City Merchants High Yield Trust Limited

Annual Financial Report

Year Ended 31 December 2014

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

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www.invescoperpetual.co.uk/investmenttrusts

The Company is a member of

aic

The Association of Investment Companies

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

Investment Objective

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

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 7), with the aim of spreading investment risk and generating a return for shareholders. The Company may use bank borrowings, the proceeds from which can also be invested with the aim of enhancing returns to shareholders. Such additional investment would increase the potential risk to shareholders should the value of the investments fall.

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

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

FINANCIAL INFORMATION AND PERFORMANCE STATISTICS

Total Return	AT 31 DECEMBER 2014	AT 31 DECEMBER 2013
Net Asset Value†	+5.0%	+13.3%
Share price	+8.5%	+18.5%
Ongoing Charges†	1.02%	1.02%
Dividend for the year	10p	10p

Year End Information

	31 DECEMBER 2014	31 DECEMBER 2013	% CHANGE
Net asset value per share†	183.40p	184.12p	–0.4
Share price	189.25p	184.00p	+2.9
Premium/(discount) per share†	3.2%	(0.1%)	
Gearing†			
Gross gearing	nil	nil	
Net cash	6.5%	5.5%	

Terms marked † are defined in the Glossary of Terms on page 59.

Ten Year Record – combined CMHYT plc and new CMHYT[3]

TO 31 DECEMBER	DIVIDENDS ON ORDINARY SHARES[1] COST £'000	DIVIDENDS ON ORDINARY SHARES[1] RATE P	ONGOING CHARGES[2] %	NET ASSET VALUE PER ORDINARY SHARE P	SHARE PRICE P
2005	7,203	[3]17.4	1.59	175.6	181.75
2006	5,664	12.0	1.41	179.7	190.25
2007	6,176	12.0	1.37	170.1	169.50
2008	6,718	12.0	1.39	97.5	104.50
2009	8,223	13.0	1.18	156.7	158.00
2010	8,008	11.0	1.11	169.0	173.00
2011	7,280	10.0	1.08	145.6	147.00
2012	7,278	10.0	1.07	171.3	164.50
2013	7,287	10.0	1.02	184.1	184.00
2014	**7,872**	**10.0**	**1.02**	**183.4**	**189.25**

(1) The dividends shown are those that were proposed in respect of each financial year. The 2005 dividend includes a special dividend of 5.4p.

(2) Ongoing charges exclude liquidation expenses and any refund of VAT on management fees.

(3) 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.

CHAIRMAN'S STATEMENT

The Company performed well in 2014 despite continuing volatility in bond markets and the increasing difficulty of sourcing quality high yield paper at good yields. For the year ended 31 December 2014, the total NAV return was 5.0% compared with the Investment Management Association Sterling Strategic Bond sector return of 6.3%. The Manager's Investment Report summarises the market background and portfolio strategy for the year, including how the portfolio is positioned and outlook.

The Company continues to produce an attractive level of income for shareholders. We were able to meet our dividend target of 10p in respect of the financial year, matching last year's total, and hope to repeat this in the coming year. The Board believes the portfolio remains well positioned to continue to provide an attractive level of income for shareholders. There is potential for further capital appreciation but also for some disappointment.

Demand for the Company's shares proved to be strong with the result that the shares traded at a premium to NAV for most of the year. As a result, I am delighted to report that 8,026,132 ordinary shares (almost 10% of share capital) were issued in the year, with approximately £15 million of capital raised. The issue price was at an average premium to NAV of 1.5% and the resultant enhancement to NAV was 0.8% after costs. Since the year end a further 1,200,000 shares have been issued.

The Directors will once again be asking shareholders to renew the authority to issue shares under special resolution 4 at the forthcoming AGM. However, given the rate at which the Company has been issuing shares, which the Board hopes will continue, the Board is seeking authority to issue up to 20% of its share capital instead of 10% as it has in the past. This is being done as a precaution against exhausting this authority prior to the next year's AGM. Notwithstanding the increased shareholder authority sought, the Company is prohibited from issuing more than 10% of its share capital in any 12 month period without publishing a prospectus and, as such, any issues in excess of 10% would only take place after publication of a prospectus.

In July 2014 the Company announced the appointment of Rhys Davies as Deputy Portfolio Manager to assist Paul Read and Paul Causer. Mr Davies has considerable experience of the Company's portfolio and Mr Read and Mr Causer continue to be joint lead portfolio managers.

Readers will notice that the Investment Objective and Policy wording on page 7 has been changed slightly to clarify the delineation between the objective and the policy and to emphasise that the Company's investments are mainly in fixed income securities.

As mentioned in my Half-Yearly statement, the Company worked with its Manager on the effective implementation of the Alternative Investment Fund Managers Directive (AIFMD) during the year and the appointment of the required depositary for the safekeeping of the Company's investments. It is not expected or intended that the new arrangements will result in any change to the way the Company's assets are invested.

Following relaxation of the UK tax rules on company residence, your Directors have taken legal advice on changing the Company's Articles of Association to exclude the restrictions as to where meetings can be held. Accordingly, we ask shareholders to vote in favour of special resolution 7 to change the Articles to permit the Company to hold meetings in locations other than Jersey. If the resolution is passed it is intended that future AGMs will be held in London, as most shareholders reside in the UK, rather than continuing with the current practice of holding the AGM in Jersey and a separate shareholder meeting in the UK.

Annual General Meeting (AGM)

The AGM will be held at the offices of R&H Fund Services (Jersey) Limited, Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW, at 10.30 am on 25 June 2015. All of the resolutions are described in detail in the Directors' Report on pages 51 to 53. As all the Directors were elected at the 2013 AGM, no directors are due for re-election this year.

In addition to the usual ordinary resolutions to receive this annual report and re-elect the auditor, there are five items of special business, two of which have been set out above and the remaining three annual resolutions are:

- ordinary resolution 3 to continue the Company

- special resolution 5 to renew the authority to buy back up to 14.99% of the Company's issued ordinary shares; and
- special resolution 6 that enables the Company to call general meetings (other than AGMs) on 14 days' notice .

Mainland Shareholder Meeting

Shareholders should note that, as last year, in addition to the AGM in Jersey an opportunity is being provided to pose questions on the annual report and hear from the portfolio managers at a meeting to be held in London at 11.00 am on 23 June 2015. This additional shareholder meeting will be held in Invesco Perpetual's offices on the first floor of 43-45 Portman Square, London W1H 6LY.

Clive Nicholson
Chairman
1 April 2015

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

MANAGER'S INVESTMENT REPORT

Market Background

2014 was a period of mixed returns for high yield bonds. Demand for income remained strong, but economic growth deteriorated in the Eurozone and global inflation was lower than the market had anticipated at the start of the year. As the market adjusted to the new economic outlook the timing of future interest rate hikes was pushed out. This changing economic backdrop favoured more interest rate sensitive bonds and core government and investment grade corporate bonds outperformed high yield. Within high yield performance was also skewed towards higher quality, more interest rate sensitive bonds. In the second half of the year we started to see a divergence in the performance of European and US high yield bonds with Europe outperforming.

In Europe, deteriorating economic growth and low inflation increased the pressure on the European Central Bank (ECB) to implement quantitative easing (QE). As expectations that the ECB would need to implement QE increased, government bonds rallied strongly. In turn this benefitted higher quality corporate bonds, which tend to have a higher sensitivity to interest rate changes. Concerns about economic growth reinforced the trend toward quality, with the lowest rated high yield bonds coming under pressure.

During the second half of the year a sharp fall in crude oil prices accelerated the decline in inflation. The impact of lower oil prices has been particularly hard felt in the US high yield market, which has a high exposure to energy companies. This has increased the divergence in the performance of US and European high yield markets.

According to data from Merrill Lynch, European high yield bonds had a total return for the year of 5.8%. The aggregate yield for the asset class fell 17bps, from 5.07% to 4.88%. BB rated bonds returned 7.9% while CCC and below returned –2.7%. These returns compare to 12.6% for sterling investment grade corporate bonds (a higher duration as well as higher quality market) and 14.7% for gilts. US high yield returned 2.7% while German Bunds returned 10.7%. (All returns sterling hedged.)

2014 was another strong year for European high yield issuance. Barclays estimate there was a total of €69 billion issued in European currencies, down just 1.6% on the record breaking levels of 2013. Much of the issuance was skewed toward the April to July quarter during which time €31.6 billion was issued. The primary market was much quieter during the second half of the year as investors' preference shifted toward higher quality bonds and the cost of funding increased. Although overall default rates remain low there were a number of credit events through the year, including Portuguese banking group Banco Espirito Santo, UK telecoms company Phones 4U and Spanish multinational company Abengoa. These events caused short term spikes in the overall level of market volatility.

Portfolio Strategy

For the year ended 31 December 2014, the NAV total return on the ordinary shares of the Company was 5.0%. The NAV per share fell by 0.72p to 183.4p. A total dividend of 10p has been paid for the year.

We began the year positioned defensively, with a relatively high allocation to cash. Exposure was focused on high quality well established companies rated as high yield, as well as high yielding investment grade names. Other than financials, we did not see much value in investment grade corporate bonds and, to us, it seemed difficult to build a convincing investment thesis for high yield bonds to appreciate much from the levels they had already attained.

This overall defensive stance was maintained through the year, although we did use the weakness in high yield markets during late summer/autumn to add some selective high yield exposure. We have not employed gearing in the portfolio. Our loan facility remains inexpensive and we will use it if we see an opportunity to add value in a market correction.

Many of our holdings are in high quality European banks that have the defensive qualities we want while also providing a reasonably attractive level of yield. This exposure is held across the capital structure although the largest weighting is in subordinated debt. Given the market's concerns about economic growth, this typically cyclical sector underperformed the broader corporate bond market over the year. However, when viewed in terms of the reward to risk, we think that we are still better rewarded for the combination of credit and subordination risk on these instruments than for taking credit risk in conventional corporate bonds.

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

Outlook

Our outlook remains cautious. We think that the high yield bond market is relatively highly valued and has limited potential for further capital appreciation.

We think that, although the demand for income will remain an important factor in total returns across bond markets, duration is once again likely to be the dominant factor. In this context the economic backdrop remains relatively supportive: inflation is low while economic growth is generally weak and this should allow central banks to remain accommodative for some time to come. However, with a large part of the investment universe already reflecting this benign outlook the opportunity for disappointment is, in our view, not insignificant.

Paul Read **Paul Causer**
Portfolio Managers

Rhys Davies
Deputy Portfolio Manager

1 April 2015

BUSINESS REVIEW

Strategy and Business Model

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

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:

– From 22 July 2014, Invesco Fund Managers Limited (the 'Manager') to manage the portfolio in accordance with the Board's strategy. Prior to 22 July 2014, Invesco Asset Management Limited (IAML) was the Manager and, in practice, IAML continues to manage the portfolio under delegated authority; and

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

The Company also has contractual arrangements with third parties to act as registrar, corporate broker and, since 22 July 2014, depositary.

Investment Management

As noted above, 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 arrear and is equal to 0.1875% of the value of the Company's total assets under management less current liabilities at the end of the relevant quarter. In addition, the Manager is paid a fixed fee of £22,500 plus RPI per annum for administrative services. The change of Manager in July 2014 did not affect the notice period or fee arrangements.

The portfolio managers responsible for the day-to-day management of the portfolio are Paul Read and Paul Causer. In addition, Rhys Davies was appointed as the deputy portfolio manager on 3 July 2014.

The Manager's Responsibilities

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

Assessment of the Manager

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

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

Investment Objective and Policy

The Investment Objective and Policy has been changed slightly from that previously approved by shareholders to clarify the delineation between the objective and the policy and to emphasise that the Company's investments are mainly in fixed interest securities. Accordingly, the following wording differs from that used in last year's annual financial report, although the substance is intended to be the same.

Investment Objective

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

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

Investment Limits

– the Company may invest in fixed-interest securities, including but not restricted to preference shares, loan stocks (convertible and redeemable), corporate bonds and government stocks, up to 100% of total assets;
– investments in equities may be made up to an aggregate limit of 20% of total assets;
– the aggregate value of holdings of shares and securities in a single issuer or company, including a listed investment company or trust, will not exceed 15% of the value of the Company's investments; and
– investments in unlisted investments will not exceed 10% of the Company's total assets for individual holdings and 25% in aggregate of total assets.

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

Derivatives and Currency Hedging

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

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

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

Borrowings

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

Key Performance Indicators

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

- Performance
- Dividends
- Premium/Discount
- Ongoing Charges

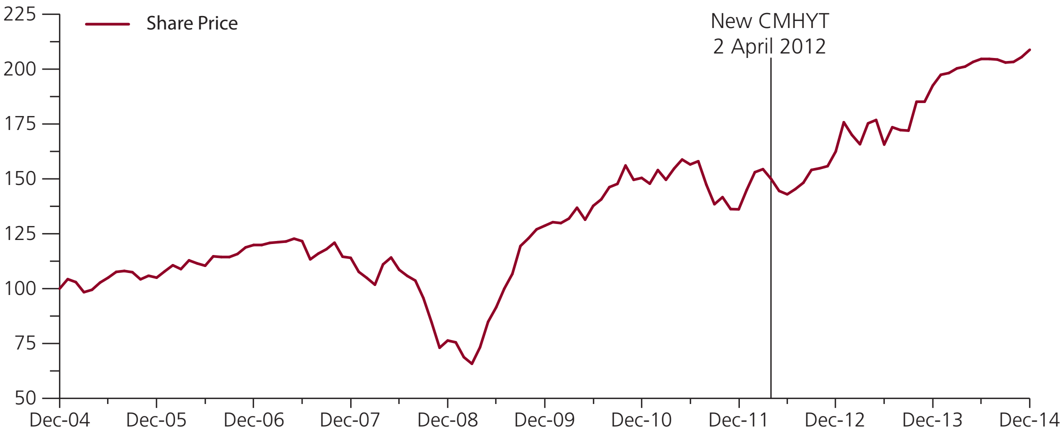
Performance

As the Company's objective is to achieve both high income and capital growth, the performance is best measured in terms of total return. There is no stock market index against which the Company's performance may be measured with any degree of relevance. Therefore, the Board refers to a variety of relevant data and this is reflected in both the Chairman's Statement and the Manager's Investment Report on pages 3 to 6. The Board is satisfied with the portfolio performance in the year.

When considering historical returns, the terms of the reconstruction in 2012 allow direct comparison of the Company's financial information with that of its predecessor, City Merchants High Yield Trust plc. It is therefore appropriate to combine the information from both companies, and the graph below shows the performance of the share price for the last ten years.

Ten Year Total Return Graph

All figures rebased to 100 at 31 December 2004.



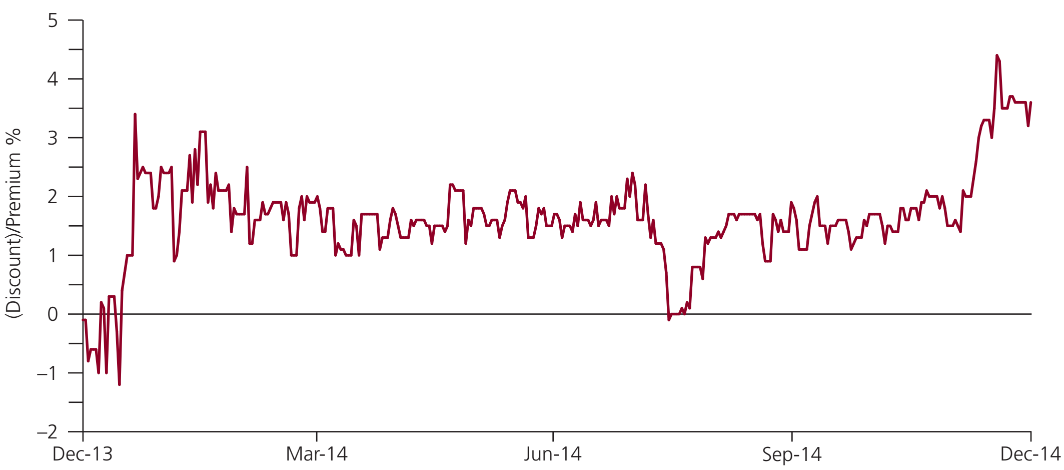
Source: Morningstar.

Dividends

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

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. The Board has limited influence on the price at which the Company's shares trade, which is mostly a function of investor sentiment and demand for the shares. The ideal would be for the shares to trade close to their net asset value. The following graph shows the premium/discount through the year, ending with a premium of 3.2%. As explained in the Chairman's Statement, demand for shares throughout the year resulted in the issue of 8,026,132 shares at an average price of 187.48p. Subsequent to the year end, a further 1,200,000 shares have been issued.



Source: Morningstar.

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Ongoing Charges

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

Financial Position

The Company's balance sheet on page 33 shows the assets and liabilities at the year end. A £20 million revolving credit facility is available, though it was not used during the year. Details of this facility, including applicable covenants, are shown in note 7 to the financial statements.

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 6.

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 made enquiries, the Directors have no reason to believe that the resolution to release them from that obligation, that is being put to shareholders at the forthcoming AGM, will not be passed. This view is further supported by the ongoing demand for the Company's shares, evidenced by them trading at a premium to net asset value for most of the year and by the frequency and volume of new shares issued.

Internal Control and Risk Management

The Directors acknowledge that they are responsible for ensuring that the Company maintains a system of internal financial and non-financial controls (internal controls) to safeguard shareholders' investments and the Company's assets.

The Directors assess the risks to which the Company is exposed by reference to a risk control summary, which maps the risks, mitigating controls in place and relevant information reported to them. The resultant ratings of the mitigated risks, in the form of a risk heat map, allow the Directors to concentrate on those risks that are most significant and also forms the basis of the list of principal risks and uncertainties set out below. The ratings take into account the Directors' risk appetite and the ongoing monitoring by the Manager.

The effectiveness of the Company's internal control and risk management system is reviewed at least biannually by the Audit Committee. The Audit Committee has received satisfactory reports on both the Manager's and the custodian's operations and systems of internal control from the Manager's Compliance and Internal Audit Officers. Subsequent to the appointment of the depositary during the year, the Committee also received a comprehensive, and satisfactory, report from the depositary at the year end Audit Committee meeting. The Manager regularly reviews, against agreed service standards, the performance of all third party providers through formal and informal meetings, and by reference to third party independently audited control reports. The results of the Manager's reviews are reported to and reviewed by the Audit Committee. These various reports did not identify any significant failings or weaknesses 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 hedging and gearing; performance against stock market indices and the Company's peer group; portfolio managers' review, including of the market, the portfolio, transactions and prospects; revenue forecasts; and investment monitoring against guidelines. In particular the Board formally reviews the performance of the Manager annually and informally at every board meeting.

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

Principal Risks and Uncertainties

The internal control and risk management system, which was explained above, identifies the key risks to the Company. These principal risks are considered to be:

Investment Objective

There can be no guarantee that the Company will meet its investment objective. The Board has established investment guidelines to ensure that investments are made in accordance with the investment policy.

Investment Risk

The Company invests primarily in fixed interest securities and equities, the majority of which are traded on the world's major securities markets. A significant fall in the markets and/or a prolonged period of decline relative to other forms of investment pose a significant risk to investors. The Board cannot mitigate the effect of such external influences on the portfolio.

Other investment risks include market risk (currency, interest rate and other risk) and credit risk, including counterparty 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. An explanation of market risk and how this is addressed is given in note 18 to the financial statements.

For a discussion of the economic and market conditions facing the Company and the current and future performance of the portfolio of the Company, see the Chairman's Statement and the Manager's Investment Report. The investment style employed by the Manager is set out under Investment Objective and Policy on pages 7 and 8.

Foreign Exchange Risk

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

Derivatives

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

Dividends

The dividends declared by the Board are based on income generated from the portfolio and this is monitored regularly by the Board. There can be no guarantee that any dividend target set by the Board will be met.

Ordinary Shares and Discount

Past performance of the Company is not necessarily indicative of future performance. The Company's share price may go down as well as up and investors may not get back the full value of their investment. The share price may not reflect the NAV per share and therefore trade at a discount. The Board, the Manager and the Company's corporate broker maintain an active dialogue with the aim of ensuring that the market rating of the Company's shares reflects the underlying NAV. Buy back and issuance facilities help the management of this process.

Although the shares trade on the London Stock Exchange, it is possible that there may be times when there is not a liquid market in the shares and shareholders may have difficulty selling them.

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Gearing of Returns through Borrowings

Performance may be geared by means of the Company's credit facility, which was available during the year, although not used.

There is no guarantee that this facility will be renewable at maturity on terms acceptable to the Company and any amounts owing by the Company would then need to be funded by the sale of investments. Both the Manager and Board monitor this position closely.

Gearing and borrowing levels are managed by the portfolio managers using their assessment of risk versus reward. Levels must be within the guidelines set strategically by the Board. Gearing 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.

Operational Risk, including Reliance on Third Party Providers

Disruption to, or failure of, any third party provider to carry out its obligations could have a materially detrimental impact on the effective operation of the Company, prevent accurate reporting and monitoring of the Company's financial position or effect the ability of the Company to pursue its investment policy successfully. Such failure could also expose the Company to reputational risk. In addition, any damage to the reputation of the Manager could result in potential counterparties and third parties being unwilling to deal with the Manager and by extension the Company.

Details of how the Board monitors the services provided by the Manager and the other third party providers, and the key elements designed to provide effective internal control, are included in the internal control and risk management section on pages 10 and 11, and in note 18 to the financial statements.

The risk that one of the portfolio managers might be incapacitated or otherwise unavailable is mitigated by the fact that they work within and are supported by the wider Invesco Fixed Interest team.

Regulatory and Tax Related

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

Failure by the Company to maintain its non-UK tax resident status may subject the Company to additional taxes which may materially adversely affect the Company's business and therefore its share value.

The Board relies on the ongoing monitoring of its company secretary, Manager and other professional advisers to ensure compliance and reviews their regular reports to the Board.

Substantial Holdings in the Company

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

	AT 23 MARCH 2015		AT 31 DECEMBER 2014		AT 31 DECEMBER 2013	
	HOLDING	%	HOLDING	%	HOLDING	%
Charles Stanley, stockbrokers	7,827,881	9.6	7,752,439	9.6	6,880,948	9.5
Invesco Perpetual	7,101,392	8.7	7,101,392	8.8	7,101,392	9.8
Hargreaves Lansdown, stockbrokers	4,272,425	5.2	3,949,936	4.9	2,675,352	3.7
Alliance Trust Savings	4,210,393	5.1	4,113,063	5.1	3,673,040	5.1
Brewin Dolphin, stockbrokers	3,733,982	4.6	3,456,055	4.3	4,451,918	6.1
Court Funds Office (NI)	3,410,031	4.2	3,819,686	4.7	1,705,653	2.3
Smith & Williamson	3,312,287	4.0	3,320,220	4.1	2,961,280	4.1
Rathbones	2,949,423	3.6	2,966,092	3.7	2,676,996	3.7
Redmayne Bentley, stockbrokers	2,582,301	3.2	2,471,506	3.1	2,334,277	3.2
Barclays Stockbrokers	2,347,847	2.9	2,318,386	2.9	2,209,330	3.0
Legal & General Investment Management	2,210,117	2.7	2,177,250	2.7	2,202,807	3.0

Board Diversity

The Company's policy on diversity is set out on page 23. The Board considers diversity, including the balance of skills, knowledge, diversity (including gender) and experience, amongst other factors when reviewing its composition and appointing new directors, but does not consider it appropriate to establish targets or quotas in this regard. The Board comprises five non-executive directors of whom one is a woman, thereby constituting 20% female representation. Summary biographical details of the Directors are set out on page 20. The Company has no employees.

Social and Environmental Matters

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

This Strategic Report was approved by the Board of Directors on 1 April 2015.
R&H Fund Services (Jersey) Limited
Company Secretary

CLASSIFICATION OF INVESTMENTS BY GEOGRAPHICAL LOCATION

AT 31 DECEMBER

	2014					2013				
	UNITED KINGDOM %	NORTH AMERICA %	EUROPE %	SOUTH AFRICA & AUSTRALIA %	TOTAL %	UNITED KINGDOM %	NORTH AMERICA %	EUROPE %	SOUTH AFRICA & AUSTRALIA %	TOTAL %
Fixed interest securities[1]	34.6	7.9	41.8	2.4	86.7	32.7	5.6	42.5	3.0	83.8
Convertibles	1.3	1.1	0.1	—	2.5	—	0.8	3.0	—	3.8
Preference	2.1	—	—	—	2.1	2.0	—	—	—	2.0
Convertible preference	5.0	—	—	—	5.0	4.9	—	—	—	4.9
Equities	—	—	—	—	—	0.1	0.1	0.3	—	0.5
Warrants	—	3.7	—	—	3.7	—	5.0	—	—	5.0
Total	43.0	12.7	41.9	2.4	100.0	39.7	11.5	45.8	3.0	100.0

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

INDUSTRY ANALYSIS OF INVESTMENTS BY GEOGRAPHICAL LOCATION

AT 31 DECEMBER

	2014			2013		
	UNITED KINGDOM %	NON-UK %	TOTAL %	UNITED KINGDOM %	NON-UK %	TOTAL %
Oil and Gas	—	2.9	2.9	—	4.6	4.6
Basic Materials	0.8	3.1	3.9	1.2	1.9	3.1
Industrials[1]	7.5	5.3	12.8	6.5	7.1	13.6
Consumer Goods	3.7	9.0	12.7	4.2	11.4	15.6
Health Care	0.2	—	0.2	0.4	—	0.4
Consumer Services	8.2	3.6	11.8	5.3	6.4	11.7
Telecommunications	0.4	7.7	8.1	0.4	4.9	5.3
Utilities	1.7	5.8	7.5	1.8	3.8	5.6
Financials	20.5	18.7	39.2	19.9	19.4	39.3
Technology	—	0.9	0.9	—	0.8	0.8
Portfolio Total	43.0	57.0	100.0	39.7	60.3	100.0

(1) Industrials was amalgamated with Support Services in 2014.

The percentages shown in the above tables are related to the value of investments of £135.8 million (2013: £123.8 million).

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

AT 31 DECEMBER

	2014				2013			
	INCLUDING CURRENCY HEDGING			EXCLUDING	INCLUDING CURRENCY HEDGING			EXCLUDING
	STERLING %	OTHER %	TOTAL %	HEDGING %	STERLING %	OTHER %	TOTAL %	HEDGING %
Fixed interest securites[1]	46.8	34.0	80.8	81.0	39.6	39.3	78.9	79.0
Convertibles	0.4	2.0	2.4	2.4	—	3.5	3.5	3.5
Preference	1.9	—	1.9	1.9	2.0	—	2.0	2.0
Convertible preference	4.7	—	4.7	4.7	4.7	—	4.7	4.7
	53.8	36.0	89.8	90.0	46.3	42.8	89.1	89.2
Equities	—	—	—	—	0.1	0.3	0.4	0.4
Warrants	—	3.4	3.4	3.4	—	4.8	4.8	4.8
Portfolio Total	53.8	39.4	93.2	93.4	46.4	47.9	94.3	94.4
Cash	3.8	2.7	6.5	6.6	2.1	3.5	5.6	5.6
Portfolio and Cash Total	57.6	42.1	99.7	100.0	48.5	51.4	99.9	100.0
Currency Hedging								
Forward currency sales	29.0	(28.7)	0.3		38.7	(38.6)	0.1	
Net Currency Exposure	86.6	13.4	100.0		87.2	12.8	100.0	

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

BOND RATING ANALYSIS (STANDARD AND POOR'S RATINGS)

For the definitions of these ratings see the Glossary on page 60.

	2014		2013	
RATING	% OF PORTFOLIO	CUMULATIVE TOTAL %	% OF PORTFOLIO	CUMULATIVE TOTAL %
Investment Grade:				
A–	0.8	0.8	1.2	1.2
BBB+	6.5	7.3	4.6	5.8
BBB	6.3	13.6	7.0	12.8
BBB–	3.4	17.0	10.0	22.8
Non-investment Grade:				
BB+	14.9	31.9	12.2	35.0
BB	6.6	38.5	8.5	43.5
BB–	5.4	43.9	6.0	49.5
B+	16.8	60.7	9.8	59.3
B	10.2	70.9	11.6	70.9
B–	3.6	74.5	2.6	73.5
CCC+	5.1	79.6	1.9	75.4
CCC	0.2	79.8	0.3	75.7
NR (including equity)	20.2	100.0	24.3	100.0
	100.0		100.0	

INVESTMENTS IN ORDER OF VALUATION

AT 31 DECEMBER 2014

ISSUER	ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Lloyds Banking Group –						
Lloyds Bank &	7.875% Perpetual	NR/B+	Financials	UK	3,954	2.91
LBG Capital	7% Var Perpetual	NR/B+			3,039	2.24
					6,993	5.15
Aviva	6.125% Perpetual	Baa1/BBB	Financials	UK	3,863	2.85
General Accident	8.875% Preference	NR/NR			1,524	1.12
					5,387	3.97
General Motors	Wts 10 Jul 2019	Equity	Consumer Goods	USA	4,461	3.29
	Wts 10 Jul 2016	Equity			510	0.38
					4,971	3.67
Société Genérale	8.875% FRN Perpetual	Ba2/BB+	Financials	France	4,544	3.35
	8.25% Perpetual	Ba2/BB+			235	0.17
	7.875% FRN Perpetual	Ba2/BB+			174	0.12
					4,953	3.64
Premier Farnell	89.2p Convertible Preference	NR/NR	Industrials	UK	4,077	3.00
Credit Agricole	7.589% FRN Perpetual	Ba2/BB+	Financials	France	2,371	1.75
	7.5% Var Perpetual	NR/NR			899	0.66
	8.125% FRN Perpetual	Ba2/BB+			565	0.42
					3,835	2.83
Telefonica Europe	6.75% Perpetual	Ba1/BB+	Telecommunications	Netherlands	2,206	1.63
	5.875% Perpetual	Ba1/BB+			1,169	0.86
					3,375	2.49
Iron Mountain	6.125% 15 Sep 2022	Ba2/B+	Industrials	USA	1,998	1.47
	6.75% 15 Oct 2018	B2/B–			1,358	1.00
					3,356	2.47
Twinkle Pizza	6.625% 01 Aug 2021	B2/B	Consumer Services	UK	1,934	1.42
	8.625% 01 Aug 2022	Caa1/CCC+			1,202	0.89
					3,136	2.31
Standard Chartered	5.125% 06 Jun 2034	A3/BBB	Financials	UK	1,821	1.34
	5.7% 26 Mar 2044	A3/BBB			1,315	0.97
					3,136	2.31
Intesa Sanpaolo	8.375% FRN Perpetual	Ba3/B+	Financials	Italy	2,982	2.20
Balfour Beatty	10.75p Convertible Preference	NR/NR	Industrials	UK	2,747	2.02
Enterprise Inns	6.5% 06 Dec 2018 (SNR)	NR/BB–	Consumer Goods	UK	2,567	1.89
Electricite De France	6% Perpetual	A3/BBB+	Utilities	France	1,382	1.02
	5.875% Perpetual	A3/BBB+			1,042	0.77
					2,424	1.79
Enel	7.75% 10 Sep 2075	Ba1/BB+	Utilities	Italy	1,582	1.17
	6.625% 15 Sep 2076	Ba1/BB+			797	0.59
					2,379	1.76

ISSUER	ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Barclays	9.25% Perpetual	Ba1/BB+	Financials	UK	1,188	0.88
	7% Perpetual	NR/B			957	0.70
					2,145	1.58
Citigroup Capital	6.829% FRN 28 Jun 2067	Ba1/BB	Financials	USA	2,137	1.57
REA Finance	9.5% 31 Dec 2017	NR/NR	Consumer Goods	Netherlands	2,090	1.54
Koninklijke KPN	6.875% FRN 14 Mar 2073	Ba2/BB	Telecommunications	Netherlands	2,078	1.53
Catlin Insurance	7.249% FRN Perpetual	NR/BBB+	Financials	USA	2,011	1.48
Gala Finance	8.875% 01 Sep 2018	B2/B+	Consumer Services	UK	1,879	1.38
Santos Finance	8.25% FRN 22 Sep 2070	NR/BBB–	Oil and Gas	Australia	1,647	1.21
Origin Energy	7.875% 16 Jun 2071	Ba1/BB+	Utilities	Australia	1,639	1.21
Obrascon Huarte Lain	8.75% 15 Mar 2018	B1/NR	Industrials	Spain	1,620	1.19
TMF	9.875% 01 Dec 2019	Caa1/CCC+	Financials	Netherlands	1,583	1.17
Mobile Challenger Intermediate	8.75% 15 Mar 2019	NR/B–	Telecommunications	Luxembourg	1,577	1.16
BPCE	9% FRN Perpetual	Ba2/BB+	Financials	France	1,572	1.16
Standard Life	6.75% Perpetual	A3/A–	Financials	UK	1,115	0.82
	5.5% 04 Dec 2042	Baa2/BBB			378	0.28
					1,493	1.10
UniCredit International Bank	8.125% FRN Perpetual	B1/B+	Financials	Luxembourg	893	0.66
	8.5925% FRN Perpetual	B1/B+			541	0.40
					1,434	1.06
Constellium	8% 15 Jan 2023	B1/NR	Basic Materials	France	658	0.48
	4.625% 15 May 2021	B1/B			476	0.35
	5.75% 15 May 2024	B1/B			279	0.21
					1,413	1.04
Gala Electric Casinos	11.5% 01 Jun 2019	Caa2/CCC+	Consumer Services	UK	1,349	0.99
Ecclesiastical Insurance Office	8.625% Preference	NR/NR	Financials	UK	1,285	0.95
Alcatel-Lucent	6.5% 15 Jan 2018	WR/B	Technology	USA	618	0.46
	6.45% 15 Mar 2029	WR/B			613	0.45
					1,231	0.91
Virgin Media Finance	6% 15 Apr 2021	Ba3/BB–	Consumer Services	UK	684	0.50
	6.25% 28 Mar 2029	Ba3/BB–			518	0.39
					1,202	0.89
Campofrio Food	8.25% 31 Oct 2016	Ba3/BB+	Consumer Goods	Spain	1,189	0.88
Orange	5.875% Var 29 Dec 2019	Baa3/BBB–	Telecommunications	France	1,157	0.85
Direct Line Insurance	9.25% FRN 27 Apr 2042	Baa1/BBB+	Financials	UK	1,152	0.85
Deutsche Bank	7.125% Perpetual	Ba3/BB	Financials	Germany	1,145	0.84
Galapagos	7% 15 Jun 2022	Caa1/CCC+	Industrials	Luxembourg	1,104	0.81
Southern Water (Greensands)	8.5% 15 Apr 2019	NR/BB–	Utilities	UK	1,100	0.81
Thames Water	7.75% 01 Apr 2019	B1/NR	Utilities	UK	1,081	0.80
Abengoa	8.5% 31 Mar 2016	B2/B	Industrials	Spain	773	0.57
	4.5% Cnv 03 Feb 2017	NR/NR			303	0.22
					1,076	0.79

INVESTMENTS IN ORDER OF VALUATION
continued

ISSUER	ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Volkswagen International Finance	4.625% Perpetual	Baa2/BBB+	Consumer Goods	Netherlands	1,035	0.76
HSBC	5.25% 14 Mar 2044	A3/BBB+	Financials	UK	438	0.32
	4.25% 14 Mar 2024	A3/BBB+			427	0.32
	6.375% Cnv Perpetual	Baa3/NR			168	0.12
					1,033	0.76
Chrysler	8% 15 Jun 2019	B1/B	Consumer Goods	USA	1,018	0.75
Bombardier	6% 15 Oct 2022	Ba3/BB–	Industrials	Canada	973	0.72
CGG Veritas	6.875% 15 Jan 2022	B1/B+	Oil and Gas	France	683	0.50
	7.75% 15 May 2017	B1/B+			266	0.20
					949	0.70
BNP Paribas Fortis	Cnv FRN Perpetual	Ba3/BB	Financials	Belgium	886	0.65
Fiat Chrysler Automobiles	7.875% Cnv 15 Dec 2016	NR/B–	Consumer Goods	Netherlands	884	0.65
Scottish Widows	5.5% 16 Jun 2023	Baa1/BBB+	Financials	UK	859	0.63
Premier Foods Finance	6.5% Snr 15 Mar 2021	B2/B	Consumer Goods	UK	858	0.63
BBVA	9% Perpetual	NR/NR	Financials	Spain	826	0.61
Phoenix Life	7.25% Perpetual	WR/NR	Financials	UK	819	0.60
Zobele	7.875% 01 Feb 2018	B2/B	Basic Materials	Italy	788	0.58
Stretford 79	6.25% Snr 15 Jul 2021	B1/B+	Consumer Services	UK	785	0.58
Algeco Scotsman Global Finance	9% 15 Oct 2018	B2/NR	Consumer Services	UK	777	0.57
InterGen Services	7.5% 30 Jun 2021	B1/B+	Oil and Gas	Netherlands	771	0.57
Bormioli Rocco	10% 01 Aug 2018	B3/B+	Consumer Goods	Luxembourg	746	0.55
Greenko	8% 01 Aug 2019	NR/B	Utilities	Netherlands	744	0.55
AXA	6.379% FRN Perpetual	Baa1/BBB–	Financials	France	695	0.51
Peabody Energy	4.75% Cnv 15 Dec 2066	B2/B–	Basic Materials	USA	676	0.50
Unitymedia Hessen	5.625% 15 Apr 2023	Ba3/BB–	Consumer Services	Germany	671	0.49
Peel Land & Property Investments	8.375% Var 30 Apr 2040	NR/BBB	Financials	UK	669	0.49
Telekom Austria	5.625% Perpetual	Ba1/BB+	Telecommunications	Austria	666	0.49
Play Topco	7.75% 28 Feb 2020	Caa1/CCC+	Telecommunications	Luxembourg	647	0.48
Equiniti Newco 2	7.125% 15 Dec 2018	B3/B	Industrials	UK	533	0.39
	FRN 15 Dec 2018	B3/B			113	0.09
					646	0.48
Vedanta Resources	8.25% 07 Jun 2021	Ba3/BB	Basic Materials	UK	636	0.47
Vougeot Bidco	7.875% 15 Jul 2020	B2/B	Consumer Services	UK	588	0.43
CEMEX España	9.25% 12 May 2020	NR/B+	Industrials	Spain	584	0.43
AG Spring Finance II	7.5% 01 Jun 2018	B2/B	Financials	Ireland	578	0.43
Manutencoop Facility Management	8.5% 01 Aug 2020	B2/B	Consumer Services	Italy	573	0.42
Pendragon	6.875% 01 May 2020	B1/B+	Consumer Services	UK	567	0.42
ENCE Energia y Celulosa	7.25% 15 Feb 2020	B1/BB–	Utilities	Spain	566	0.42
Jaguar Land Rover	8.25% 15 Mar 2020	Ba2/BB	Consumer Goods	UK	550	0.41
La Financiere Atalian	7.25% 15 Jan 2020	B3/B	Consumer Services	France	533	0.39
Legal & General	6.385% FRN Perpetual	Baa2/BBB+	Financials	UK	524	0.39
Braas Monier Building	FRN 15 Oct 2020	B1/B+	Industrials	Luxembourg	513	0.38
Principality Building Society	7% Perpetual	Ba3/NR	Financials	UK	513	0.38
J Sainsbury	1.25% Cnv 21 Nov 2019	NR/NR	Consumer Services	UK	513	0.38

ISSUER	ISSUE	MOODY/S&P RATING	INDUSTRY	COUNTRY OF INCORPORATION	MARKET VALUE £'000	% OF PORTFOLIO
Arqiva Broadcast Finance	9.5% 31 Mar 2020	B3/NR	Telecommunications	UK	504	0.37
DFS Furniture	7.625% 15 Aug 2018	B2/B	Consumer Goods	UK	485	0.36
Odeon & UCI Finco	9% 01 Aug 2018	B3/CCC+	Consumer Services	UK	467	0.34
Tesco	5.2% 05 Mar 2057	Baa3/BBB–	Consumer Services	UK	454	0.33
M&G Finance	7.5% FRN Perpetual	NR/NR	Financials	Luxembourg	449	0.33
Commerzbank	8.125% 19 Sep 2023	Ba2/BB	Financials	Germany	443	0.33
Eileme 2	11.75% 31 Jan 2020	B2/B+	Telecommunications	Sweden	441	0.32
S & B Industrial Minerals	9.25% 15 Aug 2020	B3/B+	Basic Materials	Luxembourg	441	0.32
Stonegate Pub Company	5.75% 15 Apr 2019	B2/B+	Consumer Services	UK	432	0.32
Lottomatica	8.25% FRN 03 Mar 2066	Ba2/BB	Consumer Services	Italy	420	0.31
Boparan Finance	5.5% 15 Jul 2021	B1/B+	Consumer Services	UK	416	0.31
Ono Finance II	11.125% 15 Jul 2019	Ba2/BBB	Consumer Services	Ireland	412	0.30
KraussMaffei	8.75% 15 Dec 2020	B2/B–	Industrials	Germany	409	0.30
SMCP	8.875% 15 Jun 2020	B3/B	Consumer Goods	France	406	0.30
First Quantum Minerals	7.25% 15 May 2022	B1/B+	Basic Materials	Canada	404	0.30
Solvay Finance	5.425% Perpetual	Ba1/BBB–	Basic Materials	France	400	0.29
Telenet Finance	6.75% 15 Aug 2024	B1/B+	Telecommunications	Luxembourg	218	0.16
	6.25% 15 Aug 2022	B1/B+			169	0.13
					387	0.29
Nationale-Nederlanden	4.625% 08 Apr 2044	Baa3/BBB–	Financials	Netherlands	344	0.25
Rothschilds Continuation Finance	FRN Perpetual	NR/NR	Financials	Netherlands	340	0.25
AA Bond	9.5% 31 Jul 2043	NR/BB	Consumer Services	UK	330	0.24
Eco Services Operations	8.5% Snr 01 Nov 2022	Caa1/CCC+	Basic Materials	USA	326	0.24
Credit Suisse	6.25% Var Perpetual	NR/BB	Financials	Switzerland	325	0.24
Suez Environnement	4.82% FRN Perpetual	Baa2/NR	Utilities	France	316	0.23
Novae	6.5% 27 Apr 2017	Baa3/NR	Financials	UK	309	0.23
Sisal	7.25% 30 Sep 2017	B1/B	Consumer Services	Italy	298	0.22
Takko	9.875% 15 Apr 2019	Caa1/CCC	Consumer Services	Luxembourg	295	0.22
Aperam	7.75% 01 Apr 2018	B2/BB–	Industrials	Luxembourg	262	0.19
Gestamp Funding Luxembourg	5.875% 31 May 2020	B1/BB	Consumer Goods	Luxembourg	246	0.18
Puma Energy	6.75% 01 Feb 2021	Ba3/NR	Oil and Gas	Luxembourg	243	0.18
Enquest	7% 15 Apr 2022	B3/B	Oil and Gas	UK	219	0.16
Care UK Health and Social Care	FRN 15 Jan 2020	Caa2/CCC+	Health Care	UK	212	0.16
Lecta	8.875% 15 May 2019	B2/B	Basic Materials	Luxembourg	202	0.15
Altice	7.75% 15 May 2022	B3/B	Telecommunications	Luxembourg	167	0.12
Pearl	6.5864% FRN Perpetual	NR/NR	Financials	UK	164	0.12
Investec Tier I	7.075% Perpetual	B1/NR	Financials	UK	155	0.11
NH Hotels	6.875% 15 Nov 2019	NR/B	Consumer Services	Spain	125	0.09
FAGE International	9.875% 01 Feb 2020	B3/B	Consumer Goods	Greece	117	0.09
Pfleiderer Finance	7.125% FRN Perpetual	WR/NR	Industrials	Netherlands	18	—
					135,749	100.0

Abbreviations used in the above valuation:

Cnv: Convertible
FRN: Floating Rate Note
Snr: Senior
Var: Variable
Wts: Warrants

GOVERNANCE
The Directors

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

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

John Boothman
Joined the Board on 19 December 2011. He 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.

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

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

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

The Company's Governance Framework

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

The Board

Five non-executive directors (NEDs)

Chairman: Clive Nicholson

Key objectives:

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

Audit Committee

All NEDs

Chairman Philip Taylor

Key objectives:

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

Management Engagement Committee Function

The Board as a whole performs this function

Key objectives:

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

Nomination Committee Function

The Board as a whole performs this function

Key objectives:

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

Remuneration Committee Function

The Board as a whole performs this function

Key objective:

- to set the remuneration policy of the Company.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

The Board is committed to maintaining high standards of Corporate Governance and is accountable to shareholders for the governance of the Company's affairs.

The Directors have considered the principles and recommendations of the 2013 AIC Code of Corporate Governance for Jersey domiciled investment companies ('AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the 2012 UK Corporate Governance Code ('UK Code'), as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies.

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

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

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

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

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

The composition and operation of the Board and its committee functions are summarised on page 21 and 22, and on pages 25 and 26 in respect of the Audit Committee.

The Company's approach to internal control and risk management is summarised on pages 10 and 11.

The contractual arrangements with, and assessment of, the Manager are summarised on page 7.

The Company's capital structure and voting rights are summarised on pages 50 and 51.

The most substantial shareholders in the Company are listed on page 13.

The rules concerning the appointment and replacement of directors are contained in the Company's Articles of Association and are discussed on page 23. 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 comprises five Directors, all of whom are non-executive. The Board regards all of the Directors to be independent of the Company's Manager. However, Philip Austin is a director of Invesco Property Income Trust Limited, which is managed by the Company's Manager, and as such is deemed not to be independent under the UKLA Listing Rules. The Directors have a range of financial, business and asset management skills as well as recent and relevant experience pertinent to the direction and control of the Company. Brief biographical details of the members of the Board are shown on page 20.

Chairman

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

Board Responsibilities

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

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

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

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

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

There is an agreed procedure for Directors, in the furtherance of their duties, to take legal advice at the Company's expense up to an initial cost of £5,000, having first consulted the Chairman.

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

- *Management Engagement*
  The Board as a whole undertakes the functions of a Management Engagement Committee and takes responsibility for reviewing the Investment Management and Secretarial and Administration Agreements. The performance of the Manager in respect of investment performance and administration is reviewed formally against agreed standards and reported on page 7 under 'Assessment of the Manager'.

- *Remuneration*
  The Board as a whole undertakes the functions of a Remuneration Committee by determining the Company's remuneration policy, taking into account all factors which are deemed necessary in order to ensure that members of the Board are provided with appropriate compensation and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. The remuneration of Directors is reviewed periodically and is reported on in more detail on pages 27 and 28.

- *Nomination*
  The Board as a whole undertakes the functions of a Nomination Committee. As such it is responsible for making changes to the structure, size and composition of the Board as well as ensuring adequate succession planning.

The Company Secretary

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

Nomination, Appointment, Re-election and Tenure of Directors

As permitted by the AIC Code, there is no separate nomination committee as the Board is considered too small to require one. All of the Directors are therefore responsible for reviewing the size and structure of the Board, and ensuring an appropriate balance of skills, experience, independence and knowledge of the Company. An independent external search consultancy may be used to assist in the selection of Directors. When appointing a new director, care is taken to ensure that there is a balance of skills and experience appropriate for the requirements of the Company and that new directors have enough time available to devote to the affairs of the Company.

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

The Board has formuated a programme of induction training for newly-appointed Directors, during which they are briefed as to their responsibilities. 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 Manager's website at *www.invescoperpetual.co.uk/investmenttrusts*.

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

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

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

The Audit Committee

The composition and activities of the Audit Committee are summarised in the Audit Committee Report on pages 25 and 26.

Board, Committee and Directors' Performance Appraisal

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

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

CORPORATE GOVERNANCE STATEMENT

continued

The composition of the Board is reviewed annually as part of the appraisal of the Board, the Audit Committee and the Directors individually. Every three years this review will be undertaken by an impartial, external agency.

During the year the Board undertook an appraisal process, the results of which confirmed that the performance of all Directors and the Chairman since their appointment has been effective and that they have demonstrated commitment to their respective roles.

Attendance at Board and Committee Meetings

The 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 Audit Committee held during the year and the number attended by each Director:

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

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

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 who exercises the Company's voting rights on an informed and independent basis. To the extent that voting rights are exercisable, votes are cast with a view to supporting high standards of corporate governance. The Manager's policy on Corporate Governance and stewardship can be found on the Manager's website at *www.invescoperpetual.co.uk*.

By order of the Board

R&H Fund Services (Jersey) Limited
Company Secretary

1 April 2015

AUDIT COMMITTEE REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

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

Audit Committee Responsibilities

The responsibilities of the Audit Committee include:

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

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

– management of the relationship with the external auditor, including their appointment, 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.

The Committee met twice during the year and reviewed the internal financial and non-financial controls, by reference to a risk control summary and independently audited service operation control reports provided by the Company's major service providers. The Committee also reviewed the service providers' business continuity testing programmes, the draft annual financial reports and the accounting policies applied.

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. Representatives of the auditor, Ernst & Young 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 audit programme and timetable were drawn up and agreed with the auditor in advance of the end of the financial period. 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 financial statements. The Committee considered the content of the annual financial report, including the accounting policies applied, and recommended it to the Board.

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

Accounting Matters and Significant Areas

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

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

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

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 is satisfied that the 2014 annual financial report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Auditor

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

Ernst & Young LLP has been the appointed auditor of the Company from its launch in 2012. In due course, auditor rotation will be reviewed in accordance with best practice for UK listed companies.

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.

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

A resolution proposing the reappointment of Ernst & Young LLP as the Company's auditor for the year to 31 December 2015 and authorising the Audit Committee to determine their remuneration will be put to the shareholders at the forthcoming AGM.

Internal Controls and Risk Management

Details of the Company's internal controls and risk management, and the work undertaken by the Audit Committee with respect to them, are set out on pages 10 and 11.

Internal Audit

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

Philip Taylor
Chairman of the Audit Committee

1 April 2015

DIRECTORS' REMUNERATION AND INTERESTS

Remuneration Responsibilities

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

Directors' Remuneration Policy

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

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

Directors do not have service contracts. Directors are appointed under letters of appointment, copies of which are available for inspection at the registered office of the Company 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 from 1 January 2014 follow: Chairman £30,000; Chairman of the Audit Committee £23,500 and other Directors £20,000. Prior to 1 January 2014, fee rates were £28,500, £22,000 and £19,000 respectively.

Chairman's Annual Statement on Directors' Remuneration

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

Annual Report on Directors' Remuneration

Directors' Remuneration for the Year

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

	2014 £	2013 £
Clive Nicholson – Chairman	30,000	28,500
Philip Taylor – Chairman of the Audit Committee	23,500	22,000
Philip Austin	20,000	19,000
John Boothman	20,000	19,000
Winifred Robbins	20,000	19,000
Total	113,500	107,500

DIRECTORS' REMUNERATION AND INTERESTS
continued

Directors' Interests

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

	31 DECEMBER 2014	31 DECEMBER 2013
Clive Nicholson (Chairman)	49,500	49,500
Philip Austin	—	—
John Boothman	—	—
Winifred Robbins	189,818	189,818
Philip Taylor	77,244	73,271

Save as aforesaid, no Director had any interests, beneficial or otherwise, in the shares of the Company during the period. Since the year end Philip Taylor's interest has increased by 1,007 shares to 78,251 shares, as a result of automatic dividend reinvestment. No further changes to these holdings have been notified up to the date of this report. No connected person interests have been notified.

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

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

Directors' Indemnification and Insurance

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

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

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

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

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

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

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

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

The 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 10) 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 good shareholder 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 the Strategic Report, a Corporate Governance Statement and a Directors' Report that comply with that law and those regulations.

The Directors of the Company, who are listed on page 20, each confirm to the best of their knowledge that:

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

Clive Nicholson
Chairman

Signed on behalf of the Board of Directors

1 April 2015

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its return for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

What we have audited

We have audited the financial statements of City Merchants High Yield Trust Limited for the year ended 31 December 2014 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Statement of Cash Flows and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 29, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Our assessment of risks of material misstatement

We identified the following risks of material misstatement that had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. The table also includes our response to the risks:

Risk Identified	Our Response
The valuation of the assets held in the investment portfolio is the key driver of the Company's investment return. Incorrect asset pricing or a failure to maintain proper legal title of the assets held by the Company could have a significant impact on portfolio valuation and, therefore, the return generated for shareholders.	• We agreed all the year end prices of the investments to an independent source. • We agreed the number of shares held in each security to confirmations of legal title received directly to us from the Company's custodian and depositary.
The investment income receivable by the Company during the year is a factor in the Company's consideration of a dividend payment to shareholders. If the Company is not entitled to receive the income recognised in the financial statements or the income recognised does not relate to the current financial year, this can impact the extent of the profits available to fund dividend distributions to shareholders. This can also impact the shareholders' expectation of the income to be distributed.	• For a sample of securities held we traced the rates of interest and the terms of dividends receivable. • For a sample of securities held, we recalculated the income receivable accrual based on the holdings of securities in the Company's portfolio. • We also reviewed the portfolio of securities held for recent downgrades in credit ratings as an indicator of actual or potential credit default that could impact the expected flow of income.

Our application of materiality

We determined planning materiality for the Company to be £1,482,000 (2013: £1,340,000) which is 1% of total equity. This provided a basis for determining the nature, timing and extent of our risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We have derived our materiality calculation based on a proportion of total equity as we consider it to be the most important financial metric on which shareholders would judge the performance of the Company.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgment was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Company should be 50% of planning materiality, namely £741,000 (2013: £670,000). Our objective in adopting this approach was to ensure that total detected and undetected audit differences in all accounts did not exceed our planning materiality level.

We have reported to the Committee all audit differences in excess of £74,000 (2013: £67,000) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We have evaluated any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

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

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

- proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

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

1 April 2015

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

	NOTES	2014 REVENUE £'000	2014 CAPITAL £'000	2014 TOTAL £'000	2013 REVENUE £'000	2013 CAPITAL £'000	2013 TOTAL £'000
(Loss)/profit on investments held at fair value	11	—	(2,674)	(2,674)	—	10,272	10,272
Exchange differences		—	(27)	(27)	—	(500)	(500)
Profit/(loss) on derivative instruments – currency hedges		—	2,336	2,336	—	(384)	(384)
Income	4	8,922	—	8,922	8,686	—	8,686
Investment management fees	5	(702)	(378)	(1,080)	(632)	(340)	(972)
Other expenses	6	(383)	(1)	(384)	(361)	(1)	(362)
Profit/(loss) before finance costs and taxation		7,837	(744)	7,093	7,693	9,047	16,740
Finance costs	7	(25)	(14)	(39)	(29)	(15)	(44)
Profit/(loss) before tax		7,812	(758)	7,054	7,664	9,032	16,696
Taxation	8	(119)	—	(119)	(75)	—	(75)
Profit/(loss) after tax		7,693	(758)	6,935	7,589	9,032	16,621
Return per ordinary share	9	10.0p	(1.0)p	9.0p	10.4p	12.4p	22.8p

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

	NOTES	STATED CAPITAL £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
At 31 December 2012		113,410	9,336	1,929	124,675
Total comprehensive income for the year		—	9,032	7,589	16,621
Dividends paid	10	—	—	(7,279)	(7,279)
At 31 December 2013		113,410	18,368	2,239	134,017
Net proceeds from issue of new shares		14,939	—	—	14,939
Total comprehensive income for the year		—	(758)	7,693	6,935
Dividends paid	10	(140)	—	(7,540)	(7,680)
At 31 December 2014		128,209	17,610	2,392	148,211

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

BALANCE SHEET

AT 31 DECEMBER

	NOTES	2014 £'000	2013 £'000
Non-current assets			
Investments held at fair value through profit or loss	11	135,749	123,775
Current assets			
Other receivables	12	2,833	3,028
Derivative financial instruments – unrealised profit	13	466	216
Cash and cash equivalents		9,577	7,365
		12,876	10,609
Current liabilities			
Other payables	14	(414)	(367)
		(414)	(367)
Net current assets		12,462	10,242
Net assets		148,211	134,017
Capital and reserves			
Stated capital	15	128,209	113,410
Capital reserve	16	17,610	18,368
Revenue reserve	16	2,392	2,239
Shareholders' funds		148,211	134,017
Net asset value per ordinary share	17	183.40p	184.12p

These financial statements were approved and authorised for issue by the Board of Directors on 1 April 2015.

Signed on behalf of the Board of Directors

Clive Nicholson
Chairman

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

	2014 £'000	2013 £'000
Cash flow from operating activities		
Profit before tax	7,054	16,696
Taxation	(119)	(75)
Adjustment for:		
Purchases of investments	(63,066)	(30,182)
Sales of investments	48,944	33,680
	(14,122)	3,498
Loss/(profit) on investments	2,674	(10,272)
Exchange differences	45	65
Net cash (outflow)/inflow from derivative instruments – currency hedges	(250)	(226)
Finance costs	39	44
Operating cash flows before movements in working capital	(4,679)	9,730
Increase in receivables	(331)	(95)
Increase in payables	47	24
Net cash flows from operating activities	(4,963)	9,659
Cash flow from financing activities		
Finance cost paid	(39)	(44)
Net proceeds from issue of shares	14,939	—
Equity dividends paid – note 10	(7,680)	(7,279)
Net cash flows from financing activities	7,220	(7,323)
Net increase in cash and cash equivalents	2,257	2,336
Exchange differences	(45)	(65)
Movement in cash and cash equivalents	2,212	2,271
Cash and cash equivalents at beginning of year	7,365	5,094
Cash and cash equivalents at the end of the year	9,577	7,365

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. Principal Activity

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

2. Principal Accounting Policies

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

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

(a) Basis of Preparation

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

Where presentational guidance set out in the Statement of Recommended Practice (SORP) 'Financial Statements of Investment Trust Companies and Venture Capital Trusts', issued by the Association of Investment Companies in January 2009, is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP. The supplementary information which analyses the statement of comprehensive income between items of a revenue and a capital nature is presented in accordance with this.

(ii) *Going Concern*
As explained under 'Annual Continuation Vote' on page 10, 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. 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 period had no significant impact on the amounts reported in these financial statements but may impact accounting for future transactions and arrangements.

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

- Mandatory Effective Date and Transition Disclosures – Amendments to IFRS 9 and IFRS 7 Financial Instruments: Disclosure (effective 1 January 2015).
- IFRS 9: Financial Instruments (2013) (effective 1 January 2018).
- Amendment to IAS 1: Presentation of Financial Statements (effective 1 January 2016).

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

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

2. Principal Accounting Policies (continued)

(a) Basis of Preparation (continued)

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

(b) Foreign Currency

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

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

(c) Financial Instruments

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

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

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

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

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

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

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

For investments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted bid prices at the balance sheet date. For investments that are not actively traded or where active stock exchange quoted bid prices are not available, fair value is determined by reference to a variety of valuation techniques including broker quotes and price modelling. Where there is no active market, investments are valued by the Directors at fair value based on recommendations from Invesco's Pricing Committee using valuation techniques such as earnings multiples, recent arm's length transactions and net assets, adjusted if appropriate.

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

(d) Derivatives and Hedging

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

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

(e) Cash and Cash Equivalents

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

(f) Revenue Recognition

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

(g) Expenses and Finance Costs

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

(h) Tax

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

3. Segmental Reporting

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

4. Income

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

	2014 £'000	2013 £'000
Income from investments		
UK dividends	629	720
UK investment income – interest	3,032	2,987
Overseas investment income – interest	5,241	4,966
Overseas dividends	19	11
	8,921	8,684
Other income		
Deposit interest	1	2
Total income	8,922	8,686

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.

	2014			2013		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Investment management fee	702	378	1,080	632	340	972

Details of the investment management agreement are disclosed on page 7. At the year end the management fee accrued was £278,000 (2013: £251,000).

6. Other Expenses

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

	2014			2013		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
General expenses (i)	240	1	241	223	1	224
Directors' fees (ii)	114	—	114	108	—	108
Auditor's remuneration:						
– for the audit of the financial statements	29	—	29	30	—	30
	383	1	384	361	1	362

(i) General expenses include £38,200 (2013: £37,500) due to R&H Fund Services (Jersey) who act as Administrator and Company Secretary to the Company under an Agreement dated 19 December 2011. This agreement is terminable at any time by either party giving no less than three months' notice. The fee is payable quarterly in arrears based on the initial rate of £37,500 per annum. The fee is revised with effect from 1 January each year, by the application of a formula based on the Retail Price Index for the month of December of the previous year.

General expenses also include an administration fee due to Invesco Perpetual of £24,000 (2013: £23,000). It is based on an initial fee of £22,500 plus RPI increases in May.

Custodian dealing costs of £1,000 (2013: £1,000) are charged wholly to capital.

(ii) The maximum Directors' fees authorised by the Articles of Association are £150,000 per annum.

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.

	2014 REVENUE £'000	2014 CAPITAL £'000	2014 TOTAL £'000	2013 REVENUE £'000	2013 CAPITAL £'000	2013 TOTAL £'000
Commitment fees due on loan facility	25	14	39	29	15	44

The Company has a 364 day committed £20 million multi-currency revolving credit facility with Bank of New York Mellon which is renewable on 8 May 2015. Available currencies are sterling, euros or US dollars. Drawings under this facility are subject to the restriction that the Company's total financial indebtedness must not exceed 30% of total assets and that the assets must be in excess of £50 million. At the balance sheet date the Company had no drawdowns (2013: none).

Interest payable is based on the interbank offered rate for the currency drawn down. The commitment fee at the balance sheet date is based on 0.20% of the average undrawn amount each quarter.

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 suffer tax on income, the only overseas tax arises on the few assets domiciled in countries with which Jersey has no double-taxation treaty, e.g. Italy and Portugal.

	2014 £'000	2013 £'000
Overseas taxation	119	75

The Company is subject to Jersey income tax at the rate of 0% (2013: 0%). The overseas tax charge consists of irrecoverable withholding tax.

9. Return per Ordinary Share

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

The basic revenue, capital and total return per ordinary share is based on each of the profit after tax and on 77,275,510 (2013: 72,786,327) ordinary shares, being the weighted average number of ordinary shares in issue throughout the year.

10. Dividends on Ordinary Shares

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

	2014 PENCE	2014 £'000	2013 PENCE	2013 £'000
Dividends paid and recognised in the period:				
Fourth interim	2.5	1,828	2.5	1,820
First interim	2.5	1,904	2.5	1,820
Second interim	2.5	1,962	2.5	1,819
Third interim	2.5	1,986	2.5	1,820
	10.0	7,680	10.0	7,279

Dividends paid in the year have been charged to revenue except for £140,000 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).

NOTES TO THE FINANCIAL STATEMENTS
continued

10. Dividends on Ordinary Shares (continued)

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

	2014		2013	
	PENCE	£'000	PENCE	£'000
Dividends in respect of the period:				
First interim	2.5	1,904	2.5	1,820
Second interim	2.5	1,962	2.5	1,819
Third interim	2.5	1,986	2.5	1,820
Fourth interim	2.5	2,020	2.5	1,828
	10.0	7,872	10.0	7,287

11. Investments Held at Fair Value Through Profit or Loss

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

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

(a) Analysis of investment profits

	2014 £'000	2013 £'000
Opening bookcost	109,147	109,118
Opening investment holding profits	14,628	8,409
Opening valuation	123,775	117,527
Movements in the year:		
Purchases at cost	63,066	30,182
Sales – proceeds	(48,418)	(34,206)
– net realised profit	3,854	4,053
Movement in investment holding profit	(6,528)	6,219
Closing valuation	135,749	123,775
Closing book cost	127,649	109,147
Closing investment holding profit	8,100	14,628
Closing valuation	135,749	123,775
Realised profit in the year	3,854	4,053
Movement in investment holding profit in the year	(6,528)	6,219
	(2,674)	10,272

(b) Transaction costs

The transaction costs on investments amount to £1,000 on sales and £3,000 on purchases (2013: £1,000 on sales and none on purchases).

(c) Registration of investments

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

12. Other Receivables

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

	2014 £'000	2013 £'000
Prepayments and accrued income	2,833	2,502
Amount due from brokers	—	526
	2,833	3,028

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.

	2014 £'000	2013 £'000
Forward currency contracts – net unrealised profit	466	216
	466	216

14. Other Payables

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

	2014 £'000	2013 £'000
Accruals	414	367
	414	367

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.

	2014 NUMBER	2013 NUMBER	2014 £'000	2013 £'000
Allotted ordinary shares of no par value				
Brought forward	72,786,327	72,786,327	113,410	113,410
Net issue proceeds	8,026,132	—	14,939	—
Dividends paid from stated capital	—	—	(140)	—
Carried forward	80,812,459	72,786,327	128,209	113,410

For the year to 31 December 2014 8,026,132 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 £15,048,000, at an average price of 187.48p, and the net proceeds after issue costs were £14,939,000. The net proceeds included an aggregate amount of £140,000 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 1,200,000 ordinary shares have been issued, at an average price of 188.02p.

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

NOTES TO THE FINANCIAL STATEMENTS
continued

17. Net Asset Value per Ordinary Share

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

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

	NET ASSET VALUE PER ORDINARY SHARE		NET ASSETS ATTRIBUTABLE	
	2014 PENCE	2013 PENCE	2014 £'000	2013 £'000
Ordinary shares	183.40	184.12	148,211	134,017

The net asset value per ordinary share is based on 80,812,459 (2013: 72,786,327) ordinary shares, being the number of ordinary shares in issue at the year end.

18. Financial Instruments

Financial instruments comprise the Company's investment portfolio and derivative financial instruments (for the latter see note 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 risk management on page 11 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 and 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, borrowings, other receivables and other payables that arise directly from the Company's operations. 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 stock fundamentals give the portfolio managers the best possible understanding of the risks associated with a particular stock. 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, as explained under credit risk (18.3). Gearing by 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 wide discretion to operate within set guidelines. Any proposed variation outside those guidelines is referred to the Board and the guidelines themselves are reviewed at every board meeting.

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

Management of the Currency Risk

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

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

Currency Exposure

The fair values of the Company's monetary items that have foreign currency exposure at 31 December 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 2014	EURO £'000	US DOLLAR £'000	CANADIAN DOLLAR £'000	SWISS FRANC £'000
Investments at fair value through profit or loss that are monetary items (fixed and floating interest)	34,627	17,766	—	—
Cash at bank	2,994	983	—	1
Other receivables (due from brokers and dividends)	789	284	—	—
Forward currency contracts	(35,752)	(6,100)	—	—
Foreign currency exposure on net monetary items	2,658	12,933	—	1
Investments at fair value through profit or loss that are equities	—	4,971	—	—
Total net foreign currency exposure	2,658	17,904	—	1

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

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

18. Financial Instruments (continued)

18.1.1 Currency Risk (continued)

Currency Sensitivity

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

	2014	2013
£/Euro	±2.1%	±1.4%
£/US dollar	±2.7%	±2.8%
£/Canadian dollar	±1.4%	±3.7%
£/Swiss franc	±1.6%	±1.3%

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

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

2014	EURO £'000	US DOLLAR £'000	CANADIAN DOLLAR £'000	SWISS FRANC £'000
Effect on income statement				
Revenue loss	(58)	(28)	—	—
Capital loss	(56)	(483)	—	—
Effect on net asset value	(114)	(511)	—	—

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

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

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

18.1.2 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 a credit facility with which it can finance investment activity, details of which are shown in note 7. The Company uses the facility 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.

2014	WITHIN ONE YEAR £'000	MORE THAN ONE YEAR £'000	TOTAL £'000
Exposure to floating interest rates:			
Investments at fair value through profit or loss	—	63,893	63,893
Cash and cash equivalents	9,577	—	9,577
	9,577	63,893	73,470
Exposure to fixed-interest rates:			
Investments at fair value through profit or loss	—	57,252	57,252
Net exposure to interest rates	9,577	121,145	130,722

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

The nominal interest rates on the investments at fair value through profit or loss are shown in the portfolio list on pages 16 to 19. The weighted average effective interest rate on these investments is 6.7% (2013: 6.9%). The weighted average effective interest rate on cash and cash equivalents is 0.22% (2013: 0.23%).

Interest Rate Sensitivity

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

	2014 £'000	2013 £'000
Effect on statement of comprehensive income		
Revenue profit	96	74
Capital loss	(5,391)	(4,313)
Total profit/(loss) after taxation for the year	(5,295)	(4,239)
Effect on NAV	(6.6)p	(5.8)p

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

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

18. Financial Instruments (continued)

18.1.3 Other Price Risk

Other price risks 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 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 48.

Concentration of Exposure to Other Price Risks

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

Other Price Risk Sensitivity

Except for fixed interest securities and convertibles, at the year end the Company also held other investments of £14,604,000 (2013: £15,679,000). The effect of a 10% increase or decrease in the fair values of these investments (including any exposure through derivatives) on the profit after taxation for the period is £1,460,000 (2013: £1,568,000). This level of change is considered to be reasonably possible based on the observation of current market conditions. The sensitivity analysis is based on the Company's other investments (including equity exposure through derivatives) at the balance sheet date with all other variables held constant.

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

Management of Liquidity Risk

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.

Liquidity Risk Exposure

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

	2014 THREE MONTHS OR LESS £'000	2013 THREE MONTHS OR LESS £'000
Other payables	414	367
	414	367

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 62.8% (2014: 52.9%) of the Company's portfolio consists of non-investment grade securities. To the extent that the Company invests in non-investment grade securities, the Company may realise a higher current yield than the yield offered by investment grade securities. On the other hand, investments in such securities involve a greater volatility of price and a greater risk of default by the issuers of such securities, with consequent loss of interest payments and principal. Non-investment grade securities are likely to have greater uncertainties of risk exposure to adverse conditions and will be speculative with respect to an issuer's capacity to meet interest payments and repay principal in accordance with its obligations.

Investment grade and non-investment grade securities totalled 79.8% (2014: 75.7%) 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 during the year 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

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

Details of the Company's investments, including their credit ratings, are shown on pages 16 to 19. Credit risk for transactions involving derivatives and equity investments is minimised as the Company only uses approved counterparties.

Cash balances are held with approved depositaries only and are limited to a maximum of 4% of the Company's net asset value with any one depositary. Balances held with Short-Term Investments Company (Global Series) plc, a triple-A rated money market fund (STIC), are limited to a maximum of 6% of the Company's net asset value. At the balance sheet date the Company had £4.5 million (2013: £2.8 million) held at the custodian and £5.1 million (2013: £4.6 million) held in STIC.

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 derivative which as stated above, are carried at fair value.

NOTES TO THE FINANCIAL STATEMENTS

continued

19. Classification Under Fair Value Hierarchy

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

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

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

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

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

2014	LEVEL 1 £'000	LEVEL 2 £'000	LEVEL 3 £'000	TOTAL £'000
Financial assets designated at fair value through profit or loss:				
Quoted securities:				
– Fixed interest securities[1]	—	117,715	—	117,715
– Convertibles	—	3,430	—	3,430
– Preference	2,809	—	—	2,809
– Convertible preference	6,824	—	—	6,824
– Equities	—	—	—	—
– Warrants	4,971	—	—	4,971
Unquoted securities:				
– Equities	—	—	—	—
	14,604	121,145	—	135,749
Derivative financial instruments:				
Currency hedges	—	466	—	466
Total for financial assets	14,604	121,611	—	136,215

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

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

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

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

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

Level 3 investments comprise investments held at Directors' valuation as disclosed in the accounting policies note. None were held at the end of the year and a reconciliation of movements in value for the two years is set out below.

	2014 £'000	2013 £'000
Opening fair value	24	167
Investments redeemed, sold or written off	(24)	(8)
Movement in holding losses in the year/period	—	(135)
Closing fair value of Level 3	—	24

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 pages 7 and 8.

The main risks to the Company's investments are shown in the Strategic Report under the 'Principles Risks and Uncertainties' section on pages 11 and 12. These also explain that the Company is able to borrow and that any resultant gearing will amplify the effect on equity of changes in the value of the portfolio.

The Board can also manage the capital structure directly since it has taken the powers, which it is seeking to renew, to issue and buy-back shares and it also determines dividend payments.

The Company is subject to externally imposed capital requirements with respect to the availability of the borrowing facility, by the terms imposed by the custodian. The Board regularly monitors, and has complied with, the externally imposed capital requirements throughout the period.

Total equity at the balance sheet date, the composition of which is shown on the balance sheet on page 33, was £148,211,000 (2013: £134,017,000).

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 financial commitments outstanding at the balance sheet date.

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, the Company has identified the Directors as related parties. The Directors' remuneration and interests have been disclosed on pages 27 and 28 with additional disclosure in note 6. No other related parties have been identified.

Details of the Manager and the investment management agreement are disclosed in the Strategic Report on page 7 and management fees payable to the Manager are shown in note 5.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

Business and Status

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

Corporate Governance

The Corporate Governance Statement set out on pages 21 to 24 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 27 and 28 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.

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.invescoperpetual.co.uk/investmenttrusts) in a downloadable document entitled 'AIFMD Investor Information'. There have been no material changes to this information since its publication in July 2014. 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 remuneration of the Company's AIFM, IFML, and the Company's leverage (both 'gross' and 'commitment' – see Glossary on page 59) to be made available to investors.

Accordingly:

– the AIFM remuneration policy is available from the Company's company secretary, on request (see contact details on page 58) and the numerical remuneration disclosures in respect of the AIFM's first relevant reporting period (year ended 31 December 2015) will be made available in due course; and

– the leverage calculated for the Company at the year end was 127.9% for gross and 99.3% for commitment. The limits the AIFM has set for the Company are 300% and 250%, respectively.

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

At 31 December 2014, the Company's stated capital consisted of 80,812,459 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 page 41 (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 Manager's investment trust website, *www.invescoperpetual.co.uk/investmenttrusts* in order to access copies of half-yearly and annual financial reports, shareholder circulars, factsheets, Stock Exchange Announcements and Individual Savings Account (ISA) and savings scheme literature.

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

ISA

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

Business of the Annual General Meeting (AGM)

The following summarises the business of the forthcoming AGM of the Company, which is to be held at the offices of R&H Fund Services (Jersey) Limited, Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW, at 10.30 am on 25 June 2015. The Notice of the AGM and related notes can be found on pages 54 to 56.

Shareholders are also cordially invited to a separate presentation meeting at Invesco Perpetual's offices at 43-45 Portman Square, London W1H 6LY at 11 am on 23 June 2015, where one of the portfolio managers will give a presentation on the Company and will be available, with the Directors, to take shareholders' questions.

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

Resolution 2 is to reappoint the Auditor and to authorise the Audit Committee to determine the Auditor's remuneration. Ernst & Young LLP have expressed their willingness to continue to hold office until the conclusion of the next annual general meeting of the Company.

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

Resolution 4 (Special) is to renew the Directors' authority to issue shares, up to 20% of the existing shares in issue at the time of the AGM, without pre-emption. This will allow shares to be issued to new shareholders without them first having to be offered to existing shareholders, thus broadening the shareholder base of the Company. The Chairman's Statement explains the reason for the proposed increase in this limit from 10% to 20%. This authority will not be exercised at a price below NAV so the interests of existing shareholders are not diluted and will expire at the AGM in 2016.

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

Resolution 5 (Special) is to renew the authority for the Company to purchase up to 14.99% of its own ordinary shares subject to the restrictions referred to in the notice of the AGM. This authority will expire at the AGM in 2016. These powers, if approved, will allow the Company to buy back shares at a discount to NAV. Your Directors are proposing that shares bought back by the Company either be cancelled or, alternatively, be held as treasury shares with a view to their resale, if appropriate, or later cancellation. Any resale of treasury shares will only take place on terms that are in the best interests of shareholders.

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

Resolution 7 (Special) is to adopt new to the articles of association (the Articles) of the Company that have been amended as follows:

(a) in line with HMRC guidance, the Company was established with a number of restrictions in the Articles to assist with demonstrating that the Company is managed and controlled outside of the United Kingdom. HMRC guidance in this area has now evolved and to take advantage of the increased flexibility available it is proposed to remove restrictions on the residency of the directors of the Company, and on the location of both shareholder and director meetings, as follows:

  (i) Articles 67 and 74.1 – removing the restriction on general meetings of the Company being convened outside of the Island of Jersey and/or in the United Kingdom;

  (ii) Article 94 – removing the requirement for half of the Directors of the Company at any one time to be resident outside of the United Kingdom;

  (iii) Articles 119 and 120 – removing the restriction on board meetings of the Directors of the Company being convened outside of the Island of Jersey and/or in the United Kingdom;

  (iv) Article 125 – enabling the Directors of the Company to form and delegate their powers to committees whose members may participate in committee meetings from the United Kingdom;

  (v) Article 127 – enabling the Directors of the Company to sign and pass written resolutions in the United Kingdom;

(b) to adopt certain amendments to the way in which proxies (Article 88) and corporate representatives (Article 93) are appointed, to reflect applicable legislation in Jersey;

(c) to amend the Articles to permit the Company more flexibility in maintaining a reserve account; and

(d) in line with current industry guidance published by the Institute of Chartered Secretaries and Administrators, it is proposed to amend the Articles to provide additional flexibility to the Company as to the method of payment of distributions to shareholders to reflect market trends in payment methods, as follows:

  (i) Article 139.2 – permitting the Company to pay distributions by bank transfer, cheque, by a relevant system in respect of shares in uncertificated form, or by any electronic or other means;

(ii) Article 139.3 and 139.4 – permitting the Company to elect and notify the shareholders of the method by which distributions may be made, and permitting the Company to apply different payment methods to different shareholders as the Directors determine is appropriate; and

(iii) Article 139.5 and 139.6 – clarifying that any distribution payment made by the Company in accordance with the Articles will be at the shareholders risk, and that if the shareholder has not provided relevant payment information then a distribution that cannot be paid to it will be treated as unclaimed.

As set out above, the proposed amendments entail a number of changes to be made throughout the Articles. As such it is proposed that, for ease of reference in the future, the Articles be fully amended and restated in the form approved and to the exclusion of the existing Articles.

R&H Fund Services (Jersey) Limited
Company Secretary

1 April 2015

THIS NOTICE OF ANNUAL GENERAL MEETING IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action to take, you should consult your stockbroker, solicitor, accountant or other appropriate independent professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all your shares in City Merchants High Yield Trust Limited, please forward this document and accompanying form of Proxy to the person through whom the sale or transfer was effected, for transmission to the purchase or transferee.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS GIVEN that the Annual General Meeting (AGM) of City Merchants High Yield Trust Limited (the Company) will be held at 10.30 am on 25 June 2015 at R&H Fund Services (Jersey) Limited, Ordnance House, 31 Pier Road, St Helier, Jersey, JE4 8PW, for the following purposes:

Ordinary Business

1. To receive the Annual Financial Report for the year ended 31 December 2014.
2. To reappoint the Auditor, Ernst & Young LLP, and authorise the Audit Committee to determine their remuneration.

Special Business

To consider and if thought fit, to pass the following resolutions, of which resolution 3 will be proposed as an ordinary resolution and resolutions 4 to 7 will be proposed as special resolutions:

3. THAT, in accordance with Article 158 of the Company's Articles of Association, the Directors of the Company be and they are hereby released from their obligation pursuant to such Article to convene a general meeting of the Company within six months of the AGM at which a special resolution would be proposed to wind up the Company.
4. THAT, pursuant to Article 14.1 of the Company's Articles of Association, the Directors be and are hereby empowered to issue shares, up to 20% of the existing shares in issue at the time of the AGM, without pre-emption.
5. THAT, pursuant to Article 8.2 of the Company's Articles of Association and Article 57 of the Companies (Jersey) Law 1991 as amended (the Law), the Company be generally and unconditionally authorised:
   (a) to make purchases of its issued ordinary shares of no par value (Shares) to be cancelled or held as treasury shares provided that:
      (i) the maximum number of Shares hereby authorised to be purchased shall be 14.99% of the Company's issued ordinary shares, this being 12,293,667 on the date of this notice;
      (ii) the minimum price which may be paid for a Share is 1p;
      (iii) the maximum price, exclusive of expenses, which may be paid for a Share is an amount equal to 105% of the average of the middle market quotations for a Share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Share is purchased; and
      (iv) the authority hereby conferred shall expire on the earlier of the conclusion of the next AGM of the Company held after passing of this resolution or 15 months from the date of the passing of this resolution, whichever is the earlier.
6. THAT, the period of notice required for general meetings of the Company (other than AGMs) shall not be less than 14 days.
7. THAT, the Articles of Association tabled at the Annual General Meeting of the Company are approved and are hereby adopted as the Articles of Association of the Company in substitution for and to the exclusion of the existing Articles of Association of the Company.

Dated this 1st April 2015

By order of the Board

R&H Fund Services (Jersey) Limited
Company Secretary

Notes:

1. A form of appointment of proxy accompanies this annual financial report.

   A member entitled to attend and vote at the AGM is entitled to appoint one or more proxies to attend, speak and vote in his stead. Where more than one proxy is appointed, each proxy must be appointed to exercise the rights attached to a different share or shares. A proxy need not be a member of the Company. In order to be valid an appointment of proxy must be returned, duly executed and completed, by one of the following methods:

   - via Capita Asset Services' website www.capitashareportal.com; or
   - in hard copy form by post, by courier or by hand to the Company's registrars, Capita Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4TU; or
   - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below

   and in each case to be received by the Company not less than 48 hours before the time of the meeting.

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

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

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

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

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

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

NOTICE OF ANNUAL GENERAL MEETING
continued

7. Any member attending the AGM has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the AGM but no such answer need be given if: (a) to do so would interfere unduly with the preparation of the AGM or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the AGM that the question be answered.
8. You may not use any electronic address (any address or number used for the purposes of sending or receiving documents or information by electronic means) provided in this Notice (or in any related documents including the proxy form) to communicate with the Company for any purposes other than those expressly stated.
9. As at 31 March 2015 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consisted of 82,012,459 ordinary shares of no par value each carrying one vote.
10. A copy of the Notice as well as various other documents relating to the Company can be found at *www.invescoperpetual.co.uk/investmenttrusts*.

SHAREHOLDER INFORMATION

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

Savings Plan and ISA

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

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

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

Invesco Perpetual Investment Trust ISA
The Invesco Perpetual Investment Trust ISA allows investments up to the current ISA limit. For the tax year 2015/16 this is £15,240. Investors can also choose to make lump sum investments from £500, or regular investments from as little as £20 per month.

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

Manager's Website

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

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

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

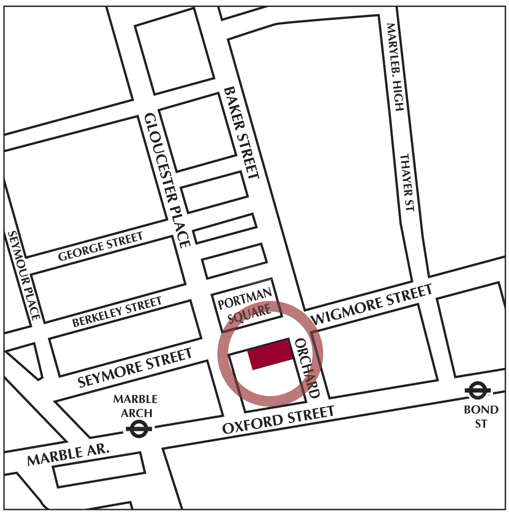
Financial Calendar

The Company publishes information according to the following calendar:

Announcements	
Annual financial results	March/April
Half-yearly unaudited results	August
Ordinary Share Dividends	
Interim dividends payable	May, August November, February
Annual General Meeting	June/July
Year End	31 December

Mainland Shareholder Meeting

The London shareholder meeting will be held at 11 am on 23 June 2015 in Invesco Perpetual's offices on the first floor of 43-45 Portman Square, London W1H 6LY.



ADVISERS AND PRINCIPAL EXTERNAL SERVICE PROVIDERS

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
☎ 01534 825200

Registered in Jersey
Number 109714

The Company is regulated by the Jersey Financial Services Commission.

Manager

From 22 July 2014:
Invesco Fund Managers Limited.
Up to 22 July 2014:
Invesco Asset Management Limited.

Invesco Perpetual Investor Services

Invesco Perpetual's Investor Services Team is available from 8.30 am to 6 pm (excluding bank holidays) on:
☎ 0800 085 8677
www.invescoperpetual.co.uk/investmenttrusts

Savings Scheme and ISA Administration

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

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

Registrar

Capita Registrars
12 Castle Street
St Helier
Jersey JE2 3RT

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

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

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

The Registrar provides an on-line and telephone share dealing service to existing shareholders who are not seeking advice on buying or selling on:
☎ 0871 664 0454
www.capitadeal.com

Calls cost up to 10p per minute plus network charges. Lines are open 8 am to 4.30 pm Monday to Friday (excluding UK bank holidays).

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

Dividend Re-Investment Plan

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

Auditor

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

Depositary

BNY Mellon Trust Depositary (UK) Limited
BNY Mellon Centre
160 Queen Victoria Street
London EC4V 4LA

Custodian

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

Corporate Brokers

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

Electronic Publication

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

GLOSSARY OF TERMS

Gearing

The gearing percentage reflects the amount of borrowings that a company has invested, in addition to Shareholders' funds. This figure indicates the extra amount by which shareholders' funds would move if a company's investments were to rise or fall. A positive percentage indicates the extent to which shareholders' funds are geared; a nil gearing percentage, or 'nil', shows the company is ungeared.

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

Gross Gearing reflects the amount of gross borrowings by a company and takes no account of any cash balances. It is based on gross borrowings as a percentage of shareholders' funds.

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

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

Gross Assets

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

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

Premium/(Discount)

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

Return

The return generated in the period from the investments.

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

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

Ongoing Charges

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

GLOSSARY OF TERMS
continued

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.

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 Perpetual is a business name of Invesco Asset Management Limited.

Invesco is one of the largest independent global investment management firms, with assets under management in excess of $809.4 billion.*

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

Assets under management at 28 February 2015.

SPECIALIST FUNDS MANAGED BY INVESCO PERPETUAL

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 combined with a degree of security. The Company may use bank borrowings.

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

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

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

Invesco Perpetual Select Trust plc – UK Equity Portfolio
Aims to generate long-term capital and income growth with real growth in dividends from investment, primarily in the UK equity market. The portfolio may use bank borrowings.

Keystone Investment Trust plc
Aims to provide shareholders with long-term growth of capital mainly from UK investments. The Company has debenture stocks in issue.

Perpetual Income and Growth Investment Trust plc
Aims to generate capital growth and real growth in dividends over the medium to longer term from a portfolio of securities listed mainly in the UK and fixed interest markets. The Company has a debenture stock in issue and may use bank borrowings.

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

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

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

Investing Internationally

Invesco Asia Trust plc
Aims to provide long-term capital growth by investing in a diversified portfolio of Asian and Australasian securities. The Company aims to achieve growth in its net asset value in excess of the MSCI All Country Asia Pacific ex Japan Index, measured in Sterling. With effect 1 May 2015, the benchmark will be the MSCI AC Asia ex-Japan Index. The Company may use bank borrowings.

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

Investing for Total Returns

Invesco Perpetual Select Trust plc – Balanced Risk Portfolio
Aims to provide shareholders with an attractive total return in differing economic and inflationary environments and with low correlation to equity and bond market indices by gaining exposure to three asset classes: debt securities, equities and commodities.

The portfolio is constructed so as to balance risk, is long-only, using transparently-priced exchange-traded futures contracts and other derivative instruments to gain such exposure and to provide leverage.

Investing in Multiple Asset Classes

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

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

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

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