City Merchants High Yield Trust Limited

Half-Yearly Financial Report for the Six Months to 30 June 2018

KEY FACTS

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

Investment Objective

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

Investment Policy

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

Performance Statistics

	FOR SIX MONTHS TO 30 JUN 2018	YEAR ENDED 31 DEC 2017
Total Return*		
Net asset value†	–1.5%	+8.7%
Share price	–1.8%	+9.9%
Dividend for the period/year	5p	10p

Period End Information

	AT 30 JUN 2018	AT 31 DEC 2017
Net asset value per ordinary share	187.52p	195.40p
Share price*	191.00p	199.50p
Premium	1.9%	2.1%
Gearing		
Gross gearing	nil	nil
Net cash	5.6%	4.7%

* Source: Thomson Reuters.

† Defined in the Glossary of Terms and Alternative Performance Measures on pages 58 and 59 of the 2017 annual financial report.

INTERIM MANAGEMENT REPORT INCORPORATING THE CHAIRMAN'S STATEMENT

Chairman's Statement

In recent years high yield investors have become used to a market environment characterised by falling yields and contracting credit spreads. In contrast, the first six months of 2018 saw yields and credit spreads rise from the lows reached in late 2017.

The cautious tone to markets reflected a number of factors. Concerns over the pace of economic growth in the UK and in Europe, rising political tensions and the prospect of an end to the exceptionally favourable monetary stimulus maintained since the financial crisis of 2008 all provided significant headwinds for high yield securities in the first six months of the year.

In this more challenging environment the Company's net asset value (NAV) total return for the six months to the 30 June 2018 was –1.5%. By comparison, the Bank of America Merrill Lynch European Currency High Yield Index returned –1.0% during this period, and the average return for funds in the Investment Association Sterling Strategic Bond sector was –1.5%. The Company's performance over longer periods remains positive. For example, over the three years to 30 June 2018 the NAV total return was 19.9% compared to the Bank of America Merrill Lynch European Currency High Yield Index return of 16.8%.

The Company remains on course to meet its dividend target of 10p for the year, having declared first and second interim dividends of 2.5p each in respect of the year ending 31 December 2018.

Turning to operational matters, continued demand for the Company's shares allowed a further 1,025,000 shares to be issued during the six months to 30 June 2018 adding £2 million to shareholders' funds. The Company's share price stood at a premium to NAV of 1.9% on 30 June 2018. Shareholders benefit from the issue of shares in a number of ways. First, the fixed costs of running the Company become spread more widely. Secondly, liquidity is improved, and shareholders who choose to reinvest their dividends are more likely to be able do so at a price that is closer to NAV.

Looking forward over the remainder of the year and into 2019 we have seen some positive developments within credit markets in recent months, notably signs of a shift in the balance of influence away from issuers and back to investors. We are also encouraged by recent evidence that global economic activity appears to be growing at a healthy clip, despite the worrying rise in political and trade tensions. In the UK, activity has rebounded from the slowdown in the first months of the year, and there are indications that growth has stabilised within the Euro bloc.

Nevertheless, the Board believes a note of caution continues to be appropriate. Credit spreads remain low by historical standards, global trade tensions seem likely to continue to rise, and central banks have barely begun the process of unwinding the policy of Quantitative Easing. Brexit remains very much a 'wild card', and will no doubt continue to dominate the political landscape for the foreseeable future.

Three particular features of your Manager's strategy are important to highlight in the context of our continued caution. First, there is a focus on consistency of income given the importance placed by shareholders on an attractive and stable yield. Secondly, the portfolio remains well diversified, by sector, issuer and credit risk. Finally, the Manager maintains a rigorous and disciplined approach to assessing the risks and returns of individual securities, and hence in the Board's view remains well placed to take advantage of opportunities as and when they emerge.

Tim Scholefield
Chairman

15 August 2018

Manager's Investment Report

Market Background

After the strong returns of recent years, the first half of 2018 has been a more testing time for the high yield bond market.

By 30 June 2018, the premium over government bonds that high yield issuers need to pay to borrow in euros had increased to 388 basis points (bps), up from 279bps at the start of the year. The U.S. high yield bond market was more stable. Credit spreads there rose just 8bps over the six-months.

At the start of the year, the market's demand for yield, the supportive backdrop of economic growth, accommodative monetary policy and positive sentiment from US tax cuts continued to provide a favourable environment for high yield bonds. Companies were able to exploit this and issue bonds with very low yields and sometimes with aggressive terms that weakened some of the usual protection for bond holders.

Conditions started to change toward the end of January. Some data releases suggested that global economic growth might not have been as strong as had previously been thought. A rise in trade tensions between the US and China and the US and the European Union increased these concerns. The IMF warned that while it still expected global growth of 3.9% the risks had increased.

High yield bond yields had been rising steadily since late January. However, in May the increase accelerated, largely as a result of political uncertainty within Italy. Concerns were centred on the expenditure programmes of the new coalition government and the potential impact these would have on the Italian government's level of debt.

During June, the European Central Bank (ECB) announced that it would be ending its Quantitative Easing programme at the end of 2018. The programme has been an important support for the European bond market and so its termination is clearly a potential headwind. However, this relatively bearish message was offset by news that the ECB will leave all three of its policy rates at their current levels until at least summer 2019.

The rise in yields over the period has helped to shift the initiative from borrowers back in favour of investors. As a result, there has been push-back on some of the more aggressive terms issuers had sought at the start of the year.

Year-to-date, euro denominated high yield bond issuance has slowed compared to levels for the same period in 2017. Data from Barclays shows that just over half of this issuance has been in the financial sector.

Portfolio Strategy

The NAV of the Company ended June 2018 at 187.52p per share, a decrease on the NAV of 195.40p at the close of 2017. The Company paid a total dividend of 5p over the period. The NAV total return for the six months was –1.5%.

The portfolio holds a core (46%) of non-financial high yield corporate bonds, focused on seasoned issuers that we consider have a low likelihood of default. In addition, we have significant exposure to areas of the financial sector, which we believe offer relatively attractive yields. Approximately 21% of the portfolio is invested in bank capital, predominantly in the subordinated debt of large European banks (Additional Tier 1 and legacy Tier 1). We also have a 13% allocation to subordinated bonds in the insurance sector. Elsewhere we have holdings in hybrid capital instruments (subordinated bonds with some equity-like characteristics). These instruments are held across various sectors including telecoms and utilities. We believe the subordination risk of these more junior debt instruments is attractive in the context of the companies' relatively strong balance sheets.

Outlook

The rise in euro denominated credit spreads over the past six months has brought some value back into the European high yield bond market.

That said, credit spreads are low by historical comparison and are only back to levels of late 2016. Furthermore, the market faces significant headwinds including: political uncertainty in Italy, the removal of the ECB stimulus at the end of the year, disruptions to global trade and the ongoing uncertainty surrounding Brexit. On the other hand, companies have been able to lock in very favourable borrowing costs. As a result, despite the likelihood for interest rates to rise, we would expect, all else being equal, default rates to remain low in the months ahead.

Given this mixed outlook, we remain cautious. Nonetheless, we are pleased to see some value come back into the market and, as lenders, welcome the opportunity to be able to influence the terms on which borrowers are raising capital.

Our overall approach remains focused on seeking to deliver a consistent and attractive level of income.

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

15 August 2018

PRINCIPAL RISKS AND UNCERTAINTIES

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

Strategic Risks

– *Market risk* – the Company invests primarily in fixed interest securities, the majority of which are traded on global security markets. The principal risk for investors in the Company is a significant fall and/or a prolonged period of decline in these markets. This could be triggered by unfavourable developments globally and/or in one or more regions. The Board cannot mitigate the effect of such external influences on the portfolio. Market risk also arises from movements in foreign currency exchange rates and interest rates.

– *Investment objectives* – the Company's investment objectives and structure no longer meet investors' demands.

– *Lack of liquidity in the Company's shares* – lack of liquidity and lack of marketability of the Company's shares leading to stagnant share price and wide discount.

Investment Management Risk

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

Third Party Service Providers Risk

– *Unsatisfactory performance of third party service providers (TPPs)* – failure by any service provider to carry out its obligations to the Company in accordance with the terms of its appointment could have a materially detrimental impact on the operations of the Company and affect its ability to successfully pursue its investment policy and expose it to reputational risk. Disruption to the accounting, payment systems or custody records could prevent the accurate reporting and monitoring of the Company's financial position.

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

Regulation and Corporate Governance Risk

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

Mitigating procedures and controls in relation to these principal risks and uncertainties are summarised on pages 12 and 13 of the Company's 2017 annual financial report.

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

RELATED PARTIES

Note 22 of the 2017 annual financial report gives details of related party transactions. The basis of these has not changed for the six months being reported. The 2017 annual financial report is available on the Company's section of the Manager's website at: www.invescoperpetual.co.uk/citymerchants.

GOING CONCERN

The financial statements are prepared on a going concern basis. The Directors consider that going concern is the appropriate basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. In reaching this conclusion, the Directors have taken into account the Company's investment objective, its risk management policies, the diversified nature of its investment portfolio, the borrowing facility which can be used to meet short-term funding requirements, the liquidity of most of its investments which could be used to repay any borrowings in the event that the facility could not be renewed or replaced and the ability of the Company to meet all of its liabilities and ongoing expenses.

BOND RATING ANALYSIS (STANDARD AND POOR'S RATINGS)

The definitions of these ratings are set out on page 59 of the 2017 annual financial report.

RATING	30 JUN 2018 % OF PORTFOLIO	30 JUN 2018 CUMULATIVE TOTAL %	31 DEC 2017 % OF PORTFOLIO	31 DEC 2017 CUMULATIVE TOTAL %
Investment Grade:				
AA+	–	–	2.3	2.3
A	1.2	1.2	1.2	3.5
A–	0.8	2.0	0.7	4.2
BBB+	3.3	5.3	3.3	7.5
BBB	3.7	9.0	3.3	10.8
BBB–	5.3	14.3	6.5	17.3
Non-investment Grade:				
BB+	9.4	23.7	13.3	30.6
BB	5.6	29.3	6.6	37.2
BB–	16.8	46.1	16.8	54.0
B+	5.5	51.6	7.4	61.4
B	13.3	64.9	13.1	74.5
B-	9.2	74.1	4.7	79.2
CCC+	–	74.1	0.1	79.3
CCC	3.1	77.2	1.5	80.8
CCC–	0.6	77.8	1.0	81.8
D	–	77.8	0.4	82.2
NR *(including equity)	22.2	100.0	17.8	100.0
	100.0		100.0	
Summary of Analysis				
Investment Grade	14.3		17.3	
Non-investment Grade	63.5		64.9	
NR (including equity)	22.2		17.8	
	100.0		100.0	

* NR: not rated.

DIRECTORS' RESPONSIBILITY STATEMENT

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

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

The Directors confirm that to the best of their knowledge:

– the condensed set of financial statements contained within the half-yearly financial report have been prepared in accordance with International Accounting Standards 34 *'Interim Financial Reporting'*;

– the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R of the FCA's *Disclosure Guidance and Transparency Rules;* and

– the interim management report includes a fair review of the information required on related party transactions.

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

Signed on behalf of the Board of Directors.

Tim Scholefield
Chairman

15 August 2018

THIRTY LARGEST INVESTMENTS AT 30 JUNE 2018

ISSUER/ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Lloyds Banking Group		Financials	UK		
7.875% Perpetual	Baa3/BB–			4,542	
7% Var Perpetual	Baa3/BB–			3,126	
				7,668	4.5
Aviva		Financials	UK		
6.125% Perpetual	A3/BBB			3,965	
8.875% Preference	NA/NR			1,702	
				5,667	3.3
Intesa Sanpaolo		Financials	Italy		
8.375% FRN Perpetual	Ba3/BB-			3,050	
7.75% Perpetual	Ba3/BB-			705	
7% Perpetual	Ba3/BB-			993	
				4,748	2.8
Virgin Media Finance		Consumer Services	UK		
7.0% 15 Apr 2023 (SNR)	B2/B			1,545	
6.25% 28 Mar 2029	Ba3/BB–			2,086	
				3,631	2.1
Standard Chartered		Financials	UK		
5.7% 26 Mar 2044	Baa1/BBB–			1,345	
5.125% 06 Jun 2034	Baa1/BBB–			2,022	
				3,367	2.0
Arqiva Broadcast Finance		Telecommunications	UK		
9.5% 31 Mar 2020	B3/NR			3,105	1.8
SFR		Telecommunications	France		
7.375% 01 May 2026 (SNR)	B1/B			3,103	1.8
Matalan Finance		Financials	UK		
9.5% 31 Jan 2024 (SNR)	Caa2/CCC			1,637	
6.75% 31 Jan 2023 (SNR)	B2/B–			1,343	
				2,980	1.7
Premier Foods Finance		Consumer Goods	UK		
FRN 15 Jul 2022 (SNR)	B2/B			783	
6.25% 15 Oct 2023	B2/B			2,187	
				2,970	1.7
Barclays		Financials	UK		
9.25% Perpetual	Ba2/BB+			1,172	
7% Perpetual	NR/B+			1,020	
8% Perpetual	NR/B+			343	
7.875% Var Perpetual	Ba3/B+			219	
				2,754	1.6
Virgin Money		Financials	UK		
8.75% Perpetual	NA/NR			2,702	1.6
Stonegate		Consumer Services	UK		
4.875% 15 Mar 2022 (SNR)	B2/B–			1,774	
FRN 15 Mar 2022 (SNR)	B2/B–			888	
				2,662	1.5
Enterprise Inns		Consumer Services	UK		
6.375% 15 Feb 2022 (SNR)	NR/BB–			1,309	
6% 06 Oct 2023	NR/BB–			1,084	
6.5% 06 Dec 2018 (SNR)	NR/BB–			243	
				2,636	1.5
Balfour Beatty		Industrials	UK		
10.75p Convertible Preference	NA/NR			2,603	1.5

ISSUER/ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Enel		Utilities	Italy		
7.75% 10 Sep 2075	Ba1/BBB–			1,595	
6.625% 15 Sep 2076	Ba1/BBB–			831	
				2,426	1.4
Catlin Insurance		Financials	USA		
7.249% FRN Perpetual	NA/BBB+			2,375	1.4
Algeco Scotsman		Financials	UK		
8% 15 Feb 2023 (SNR)	B2/B–			1,519	
10% 15 Aug 2023 (SNR)	Caa1/CCC			779	
				2,298	1.3
J. C. Penney		Supermarkets & Stores	USA		
8.125% 01 Oct 2019 (SNR)	Caa1/B–			939	
8.625% 15 Mar 2025 (SNR)	B3/B–			814	
6.375% 15 Oct 2036 (SNR)	Caa1/B–			535	
				2,288	1.3
Picard		Consumer Goods	Luxembourg		
FRN 30 Nov 2023	B2/B			2,264	1.3
Pension Insurance		Financials	UK		
8% 23 Nov 2026	NR/NR			2,168	1.3
Iron Mountain		Financials	USA		
4.875% 15 Sep 2027	Ba3/BB–			743	
3.875% 15 Nov 2025	Ba3/BB–			1,397	
				2,140	1.2
Koninklijke KPN		Telecommunications	Netherlands		
6.875% FRN 14 Mar 2073	Ba2/BB			2,111	1.2
ELM		Financials	Netherlands		
6.3024% FRN Perpetual	A3/A			2,045	1.2
Drax Finco		Electrical & Electronics	Luxembourg		
4.25% 01 May 2022 (SNR)	NR/BB+			2,009	1.2
DKT Finance		Financials	Denmark		
7% 17 Jun 2023 (SNR)	B3/NR			1,128	
9.375% 17 Jun 2023 (SNR)	B3/NR			851	
				1,979	1.1
Citigroup Capital		Financials	USA		
6.829% FRN Perpetual	Ba1/BB+			1,917	1.1
Electricite De France		Utilities	France		
6% Perpetual	Baa3/BB			1,320	
5.875% Perpetual	Baa3/BB			593	
				1,913	1.1
Ocado		Supermarkets & Stores	UK		
4% 15 Jun 2024 (SNR)	Ba3/NR			1,904	1.1
Fiat Chrysler Automobiles		Consumer Goods	Netherlands		
4.5% 15 Apr 2020	Ba3/BB+			1,890	1.1
Coty		Consumer Goods	USA		
4.75% 15 Apr 2026 (SNR)	B2/BB			1,866	1.1
				84,189	48.8
Other investments				88,449	51.2
Total investments				**172,638**	**100.0**

CONDENSED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018	STATED CAPITAL £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
At 31 December 2017	155,458	27,659	3,517	186,634
Net proceeds from issue of new shares – note 6	1,961	—	—	1,961
Total comprehensive income for the period	—	(7,650)	4,867	(2,783)
Dividends paid – note 4	—	—	(4,776)	(4,776)
At 30 June 2018	**157,419**	**20,009**	**3,608**	**181,036**

FOR THE SIX MONTHS ENDED 30 JUNE 2017				
At 31 December 2016	148,609	22,174	3,410	174,193
Net proceeds from issue of new shares	3,700	—	—	3,700
Total comprehensive income for the period	—	5,403	4,619	10,022
Dividends paid – note 4	(10)	—	(4,602)	(4,612)
At 30 June 2017	**152,299**	**27,577**	**3,427**	**183,303**

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	FOR THE SIX MONTHS TO 30 JUN 2018			FOR THE SIX MONTHS TO 30 JUN 2017		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
(Loss)/profit on investments held at fair value	—	(6,446)	(6,446)	—	4,991	4,991
Exchange differences	—	215	215	—	(344)	(344)
(Loss)/profit on derivative financial instruments – currency hedges	—	(1,174)	(1,174)	—	1,003	1,003
Income – note 5	5,536	—	5,536	5,317	—	5,317
Investment management fee – note 2	(443)	(238)	(681)	(440)	(237)	(677)
Other expenses	(213)	—	(213)	(224)	(2)	(226)
Profit/(loss) before finance costs and taxation	4,880	(7,643)	(2,763)	4,653	5,411	10,064
Finance costs	(13)	(7)	(20)	(15)	(8)	(23)
Profit/(loss) before taxation	4,867	(7,650)	(2,783)	4,638	5,403	10,041
Taxation – note 3	—	—	—	(19)	—	(19)
Profit/(loss) after taxation	4,867	(7,650)	(2,783)	4,619	5,403	10,022
Return per ordinary share	5.1p	(8.0)p	(2.9)p	5.0p	5.8p	10.8p
Weighted average number of shares in issue			95,655,092			92,499,048

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. The supplementary revenue and capital columns are both prepared in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies. All items in the above statement derive from continuing operations of the Company. No operations were acquired or discontinued in the period.

CONDENSED BALANCE SHEET

Registered in Jersey No. 109714

	AT 30 JUN 2018 £'000	AT 31 DEC 2017 £'000
Non-current assets		
Investments held at fair value through profit or loss	172,638	175,009
Current assets		
Other receivables – accrued income	3,451	2,834
Amounts due from brokers	496	—
Derivative financial instruments – unrealised net profit	—	450
Cash and cash equivalents	10,103	8,792
	14,050	12,076
Current liabilities		
Other payables	(426)	(451)
Amount due to brokers	(4,793)	—
Derivative financial instruments – unrealised net loss	(433)	—
	(5,652)	(451)
Net current assets	8,398	11,625
Net assets	181,036	186,634
Capital and reserves		
Stated capital – note 6	157,419	155,458
Capital reserve	20,009	27,659
Revenue reserve	3,608	3,517
Shareholders' funds	181,036	186,634
Net asset value per ordinary share	187.52p	195.40p
Number of shares in issue at the period end – note 6	96,541,204	95,516,204

CONDENSED STATEMENT OF CASH FLOW

	SIX MONTHS TO 30 JUN 2018 £'000	SIX MONTHS TO 30 JUN 2017 £'000
Cash flow from operating activities		
(Loss)/profit before finance costs and taxation	(2,763)	10,064
Adjustment for:		
Purchases of investments	(28,166)	(29,362)
Sales of investments	28,388	23,022
	222	(6,340)
Loss/(profit) on investments at fair value	6,446	(4,991)
Net cash movement from derivative instruments – currency hedges	883	1,329
(Increase)/decrease in receivables	(617)	103
(Decrease)/increase in payables	(25)	4
Taxation	—	(19)
Net cash inflow from operating activities	4,146	150
Cash flow from financing activities		
Finance cost paid	(20)	(23)
Net proceeds from issue of shares	1,961	3,442
Net equity dividends paid – note 4	(4,776)	(4,612)
Net cash outflow from financing activities	(2,835)	(1,193)
Net increase/(decrease) in cash and cash equivalents	1,311	(1,043)
Cash and cash equivalents at the start of the period	8,792	14,593
Cash and cash equivalents at the end of the period	10,103	13,550
Cash flow from operating activities includes:		
Dividends received	233	282
Interest received	5,016	5,113

1. Basis of Preparation

The condensed financial statements have been prepared using the same accounting policies as those adopted in the 2017 annual financial report. They have been prepared on an historical cost basis, in accordance with the applicable International Financial Reporting Standards (IFRS), as adopted by the European Union and, where possible, in accordance with the Statement of Recommended Practice for Financial Statements of Investment Trust Companies and Venture Capital Trusts, issued by the Association of Investment Companies in November 2014, as updated in February 2018.

2. Management Fees

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

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

In addition, the Manager is paid a fee based on an initial fee of £22,500 plus RPI increases in May of each year.

3. Taxation

The Company is subject to Jersey income tax at the rate of 0% (2017: 0%). The overseas tax charge consists of irrecoverable withholding tax.

4. Dividends Paid

SIX MONTHS TO 30 JUNE	2018 PENCE	2018 £'000	2017 PENCE	2017 £'000
Interim dividends in respect of previous period	2.5	2,388	2.5	2,300
First interim dividend	2.5	2,388	2.5	2,312
	5.0	4,776	5.0	4,612

Dividends paid in the period have been charged to revenue. £Nil was charged to stated capital (six months to 30 June 2017: £10,000). This amount is equivalent to the income accrued on the new shares issued in the period (see note 6).

A second interim dividend of 2.5p (2017: 2.5p) has been declared and will be paid on 20 August 2018 to ordinary shareholders on the register on 20 July 2018.

5. Income

SIX MONTHS TO 30 JUNE	2018 £'000	2017 £'000
Investment income – interest:		
– UK	2,505	1,911
– Overseas	2,798	3,165
Dividends:		
– UK	224	224
– Overseas	7	16
Deposit interest	2	1
	5,536	5,317

6. Stated Capital, including Movements

Allotted ordinary shares of no par value.

	SIX MONTHS TO 30 JUN 2018	YEAR TO 31 DEC 2017
Stated capital:		
Brought forward	£155,458,000	£148,609,000
Issue proceeds net of costs	£1,961,000	£6,912,000
Dividend paid from stated capital	—	£(63,000)
Carried forward	£157,419,000	£155,458,000
Number of ordinary shares:		
Brought forward	95,516,204	92,011,204
Issued in period	1,025,000	3,505,000
Carried forward	96,541,204	95,516,204
Per share:		
– average issue price	192.49p	198.19p

No shares have been issued since the period end.

7. Classification Under Fair Value Hierarchy

Note 19 of the 2017 annual financial report sets out the basis of classification.

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

	AT 30 JUN 2018 LEVEL 1 £'000	AT 30 JUN 2018 LEVEL 2 £'000	AT 31 DEC 2017 LEVEL 1 £'000	AT 31 DEC 2017 LEVEL 2 £'000
Financial assets designated at fair value through profit or loss:				
– Fixed interest securities[1]	—	162,423	—	166,558
– Convertibles	—	2,111	—	2,174
– Preference	3,222	—	3,516	—
– Convertible preference	2,603	—	2,687	—
– Equities	2,279	—	74	—
– Derivative financial instruments:				
Currency hedges	—	—	—	450
Total for financial assets	8,104	164,534	6,277	169,182
Financial liabilities designated at fair value through profit or loss:				
– Derivative financial instruments: Currency hedges	—	(433)	—	—
Total for financial liabilities	—	(433)	—	—

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

8. Status of Half-yearly Financial Report

The financial information contained in this half-yearly report, which has not been audited by the Company's auditor, does not constitute statutory accounts as defined in Article 104 of Companies (Jersey) Law 1991. The financial information for the half year ended 30 June 2018 and the half year ended 30 June 2017 have not been audited. The figures and financial information for the year ended 31 December 2017 are extracted and abridged from the latest audited accounts and do not constitute the statutory accounts for that year.

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

15 August 2018

DIRECTORS, ADVISERS AND EXTERNAL SERVICE PROVIDERS

Directors
Tim Scholefield (Chairman)
Philip Taylor (Audit Committee Chairman)
Philip Austin
John Boothman
Winifred Robbins

Alternative Investment Fund Manager (Manager)
Invesco Fund Managers Limited
Perpetual Park, Perpetual Park Drive
Henley-on-Thames, Oxfordshire RG9 1HH
☎ 01491 417 000

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

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

Company Secretary, Administrator and Registered Office
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 825 200

Registered in Jersey No: 109714

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

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

Invesco Client Services
Invesco has a Client Services Team available from 8.30am to 6pm, Monday to Friday (excluding bank holidays). Please note that the Team cannot give investment advice.

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

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

Shareholders who hold shares directly and in their own name and have queries relating to their shareholding should contact the Registrar's call centre on:
☎ 0871 664 0300

Calls cost 12p per minute plus your phone company's access charge.
☎ +44 (0)371 664 0300 (from outside the UK).

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 public holidays in England and Wales).

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 8.00am to 4.30pm Monday to Friday (excluding UK public holidays in England and Wales).

☎ +44 (0)371 664 0300 (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.

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

Invesco

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

Invesco is a business name of Invesco Fund Managers Limited.

Linkway 16946