Company holds non-sterling denominated investments and cash.
- Shares – share price is affected by market sentiment, supply and demand for the shares, dividends declared, portfolio performance as well as wider economic factors and changes in the law. The market value of, and the income derived from, the Company's ordinary shares can fluctuate and may go down as well as up.
- Gearing Returns Using Borrowings – net borrowing may not exceed 50% of shareholders' funds. Borrowing levels may change from time to time in accordance with the Manager's assessment of risk and reward. As a consequence, any reduction in the value of the Company's investments may lead to a correspondingly greater percentage reduction in its NAV (which is likely to adversely affect the Company's share price).
- High Yield Corporate Bonds – corporate bonds are subject to credit, liquidity, duration and interest rate risk. Adverse changes in the financial position of the issuer of corporate bonds or in general economic conditions may impair the ability of the issuer to make payments of principal interest or may cause the liquidation or insolvency of the issuer.
- Derivatives – the Company may enter into derivative transactions for the purpose of efficient portfolio management. The Company will not enter into derivative transactions for speculative purposes.
- Reliance on External Service Providers – failure by any service provider to carry out its obligations to the Company could have a materially detrimental impact on the operation of the Company and affect the ability of the Company to successfully pursue its investment policy.
- Regulatory – whilst compliance with rules and regulations is closely monitored, breaches could affect returns to shareholders.

A detailed explanation of these principal risks and uncertainties can be found on pages 13 to 16 of the Company's 2016 annual financial report, which is available on the Company's section of the Manager's website at: [www.invescopetual.co.uk/enhancedincome](http://www.invescopetual.co.uk/enhancedincome)

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

## GOING CONCERN

The half-yearly financial report has been prepared on a going concern basis. The Directors consider that this is the appropriate basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. In considering this, the Directors took into

account the Company's investment objective, risk management policies and capital management policies, the diversified portfolio, the liquidity of the securities which can be used to meet short-term funding commitments, and the ability of the Company to meet all of its liabilities, including its repo financing, and ongoing expenses from its assets.

## RELATED PARTY TRANSACTIONS AND TRANSACTIONS WITH THE MANAGER

Under International Financial Reporting Standards, the Company has identified the Directors as related parties. Transactions with Directors are limited to their remuneration. Transactions with the Manager comprise management and any performance fees. The basis of these has not changed from that reported in the latest annual financial report.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES in respect of the preparation of the half-yearly financial report

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

The Directors confirm that to the best of their knowledge:

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

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

Signed on behalf of the Board of Directors.

## Donald Adamson

Chairman

22 May 2017

## BOND RATING ANALYSIS AT 31 MARCH 2017

### Standard and Poor's Ratings, investments grade is BBB– and above

The definitions of these ratings are set out on page 66 of the 2016 annual financial report.

Rating	31 MAR 2017		30 SEPT 2016	
	% OF PORTFOLIO	CUMULATIVE TOTAL %	% OF PORTFOLIO	CUMULATIVE TOTAL %
<b>Investment Grade:</b>				
AAA	—	—	2.7	2.7
AA+	2.2	2.2	—	2.7
BBB+	4.5	6.7	4.8	7.5
BBB	5.6	12.3	7.4	14.9
BBB–	8.9	21.2	8.3	23.2
<b>Non-Investment Grade:</b>				
BB+	15.5	36.7	17.3	40.5
BB	7.9	44.6	7.2	47.7
BB–	10.8	55.4	10.2	57.9
B+	13.4	68.8	11.1	69.0
B	13.2	82.0	10.6	79.6
B–	3.8	85.8	3.9	83.5
CCC+	1.3	87.1	2.1	85.6
CCC	—	87.1	0.2	85.8
C	0.2	87.3	—	85.8
NR (including equities and warrants)	12.7	100.0	14.2	100.0
	100.0		100.0	

## INVESTMENT PORTFOLIO

AT 31 MARCH 2017

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

### Bonds and Equity Investments

ISSUER	ISSUE	RATING	MARKET VALUE £'000	AT % OF PORTFOLIO
<b>Euro</b>				
UniCredit International Bank	8.125% FRN Perpetual	B1/B+	2,801	2.3
Santos Finance	8.25% FRN 22 Sep 2070	NR/BB+	2,621	2.1
Intesa Sanpaolo	8.375% FRN Perpetual	Ba3/B+	965	1.7
	7% Perpetual	Ba3/B+	778	
	7.75% Perpetual	Ba3/B+	431	
	6% 04 Apr 2043	NR/BBB-	1,888	
Achmea	7.875% 16 Jun 2071	Ba2/BB	1,813	1.5
Origin Energy	5.25% 17 Mar 2055	Ba1/BB+	1,713	1.4
Telecom Italia	7.625% Perpetual	Ba2/BB+	1,391	1.1
Telefonica Europe	FRN 15 Jul 2020 (SNR)	B2/B	1,374	1.1
Vougeot Bidco	5.869% Var Perpetual	Ba1/BB	889	0.9
Solvay Finance	5.118% Perpetual	Ba1/BB	280	
Paprec	7.375% 01 Apr 2023 (SNR)	B2/B-	633	0.9
	5.25% 01 Apr 2022 (SNR)	B1/B+	454	
	4.625% 15 May 2021	Caa1/CCC+	583	
Constellium	7% 15 Jan 2023 (SNR)	Caa1/CCC+	436	0.8
Mercury Bondco	8.25% 30 May 2021 (SNR)	B3/B	438	
	7.125% 30 May 2021 (SNR)	B3/B	429	0.7
Rapid	6.625% 15 Nov 2020 (SNR)	B2/B+	817	
Royal Bank of Scotland	FRN 14 Jun 2022	Ba2/BB+	764	0.6
VRX Escrow	4.5% 15 May 2023 (SNR)	Caa1/B-	737	0.6
Picard	FRN 01 Aug 2019	B1/BB-	713	0.6
Quintiles IMS	3.25% 15 Mar 2025 (SNR)	Ba3/BB+	676	0.5
Enel	5% Var 15 Jan 2075	Ba1/BB+	647	0.5
Banco Popular Espanol	11.5% COCO Perpetual	NR/NR	609	0.5
CNP Assurances	FRN Perpetual	NR/NR	604	0.5
UBS	5.75% Var Perpetual	NR/BB+	599	0.5
PrestigeBidCo	6.25% 15 Dec 2023 (SNR)	B2/B	539	0.4
Manutencoop Facility Management	8.5% 01 Aug 2020	B2/B	535	0.4
Galapagos	FRN 15 Jun 2021	B2/B-	527	0.4
Trinseo	6.375% 01 May 2022	B2/BB-	523	0.4
Belden	4.125% 15 Oct 2026 (SNR)	Ba3/BB-	487	0.4
Kerneos	FRN 01 Mar 2021	B1/B+	428	0.4
Loxam SAS	6% 15 Apr 2025 (SNR)	NR/B	367	0.3
Thomas Cook	6.25% 15 Jun 2022 (SNR)	B1/B	329	0.3
BNP Paribas Fortis	Cnv FRN Perpetual	Ba3/BB+	318	0.3
Financiere Quick S.A.S	FRN 15 Apr 2019 (SNR)	B3/B-	271	0.2
Inovyn Finance	6.25% 15 May 2021 (SNR)	B2/B	260	0.2
Aviva	6.125% FRN 05 Jul 2043	Baa1/BBB	241	0.2
Paternoster	8.5% 15 Feb 2023 (SNR)	Caa2/CCC+	215	0.2
Spectrum Brands	4% 01 Oct 2026 (SNR)	B2/BB-	202	0.2
Picard Bondco	7.75% 01 Feb 2020	B3/B-	150	0.1
Levi Strauss	3.375% 15 Mar 2027 (SNR)	Ba2/BB+	145	0.1
Lloyds Bank	6.375% Perpetual	NR/BB-	144	0.1
Abengoa SA	B shares	NR/NR	8	—
	A shares	NR/NR	2	
			31,774	25.6
<b>Sterling</b>				
Enterprise Inns	6.375% 15 Feb 2022 (SNR)	NR/BB-	2,255	2.2
	6.5% 06 Dec 2018 (SNR)	NR/BB-	431	
NWEN Finance	5.875% 21 Jun 2021 (SNR)	NR/BB+	2,665	2.1
NGG Finance	5.625% FRN 18 Jun 2073	Baa3/BBB	2,431	2.0
Enel	7.75% 10 Sep 2075	Ba1/BB+	1,592	1.9
	6.625% 15 Sep 2076	Ba1/BB+	819	
Iron Mountain	6.125% 15 Sep 2022	Ba3/BB-	2,066	1.7
Premier Foods Finance	6.5% 15 Mar 2021 (SNR)	B2/B	2,021	1.6
Standard Chartered	5.125% 06 Jun 2034	A3/BBB-	1,914	1.5
Virgin Media Finance	5.125% 15 Jan 2025 (SNR)	Ba3/BB-	1,904	1.5
Electricite De France	6% Perpetual	Baa3/BB	1,304	1.5
	5.875% Perpetual	Baa3/BB	578	
Balfour Beatty	10.75p Cnv Preference	NR/NR	1,881	1.5
Aviva	6.125% Perpetual	Baa1/BBB	1,634	1.3
Arqiva Broadcast Finance	9.5% 31 Mar 2020	B3/NR	1,497	1.2
Pension Insurance	8% 23 Nov 2016	NR/NR	1,365	1.1
Stretford 79	6.25% 15 Jul 2021 (SNR)	B2/B	1,292	1.0
Virgin Money	8.75% Perpetual	NR/NR	1,259	1.0
Orange	5.875% Perpetual	Baa3/BBB-	1,216	1.0
Telefonica Europe	6.75% Perpetual	Ba2/BB+	1,181	1.0
Time Warner Cable	5.25% 15 Jul 2042	Ba1/BBB-	1,178	1.0
Stonegate	4.875% 15 Mar 2022 (SNR)	B2/B	813	0.9
	FRN 15 Mar 2022 (SNR)	B2/B	352	
Deutsche Bank	7.125% Perpetual	B1/B+	1,143	0.9
AA Bond Co	5.5% Var 31 Jul 2043 (SNR)	NR/B+	1,128	0.9
New Look	6.5% 01 Jul 2022 (SNR)	B2/B	1,098	0.9
Lloyds Bank	7% Var Perpetual	NR/BB-	1,094	0.9
Société Générale	8.875% FRN Perpetual	Ba2/BB+	1,064	0.9
Ladbrokes	5.125% 8 Aug 2023 (SNR)	NR/BB	1,052	0.9
Moy Park	6.25% 29 May 2021	B1/BB-	1,030	0.8
Pizza Express	6.625% 01 Aug 2021	B2/B	1,026	0.8
William Hill	4.875% 07 Sep 2023 (SNR)	Ba1/BB+	988	0.8
Barclays	7.875% Var Perpetual	Ba2/B+	920	0.8
TVL Finance	8.5% 15 May 2023 (SNR)	B3/B-	874	0.7
Scottish Widows	5.5% 16 Jun 2023	Baa1/BBB+	873	0.7
Koninklijke KPN	6.875% FRN 14 Mar 2073	Ba2/BB	865	0.7
RAC Bond	4.87% Var 06 May 2046 (SNR)	NR/BBB-	788	0.6
Bupa Finance	5% 08 Dec 2026	Baa2/NR	771	0.6
Wm Morrison Supermarkets	4.75% 04 Jul 2029	Baa3/NR	747	0.6
Moto Finance	4.5% 1 Oct 2022	NR/NR	740	0.6
InterGen Services	7.5% 30 Jun 2021	B1/B	700	0.6
Wagamama Finance	7.875% 01 Feb 2020 (SNR)	B2/B	583	0.5
JRP Group	9% 26 Oct 2026	NR/NR	550	0.4
Thames Water	5.875% 15 Jul 2022 (SNR)	B1/NR	541	0.4
AXA	5.453% FRN Perpetual	Baa1/BBB+	537	0.4
Anglian Water	5% 30 April 2023 (SNR)	Ba3/NR	533	0.4
UniCredit International Bank	8.5925% FRN Perpetual	B1/B+	519	0.4
Legal & General	6.385% FRN Perpetual	Baa2/BBB+	502	0.4

**Bonds and Equity Investments continued**

ISSUER	ISSUE	RATING	MARKET VALUE £'000	AT £'000	% OF PORTFOLIO
<b>Sterling</b>					
Tesco	5.2% 05 Mar 2057	Ba1/BB+	471		0.4
J Sainsbury	6.5% Var Perpetual	NR/NR	444		0.4
Bracken Midco One	10.5% 15 Nov 2021	NR/B	383		0.3
Standard Life	5.5% 04 Dec 2042	Baa2/BBB+	380		0.3
Cognita Financing	7.75% 15 Aug 2021 (SNR)	B2/B	379		0.3
AMC Entertainment	6.375% 15 Nov 2024	B2/B+	371		0.3
Rothsay Life	8% 30 Oct 2025	NR/NR	266		0.2
Boparan Finance	5.5% 15 Jul 2021	B2/B	123		0.1
CIS General Insurance	12% FRN 08 May 2025	NR/NR	107		0.1
				57,238	46.0
<b>US Dollar</b>					
US Treasury	2.5% 15 Feb 2046	Aaa/AA+	2,777		2.2
SFR	7.375% 01 May 2026 (SNR)	B1/B+	2,542		2.0
TimeWarner	4.65% 01 Jun 2044	Baa2/BBB	2,260		1.8
Stora Enso	7.25% 15 Apr 2036	Ba2/BB	1,837		1.5
Celanese	4.625% 15 Nov 2022	Baa3/BBB-	1,690		1.4
Altice	6.625% 15 Feb 2023	B1/BB-	996		1.2
	7.5% 15 May 2026	B1/BB-	534		
Catlin Insurance	7.249% FRN Perpetual	NR/BBB+	1,436		1.2
J. C. Penney	8.125% 01 Oct 2019 (SNR)	B3/B	1,031		1.1
	6.375% 15 Oct 2036 (SNR)	B3/B	363		
Ziggo Bond Finance	5.875% 15 Jan 2025	B2/B	1,280		1.0
Beazley	5.875% 04 Nov 2026	NR/NR	1,161		1.0
Banco Santander	6.375% Var Perpetual	Ba1/NR	1,111		0.9
Marfrig	7% 15 Mar 2024	NR/B+	978		0.8
Royal Bank Of Scotland	8% Cnv FRN Perpetual	B1/B	397		0.7
	8.625% FRN Perpetual	B1/B	366		
	7.5% Cnv FRN Perpetual	B1/B	166		
XPO Logistics	6.5% 15 Jun 2022 (SNR)	B2/B+	821		0.7
	6.125% 01 Sep 2023	B2/B+	100		
Diamond 1	5.45% 15 Jun 2023	Baa3/BBB-	841		0.7
Tesco	6.15% 15 Nov 2037 (SNR)	Ba1/BB+	809		0.7
Standard Chartered	5.7% 26 Mar 2044	A3/BBB-	797		0.7
Owens- Brockway	5.875% 15 Aug 2023	B1/BB-	777		0.6
Greenko	8% 01 Aug 2019	NR/B+	767		0.6
UBS	6.875% Var Perpetual	NR/BB+	710		0.6
Cott	5.5% 1 Apr 2025	B3/B-	709		0.6
ESAL	6.25% 05 Feb 2023 (SNR)	NR/BB	645		0.5
BHP Billiton	6.75% FRN 19 Oct 2075	Baa2/BBB+	640		0.5
Codere Finance 2 (Luxembourg) S.A.	7.625% 01 Nov 2021	B2/B	632		0.5
BNP Paribas	7.375% Var Perpetual	Ba1/BBB-	630		0.5
Verizon Communications	4.272% 15 Jan 2036	Baa1/BBB+	616		0.5
BBVA	9% Perpetual	NR/NR	501		0.4
Rothschilds Continuation Finance	FRN Perpetual	NR/NR	501		0.4
VRX Escrow	5.375% 29 Feb 2020	Caa1/B-	476		0.4
Chemours	6.625% 15 May 2023 (SNR)	B1/B+	321		0.3
	7% 15 May 2025	B1/B+	103		
Fiat Chrysler Automobiles	4.5% 15 Apr 2020	B1/BB	407		0.3
AXA	6.463% FRN Perpetual	Baa1/BBB	401		0.3
Bombardier	7.5% 15 Mar 2025	B3/B-	387		0.3
Constellium	5.75% 15 May 2024	Caa1/CCC+	369		0.3
UniCredit	8% FRN Perpetual	NR/NR	307		0.3
CGG Veritas	6.5% 01 Jun 2021 (SNR)	Ca/C	258		0.2
HSBC	6.375% Cnv Perpetual	Baa3/NR	209		0.2
Barclays	7.875% Var Perpetual	Ba2/B+	174		0.2
FAGE International	5.625% 15 Aug 2026 (SNR)	B1/BB-	159		0.1
American Greetings	7.875% 15 Feb 2025 (SNR)	B3/BB-	125		0.1
Lamb Weston	4.625% 01 Nov 2024	Ba3/BB	114		0.1
ABG Orphan	FRN 28 Mar 2021	NR/NR	42		—
	FRN 28 Mar 2021	NR/NR	14		
Abengoa	7.75% 01 Feb 2020 (SNR)	WR/NR	14		—
Peabody Energy	4.75% Cnv 15 Dec 2066	WR/NR	11		—
				35,312	28.4
<b>Total investments</b>				<b>124,324</b>	<b>100.0</b>

**CONDENSED STATEMENT OF CHANGES IN EQUITY**

	SHARE CAPITAL £'000	SHARE PREMIUM £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
<b>For the six months ended 31 March 2017</b>					
At 1 October 2016	6,710	129,233	(48,405)	12,426	99,964
Total comprehensive income for the period	—	—	2,378	3,126	5,504
Net proceeds from issue of shares	396	5,653	—	—	6,049
Dividends paid – note 5	—	(5)	—	(3,382)	(3,387)
<b>At 31 March 2017</b>	<b>7,106</b>	<b>134,881</b>	<b>(46,027)</b>	<b>12,170</b>	<b>108,130</b>
<b>For the six months ended 31 March 2016</b>					
At 1 October 2015	6,137	121,542	(56,246)	12,889	84,322
Total comprehensive income for the period	—	—	323	2,835	3,158
Net proceeds from issue of shares	65	854	—	—	919
Dividends paid – note 5	—	(2)	—	(3,077)	(3,079)
<b>At 31 March 2016</b>	<b>6,202</b>	<b>122,394</b>	<b>(55,923)</b>	<b>12,647</b>	<b>85,320</b>

## CONDENSED BALANCE SHEET

Registered number 75059

	AT 31 MARCH 2017 £'000	AT 30 SEPTEMBER 2016 £'000
<b>Non-current assets</b>		
Investments held at fair value through profit or loss	124,324	115,438
<b>Current assets</b>		
Amounts due from brokers	15	95
Proceeds due from issue of new shares	—	458
Margin held at brokers	374	—
Prepayments and accrued income	2,421	1,864
Derivative financial instruments – unrealised gain	323	—
Cash and cash equivalents	7,578	8,737
	10,711	11,154
<b>Current liabilities</b>		
Amounts due to brokers	(363)	—
Margin due to brokers	—	(28)
Accruals	(343)	(298)
Derivative financial instruments – unrealised loss	—	(283)
Performance fee payable – note 3	—	(594)
Securities sold under agreements to repurchase	(25,471)	(25,171)
	(26,177)	(26,374)
<b>Total assets less current liabilities</b>	108,858	100,218
Provision for performance fee – note 3	(728)	(254)
<b>Net assets</b>	108,130	99,964
<b>Issued capital and reserves attributable to equity holders</b>		
Share capital – note 6	7,106	6,710
Share premium	134,881	129,233
Capital reserve	(46,027)	(48,405)
Revenue reserve	12,170	12,426
<b>Shareholders' funds</b>	108,130	99,964
<b>Net asset value per ordinary share</b>	76.1p	74.5p
<b>Number of 5p ordinary shares in issue at the period end – note 6</b>	142,115,147	134,196,779

## CONDENSED STATEMENT OF CASH FLOW

	SIX MONTHS ENDED 31 MARCH 2017 £'000	SIX MONTHS ENDED 31 MARCH 2016 £'000
<b>Cash flow from operating activities</b>		
Profit before taxation	5,557	3,196
Taxation	(53)	(38)
Adjustments for:		
Purchases of investments	(23,496)	(6,293)
Sales of investments	18,673	19,032
	(4,823)	12,739
Increase/(decrease) from securities sold under agreements to repurchase	300	(8,868)
Profit on investments	(3,620)	(2,651)
Exchange differences	(321)	(239)
Net cash movement from derivative financial instruments – currency hedges	(606)	286
Finance costs	130	118
<b>Operating cash flows before movements in working capital</b>	(3,436)	4,543
Increase in receivables	(931)	(170)
Decrease in payables	(132)	(19)
<b>Net cash flows from operating activities after taxation</b>	(4,499)	4,354
<b>Cash flows from financing activities</b>		
Finance costs paid	(101)	(118)
Net proceeds from issue of shares	6,507	919
Net equity dividends paid – note 5	(3,387)	(3,079)
<b>Net cash used in financing activities</b>	3,019	(2,278)
Net (decrease)/increase in cash and cash equivalents	(1,480)	2,076
Exchange differences	321	239
Cash and cash equivalents at the beginning of the period	8,737	4,631
<b>Cash and cash equivalents at the end of the period</b>	7,578	6,946
<b>Cash flow from operating activities includes:</b>		
Dividends	95	45
Interest	2,948	2,891

## CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	SIX MONTHS TO 31 MARCH 2017			SIX MONTHS TO 31 MARCH 2016		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Profit on investments at fair value	—	3,620	3,620	—	2,651	2,651
Exchange differences	—	(214)	(214)	—	(648)	(648)
Loss on derivative instruments – currency hedges	—	(252)	(252)	—	(1,418)	(1,418)
Income – note 2	3,656	—	3,656	3,320	—	3,320
	3,656	3,154	6,810	3,320	585	3,905
Investment management fee – note 3	(237)	(237)	(474)	(203)	(203)	(406)
Performance fee – note 3	—	(474)	(474)	—	—	—
Other expenses	(175)	—	(175)	(185)	—	(185)
<b>Profit before finance costs and taxation</b>	3,244	2,443	5,687	2,932	382	3,314
Finance costs	(65)	(65)	(130)	(59)	(59)	(118)
<b>Profit before taxation</b>	3,179	2,378	5,557	2,873	323	3,196
Taxation – note 4	(53)	—	(53)	(38)	—	(38)
<b>Profit after taxation</b>	3,126	2,378	5,504	2,835	323	3,158
<b>Return per ordinary share</b>	2.3p	1.7p	4.0p	2.3p	0.3p	2.6p
<b>Weighted average number of shares in issue</b>	137,423,242			123,485,030		

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

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. Basis of Preparation

The condensed financial statements have been prepared using the same accounting policies as those adopted in the 2016 annual financial report. They have been prepared on an historical cost basis, in accordance with the applicable International Financial Reporting Standards and, where possible, in accordance with the Statement of Recommended Practice for Financial Statements of Investment Trust Companies and Venture Capital Trusts, issued by the Association of Investment Companies in November 2014, as amended in January 2017.

### 2. Income

	SIX MONTHS TO 31 MAR 2017	SIX MONTHS TO 31 MAR 2016
UK bond interest	1,319	1,390
UK dividends	85	38
Overseas bond interest	2,242	1,883
Overseas dividends	10	8
Deposit interest	—	1
<b>Total</b>	<b>3,656</b>	<b>3,320</b>

### 3. Management Fees, Performance Fees and Finance Costs

Investment management fees and finance costs are allocated equally to revenue and capital. The management fee is 1% on the first £80 million of shareholders' funds; 0.7% on the next £70 million; and 0.6% on any excess of shareholders' funds over £150 million.

The performance fee is allocated wholly to capital and is calculated at 20% of outperformance over a hurdle of LIBOR +1%, stepped and reducing to 10% of outperformance in respect of shareholders' funds in excess of £80 million. Payment of the performance fee is subject to various constraints as defined in the 2016 annual financial report.

For the six months ended 31 March 2017, a provision of £474,000 (2016: £nil) has been made. This combines with the deferred performance fee arising in the prior year to give a total provision of £728,000 at 31 March 2017.

### 4. Taxation

The Company is subject to Jersey income tax at the rate of 0% (2016: 0%). The overseas tax charge consists of irrecoverable withholding tax.

### 5. Dividends Paid

	SIX MONTHS TO 31 MAR 2017 £'000	SIX MONTHS TO 31 MAR 2016 £'000
Fourth interim of 1.25p	1,686	1,534
First interim of 1.25p	1,701	1,545
<b>Total paid</b>	<b>3,387</b>	<b>3,079</b>

The first interim for the quarter ended 31 December 2016 was paid on 27 January 2017 to shareholders on the register on 6 January 2017. The second interim for the quarter ended 31 March 2017 was paid on 28 April 2017 to shareholders on the register on 21 April 2017.

### 6. Movements in Share Capital

	SIX MONTHS TO 31 MAR 2017	YEAR TO 30 SEPT 2016
Share Capital:		
Brought forward	£6,710,000	£6,137,000
Net share proceeds	£396,000	£573,000
<b>Carried forward</b>	<b>£7,106,000</b>	<b>£6,710,000</b>
Number of 5p ordinary shares:		
Brought forward	134,196,779	122,746,779
Issued in period	7,918,368	11,450,000
<b>Carried forward</b>	<b>142,115,147</b>	<b>134,196,779</b>

The average price of the shares issued in the period was 77.37p (2016: 73.25p).

Subsequent to the period end 6,140,323 shares have been issued at an average price of 78.79p.

### 7. Classification under Fair Value Hierarchy

Note 19 of the 2016 annual financial report sets out the basis of classification as set out by IFRS 7 'Financial Instrument Disclosures'.

No Level 3 items have been held during the period or at the period end, and the total (not shown) is therefore the aggregate of Level 1 and Level 2.

	AT 31 MAR 2017		AT 30 SEPT 2016	
	LEVEL 1 £'000	LEVEL 2 £'000	LEVEL 1 £'000	LEVEL 2 £'000
<i>Financial assets designated at fair value through profit or loss:</i>				
Debt securities	—	122,433	—	110,342
Equities – convertible preference shares	—	1,881	—	1,833
Equities	10	—	—	—
Warrants	—	—	3,263	—
Derivative financial instruments:				
currency hedges	—	323	—	—
<b>Total for financial assets</b>	<b>10</b>	<b>124,637</b>	<b>3,263</b>	<b>112,175</b>

The Company held no financial liabilities designated at fair value through profit or loss at the period end (2016: £283,000 of currency hedges held).

### 8. Status of Half-yearly Financial Report

The financial information contained in this half-yearly report, which has not been reviewed or audited, does not constitute statutory accounts as defined in Article 104 of Companies (Jersey) Law 1991. The financial information for the half years ended 31 March 2016 and 2017 have not been audited. The figures and financial information for the year ended 30 September 2016 are extracted and abridged from the latest published accounts and do not constitute the statutory accounts for that year.

By order of the Board  
R&H Fund Services (Jersey) Limited  
Company Secretary

22 May 2017

## DIRECTORS AND ADVISERS

### Directors

Donald Adamson (Chairman)  
Peter Yates (Audit Committee and Management Engagement Committee Chairman)  
Michael Lombardi  
Clive Spears

### Manager and Alternative Investment Fund Manager

Invesco Fund Managers Limited  
Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH  
☎ 020 3753 1000  
🌐 [www.invescoperpetual.co.uk/investmenttrusts](http://www.invescoperpetual.co.uk/investmenttrusts)

### Company Secretary, Administrator and Registered Office

R&H Fund Services (Jersey) Limited  
PO Box 83, Ordnance House, 31 Pier Road, St Helier, Jersey JE4 8PW  
Company Secretarial Contact: Hilary Jones  
☎ 01534 825323

Registered in Jersey: Number 75059

### Corporate Broker

Panmure Gordon (UK) Limited  
One New Change, London EC4M 9AF

### Registrar

Capita Registrars (Jersey) Limited  
12 Castle Street, St. Helier, Jersey JE2 3RT  
If you hold your shares directly and have any queries you should contact the registrar on:

☎ 0871 664 0300  
Calls cost 12p per minute plus your phone company's access charge.  
Lines are open from 9am to 5.30pm, Monday to Friday (excluding Bank Holidays).  
From outside the UK +44 371 664 0300. Calls from outside the UK will be charged at the applicable international rate.

Shareholders can also access their holding details via Capita's website at:  
🌐 [www.signalshares.com](http://www.signalshares.com)

### Invesco Perpetual Client Services

Invesco Perpetual has an Client Services Team available from 8.30am to 6pm, Monday to Friday (excluding Bank Holidays) on:  
☎ 0800 085 8677  
🌐 [www.invescoperpetual.co.uk/investmenttrusts](http://www.invescoperpetual.co.uk/investmenttrusts)

Information relating to the Company can be found on the Company's section of the Manager's website, at [www.invescoperpetual.co.uk/enhancedincome](http://www.invescoperpetual.co.uk/enhancedincome). The contents of websites referred to in this document, or accessible from links within those websites, are not incorporated into, nor do they form part of, this half-yearly report.



Invesco Fund Managers Limited

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